ARES CAPITAL CORP
Form N-2/A
March 14, 2008

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As filed with the Securities and Exchange Commission on March 14, 2008

Registration No. 333-149139

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
ý **PRE-EFFECTIVE AMENDMENT NO. 1**
o **POST-EFFECTIVE AMENDMENT NO.**

ARES CAPITAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

280 Park Avenue, 22nd Floor
Building East
New York, New York 10017
(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: **(212) 750-7300**

Michael D. Weiner
c/o Ares Management LLC
1999 Avenue of the Stars, Suite 1900
Los Angeles, CA 90067
(310) 201-4200
(Name and Address of Agent for Service)

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Approximate Date of Proposed Public Offering: From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a distribution reinvestment plan, check the following box. ý

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(6)
Common Stock, $0.001 par value per share(2)				
Preferred Stock, $0.001 par value per share(2)				
Subscription Rights(2)				
Warrants(3)				
Debt Securities(4)				
Total			$600,000,000(5)	$23,580

(1) Estimated pursuant to Rule 457(o) solely for the purpose of determining the registration fee.

(2) Subject to Note 5 below, there is being registered hereunder an indeterminate number of common stock, preferred stock or subscription rights to purchase shares of common stock as may be sold, from time to time separately or as units in combination with other securities registered hereunder.

(3) Subject to Note 5 below, there is being registered hereunder an indeterminate number of warrants as may be sold, from time to time separately or as units in combination with other securities registered hereunder, representing rights to purchase common stock, preferred stock or debt securities.

(4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time separately or as units in combination with other securities registered hereunder. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed $600,000,000.

(5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed $600,000,000.

(6) Previously paid

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated March 14, 2008

PROSPECTUS

$600,000,000

Common Stock
Preferred Stock
Subscription Rights
Warrants
Debt Securities

Ares Capital Corporation is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act of 1940. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases may include an equity component, and, to a lesser extent, in equity investments, in private middle market companies.

We are managed by Ares Capital Management LLC, an affiliate of Ares Management LLC, an independent international investment management firm that currently manages investment funds that have approximately $20.0 billion of committed capital. Ares Operations LLC, an affiliate of Ares Management LLC, provides the administrative services necessary for us to operate.

Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." On March 11, 2008, the last reported sales price of our common stock on The NASDAQ Global Select Market was $13.39 per share.

Investing in our securities involves risks that are described in the "Risk Factors" section beginning on page 18 of this prospectus, including the risk of leverage.

We may offer, from time to time, in one or more offerings or series, up to $600,000,000 of our common stock, preferred stock, subscription rights to purchase shares of our common stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, separately or as units comprised of any combination of the foregoing, which we refer to, collectively, as the "securities." The debt securities, preferred stock, warrants and subscription rights offered hereby may be convertible or exchangeable into shares of our common stock. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net value per share of our common stock at the time we make the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders, or (iii) under such circumstances as the Securities and Exchange Commission (the "SEC") may permit. This prospectus and the accompanying prospectus supplement concisely provide important information you should know before investing in our securities. Please read this prospectus and the accompanying prospectus supplement before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information with the SEC. This information is available free of charge by calling us collect at (310) 201-4100 or on our website at *www.arescapitalcorp.com*. The SEC also maintains a website at *www.sec.gov* that contains such information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this prospectus is , 2008.

You should rely only on the information contained in this prospectus and the accompanying prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and the accompanying prospectus supplement is accurate only as of the date on the front cover of this prospectus and the accompanying prospectus supplement, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time, up to $600,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on the terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the headings "Available Information" and "Risk Factors" before you make an investment decision.

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. Except where the context suggests otherwise, the terms "we," "us," "our," "the Company" and "Ares Capital" refer to Ares Capital Corporation and its subsidiaries; "Ares Capital Management" or "investment adviser" refers to Ares Capital Management LLC; "Ares Administration" refers to Ares Operations LLC; and "Ares" refers to Ares Partners Management Company LLC and its affiliated companies, including Ares Management LLC.

THE COMPANY

Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company. We have elected to be regulated as a business development company, or a "BDC," under the Investment Company Act of 1940, or the "Investment Company Act." We were founded in April 2004 and completed our initial public offering on October 8, 2004. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. However, we may from time to time invest in larger companies.

We invest primarily in first and second lien senior loans and long-term mezzanine debt. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. In some cases, we may also receive warrants or options in connection with our debt instruments. Our investments have generally ranged between $10 million and $50 million each, although the investment sizes may be more or less than the targeted range and are expected to grow with our capital availability. We also, to a lesser extent, make equity investments in private middle market companies. These investments have generally been less than $10 million each but may grow with our capital availability and are usually made in conjunction with loans we make to these companies. In addition, the proportion of these investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment. In this prospectus, we generally use the term "middle market" to refer to companies with annual EBITDA between $5 million and $50 million. EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization.

The first and second lien senior loans generally have stated terms of three to 10 years and the mezzanine debt investments generally have stated terms of up to 10 years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. The debt that we invest in typically is not initially rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service or lower than "BBB-" by Standard & Poor's Corporation). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage Ares' current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms to provide us with attractive investments. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares' senior principals have worked together for many years and have substantial experience investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Ares staff of approximately 98 investment professionals and to the 94 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance, technology and investor relations.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of private companies, we also may invest up to 30% of the portfolio in opportunistic investments. Such investments may include, among others, investments in high-yield bonds, debt and equity securities and distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. As part of this 30% of the portfolio, we may also invest in debt of middle market companies located outside of the United States.

In addition to making investments in the Ares Capital portfolio, we manage a senior debt fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill"), which was established during 2007.

About Ares

Ares is an independent international investment management firm with approximately $20.0 billion of total committed capital and over 220 employees as of the date of this prospectus. Ares was founded in 1997 by a group of highly experienced investment professionals.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the acquisition and management of senior loans, high yield bonds, mezzanine and special situation investments. Ares' private equity activities focus on providing flexible, junior capital to middle market companies. Ares has the ability to invest across a capital structure, from senior secured floating rate debt to common equity.

Ares is comprised of the following groups:

Capital Markets Group. The Ares Capital Markets Group currently manages a variety of funds and investment vehicles that have approximately $13.5 billion of committed capital, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

Private Debt Group. The Ares Private Debt Group manages the assets of Ares Capital and Ares' private debt middle-market financing activities in Europe, Ares Capital Europe ("ACE"). The Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt, which in some cases may include an equity component, and, to a lesser extent, in equity investments, in private middle market companies.

Private Equity Group. The Ares Private Equity Group manages Ares Corporate Opportunities Fund L.P. and Ares Corporate Opportunities Fund II, L.P. (collectively referred to as "ACOF"), which together have approximately $2.8 billion of total committed capital. ACOF generally makes private equity investments in companies in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. The Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 20 years of experience in leveraged finance, private equity, distressed debt, investment banking and capital markets. They are backed by a large team of highly-disciplined professionals. Ares' rigorous investment approach is based upon an intensive, independent financial analysis, with a focus on preservation of capital, diversification and active portfolio management. These fundamentals underlie Ares' investment strategy and have resulted in large pension funds, banks, insurance companies and endowments investing in Ares funds.

Ares Capital Management

Ares Capital Management, our investment adviser, is served by a dedicated origination and transaction development team of 31 investment professionals led by our President, Michael Arougheti, and the partners of Ares Capital Management, Eric Beckman, Kipp deVeer, Mitchell Goldstein and Michael Smith. Ares Capital Management leverages off of Ares' entire investment platform and benefits from the significant capital markets, trading and research expertise of all of Ares' investment professionals. Ares funds currently hold over 600 investments in over 30 different industries and have made investments in over 1,600 companies since inception. Ares Capital Management's investment committee has eight members, including Mr. Arougheti, several Ares Capital Management partners, and four founding members of Ares.

MARKET OPPORTUNITY

We believe the environment for investing in middle market companies is attractive for the following reasons:

- We believe that many senior lenders have, in recent years, de-emphasized their service and product offerings to middle market businesses in favor of lending to large corporate clients and managing capital markets transactions.

- We believe there is increased demand among private middle market companies for primary capital. Many middle-market firms have faced increased difficulty raising debt in the capital markets, due to a continuing preference for larger size high yield bond and loan issuances.

- We believe there is a large pool of uninvested private equity capital for middle market companies. We expect private equity firms will seek to leverage their investments by combining capital with senior secured loans and mezzanine debt from other sources.

- We believe that as of the date of this prospectus, current credit market dislocation has resulted in reduced competition, a widening of interest spreads, increased fees and generally more conservative capital structures and deal terms.

COMPETITIVE ADVANTAGES

We believe that we have the following competitive advantages over other capital providers to middle market companies:

Existing investment platform

Ares currently manages approximately $20.0 billion of committed capital in the related asset classes of syndicated loans, high yield bonds, mezzanine debt and private equity. We believe Ares' current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital.

Seasoned management team

Ares' senior professionals have an average of over 20 years experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt,

3

distressed debt and private equity securities. In addition, our President, Michael Arougheti, leads a dedicated origination and transaction development team of 31 investment professionals, including Mr. Arougheti and the partners of Ares Capital Management, Eric Beckman, Kipp deVeer, Mitch Goldstein and Michael Smith. As a result of Ares' extensive investment experience and the history of its seasoned management team, Ares has developed a strong reputation in the capital markets. We believe that Ares' long history in the market and the extensive experience of the principals investing across market cycles provides Ares Capital Management with real competitive advantage in identifying, investing in, and managing a portfolio of investments in middle market companies.

Experience and focus on middle market companies

Ares has historically focused on investments in middle market companies and we benefit from this experience. Our investment adviser uses Ares' extensive network of relationships with intermediaries focused on middle market companies to attract well-positioned prospective portfolio company investments. Our investment adviser works closely with the Ares investment professionals, who oversee a portfolio of investments in over 600 companies, and provide access to an extensive network of relationships and special insights into industry trends and the state of the capital markets.

Disciplined investment philosophy

In making its investment decisions, our investment adviser has adopted Ares' long-standing, consistent investment approach that was developed over 16 years ago by its founders. Specifically, Ares Capital Management's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Its investment approach emphasizes capital preservation, low volatility and minimization of downside risk. Our investment adviser and members of our Investment Committee have significant experience investing across market cycles.

Extensive industry focus

We concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals historically have had extensive investment experience. Since its inception in 1997, Ares investment professionals have invested in over 1,600 companies in over 30 different industries, and over this time have developed long-term relationships with management teams and management consultants within these industries. The experience of Ares' investment professionals in investing across these industries, throughout various stages of the economic cycle, provides our investment adviser with access to ongoing market insights and favorable investment opportunities.

Flexible transaction structuring

We are flexible in structuring investments, the types of securities in which we invest and the terms associated with such investments. The principals of Ares have extensive experience in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. This approach and experience should enable our investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so that we can make investments consistent with our stated objective. In addition, we have the ability to hold larger investments than many of our middle market competitors. The ability to underwrite, syndicate and hold larger investments (i) increases flexibility, (ii) potentially increases net fee income and earnings through syndication, (iii) broadens market relationships and deal flow and (iv) allows us to optimize portfolio composition. We also focus on acting as agent for or leading many of our investments. In these situations we tend to have (i) greater control over deal terms, pricing and structure and (ii) a closer relationship with issuers leading to more active portfolio management.

OPERATING AND REGULATORY STRUCTURE

Our investment activities are managed by Ares Capital Management and supervised by our board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is an investment adviser that is registered under the Investment Advisers Act of 1940, or the "Advisers Act." Under our amended and restated investment advisory and management agreement, referred to herein as our investment advisory and management agreement, we have agreed to pay Ares Capital Management an annual base management fee based on our total assets, as defined under the Investment Company Act (other than cash and cash equivalents but including assets purchased with borrowed funds), and an incentive fee based on our performance. See "Management Investment Advisory and Management Agreement."

As a BDC, we are required to comply with certain regulatory requirements. While we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See "Regulation." We have elected to be treated for federal income tax purposes as a regulated investment company, or a "RIC," under Subchapter M of the Internal Revenue Code of 1986, or the "Code." See "Material U.S. Federal Income Tax Considerations."

LIQUIDITY

We are party to a Senior Secured Revolving Credit Agreement that provides for up to $510 million of borrowings and up to $765.0 million if we exercise the "accordian" feature, which expires on December 28, 2010. In addition, our wholly owned subsidiary, Ares Capital CP Funding LLC, is party to a separate credit facility (together with the Senior Secured Revolving Credit Agreement, the "Facilities") that provides for up to $350 million of borrowings, which expires on October 8, 2008, unless extended prior to such date with the consent of the lenders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources."

RISK FACTORS

Investing in Ares Capital involves risks. The following is a summary of certain risks that you should carefully consider before investing in our securities. In addition, see "Risk Factors" beginning on page 18 for a more detailed discussion of the factors you should carefully consider before deciding to invest in our securities.

Risks Relating to Our Business

- A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.
- We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals.
- Our financial condition and results of operation will depend on our ability to manage future growth effectively.
- Our ability to grow will depend on our ability to raise capital.
- We operate in a highly competitive market for investment opportunities.
- We will be subject to corporate-level income tax if we are unable to qualify as a RIC.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.

We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.

We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.

We will be exposed to risks associated with changes in interest rates.

Many of our portfolio investments are not publicly traded and, as a result, there will be uncertainty as to the value of our portfolio investments.

The lack of liquidity in our investments may adversely affect our business.

We may experience fluctuations in our quarterly results.

There are significant potential conflicts of interest that could impact our investment returns, including because certain executive officers and directors, and members of the investment committee of our investment adviser serve or may serve as officers, directors or principals of other entities and affiliates of our investment adviser and investment funds managed by affiliates of our investment adviser.

Our investment adviser's liability is limited under the investment advisory and management agreement, and we are required to indemnify our investment adviser against certain liabilities, which may lead our investment adviser to act in a riskier manner on our behalf than it would when acting for its own account.

We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

The Company may not replicate Ares' historical success.

Our ability to enter into transactions with our affiliates is restricted.

Risks Relating To Our Investments

Our investments may be risky, and we could lose all or part of our investment.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies and a greater vulnerability to economic downturns.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

Investments in equity securities involve a substantial degree of risk.

Our adviser's incentive fee may induce Ares Capital Management to make certain investments, including speculative investments.

Our portfolio companies may be highly leveraged.

Our portfolio is concentrated in a limited number of portfolio companies, which subjects us to a risk of significant loss if any of these companies defaults on its repayment obligations.

Our investments in foreign debt may involve significant risks in addition to the risks inherent in U.S. investments. We may expose ourselves to risks if we engage in hedging transactions.

We may initially invest a portion of the net proceeds of offerings pursuant to this prospectus primarily in high-quality short-term investments, which will generate lower rates of return than those expected from the interest generated on first and second lien loans and mezzanine debt.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.

Risks Relating To Offerings

There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Investing in our shares may involve an above average degree of risk.

The market price of our common stock may fluctuate significantly.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you may experience an immediate dilution of the aggregate net asset value of your shares.

The trading market or market value of our publicly issued debt securities may fluctuate.

Terms relating to redemption may materially adversely affect your return on our debt securities.

Our credit ratings may not reflect all risks of an investment in the debt securities.

Our shares of common stock may trade at discounts from net asset value.

Investors in offerings of our common stock will incur immediate dilution upon the closing of such offering.

Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

OUR CORPORATE INFORMATION

Our administrative offices are located at 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067, telephone number (310) 201-4200, and our executive offices are located at 280 Park Avenue, 22nd Floor, Building East, New York, New York 10017, telephone number (212) 750-7300.

OFFERINGS

We may offer, from time to time, up to $600,000,000 of our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, on terms to be determined at the time of the offering. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. The offering price per share of our common stock, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of an offering unless (i) our board of directors determines that such sale is in our best interests and the best interests of our stockholders and our stockholders approve such sale (ii) in connection with a rights offering to our existing stockholders, or (iii) under such other circumstances as the SEC may permit.

We may offer our securities directly to one or more purchasers, including existing stockholders in a rights offering, through agents that we designate from time to time or to or through underwriters or dealers. The prospectus supplement relating to each offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

Set forth below is additional information regarding offerings of our securities:

Use of proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and market conditions and repaying indebtedness. Each supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See "Use of Proceeds."
Distributions	We intend to distribute quarterly dividends to our stockholders out of assets legally available for distribution. Our quarterly dividends, if any, will be determined by our board of directors. For more information, see "Price Range of Common Stock and Distributions."
Taxation	We have elected to be treated for federal income tax purposes as a RIC. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of assets legally available for distribution. See "Risk Factors We will be subject to corporate level income tax if we are unable to qualify as a RIC" and "Price Range of Common Stock and Distributions."

Dividend reinvestment plan	We have a dividend reinvestment plan for our stockholders. This is an "opt out" dividend reinvestment plan. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan."
NASDAQ Global Select Market symbol	"ARCC"
Anti-takeover provisions	Our board of directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain other measures adopted by us. See "Description of our Capital Stock."
Leverage	We borrow funds to make additional investments. We use this practice, which is known as "leverage," to attempt to increase returns to our common stockholders, but it involves significant risks. See "Risk Factors," "Senior Securities" and "Regulation Indebtedness and Senior Securities." With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the Investment Company Act, equals at least 200% after such borrowing. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing.
Management arrangements	Ares Capital Management serves as our investment adviser. Ares Administration serves as our administrator. For a description of Ares Capital Management, Ares Administration, Ares and our contractual arrangements with these companies, see "Management Investment Advisory and Management Agreement," and " Administration Agreement."
Available information	We are required to file periodic reports, proxy statements and other information with the SEC. This information is available free of charge by calling us collect at (310) 201-4200 or on our website at *www.arescapitalcorp.com.* The SEC also maintains a website at *www.sec.gov* that contains this information.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you," "us" or "Ares Capital," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Ares Capital.

Stockholder transaction expenses (as a percentage of offering price):		
Sales load paid by us		(1)
Offering expenses borne by us		(2)
Dividend reinvestment plan expenses	None	(3)
Total stockholder transaction expenses paid by us		(4)
Estimated annual expenses (as a percentage of consolidated net assets attributable to common stock)(5):		
Management fees	2.44%	(6)
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income, subject to certain limitations)	2.09%	(7)
Interest payments on borrowed funds	3.28%	(8)
Other expenses	0.96%	(9)
Acquired fund fees and expenses	0.99%	(10)
Total annual expenses (estimated)	9.76%	(11)

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) The expenses of the dividend reinvestment plan are included in "other expenses."

(4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.

(5) "Consolidated net assets attributable to common stock" equals net assets at September 30, 2007.

(6) Our management fee is currently 1.5% of our total assets other than cash and cash equivalents (which includes assets purchased with borrowed amounts). For the purposes of this table, we have assumed that we maintain no cash or cash equivalents and that the management fee will remain at 1.5% as set forth in our current investment advisory and management agreement. We may from time to time decide it is appropriate to change the terms of the agreement. Under the Investment Company Act, any material change to our investment advisory and management agreement must be submitted to stockholders for approval. The 2.44% reflected on the table is calculated on our net assets (rather than our total assets). See "Management Investment Advisory and Management Agreement."

(7) This item represents our adviser's incentive fees based on pre-incentive fee net income for the year ended December 31, 2007 and based on actual realized capital gains as of December 31, 2007, computed net of realized capital losses and unrealized capital depreciation. We expect to invest or otherwise utilize all of the net proceeds from securities registered under the registration statement of which this prospectus is a part pursuant to a particular prospectus supplement within three months of the date of the offering

pursuant to such prospectus supplement and may have capital gains and interest income that could result in the payment of an incentive fee to our investment adviser in the first year after completion of offerings pursuant to this prospectus. Since our inception, the average quarterly incentive fee payable to our investment adviser has been approximately 0.57% of our weighted net assets (2.26% on an annualized basis). For more detailed information about incentive fees previously incurred by us, please see Note 3 to our consolidated financial statements for the period ended December 31, 2007.

The incentive fee consists of two parts:

The first, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income (including interest that is accrued but not yet received in cash), subject to a 2.00% quarterly (8% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 2.00% but then receives, as a "catch-up," 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.50% in any calendar quarter, our investment adviser will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply.

The second part, payable annually in arrears for each calendar year ending on or after December 31, 2004, equals 20% of our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees.

We will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) is less than 8.0% of our net assets at the beginning of such period. These calculations will be adjusted for any share issuances or repurchases.

See "Management Investment Advisory and Management Agreement."

(8)

"Interest payments on borrowed funds" represents our annualized interest expenses based on actual interest and credit facility expense incurred for the year ended December 31, 2007. During the year ended December 31, 2007, our average borrowings were $567.9 million and cash paid for interest expense was $31.8 million. We had outstanding borrowings of $681.5 million at December 31, 2007. This item is based on our assumption that our borrowings and interest costs after an offering will remain similar to those prior to such offering. The prospectus supplement related to the offering of any debt securities pursuant to this prospectus will calculate this item based on the effects of our borrowings and interest costs after the issuance of such debt securities. The amount of leverage that we employ at any particular time will depend on, among other things, our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. See "Risk Factors We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us."

(9)

Includes our overhead expenses, including payments under the administration agreement based on our allocable portion of overhead and other expenses incurred by Ares Administration in performing its obligations under the administration agreement. Such expenses are based on other expenses for the year ended December 31, 2007. See "Management Administration Agreement." The holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) indirectly bear the cost associated with our annual expenses.

(10) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of December 31, 2007. Certain of these investment companies are subject to management fees or incentive fees. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' offering memorandum, private placement memorandum or other similar communication without giving effect to any performance. Future fees and expenses for these investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on average monthly net assets of $1.0 billion for the year ended December 31, 2007.

(11) "Total annual expenses" as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the "Total annual expenses" percentage be calculated as a percentage of net assets (defined as total assets less indebtedness), rather than the total assets, including assets that have been funded with borrowed monies. If the "Total annual expenses" percentage were calculated instead as a percentage of consolidated total assets, our "Total annual expenses" would be 5.97% of consolidated total assets.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage, that none of our assets are cash or cash equivalents, and that our annual operating expenses would remain at the levels set forth in the table above. Transaction expenses are not included in the following example. In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return(1)	$ 79	$ 229	$ 371	$ 692

(1) The above illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation. The expenses you would pay, based on a $1,000 investment and assuming a 5% annual return resulting entirely from net realized capital gains (and therefore subject to the capital gain incentive fee), and otherwise making the same assumptions in the example above, would be: 1 year, $89; 3 years, $257; 5 years, $415; and 10 years, $765. However, cash payment of the capital incentive fee would be deferred if during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) was less than 8.0% of our net assets at the beginning of such period (as adjusted for any share issuances or repurchases).

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment advisory and management agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

SELECTED FINANCIAL AND OTHER DATA

The following selected financial and other data for the period from June 23, 2004 (inception) through December 31, 2004 and the years ended December 31, 2005, 2006 and 2007, are derived from our consolidated financial statements that have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included elsewhere in this prospectus. The selected quarterly financial information is derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. The data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this prospectus.

ARES CAPITAL CORPORATION AND SUBSIDIARIES
SELECTED FINANCIAL DATA

	As of and For the Year Ended December 31, 2007	As of and For the Year Ended December 31, 2006	As of and For the Year Ended December 31, 2005	As of and For the Period June 23, 2004 (inception) Through December 31, 2004
Total Investment Income	$ 188,873,228	$ 120,020,908	$ 41,850,477	$ 4,380,848
Net Realized and Unrealized Gains (Losses) on Investments and Foreign Currencies	(4,116,584)	13,063,717	14,727,276	475,393
Total Expenses	94,750,617	58,458,015	14,568,677	1,665,753
Income Tax Expense (Benefit), Including Excise Tax	(826,437)	4,931,288	158,000	
Net Increase in Stockholders' Equity Resulting from Operations	$ 90,832,464	$ 69,695,322	$ 41,851,076	$ 3,190,488
Per Share Data:				
Net Increase in Stockholder's Equity Resulting from Operations:				
Basic:	$ 1.37	$ 1.61	$ 1.78	$ 0.29
Diluted:	$ 1.37	$ 1.61	$ 1.78	$ 0.29
Cash Dividend Declared:	$ 1.66	$ 1.64	$ 1.30	$ 0.30
Total Assets	$ 1,829,404,737	$ 1,347,990,954	$ 613,645,144	$ 220,455,614
Total Debt	$ 681,528,056	$ 482,000,000	$ 18,000,000	$ 55,500,000
Total Stockholders' Equity	$ 1,124,549,923	$ 789,433,404	$ 569,612,199	$ 159,708,305
Other Data:				
Number of Portfolio Companies at Period End(6)	78	60	38	20
Principal Amount of Investments Purchased(1)	$ 1,251,300,000	$ 1,087,507,000	$ 504,299,000	$ 234,102,000
Principal Amount of Investments Sold and Repayments(2)	$ 718,695,000	$ 430,021,000	$ 108,415,000	$ 52,272,000
Total Return Based on Market Value(3)	(14.76)%	29.12%	(10.60)%	31.53%
Total Return Based on Net Asset Value(4)	8.98%	10.73%	12.04%	(1.80)%
Weighted Average Yield of Debt and Income Producing Equity Securities(5):	11.68%	11.95%	11.25%	12.36%

(1) The information presented for the period June 23, 2004 (inception) through December 31, 2004 includes $140.8 million of assets purchased from Royal Bank of Canada and excludes $9.7 million of publicly traded fixed income securities.

(2) The information presented for the period June 23, 2004 (inception) through December 31, 2004 excludes $9.7 million of publicly traded fixed income securities.

(3) Total return based on market value for the year ended December 31, 2007 equals the decrease of the ending market value at December 31, 2007 of $14.63 per share over the ending market value at December 31, 2006 of $19.11 per share plus the declared dividends of $1.66 per share for the year ended December 31, 2007. Total return based on market value for the year ended December 31, 2006 equals the increase of the ending market value at December 31, 2006 of $19.11 per share over the ending market value at December 31, 2005 of $16.07 per share plus the declared dividends of $1.64 per share for the year ended December 31, 2006. Total return based on market value for the year ended December 31, 2005 equals the decrease of the ending market value at December 31, 2005 of $16.07 per share over the ending market value at December 31, 2004 of $19.43 per share plus the declared dividends of $1.30 per share for the year ended December 31, 2005. Total return based on market value for the period June 23, 2004 (inception) through December 31, 2004 equals the increase of the ending market value at December 31, 2004 of $19.43 per share over the offering price of $15.00 per share plus the declared dividend of $0.30 per share (includes return of capital of $0.01 per share) for holders of record on December

27, 2004, divided by the offering price. Total return based on market value is not annualized.

(4) Total return based on net asset value for the year ended December 31, 2007 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.66 per share for the year ended December 31, 2007, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2006 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.64 per share for the year ended December 31, 2006, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2005 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.30 per share for the year ended December 31, 2005, divided by the beginning net asset value. Total return based on net asset value for the period June 23, 2004 (inception) through December 31, 2004 equals the change in net asset value during the period plus the declared dividend of $0.30 per share (includes return of capital of $0.01 per share) for holders of record on December 27, 2004, divided by the beginning net asset value. Total return based on net asset value is not annualized.

(5) Weighted average yield on debt and income producing equity securities is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (b) total income producing equity securities and debt at fair value.

(6) Includes commitments to portfolio companies for which funding has yet to occur.

SELECTED QUARTERLY DATA (Unaudited)

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total Investment Income	$ 53,827,853	$ 47,931,434	$ 47,398,918	$ 39,715,023	$ 37,508,058	$ 31,831,794	$ 30,489,751	$ 20,191,305
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 33,676,925	$ 29,874,849	$ 31,219,979	$ 23,698,990	$ 23,508,149	$ 21,792,136	$ 16,233,294	$ 14,614,419
Incentive compensation	$ 6,572,514	$ 5,966,011	$ 6,228,506	$ 4,754,664	$ 5,188,969	$ 4,464,141	$ 6,940,399	$ 2,922,884
Net investment income before net realized and unrealized gain (losses)	$ 27,104,411	$ 23,908,838	$ 24,991,473	$ 18,944,326	$ 18,319,180	$ 17,327,995	$ 9,292,895	$ 11,691,535
Net realized and unrealized gains (losses)	$ (16,352,581)	$ (984,364)	$ 8,575,860	$ 4,644,501	$ 2,699,307	$ 813,127	$ 7,399,785	$ 2,151,498
Net increase in stockholders' equity resulting from operations	$ 10,751,830	$ 22,924,474	$ 33,567,333	$ 23,588,827	$ 21,018,487	$ 18,141,122	$ 16,692,680	$ 13,843,033
Basic and diluted earnings per common share	$ 0.15	$ 0.32	$ 0.49	$ 0.44	$ 0.42	$ 0.39	$ 0.44	$ 0.36
Net asset value per share as of the end of the quarter	$ 15.47	$ 15.74	$ 15.84	$ 15.34	$ 15.17	$ 15.06	$ 15.10	$ 15.03

RISK FACTORS

Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value of our common stock and the trading price of our securities could decline, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.

If we do not continue to qualify as a BDC, we might be regulated as a closed-end investment company under the Investment Company Act, which would significantly decrease our operating flexibility.

We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals.

We depend on the diligence, skill and network of business contacts of the members of Ares Capital Management's investment committee. We also depend, to a significant extent, on Ares Capital Management's access to the investment professionals of Ares and the information and deal flow generated by Ares' investment professionals in the course of their investment and portfolio management activities. Our future success will depend on the continued service of Ares Capital Management's investment committee. The departure of any of the members of Ares Capital Management's investment committee, or of a significant number of the investment professionals or partners of Ares, could have a material adverse effect on our ability to achieve our investment objective. In addition, we cannot assure you that Ares Capital Management will remain our investment adviser or that we will continue to have access to Ares' investment professionals or its information and deal flow.

Our financial condition and results of operation will depend on our ability to manage future growth effectively.

Our ability to achieve our investment objective depends on our ability to acquire suitable investments and monitor and administer those investments, which depends, in turn, on Ares Capital Management's ability to identify, invest in and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of Ares Capital Management's structuring of the investment process and its ability to provide competent, attentive and efficient services to us. Our executive officers and the members of Ares Capital Management have substantial responsibilities in connection with their roles at Ares and with the other Ares funds as well as responsibilities under the investment advisory and management agreement. They may also be called upon to provide managerial assistance to our portfolio companies on behalf of our administrator. These demands on their time, which will increase as the number of investments grow, may distract them or slow the rate of investment. In order to grow, Ares Capital Management will need to hire, train, supervise and manage new employees. However, we cannot assure you that any such employees will be retained. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

In addition, as we grow, we may open up new offices in new geographic regions that may increase our direct operating expenses without corresponding revenue growth.

Our ability to grow will depend on our ability to raise capital.

We will need to periodically access the capital markets to raise cash to fund new investments. Unfavorable economic conditions could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. An inability to successfully access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings, if any. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the Investment Company Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to maintain our current Facilities or obtain other lines of credit at all or on terms acceptable to us.

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we make in middle market companies. We compete with other business development companies, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, high yield investors, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we cannot assure you that we will be able to identify and make investments that meet our investment objective.

We do not seek to compete primarily based on the interest rates we offer and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We also compete with our competitors based on our existing investment platform, our seasoned management team, our experience and focus on middle market companies, our disciplined investment philosophy, our extensive industry focus and our flexible transaction structuring. For a more detailed discussion of these competitive advantages, see "Business Competitive Advantages."

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on better terms to our portfolio companies than what we may have originally anticipated, which may impact our return on these investments.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC.

To qualify as a RIC under the Code, we must meet certain income source, asset diversification and annual distribution requirements.

The annual distribution requirement for a RIC is satisfied if we distribute to our stockholders on a timely basis an amount equal to at least 90% of our ordinary income and net short-term capital gain in excess of net long-term capital loss, if any, reduced by deductible expenses for each year. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the Investment Company Act and financial covenants under our loan agreements that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax. Because we must make distributions to our stockholders as described above, such amounts, to the extent a stockholder is not participating in our dividend reinvestment plan, will not be available to fund investment originations.

To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (i) dispose of certain investments quickly or (ii) raise additional capital to prevent the loss of RIC status. If we fail to qualify as a RIC for any reason and become or remain subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or contracted payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount or increases in loan balances are included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash, including, for example, non-cash income from pay-in-kind securities and deferred payment securities.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to distribute an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, to maintain our status as a RIC. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify as a RIC and thus be subject to corporate-level income tax. See "Material U.S. Federal Income Tax Considerations Taxation as a RIC."

If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. The investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income.

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.

We may issue debt securities or preferred stock, which we refer to collectively as "senior securities," and borrow money from banks or other financial institutions up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the Investment Company Act, equals at least 200% after such incurrence or issuance. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends and could prevent us from maintaining our status as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. As of December 31, 2007, our asset coverage for senior securities was 265%.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and, in certain instances, our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any commission or discount). If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital.

In addition, we have securitized and may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans. An inability to successfully securitize our loan portfolio could limit our ability to grow our business, fully execute our business strategy and decrease our earnings, if any. The securitization market is subject to changing market conditions and we may not be able to access this market when we would otherwise deem appropriate. Moreover, the successful securitization of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses. The Investment Company Act may also impose restrictions on the structure of any securitization.

We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.

As of December 31, 2007, we had $367.5 million of outstanding borrowings under our Facilities and $314.0 million of CLO Notes (as defined herein). In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our December 31, 2007 total assets of at least 1.92%. The weighted average interest rate charged on our borrowings as of December 31, 2007 was 5.66%. We intend to continue borrowing under the Facilities in the future and we may increase the size of the Facilities or otherwise issue debt securities or other evidences of indebtedness. Our ability to service our debt depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing.

Our Facilities and the CLO Notes impose financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. A failure to renew our Facilities, or to add new or replacement debt facilities could have a material adverse effect on our business, financial condition and results of operations.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We currently borrow under our Facilities and in the future may borrow from or issue senior debt securities to banks, insurance companies and other lenders. Lenders of senior securities have fixed dollar claims on our consolidated assets that are superior to the claims of our common stockholders. If the value of our consolidated assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. There is no assurance that a leveraging strategy will be successful.

The following table illustrates the effect on return to a holder of our common stock of the leverage created by our use of borrowing at the interest rate of 5.66% and assumes (i) our total value of net assets as of December 31, 2007; (ii) $681.5 million debt outstanding as of December 31, 2007 and (iii) hypothetical annual returns on our portfolio of minus 15 to plus 15 percent.

Assumed Return on Portfolio (Net of Expenses)(1)	-15%	-10%	-5%	0%	5%	10%	15%
Corresponding Return to Common Stockholders(2)	-27.8%	-19.6%	-11.5%	-3.4%	4.7%	12.8%	20.9%

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.

(2) In order to compute the "Corresponding Return to Common Stockholders," the "Assumed Return on Portfolio" is multiplied by the total value of our assets at December 31, 2007 to obtain an assumed return to us. From this amount, the interest expense calculated by multiplying the interest rate of 5.66% times the $681.5 million debt is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of December 31, 2007 to determine the "Corresponding Return to Common Stockholders."

We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.

Because preferred stock is another form of leverage and the dividends on any preferred stock we issue must be cumulative, preferred stock has the same risks to our common stockholders as borrowings. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

We are exposed to risks associated with changes in interest rates.

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our investment objective and our rate of return on invested capital. Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. Trading prices for debt that pays a fixed rate of return tend to fall as interest rates rise. Trading prices tend to fluctuate more for fixed-rate securities that have longer maturities. Although we have no policy governing the maturities of our investments, under current market conditions we expect that we will invest in a portfolio of debt generally having maturities of up to 10 years. This means that we are subject to greater risk (other things being equal) than a fund invested solely in shorter-term securities. A decline in the prices of the debt we own could adversely affect the trading price of our shares.

Many of our portfolio investments are not publicly traded and, as a result, there is uncertainty as to the value of our portfolio investments.

A large percentage of our portfolio investments are not publicly traded. The fair value of investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. However, we may be required to value our investments more frequently as determined in good faith by our board of directors to the extent necessary to reflect significant events affecting their value. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to value each portfolio security at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our portfolio companies without market quotation subject to valuation by the independent valuation firm each quarter. The types of factors that may be considered in valuing our investments include the enterprise value of the portfolio company, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these investments existed and may differ materially from the values that we may ultimately realize.

We are currently analyzing the effect of adoption of Statement No. 157, *Fair Value Measurements*, on our consolidated financial position, including our net asset value and results of operations. We will adopt this statement on a prospective basis for the quarter ending March 31, 2008. Adoption of this statement could have a material effect on our consolidated financial statements, including our net asset value. However, the actual impact on our consolidated financial statements in the period of adoption and subsequent to the period of adoption cannot be determined at this time as it will be influenced by the estimates of fair value for that period and the number and amount of investments we originate, acquire or exit.

The lack of liquidity in our investments may adversely affect our business.

As we generally make investments in private companies, substantially all of these investments are subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or an affiliated manager of Ares has material non-public information regarding such portfolio company.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt investments we make, the default rate on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses and the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

There are significant potential conflicts of interest that could impact our investment returns.

Certain of our executive officers and directors, and members of the investment committee of our investment adviser serve or may serve as officers, directors or principals of other entities and affiliates of our investment adviser and investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders or that may require them to devote time to services for other entities, which could interfere with the time available to provide services to us. For example, Messrs. Ressler, Rosenthal, Kissick and Sachs each are and, will continue to be, founding members of Ares with significant responsibilities for other Ares funds. Messrs. Ressler and Rosenthal are required to devote a substantial majority of their business time, and Mr. Kissick is required to devote a majority of his business time, to the affairs of ACOF. However, Ares believes that the efforts of Messrs. Ressler, Rosenthal and Kissick relative to Ares Capital and ACOF are synergistic with and beneficial to the affairs of each of Ares Capital and ACOF.

Although other Ares funds generally have different primary investment objectives than Ares Capital, they may from time to time invest in asset classes similar to those targeted by Ares Capital. Ares Capital Management endeavors to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with Ares Capital Management.

We pay management and incentive fees to Ares Capital Management, and reimburse Ares Capital Management for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through direct investments.

Ares Capital Management's management fee is based on a percentage of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) and Ares Capital Management may have conflicts of interest in connection with decisions that could affect the Company's total assets, such as decisions as to whether to incur debt.

The incentive fees payable to our investment adviser are subject to certain hurdles. To the extent we or Ares Capital Management are able to exert influence over our portfolio companies, these hurdles may provide Ares Capital Management (subject to its fiduciary duty to us) with an incentive to induce our portfolio companies to accelerate or defer interest or other obligations owed to us from one calendar quarter to another under circumstances where accrual would not otherwise occur, such as acceleration or deferral of the declaration of a dividend or the timing of a voluntary redemption.

Acceleration of obligations may result in stockholders recognizing taxable gains earlier than anticipated, while deferral of obligations creates incremental risk of an obligation becoming uncollectible in whole or in part if the issuer of the security suffers subsequent deterioration in its financial condition. Any such inducement by the investment adviser solely for the purpose of adjusting the incentive fees would be a breach of the investment adviser's fiduciary duty to us.

The part of the incentive fee payable by us that relates to our pre-incentive fee net investment income is computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

Our investment advisory and management agreement automatically renews for successive annual periods if approved by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. However, both we and Ares Capital Management have the right to terminate the agreement without penalty upon 60 days' written notice to the other party. Moreover, conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the terms for compensation. While any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act, we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement.

Pursuant to a separate amended and restated administration agreement, referred to herein as our administration agreement, Ares Administration, an affiliate of Ares Capital Management, furnishes us with administrative services and we pay Ares Administration our allocable portion of overhead and other expenses incurred by Ares Administration in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers and their respective staffs. We lease office facilities directly (the "ARCC Office Space") from a third party. We have entered into a sublease with Ares Management LLC whereby Ares Management subleases approximately 25% of the ARCC Office Space for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses. As a result of these arrangements, there may be times when the management team of Ares Management has interests that differ from those of our stockholders, giving rise to a conflict.

Our stockholders may have conflicting investment, tax and other objectives with respect to their investments in us. The conflicting interests of individual stockholders may relate to or arise from, among other things, the nature of our investments, the structure or the acquisition of our investments, and the timing of disposition of our investments. As a consequence, conflicts of interest may arise in connection with decisions made by our investment adviser, including with respect to the nature or structuring of our investments, that may be more beneficial for one stockholder than for another stockholder, especially with respect to stockholders' individual tax situations. In selecting and structuring investments appropriate for us, our investment adviser will consider the investment and tax objectives of Ares Capital and our stockholders as a whole, not the investment, tax or other objectives of any stockholder individually.

Our investment adviser's liability is limited under the investment advisory and management agreement, and we are required to indemnify our investment adviser against certain liabilities, which may lead our investment adviser to act in a riskier manner on our behalf than it would when acting for its own account.

Our investment adviser has not assumed any responsibility to us other than to render the services described in the investment management agreement, and it will not be responsible for any action of our board of directors in declining to follow our investment adviser's advice or recommendations. Pursuant to the investment management agreement, our investment adviser and its managing members, officers and employees will not be liable to us for their acts under the investment management agreement, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect our investment adviser and its managing members, officers and employees with respect to all damages, liabilities, costs and expenses resulting from acts of our investment adviser not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the investment management agreement. These protections may lead our investment adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account. See "Risk Factors Our adviser's incentive fee may induce Ares Capital Management to make certain investments, including speculative investments."

We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.

Our investment adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our manager incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

Under the investment advisory and management agreement, we will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) is less than 8.0% of our net assets at the beginning of such period. These calculations will be adjusted for any share issuances or repurchases.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us to comply with these laws or regulations may adversely affect our business.

The Company may not replicate Ares' historical success.

Our primary focus in making investments differs from those of other private funds that are or have been managed by Ares' investment professionals. Further, investors in Ares Capital are not acquiring an interest in other Ares funds. While Ares Capital may consider potential co-investment participation in portfolio investments with other Ares funds (other than ACOF), no investment opportunities are currently under consideration and any such investment activity could be subject to, among other things, regulatory and independent board member approvals, the receipt of which, if sought, cannot be assured. Accordingly, we cannot assure you that Ares Capital will replicate Ares' historical success, and we caution you that our investment returns could be substantially lower than the returns achieved by those private funds.

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the Investment Company Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the Investment Company Act and we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The Investment Company Act also prohibits "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person, or entering into joint transactions with such person, absent the prior approval of the SEC.

RISKS RELATING TO OUR INVESTMENTS

Our investments may be risky, and we could lose all or part of our investment.

The debt that we invest in is typically not initially rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's or lower than "BBB-" by Standard & Poor's). Indebtedness of below investment grade quality is regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Our mezzanine investments may result in an above average amount of risk and volatility or loss of principal. We also invest in assets other than mezzanine investments including first and second lien loans, high-yield securities, U.S. government securities, credit derivatives and other structured securities and certain direct equity investments. These investments will entail additional risks that could adversely affect our investment returns. In addition, to the extent interest payments associated with such debt are deferred, such debt will be subject to greater fluctuations in value based on changes in interest rates. Also, such debt could subject us to phantom income, and since we generally do not receive any cash prior to maturity of the debt, the investment is of greater risk.

In addition, investments in middle market companies involve a number of significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;

- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

- they typically depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

- they may have difficulty accessing the capital markets to meet future capital needs.

When we invest in first and second lien senior loans or mezzanine debt, we may acquire warrants or other equity securities as well. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. Consequently, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies and a greater vulnerability to economic downturns.

We invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of Ares Capital Management's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act of 2002 and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately-held companies frequently have less diverse product lines and smaller market presence than larger competitors, subjecting them to greater vulnerability to economic downturns. These factors could affect our investment returns.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

Our portfolio companies may have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, our investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company typically are entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

Investments in equity securities involve a substantial degree of risk.

We may purchase common and other equity securities. Although common stocks have historically generated higher average total returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in those returns and in recent years have significantly under performed relative to fixed-income securities. The equity securities we acquire may fail to appreciate and may decline in value or become worthless and our ability to recover our investment will depend on our portfolio company's success. Investments in equity securities involve a number of significant risks, including:

- any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;

- to the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment in equity securities; and

- in some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of our portfolio companies. Even if the portfolio companies are successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can sell our equity investments. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell.

There are special risks associated with investing in preferred securities, including:

- Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes although it has not yet received such income.

- Preferred securities are subordinated to debt in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than debt.

- Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

- Generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

Our adviser's incentive fee may induce Ares Capital Management to make certain investments, including speculative investments.

The incentive fee payable by us to Ares Capital Management may create an incentive for Ares Capital Management to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to our investment adviser is determined, which is calculated as a percentage of the return on

invested capital, may encourage our investment adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock. In addition, the investment adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, the investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. The part of the incentive fee payable by us that relates to our pre-incentive fee net investment income will be computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. The investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income.

Because of the structure of the incentive fee, it is possible that we may have to pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized capital losses. In addition, if market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Ares Capital Management with respect to the assets invested in the securities and instruments of other investment companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the management and incentive fee of Ares Capital Management as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest.

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

Our portfolio is concentrated in a limited number of portfolio companies, which subjects us to a risk of significant loss if any of these companies defaults on its repayment obligations.

As of December 31, 2007, we were invested in 78 portfolio companies. This number may be higher or lower depending on the amount of our assets under management at any given time, market conditions and the extent to which we employ leverage, and will likely fluctuate over time. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

Our investments in foreign debt may involve significant risks in addition to the risks inherent in U.S. investments. We may expose ourselves to risks if we engage in hedging transactions.

Our investment strategy contemplates potential investments in debt of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, our investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we cannot assure you that such strategies will be effective.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Use of these hedging instruments may include counter-party credit risk. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of our hedging transactions will depend on our ability to correctly predict movements, currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

We may initially invest a portion of the net proceeds of offerings pursuant to this prospectus primarily in high-quality short-term investments, which will generate lower rates of return than those expected from the interest generated on first and second lien loans and mezzanine debt.

We may initially invest a portion of the net proceeds of offerings primarily in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objective. As a result, we may not be able to achieve our investment objective and/or pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our shares may decline.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.

We make both debt and minority equity investments; therefore, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investment.

RISKS RELATING TO OFFERINGS PURSUANT TO THIS PROSPECTUS

There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution. See "Price Range of Common Stock and Distributions."

The above-referenced distribution requirement may also inhibit our ability to make required interest payments to holders of our debt securities, which may cause a default under the terms of our debt securities. Such a default could materially increase our cost of raising capital, as well as cause us to incur penalties under the terms of our debt securities.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

The Maryland General Corporation Law, our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of Ares Capital or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the Investment Company Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, the Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such an offer.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Investing in our shares may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

The market price of our common stock may fluctuate significantly.

The price of the common stock that will prevail in the market after offerings pursuant to this prospectus may be higher or lower than the price you pay. The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- price and volume fluctuations in the overall stock market from time to time;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of RIC status;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of Ares Capital Management's key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than our net asset value per share, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

The trading market or market value of our publicly issued debt securities may fluctuate.

Upon issuance, our publicly issued debt securities will not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

Terms relating to redemption may materially adversely affect your return on the debt securities.

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

Our credit ratings may not reflect all risks of an investment in the debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of

our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities.

Our shares of common stock may trade at discounts from net asset value.

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of common stock offered hereby will trade at, above, or below net asset value.

Investors in offerings of our common stock will incur immediate dilution upon the closing of such offering.

We expect the public offering price of any offering of shares of our common stock our shares to be higher than the book value per share of our outstanding common stock. Accordingly, investors purchasing shares of common stock in offerings pursuant to this prospectus will pay a price per share that exceeds the tangible book value per share after such offering.

Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

All dividends payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan will experience dilution over time.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the return or impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies; and
- the ability of Ares Capital Management to locate suitable investments for us and to monitor and administer our investments.

We use words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this prospectus.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

You should understand that under Sections 27A(b)(2)(B) of the Securities Act of 1933 (the "Securities Act") and Section 21E(b)(2)(B) of the Exchange Act, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and market conditions. We also expect to use the net proceeds of the offering to repay outstanding indebtedness under our Revolving Credit Facility ($450.2 million outstanding as of March 11, 2008) and/or the CP Funding Facility ($85.0 million outstanding as of March 11, 2008). The interest charged on the indebtedness incurred under the Revolving Credit Facility is based on LIBOR (one, two, three or six month) plus 1.00%, generally. As of March 11, 2008, the one, two, three and six month LIBOR were 2.89%, 2.88%, 2.87% and 2.74%, respectively. The Revolving Credit Facility expires on December 28, 2010. The interest charged on the indebtedness incurred under our CP Funding Facility is based on the commercial paper rate plus 1.00% and is payable quarterly. As of March 11, 2008, the commercial paper rate was 3.30%. The CP Funding Facility is scheduled to expire on October 8, 2008 (unless extended prior to such date with the consent of the lenders). The supplement to this prospectus relating to an offering may more fully identify the use of the proceeds from such offering. We anticipate that substantially all of the net proceeds of an offering of securities pursuant to this prospectus and its related prospectus supplement will be used for the above purposes within three months of any such offering, depending on the availability of appropriate investment opportunities consistent with our investment objective and strategies and market conditions.

We invest primarily in first and second lien senior loans and mezzanine debt of middle market companies, each of which may include an equity component, and, to a lesser extent, in equity securities in such companies. In addition to such investments, we may invest up to 30% of the portfolio in opportunistic investments, including, among others, high-yield bonds, debt and equity securities, distressed debt or equity securities of public companies. As part of this 30%, we may also invest in debt of middle market companies located outside of the United States. Pending such investments, we will invest a portion of the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objective. As a result, we may not be able to achieve our investment objective and/or pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our shares may decline. See "Regulation Temporary Investments" for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." We completed our initial public offering in October 2004 at a price of $15.00 per share. Prior to this date there was no public market for our common stock. Our common stock has historically traded at prices both above and below its net asset value. It is not possible to predict whether the common stock offered hereby will trade at, above, or below net asset value. See "Risk Factors Our shares of common stock may trade at discounts from net asset value."

The following table sets forth the net asset value of our common stock, the range of high and low closing prices of our common stock as reported on The NASDAQ Global Select Market and the dividends declared by us for each fiscal quarter since our initial public offering. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions and may not necessarily represent actual transactions.

	NAV(1)	Price Range High	Price Range Low	Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend Per Share(2)
Fiscal 2005						
First quarter	$ 14.96	$ 18.74	$ 15.57	125.3%	104.0%	$ 0.30
Second quarter	$ 14.97	$ 18.14	$ 15.96	121.2%	106.6%	$ 0.32
Third quarter	$ 15.08	$ 19.25	$ 16.18	127.7%	107.3%	$ 0.34
Fourth quarter	$ 15.03	$ 16.73	$ 15.08	111.3%	100.3%	$ 0.34
Fiscal 2006						
First quarter	$ 15.03	$ 17.97	$ 16.23	119.6%	108.0%	$ 0.36
Second quarter	$ 15.10	$ 17.50	$ 16.36	115.9%	108.3%	$ 0.38
Third quarter	$ 15.06	$ 17.51	$ 15.67	116.3%	104.1%	$ 0.40
Fourth quarter	$ 15.17	$ 19.31	$ 17.39	127.3%	114.6%	$ 0.50(3)
Fiscal 2007						
First quarter	$ 15.34	$ 20.46	$ 17.82	133.4%	116.2%	$ 0.41
Second quarter	$ 15.84	$ 18.84	$ 16.85	118.9%	106.4%	$ 0.41
Third quarter	$ 15.74	$ 17.53	$ 14.92	111.4%	94.8%	$ 0.42
Fourth quarter	$ 15.47	$ 17.47	$ 14.40	112.9%	93.1%	$ 0.42
Fiscal 2008						
First quarter (through March 11, 2008)	*	$ 14.39	$ 12.52	*	*	$ 0.42

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low closing sales prices. The net asset values shown are based on outstanding shares at the end of the relevant quarter.

(2) Represents the dividend declared in the relevant quarter.

(3) Includes an additional cash dividend of $0.10 per share.

* Net asset value has not yet been calculated for this period.

On March 11, 2008, the last reported sales price of our common stock on The NASDAQ Global Select Market was $13.39 per share, which represented a discount of approximately 13% to the net asset value per share reported by us as of December 31, 2007.

We currently intend to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors.

The following table summarizes our dividends declared to date:

Date Declared	Record Date	Payment Date	Amount
December 16, 2004	December 27, 2004	January 26, 2005	$ 0.30
Total declared for 2004			$ 0.30
February 23, 2005	March 7, 2005	April 15, 2005	$ 0.30
June 20, 2005	June 30, 2005	July 15, 2005	$ 0.32
September 6, 2005	September 16, 2005	September 30, 2005	$ 0.34
December 12, 2005	December 22, 2005	January 16, 2006	$ 0.34
Total declared for 2005			$ 1.30
February 28, 2006	March 24, 2006	April 14, 2006	$ 0.36
May 8, 2006	June 15, 2006	June 30, 2006	$ 0.38
August 9, 2006	September 15, 2006	September 29, 2006	$ 0.40
November 8, 2006	December 15, 2006	December 29, 2006	$ 0.40
November 8, 2006	December 15, 2006	December 29, 2006	$ 0.10
Total declared for 2006			$ 1.64
March 8, 2007	March 19, 2007	March 30, 2007	$ 0.41
May 10, 2007	June 15, 2007	June 29, 2007	$ 0.41
August 9, 2007	September 14, 2007	September 28, 2007	$ 0.42
November 8, 2007	December 14, 2007	December 31, 2007	$ 0.42
Total declared for 2007			$ 1.66
February 28, 2008	March 17, 2008	March 31, 2008	$ 0.42
Total declared for 2008			$ 0.42

To maintain our RIC status, we must timely distribute an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of the assets legally available for distribution for each year. To avoid certain excise taxes imposed on RICs, we are generally required to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, plus (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year plus (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. If this requirement is not met, we will be required to pay a nondeductible excise tax equal to 4% of the amount by which 98% of the current year's taxable income exceeds the distribution for the year. The taxable income on which an excise tax is paid is generally carried forward and distributed to stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. Our excise tax liability for the year ended December 31, 2007 was approximately $100,000. We cannot assure you that we will achieve results that will permit the payment of any cash distributions.

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. See "Dividend Reinvestment Plan."

RATIOS OF EARNINGS TO FIXED CHARGES

For the years ended December 31, 2007, 2006 and 2005 and the period June 23, 2004 (inception) through December 31, 2004, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Period June 23, 2004 (inception) Through December 31, 2004
Earnings to Fixed Charges(1)	3.4	5.0	28.5	24.2

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders' equity resulting from operations plus (or minus) income tax expense including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or depreciation, the earnings to fixed charges ratio would be 3.7 for the year ended December 31, 2007, 5.8 for the year ended December 31, 2006, and 25.6 and 22.5 for the year ended December 31, 2005 and the period June 23, 2004 (inception) through December 31, 2004, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our financial statements and notes thereto appearing elsewhere in this Annual Report.

OVERVIEW

We are a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act. We were founded on April 16, 2004 and were initially funded on June 23, 2004 and on October 8, 2004 completed our initial public offering (the "IPO").

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and long-term mezzanine debt, which in some cases may include an equity component, and, to a lesser extent, in equity investments in private U.S. middle market companies.

We are externally managed by Ares Capital Management, an affiliate of Ares Management LLC, an independent international investment management firm that manages investment funds. Ares Administration, an affiliate of Ares Management, provides the administrative services necessary for us to operate.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in "qualifying assets," including securities and indebtedness of private U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

We have qualified and elected to be treated as a RIC, under Subchapter M of the Code. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to our stockholders at lease 90% of our investment company taxable income, as defined by the Code, for each year. Pursuant to these elections, we generally will not have to pay corporate level taxes on any income that we distribute to our stockholders.

CRITICAL ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States ("GAAP"), and include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated.

Investments

Investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies without market quotations subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in determining the fair value of our investments generally focus on the enterprise value of a portfolio company, as well as other factors such as the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment in conjunction with our portfolio management team.

- Preliminary valuation conclusions are then documented and discussed with our management.

- The audit committee of our board of directors reviews these preliminary valuations, as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

- The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and independent valuation firms.

Interest Income Recognition

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection.

Payment-in-Kind Interest

The Company has loans in its portfolio that contain a payment-in-kind ("PIK") provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash.

Capital Structuring Service Fees and Other Income

The Company's investment adviser seeks to provide assistance to our portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally consist of reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company's investment adviser may also have the right to designate a person to take a seat on the board of directors of a portfolio company, or observe the meetings of the board of directors without taking a formal seat.

Other income includes fees for asset management, consulting, loan guarantees, commitments and other services rendered by the Company to portfolio companies. Such fees are recognized as income when earned or the services are rendered.

Foreign Currency Translation

The Company's books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

(1) Market value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the day.

(2) Purchases and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective dates of such transactions.

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations. Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuation and revaluations and future adverse political, social and economic developments which could cause investments in their markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

Federal Income Taxes

The Company has qualified and elected and intends to continue to qualify for the tax treatment applicable to RICs under Subchapter M of the Code and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from Federal income taxes. In order to qualify as a RIC, among other factors, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues an excise tax estimate, if any, on estimated excess taxable income.

In accordance with GAAP, book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are reclassified between, distributions less than (in excess of) net investment income, accumulated net realized gain on sale of investments and capital in excess of par. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP, as highlighted in Note 6 to our consolidated financial statements.

Certain of our wholly owned subsidiaries are subject to Federal and state income taxes.

Dividends

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for re-investment.

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of actual and contingent assets and liabilities at the date of the financial statements and the reported amounts of income or loss and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of investments.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments approximate fair value.

PORTFOLIO AND INVESTMENT ACTIVITY

	Year End December 31, (in millions, except number of companies, terms and percentages)		
	2007	**2006**	**2005**
New investments(1):			
New portfolio companies	$ 1,091.6	$ 812.5	$ 464.9
Existing portfolio companies	256.0	297.5	64.0
Total new investments	1,347.6	1,110.0	528.9
Less:			
Investments exited	654.1	404.9	105.2
Net investments	$ 693.5	$ 705.1	$ 423.7
New investments funded:			
New portfolio companies	$ 876.8	$ 736.1	$ 440.3
Existing portfolio companies	253.0	292.1	64.0
Total	$ 1,129.8	$ 1,028.2	$ 504.3
Principal amount of investments purchased:			
Senior term debt	$ 886.7	$ 726.4	$ 339.3
Senior subordinated debt	187.1	249.4	76.6
Equity and other	177.6	111.7	88.4
Total	$ 1,251.4	$ 1,087.5	$ 504.3
Principal amount of investments sold or repaid:			
Senior term debt	$ 608.3	$ 255.5	$ 63.4
Senior subordinated debt	89.8	99.2	27.2
Equity and other	20.6	75.3	17.8
Total	$ 718.7	$ 430.0	$ 108.4
Number of new investments(2)	47	54	31
Average new investment amount	$ 28.7	$ 19.0	$ 17.1
Weighted average term for new investments (in months)	69	69	78
Weighted average yield of debt and income producing securities funded during the period(3)	11.60%	12.14%	10.50%
Weighted average yield of debt and income producing securities sold or repaid during the period(3)	11.72%	11.95%	11.29%

(1) New investments includes new agreements to fund revolving credit facilities or delayed draw loans.

(2) Number of new investments represents each commitment to a particular portfolio company.

(3) When we refer to the "weighted average yield" in this report, we compute it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total income producing securities and debt at fair value included in such securities.

The investment adviser employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, the investment adviser grades all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company business, the collateral coverage of the investments and other factors considered relevant. Under this system, investments with a grade of 4 involve the least amount of risk in our portfolio. The portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. The portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially graded 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investments risk has increased materially since origination. The portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, we increase procedures to monitor the portfolio company and we will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full and we will reduce the fair market value of the investment to the amount we anticipate will be recovered. The investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of December 31, 2007, the weighted average investment grade of the investments in our portfolio was 3.0 and two loans were past-due or on non-accrual. The weighted average investment grade of the investments in our portfolio as of December 31, 2006 was 3.0. The distribution of the grades of our portfolio companies as of December 31, 2007 and 2006 is as follows:

	December 31, 2007		December 31, 2006	
	Fair Value	**Number of Companies**	**Fair Value**	**Number of Companies**
Grade 1	$ 13,927,200	1	$ 504,206	1
Grade 2	115,584,881	6	14,206,419	1
Grade 3	1,581,810,870	66	1,189,399,643	56
Grade 4	62,878,890	3	31,711,568	2
	1,774,201,841	76	$ 1,235,821,836	60

As of December 31, 2007, the weighted average yield of the debt and income producing equity securities in our portfolio was approximately 11.68%. As of December 31, 2007, the weighted average yield on our entire portfolio was 10.22%. The weighted average yield on our senior term debt, senior subordinated debt and income producing equity securities was 11.19%, 13.23% and 10.36%, respectively. Of the senior term debt, the weighted average yield attributable to first lien senior term debt and second lien senior term debt was 10.53% and 12.38%, respectively.

As of December 31, 2006, the weighted average yield of the debt and income producing equity securities in our portfolio was approximately 11.95%. As of December 31, 2006, the weighted average yield on our entire portfolio was 10.79%. The weighted average yield on our senior term debt, senior subordinated debt and income producing equity securities was 11.52%, 13.16% and 10.00%, respectively. Of the senior term debt, the weighted average yield attributable to first lien senior term debt and second lien senior term debt was 11.22% and 11.94%, respectively.

RESULTS OF OPERATIONS

For the years ended December 31, 2007, 2006 and 2005

Operating results for the years ended December 31, 2007, 2006 and 2005 are as follows:

	For the Year Ended December 31,		
	2007	2006	2005
Total Investment Income	$ 188,873,228	$ 120,020,908	$ 41,850,477
Total Expenses	94,750,617	58,458,015	14,568,677
Net Investment Income Before Income Taxes	94,122,611	61,562,893	27,281,800
Income Tax Expense (Benefit), Including Excise Tax	(826,437)	4,931,288	158,000
Net Investment Income	94,949,048	56,631,605	27,123,800
Net Realized Gains	6,544,492	27,616,431	10,341,713
Net Unrealized Gains (Losses)	(10,661,076)	(14,552,714)	4,385,563
Net Increase in Stockholders' Equity Resulting From Operations	$ 90,832,464	$ 69,695,322	$ 41,851,076

Investment Income

For the year ended December 31, 2007, total investment income increased $68.9 million, or 57%, from the year ended December 31, 2006. Interest income from investments increased $64.1 million, or 65%, to $162.4 million for the year ended December 31, 2007 from $98.3 million for the comparable period in 2006. The increase in interest income from investments was primarily due to the increase in the size of the portfolio. The average investments, at fair value, for the year increased to $1.5 billion for the year ended December 31, 2007 from $871.0 million for the comparable period in 2006. Of the approximately $162.4 million in interest income from investments, non-cash PIK interest income was $16.2 million. Capital structuring service fees increased $2.0 million, or 12%, to $18.0 million for the year ended December 31, 2007 from $16.0 million for the comparable period in 2006. The increase in capital structuring service fees was primarily due to the increased amount of new investments made. The amount of new investments made increased to $1.3 billion during the year ended December 31, 2007 from $1.1 billion for the comparable period in 2006.

For the year ended December 31, 2006, total investment income increased $78.2 million, or 187%, over the year ended December 31, 2005. Interest income from investments increased $64.4 million, or 190%, to $98.3 million for the year ended December 31, 2006 from $34.0 million for the comparable period in 2005. The increase in interest income from investments was primarily due to the increase in the size of the portfolio. The average investments, at fair value, for the year increased from $323.2 million for the year ended December 31, 2005 to $871.0 million in the comparable period in 2006. Of the approximately $64.4 million in interest income from investments, non-cash PIK interest income was $6.3 million. Capital structuring service fees increased $10.8 million, or 206%, to $16.0 million for the year ended December 31, 2006 from $5.2 million for the comparable period in 2005. The increase in capital structuring service fees was primarily due to the increased number of originations. The number of new investments increased from 31 during the year ended December 31, 2005 to 54 during the comparable period in 2006.

Operating Expenses

For the year ended December 31, 2007, total expenses increased $36.3 million, or 62%, from the year ended December 31, 2006. Base management fees increased $9.9 million, or 72%, to $23.5 million for the year ended December 31, 2007 from $13.6 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased $7.5 million, or 46%, to $23.5 million for the year ended December 31, 2007 from $16.1 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Interest expense and credit facility fees increased $18.3 million, or 99%, to $36.9 million for the year ended December 31, 2007 from $18.6 million for the comparable period in 2006, primarily due to the significant increase in the outstanding borrowings. The average outstanding borrowings during the year ended December 31, 2007 were $567.9 million compared to average outstanding borrowings of $262.4 million for the comparable period in 2006. The increase in total expenses was partially offset by the decline in incentive fees related to realized gains. There were no incentive fees related to realized gains during the year ended December 31, 2007 compared to $3.4 million for the year ended December 31, 2006, due to gross unrealized depreciation offsetting net realized gains for the period. Net realized gains were $6.6 million during the year ended December 31, 2007 whereas gross unrealized depreciation recognized was $61.2 million.

For the year ended December 31, 2006, total expenses increased $43.9 million, or 301%, over the year ended December 31, 2005. Base management fees increased $8.5 million, or 165%, to $13.6 million for the year ended December 31, 2006 from $5.1 million for the comparable period in 2005, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased $12.8 million, or 399%, to $16.1 million for the year ended December 31, 2006 from $3.2 million for the comparable period in 2005, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Incentive fees related to realized gains increased $2.5 million, or 252%, to $3.4 million for the year ended December 31, 2006 from $979,000 for the comparable period in 2005, primarily due to lower net realized gains and higher gross unrealized depreciation recognized during the year ended December 31, 2006 as compared to the year ended December 31, 2005. Net realized gains increased from $10.3 million during the year ended December 31, 2005 to $27.6 million during the year ended December 31, 2006. Gross unrealized depreciation increased from $6.8 million during the year ended December 31, 2005 to $8.9 million during the year ended December 31, 2006. Interest expense and credit facility fees increased $17.1 million, or 1,175%, to $18.6 million for the year ended December 31, 2006 from $1.5 million for the comparable period in 2005, primarily due to the significant increase in the borrowings outstanding. The average outstanding borrowings during the year ended December 31, 2005 was $17.9 million compared to average outstanding borrowings of $262.4 million for the comparable period in 2006. The increase in interest expense and credit facility fees was also due to an increase in the amortization of debt issuance costs, which was $1.8 million for the year ended December 31, 2006 compared to $465,000 for the comparable period in 2005. The increase in the amortization of debt issuance costs was primarily due to additional debt issuance costs capitalized during the end of 2005 as a result of entering into the Revolving Credit Facility and increasing the borrowing capacity of the CP Funding Facility, and also due to additional debt issuance costs capitalized during the year ended December 31, 2006 related to the Debt Securitization.

Income Tax Expense, Including Excise Tax

The Company has qualified and elected and intends to continue to qualify and elect for the tax treatment applicable to RICs under Subchapter M of the Code, and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from federal income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the years ended December 31, 2007, 2006 and 2005 provisions of approximately $100,000, $570,000 and $158,000 respectively, were recorded for federal excise tax.

Certain of our wholly owned subsidiaries are subject to federal and state income taxes. For the year ended December 31, 2007, we recorded a tax benefit of approximately $900,000 for these subsidiaries. For the year ended December 31, 2006, we recorded a tax provision of $4.4 million, for these subsidiaries. There was no provision recorded for the year ended December 31, 2005.

Net Realized Gains/Losses

During the year ended December 31, 2007, the Company had $725.2 million of sales and repayments resulting in $6.6 million of net realized gains. These sales and repayments included the $133.0 million of loans sold to Ivy Hill. Net realized gains were comprised of $16.2 million of gross realized gains and $9.7 million of gross realized losses. The most significant realized gains during the year ended December 31, 2007 were as a result of the sales and repayments of the investments in The GSI Group, Inc. ("GSI"), Varel Holdings, Inc. ("Varel") and Equinox SMU Partners LLC of $6.2 million, $4.0 million and $3.5 million, respectively, offset by an $8.8 million realized loss in Berkline/Benchcraft Holdings LLC ("Berkline").

During the year ended December 31, 2006, the Company had $457.7 million of sales and repayments resulting in $27.6 million of net realized gains. Net realized gains were comprised of $27.7 million of gross realized gains and $101,000 of gross realized losses. The most significant realized gains during the year ended December 31, 2006 were as a result of the sales and repayments of the investments in CICQ, LP ("CICQ"), United Site Services, Inc. and GCA Services Group, Inc. of $18.6 million, $4.5 million and $1.0 million, respectively.

During the year ended December 31, 2005, the Company had $118.8 million of sales and repayments resulting in $10.3 million of net realized gains. Net realized gains were comprised of $10.5 million of gross realized gains and $145,000 of gross realized losses. The most significant realized gains during the period were as a result of the sales of the investments in Reef Holdings, Inc. ("Reef"), Esselte, Inc. and Billing Concepts, Inc. of $4.8 million, $2.4 million and $1.8 million, respectively.

Net Unrealized Gains/Losses

For the year ended December 31, 2007, the Company had net unrealized losses of $11.5 million, which was comprised of $52.5 million in unrealized appreciation, $61.2 million in unrealized depreciation and $2.8 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in unrealized appreciation were $27.2 million for the investment in Reflexite Corporation, $5.6 million for the investment in GSI, $4.0 million for the investment in Waste Pro, Inc., $3.6 million for the investment in Daily Candy, Inc., $3.2 million for the investment in Industrial Container Services, Inc., and $3.0 million for the investment in Varel. The most significant changes in unrealized depreciation were $10.5 million for the investment in MPBP Holdings, Inc., $10.0 million for the investment in FirstLight Financial Corporation, $8.0 million for the investment in Wear Me Apparel, LLC, $7.2 million for the investment in Universal Trailer Corporation ("Universal"), $5.6 million for the investment in Primis Marketing Group, Inc., $5.0 million for the investment in Making Memories Wholesale, Inc. ("Making Memories") and $3.2 million for the investment in WasteQuip, Inc. The reversal of prior period not unrealized appreciation was primarily due to the reversal for the appreciation of $5.6 million for the investment in GSI and $4.0 million for the investment in Varel offset by the reversal of depreciation of $8.3 million for the investment in Berkline.

For the year ended December 31, 2006, the Company's investments had a decrease in net unrealized gains/losses of $14.6 million, which was comprised of $9.2 million in unrealized appreciation, $8.9 million in unrealized depreciation and $14.9 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in net unrealized appreciation were the unrealized appreciation for the investment in CICQ of $4.0 million, the unrealized appreciation for the investment in Universal of $3.4 million and the unrealized appreciation for the investment in Varel of $1.0 million, offset by the unrealized depreciation of $6.5 million for the investment in Berkline and unrealized depreciation of $2.4 million for the investment in Making Memories. The reversal of the prior period net unrealized appreciation was primarily due to the reversal of the appreciation of $13.3 million for the investment in CICQ.

For the year ended December 31, 2005, the Company's investments had an increase in net unrealized gains/losses of $4.4 million, which was comprised of $15.5 million in unrealized appreciation, $6.8 million in unrealized depreciation and $4.3 million relating to the reversal of prior period unrealized net appreciation. The most significant changes in net unrealized appreciation were unrealized appreciation of $9.3 million for the investment in CICQ and $4.8 million for the investment in Reef, offset by the unrealized depreciation in Berkline of $1.8 million and Universal of $3.4 million. The reversal of the prior period net unrealized appreciation was primarily due to the reversal of the appreciation of $4.8 million for the investment in Reef which was realized during 2005.

Net Increase in Stockholders' Equity Resulting From Operations

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2007 was $90.8 million. Based on the weighted average shares outstanding during the year ended December 31, 2007, our net increase in stockholders' equity resulting from operations per common share was $1.37 for the year ended December 31, 2007.

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2006 was $69.7 million. Based on the weighted average shares outstanding during the year ended December 31, 2006, our net increase in stockholders' equity resulting from operations per common share was $1.61 for the year ended December 31, 2006.

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2005 was $41.9 million. Based on the weighted average shares outstanding during the year ended December 31, 2005, our net increase in stockholders' equity resulting from operations per common share was $1.78 for the year ended December 31, 2005.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Since the Company's inception, the Company's liquidity and capital resources have been generated primarily from the net proceeds of our initial public offering and subsequent add-on public offerings of common stock, the Debt Securitization, advances from the CP Funding Facility and the Revolving Credit Facility, as well as cash flows from operations.

We expect to continue to raise new capital in order to fund our investment objectives by issuing both debt and equity securities in the future, amending our Facilities and/or recycling lower yielding investments. However, the terms of any future debt and equity issuances, amendments or our ability to recycle cannot be determined and there can be no assurances that the debt or equity markets, amendments to our facilities or the ability to recycle will be achievable on terms we deem acceptable or that our cost of capital will not increase.

Equity Offerings

The following table summarizes the total shares issued and proceeds we received net of underwriting and offering costs for the years ended December 31, 2007, 2006 and 2005 (in millions, except per share amounts):

	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
August 2007 public offering	2.6	$ 16.30	$ 42.3
April 2007 public offering	15.5	$ 17.97	267.2
February 2007 public offering	1.4	$ 19.95	27.2
Underwriters over-allotment option related to December 2006 public offering	0.4	$ 18.50	7.5
Total for the year ended December 31, 2007	20.0		$ 344.2
December 2006 public offering	2.7	$ 18.50	$ 49.8
July 2006 public offering	10.8	$ 15.67	162.0
Total for the year ended December 31, 2006	13.5		$ 211.8
October 2005 public offering	14.5	$ 15.46	$ 213.5
March 2005 public offering	12.1	$ 16.00	183.9
Total for the year ended December 31, 2005	26.6		$ 397.4

Part of the proceeds from our public offerings in 2007, 2006 and 2005 were used to repay outstanding indebtedness. The remaining unused portions of the proceeds from our public offerings were used to fund investments in portfolio companies in accordance with our investment objective and strategies and market conditions.

As of December 31, 2007, total market capitalization for the Company was $1.1 billion compared to $994.4 million as of December 31, 2006.

Debt Capital Activities

Our debt obligations consisted of the following as of December 31, 2007 and 2006 (in millions):

	December 31, 2007	December 31, 2006
Revolving Credit Facility	$ 282.5	$ 193.0
CP Funding Facility	85.0	15.0
Debt Securitization	314.0	314.0
	$ 681.5	$ 522.0

The weighted average interest rate and weighted average maturity of all our outstanding borrowings as of December 31, 2007 were 5.66% and 6.9 years, respectively.

The weighted average interest rate and weighted average maturity of all our outstanding borrowings as of December 31, 2006 were 6.06% and 9.0 years, respectively.

The ratio of total debt outstanding to stockholders' equity as of December 31, 2007 was 0.60:1:00 compared to 0.61:1.00 as of December 31, 2006.

A summary of our contractual payment obligations as of December 31, 2007 are as follows (in millions):

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Revolving Credit Facility	$ 282.5	$	$ 282.5	$	$
CP Funding Facility	85.0	85.0			
Debt Securitization	314.0				314.0
Total Debt	$ 681.5	$ 85.0	$ 282.5	$	$ 314.0

On November 3, 2004, through our wholly owned subsidiary, Ares Capital CP Funding LLC ("Ares Capital CP"), we entered into a revolving credit facility (the "CP Funding Facility") that, as amended, allows Ares Capital CP to issue up to $350.0 million of variable funding certificates ("VFC").

Under the CP Funding Facility, funds are loaned to Ares Capital CP by or through Wachovia Capital Markets, LLC at prevailing commercial paper rates, or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus, in each case, an applicable spread. The funds are used for the simultaneous purchase by Ares Capital CP from the Company of loan investments originated or otherwise acquired by the Company. Through this simultaneous purchase from the Company by Ares Capital CP with funds obtained by Ares Capital CP from the CP Funding Facility, the Company is able to obtain the benefits of the CP Funding Facility.

As part of the CP Funding Facility, we are subject to limitations as to how borrowed funds may be used including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings as well as regulatory restrictions on leverage which may affect the amount of funds that Ares Capital CP may obtain. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early amortization of the CP Funding Facility, limit further advances under the CP Funding Facility and in some cases, could be an event of default. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the CP Funding Facility. The CP Funding Facility expires on October 8, 2008 unless extended prior to such date with the consent of the lender. If the CP Funding Facility is not extended, any principal amounts then outstanding will be amortized over a 24 month period through a termination date of October 6, 2010. Additionally, we are also required to pay a commitment fee (as described below) for any unused portion of the CP Funding Facility.

The interest rate charged on the CP Funding Facility is based on the commercial paper rate plus 1.00% and payable quarterly. On October 18, 2007, we entered into an amendment to increase the interest rate charged on the CP Funding Facility from the commercial paper rate plus 0.70% to the commercial paper rate plus 1.00%. As of December 31, 2007, the commercial paper rate was 5.114%. The commitment fee for unused portions of the credit facility ranges from 0.10% to 0.125%, depending on funding levels. The available amount for borrowing under the CP Funding Facility is $350.0 million (see Note 8 to the consolidated financial statements for more detail on the CP Funding Facility arrangement). As of December 31, 2007 and March 11, 2008, there was $85.0 million outstanding under the CP Funding Facility.

On December 28, 2005, we entered into the Revolving Credit Facility with the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, together with various supporting documentation, including a guarantee and security agreement. On November 13, 2007, the lenders entered into an amendment that increased the aggregate principal amount available for borrowing from $350.0 million to $510.0 million at any one time outstanding and up to a maximum of $765.0 million if we fully exercise the "accordian" feature of the Revolving Credit Facility. As of December 31, 2007, the aggregate principal amount of commitments under the Revolving Credit Facility was $510.0 million. The Revolving Credit Facility provides also for issuing letters of credit. The Revolving Credit Facility is a five-year revolving facility (with a stated maturity date of December 28, 2010) and with certain exceptions is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the CP Funding Facility and investments held by ARCC CLO under the Debt Securitization (as defined below)).

Subject to certain exceptions, the interest rate payable under the Revolving Credit Facility is 100 basis points over LIBOR and the commitment fee for unused portions of the credit facility is 0.20%.

Under the Revolving Credit Facility, we have made certain representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities) to total indebtedness, of Ares Capital and its subsidiaries, of not less than 2.0:1.0, (f) maintaining minimum liquidity, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of Ares Capital and its subsidiaries.

In addition to the asset coverage ratio described above, borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in our portfolio. The Revolving Credit Facility also includes an "accordion" feature that allows us to increase the size of the Revolving Credit Facility to a maximum of $765.0 million under certain circumstances. The Revolving Credit Facility also includes usual and customary events of default for senior secured revolving credit facilities of this nature.

The total outstanding committed amount for borrowing under the Revolving Credit Facility is $510.0 million. As of December 31, 2007 and March 11, 2008, there was $282.5 million and $450.2 million outstanding, respectively, under the Revolving Credit Facility. The Revolving Credit Facility expires on December 28, 2010.

On July 7, 2006, through our newly formed, wholly owned Delaware subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), we completed a $400.0 million debt securitization (the "Debt Securitization") where approximately $314.0 million principal amount of asset-backed notes (including $50.0 million revolving notes, all of which have been drawn down as of September 30, 2007) (the "CLO Notes") were issued to third parties and secured by a pool of middle market loans that have been purchased or originated by the Company. We retained approximately $86.0 million of certain BBB and non-rated securities in the debt securitization (the "Retained Notes"). The blended pricing of the CLO Notes, excluding fees, is approximately 3-month LIBOR plus 34 basis points. The Debt Securitization is an on-balance-sheet financing for the Company. As of December 31, 2007 and March 11, 2008, $314.0 million was outstanding under the Debt Securitization (not including the Retained Notes). The CLO Notes mature on December 20, 2019.

In July 2007, we received a long-term issuer rating of Baa3 from Moody's Investor Service and a long-term counterparty credit rating from Standard & Poor's Ratings Service of BBB, which we believe will provide access to broader financing sources and further diversify our capital raising alternatives.

OFF BALANCE SHEET ARRANGEMENTS

As of December 31, 2007, the Company had committed to make a total of approximately $323.6 million of investments in various revolving senior secured loans. As of December 31, 2007, $244.4 million was unfunded. Included within the $323.6 million commitment in revolving secured loans is a commitment to issue up to $11.0 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of December 31, 2007, the Company had $8.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, $1.3 million expire on June 10, 2013, $500,000 expire on August 31, 2010, $4.6 million expire on February 28, 2009 and $2.4 million expire on September 30, 2008. These letters of credit may be extended under substantially similar terms for additional one-year terms at the Company's option until the Revolving Credit Facility, under which the letters of credit were issued, matures on December 28, 2010.

As of December 31, 2007, the Company was subject to subscription agreements to fund up to $111.8 million of equity commitments, substantially all at the discretion of the Company in private equity investment partnerships. As of December 31, 2007, $1.3 million was funded to these partnerships.

As of December 31, 2006, the Company had committed to make a total of approximately $174.0 million of investments in various revolving senior secured and subordinated loans. As of December 31, 2006, $117.0 million was unfunded. Additionally, $129.8 million of the $174.0 million in commitments extended beyond the maturity date of our Revolving Credit Facility. Included within the $174.0 million in commitments in revolving secured and subordinated loans were commitments to issue up to $3.8 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of December 31, 2006, the Company had $2.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability.

As of December 31, 2006, the Company was subject to a subscription agreement to fund up to $10.0 million of equity commitments, substantially all at the discretion of the Company in a private equity investment partnership. As of December 31, 2006, $225,000 was funded to this partnership.

We intend to fund these commitments and prospective investment opportunities with existing cash, through cash flow from operations before new investments, through borrowings under our Facilities or other long-term debt agreements, or through the sale or issuance of new equity capital.

Quantitative And Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates and the valuations of our investment portfolio.

Interest Rate Risk

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. Because we fund a portion of our investments with borrowings, our net investment income is affected by the spread between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

As of December 31, 2007, approximately 36% of the investments at fair value in our portfolio were at fixed rates while approximately 52% were at variable rates and 12% were non-interest earning.

In addition, the Debt Securitization, the CP Funding Facility and the Revolving Credit Facility all feature variable rates.

We regularly measure our exposure to interest rate risk. We assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on that review, we determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates.

On January 7, 2005, we entered into a costless collar agreement in order to manage the exposure to changing interest rates related to the Company's fixed rate investments. The costless collar agreement was for a notional amount of $20 million, has a cap of 6.5%, a floor of 2.72% and matures in 2008. The costless collar agreement allows us to receive an interest payment when the 3-month LIBOR exceeds 6.5% and obligates us to pay an interest payment when the 3-month LIBOR is less than 2.72%. The costless collar resets quarterly based on the 3-month LIBOR. As of December 31, 2007, the 3-month LIBOR was 4.70%. As of December 31, 2007, this agreement had no fair value.

While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio investments.

Based on our December 31, 2007 balance sheet, the following table shows the impact on net income of base rate changes in interest rates assuming no changes in our investment and borrowing structure (in millions).

Basis Point Change	**Interest Income**	**Interest Expense**	**Net Income**
Up 300 basis points	$ 24.4	$ 20.4	$ 4.0
Up 200 basis points	$ 16.3	$ 13.6	$ 2.7
Up 100 basis points	$ 8.1	$ 6.8	$ 1.3
Down 100 basis points	$ (8.1)	$ (6.8)	$ (1.3)
Down 200 basis points	$ (16.3)	$ (13.6)	$ (2.7)
Down 300 basis points	$ (24.4)	$ (20.4)	$ (4.0)

Portfolio Valuation

Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in fair value valuation of our investments include, as relevant, the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize.

In addition, changes in the market environment, such as inflation, and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment in conjuction with our portfolio management team.

Preliminary valuation conclusions are then documented and discussed with our management.

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and independent valuation firms.

SENIOR SECURITIES

Information about our senior securities is shown in the following tables as of each fiscal year ended December 31 since the Fund commenced operations, unless otherwise noted. The report of our independent registered public accounting firm on the senior securities table of December 31, 2004, 2005, 2006 and 2007 is attached as an exhibit to the registration statement of which this prospectus is a part. The " " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
Debt Securitization				
Fiscal 2007	$ 314,000,000	$ 1,220.95	$	N/A
Fiscal 2006	$ 274,000,000	$ 1,499.51	$	N/A
CP Funding Facility				
Fiscal 2007	$ 85,000,000	$ 330.07	$	N/A
Fiscal 2006	$ 15,000,000	$ 82.09	$	N/A
Fiscal 2005	$ 18,000,000	$ 32,645.12	$	N/A
Fiscal 2004	$ 55,500,000	$ 3,877.62	$	N/A
Revolving Credit Facility				
Fiscal 2007	$ 282,528,056	$ 1,098.58	$	N/A
Fiscal 2006	$ 193,000,000	$ 1,056.23	$	N/A
Fiscal 2005	$	$	$	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each of the Debt Securitization, CP Funding Facility and the Revolving Credit Facility, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Not applicable, as senior securities are not registered for public trading.

BUSINESS

GENERAL

Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a BDC under the Investment Company Act. We were founded in April 2004 and completed our initial public offering on October 8, 2004. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. We primarily invest in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. However, we may from time to time invest in larger companies.

We invest primarily in first and second lien senior loans and long-term mezzanine debt. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank at or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. In some cases, we may also receive warrants or options in connection with our debt instruments. Our investments have generally ranged between $10 million and $50 million each, although the investment sizes may be more or less than the targeted range and are expected to grow with our capital availability. We also, to a lesser extent, make equity investments in private middle market companies. These investments have generally been less than $10 million each (but may grow with our capital availability) and are usually made in conjunction with loans we make these companies. In addition, the proportion of these instruments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment.

The first and second lien senior loans generally have stated terms of three to 10 years and the mezzanine debt investments generally have stated terms of up to 10 years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. The debt that we invest in typically is not initially rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Services or lower than "BBB-" by Standard & Poor's Corporation). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage Ares' current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms to provide us with attractive investments. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares' senior principals have worked together for many years and have substantial experience investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Ares staff of approximately 98 investment professionals and to the 94 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance, technology and investor relations.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of private companies, we also may invest up to 30% of the portfolio in opportunistic investments. Such investments may include investments in high-yield bonds, debt and equity securities in collateralized debt obligation vehicles and distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that are non-investment grade. As part of this 30% of the portfolio, we may also invest in debt of middle market companies located outside of the United States.

In addition to making investments in the Ares Capital portfolio, we manage a senior debt fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill"), which was established during 2007. Our wholly owned subsidiary, Ivy Hill Asset Management, L.P., manages Ivy Hill.

About Ares

Ares is an independent international investment management firm with approximately $20.0 billion of total committed capital and over 220 employees as of the date of this prospectus. Ares was founded in 1997 by a group of highly experienced investment professionals.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the acquisition and management of senior loans, high yield bonds, mezzanine and special situation investments. Ares' private equity activities focus on providing flexible, junior capital to middle market companies. Ares has the ability to invest across a capital structure, from senior secured floating rate debt to common equity.

Ares is comprised of the following groups:

Capital Markets Group. The Ares Capital Markets Group currently manages a variety of funds and investment vehicles that have approximately $13.5 billion of committed capital, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

Private Debt Group. The Ares Private Debt Group manages the assets of Ares Capital and ACE. The Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt.

Private Equity Group. The Ares Private Equity Group manages ACOF, which currently has approximately $2.8 billion of total committed capital. ACOF generally makes private equity investments in companies in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. The Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 20 years of experience in leveraged finance, private equity, distressed debt, investment banking and capital markets. They are backed by a large team of highly-disciplined professionals. Ares' rigorous investment approach is based upon an intensive, independent financial analysis, with a focus on preservation of capital, diversification and active portfolio management. These fundamentals underlie Ares' investment strategy and have resulted in large pension funds, banks, insurance companies, endowments and high net worth individuals investing in Ares funds.

Ares Capital Management

Ares Capital Management, our investment adviser, is served by a dedicated origination and transaction development team of 31 investment professionals led by our President, Michael Arougheti, and the partners of Ares Capital Management, Eric Beckman, Kipp deVeer, Mitchell Goldstein and Michael Smith. Ares Capital Management leverages off of Ares' entire investment platform and benefits from the significant capital markets, trading and research expertise of all of Ares' investment professionals. Ares funds currently hold over 600 investments in over 30 different industries and have made investments in over 1,600 companies since inception. Ares Capital Management's investment committee has eight members, including Mr. Arougheti, several Ares Capital Management partners, and four founding members of Ares.

MARKET OPPORTUNITY

We believe the environment for investing in middle-market companies is attractive for the following reasons:

- We believe that many senior lenders have, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital markets transactions.

- We believe there is increased demand among private middle market companies for primary capital. Many middle-market firms have faced increased difficulty raising debt in the capital markets, due to a continuing preference for larger size high yield bond and loan issuances.

- We believe there is a large pool of uninvested private equity capital for middle market companies. We expect private equity firms will seek to leverage their investments by combining capital with senior secured loans and mezzanine debt from other sources.

- We believe, as of the date of this prospectus, current credit market dislocation has seen a reduction in competition, a widening of interest spreads, increasing fees and generally more conservative capital structures and deal terms.

COMPETITIVE ADVANTAGES

We believe that we have the following competitive advantages over other capital providers in middle market companies:

Existing investment platform

Ares currently manages approximately $20.0 billion of committed capital in the related asset classes of syndicated loans, high yield bonds, mezzanine debt and private equity. We believe Ares' current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital.

Seasoned management team

John Kissick, Antony Ressler, Bennett Rosenthal and David Sachs are all founding members of Ares who serve on Ares Capital Management's investment committee. These professionals have an average of over 20 years experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt, distressed debt and private equity securities. In addition, our President, Michael Arougheti, leads a dedicated origination and transaction development team of 31 investment professionals, including Mr. Arougheti and the partners of Ares Capital Management, Eric Beckman, Kipp deVeer, Mitch Goldstein and Michael Smith. As a result of Ares' extensive investment experience and the history of its seasoned management team, Ares has developed a strong reputation in the capital markets. We believe that Ares' long history in the market and the extensive experience of the principals investing across market cycles provides Ares Capital Management with real competitive advantage in identifying, investing in, and managing a portfolio of investments in middle market companies.

Experience and focus on middle market companies

Ares has historically focused on investments in middle market companies and we benefit from this experience. Our investment adviser uses Ares' extensive network of relationships with intermediaries focused on middle market companies, including management teams, members of the

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investment banking community, private equity groups and other investment firms with whom Ares has had long-term relationships. We believe this network enables us to attract well-positioned prospective portfolio company investments. Our investment adviser works closely with the Ares investment professionals who oversee a portfolio of investments in over 600 companies and provide access to an extensive network of relationships and special insights into industry trends and the state of the capital markets.

Disciplined investment philosophy

In making its investment decisions, our investment adviser has adopted Ares' long-standing, consistent investment approach that was developed over 16 years ago by its founders. Specifically, Ares Capital Management's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Our investment approach emphasizes capital preservation, low volatility and minimization of downside risk. Our investment adviser and members of our Investment Committee have significant experience investing across market cycles. In addition to engaging in extensive due diligence from the perspective of a long-term investor, Ares Capital Management's approach seeks to reduce risk in investments by focusing on:

- Businesses with strong franchises and sustainable competitive advantages;
- Industries with positive long-term dynamics;
- Cash flows that are dependable and predictable;
- Management teams with demonstrated track records and economic incentives;
- Rates of return commensurate with the perceived risks; and
- Securities or investments that are structured with appropriate terms and covenants.

Extensive industry focus

We concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals historically have had extensive investment experience. Since its inception in 1997, Ares investment professionals have invested in over 1,600 companies in over 30 different industries. Ares' Capital Markets Group provides a large team of in-house analysts with significant expertise and relationships in industries in which we are likely to invest. Ares investment professionals have developed long-term relationships with management teams and management consultants in these industries, as well as substantial information concerning these industries and potential trends within these industries. The experience of Ares' investment professionals in investing across these industries throughout various stages of the economic cycle provides our investment adviser with access to ongoing market insights and favorable investment opportunities.

Flexible transaction structuring

We are flexible in structuring investments, the types of securities in which we invest and the terms associated with such investments. The principals of Ares have extensive experience in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. This approach and experience should enable our investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so that we can make investments consistent with our stated objective. In addition, we have the ability to hold larger investments than many of our middle market competitors. The ability to underwrite, syndicate and hold larger investments (i) increases flexibility, (ii) potentially increases net fee income and earnings through syndication, (iii) broadens market relationships and deal flow and (iv) allows us to optimize portfolio composition. We also focus on acting as agent for or leading many of our investments. In these

situations we tend to have (i) greater control over deal terms, pricing and structure and (ii) a closer relationship with issuers leading to more active portfolio management.

OPERATING AND REGULATORY STRUCTURE

Our investment activities are managed by Ares Capital Management and supervised by our board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is an investment adviser that is registered under the Advisers Act. Under our investment advisory and management agreement, we have agreed to pay Ares Capital Management an annual base management fee based on our total assets (other than cash and cash equivalents, but including assets purchased with borrowed funds), and an incentive fee based on our performance. See "Management Investment Advisory and Management Agreement."

As a BDC, we are required to comply with certain regulatory requirements. For example, we would not generally be permitted to invest in any portfolio company in which Ares or any of its affiliates currently has an investment (although we may co-invest on a concurrent basis with funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC and we have currently determined not to pursue obtaining such an order.

Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. We borrow funds to make additional investments. See "Regulation." We have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. See "Material U.S. Federal Income Tax Considerations."

INVESTMENTS

Ares Capital Corporation portfolio

We have created a diversified portfolio that includes first and second lien senior loans and mezzanine debt by investing a range of $10 million to $50 million of capital, on average, although the investment sizes may be more or less and depending on capital availability, are expected to grow. We also, to a lesser extent, make equity investments in private middle market companies. These investments have generally been less than $10 million each but may grow with our capital availability and are usually made in conjunction with loans we make to these companies. In addition, the proportion of these investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment. In addition to originating investments, we may acquire investments in the secondary market.

Structurally, mezzanine debt usually ranks subordinate in priority of payment to senior loans and is often unsecured. However, mezzanine debt ranks senior to common and preferred equity in a borrowers' capital structure. Typically, mezzanine debt has elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior loans, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest. This equity interest typically takes the form of warrants. Due to its higher risk profile and often less restrictive covenants as compared to senior loans, mezzanine debt generally earns a higher return than senior secured debt. The warrants associated with mezzanine debt are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine debt also may include a "put" feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula.

In making an equity investment, in addition to considering the factors discussed below under "Investment Selection," we also consider the anticipated timing of a liquidity event, such as a public offering, sale of the company or redemption of our equity securities.

Our principal focus is investing in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows. Ares has a staff of 98 investment professionals who specialize in specific industries. We generally seek to invest in companies from the industries in which Ares' investment professionals have direct expertise. The following is a representative list of the industries in which Ares has invested.

- Aerospace and Defense
- Airlines
- Broadcasting/Cable
- Cargo Transport
- Chemicals
- Consumer Products
- Containers/Packaging
- Education
- Energy
- Environmental Services
- Farming and Agriculture
- Financial
- Food and Beverage
- Gaming
- Health Care

- Homebuilding
- Lodging and Leisure
- Manufacturing
- Metals/Mining
- Paper and Forest Products
- Printing/Publishing/Media
- Retail
- Restaurants
- Supermarket and Drug
- Technology
- Utilities
- Wireless and Wireline Telecom

However, we may invest in other industries if we are presented with attractive opportunities.

The industry and geographic compositions of the portfolio at fair value at December 31, 2007 and December 31, 2006 were as follows:

	December 31	
Industry	**2007**	**2006**
Health Care	17.1	14.4%
Financial	9.9	5.6
Business Services	8.5	4.7
Printing/Publishing/Media	7.3	9.5
Education	6.9	5.1
Retail	6.5	6.0
Beverage/Food/Tobacco	6.2	4.3
Other Services	5.8	7.5
Consumer Products	5.6	8.0
Environmental Services	4.9	5.4
Manufacturing	4.7	7.7
Restaurants	4.2	6.4
Containers/Packaging	2.7	6.7
Aerospace and Defense	2.5	2.1
Computers/Electronics	2.0	1.8
Health Clubs	1.9	
Grocery	1.5	
Cargo Transport	0.8	1.0
Homebuilding	0.5	0.8
Telecommunications	0.5	
Broadcasting/Cable		2.1
Farming and Agriculture		0.9
Total	100.0%	100.0%

	December 31	
Geographic Region	**2007**	**2006**
Mid-Atlantic	22.9%	29.4%
Midwest	22.6	19.2
West	19.0	21.6
Southeast	18.3	21.3
International	12.7	2.8
Northeast	4.5	5.7
Total	100.0%	100.0%

As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which Ares or any affiliate currently has an investment (although we may co-invest on a concurrent basis with funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC and we have currently determined not to pursue obtaining such an order.

In addition to such investments, we may invest up to 30% of the portfolio in opportunistic investments in high-yield bonds, debt and equity securities in collateralized debt obligation vehicles, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. We also may invest in debt of middle market companies located outside of the United States.

Managed funds portfolio

On November 19, 2007, we established a middle market credit fund, Ivy Hill, which is managed by Ivy Hill Asset Management, L.P. in exchange for a 0.50% management fee on the average total assets of Ivy Hill. Ivy Hill primarily invests in first and second lien bank debt of middle market companies. Ivy Hill was initially funded with $404.0 million of capital including a $56.0 million investment by the Company consisting of $40.0 million of Class B notes and $16.0 million of subordinated notes.

Ivy Hill purchased $133.0 million of investments from the Company in the fourth quarter of 2007 and may from time to time, buy additional loans from the Company.

INVESTMENT SELECTION

Ares' investment philosophy was developed over the past 16 years and has remained consistent throughout a number of economic cycles. In managing the Company, Ares Capital Management employs the same investment philosophy and portfolio management methodologies used by the investment professionals of Ares in Ares' private investment funds.

Ares Capital Management's investment philosophy and portfolio management construction involve:

- an assessment of the overall macroeconomic environment and financial markets;
- company-specific research and analysis; and
- with respect to each individual company, an emphasis on capital preservation, low volatility and minimization of downside risk.

The foundation of Ares' investment philosophy is intensive credit investment analysis, a strict sales discipline based on both market technicals and fundamental value-oriented research, and diversification strategy. Ares Capital Management follows a rigorous process based on:

- a comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer's business;
- an evaluation of management;
- an analysis of business strategy and industry trends; and
- an in-depth examination of capital structure, financial results and projections.

Ares Capital Management seeks to identify those issuers exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on relative value of the security across the industry as well as for the specific issuer.

Intensive due diligence

The process through which Ares Capital Management makes an investment decision involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the transaction determines that an investment opportunity should be pursued, Ares Capital Management will engage in an intensive due diligence process. Approximately 30-40% of the investments initially reviewed proceed to this

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phase. Though each transaction will involve a somewhat different approach, the regular due diligence steps generally to be undertaken include:

- meeting with management to get an insider's view of the business, and to probe for potential weaknesses in business prospects;
- checking management backgrounds and references;
- performing a detailed review of historical financial performance and the quality of earnings;
- visiting headquarters and company operations and meeting top and middle level executives;
- contacting customers and vendors to assess both business prospects and standard practices;
- conducting a competitive analysis, and comparing the issuer to its main competitors on an operating, financial, market share and valuation basis;
- researching the industry for historic growth trends and future prospects (including Wall Street research, industry association literature and general news);
- assessing asset value and the ability of physical infrastructure and information systems to handle anticipated growth; and
- investigating legal risks and financial and accounting systems.

Selective investment process

Ares Capital Management employs Ares' long-standing, consistent investment approach, which is focused on selectively narrowing investment opportunities through a process designed to identify the most attractive opportunities. Ares reviews and analyzes numerous investment opportunities on behalf of its funds to determine which investments should be consummated.

After an investment has been identified and diligence has been completed, a credit research and analysis report is prepared. This report will be reviewed by the senior investment professional in charge of the potential investment. If such senior and other investment professionals are in favor of the potential investment, then it is first presented to an underwriting committee which is comprised of Mr. Arougheti and the partners of Ares Capital Management. If the underwriting committee approves of the potential investment it is then presented to the investment committee.

After the investment is approved by the underwriting committee, a more extensive due diligence process is employed by the transaction team, consisting of primary due diligence on the investment. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys, independent accountants, and other third party consultants and research firms prior to the closing of the investment, as appropriate on a case by case basis. Approximately 7-10% of all investments initially reviewed by the underwriting committee will be presented to the investment committee. Approval of an investment for funding generally requires the consensus of the investment committee including a majority of the members of Ares serving on the investment committee.

Investment structure

Once we have determined that a prospective portfolio company is suitable for investment, we work with the management of that company and its other capital providers, including senior, junior, and equity capital providers, to structure an investment. We negotiate among these parties to agree on how our investment is expected to perform relative to the other capital in the portfolio company's capital structure.

Approximately 5% of the investments initially reviewed eventually result in the issuance of formal commitments.

Debt investments

We invest in portfolio companies primarily in the form of first and second lien senior loans and long-term mezzanine debt. The first and second lien senior loans generally have terms of three to 10 years. We generally obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of the first and second lien senior loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

We structure our mezzanine investments primarily as unsecured, subordinated loans that provide for relatively high, fixed interest rates that provide us with significant current interest income. The mezzanine debt investments generally have terms of up to 10 years. These loans typically have interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine debt. In some cases, we may enter into loans that, by their terms, convert into equity or additional debt or defer payments of interest (or at least cash interest) for the first few years after our investment. Also, in some cases our mezzanine debt will be collateralized by a subordinated lien on some or all of the assets of the borrower.

In some cases our debt investments may provide for a portion of the interest payable to be payment-in-kind interest. To the extent interest is payment-in-kind, it will be payable through the increase of the principal amount of the loan by the amount of interest due on the then-outstanding aggregate principal amount of such loan.

In the case of our first and second lien senior loans and mezzanine debt, we tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that aims to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we will seek, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;

- incorporating "put" rights and call protection into the investment structure; and

- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

In general, we require financial covenants and terms that require an issuer to reduce leverage, thereby enhancing credit quality. These methods include: (i) maintenance leverage covenants requiring a decreasing ratio of debt to cash flow; (ii) maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and (iii) debt incurrence prohibitions, limiting a company's ability to re-lever. In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without consent.

Our debt investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Warrants we receive with our debt may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In many cases, we also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

Equity investments

Our equity investments may consist of preferred equity that is expected to pay dividends on a current basis or preferred equity that does not pay current dividends. Preferred equity generally has a preference over common equity as to dividends and distributions on liquidation. In some cases, we may acquire common equity. In general, our equity investments are not control-oriented investments and in many cases we acquire equity securities as part of a group of private equity investors in which we are not the lead investor. With respect to preferred or common equity investments, these investments have generally been less than $10 million each but may grow with our capital availability and are usually made in conjunction with loans we make to these companies. In many cases, we will also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

ONGOING RELATIONSHIPS WITH AND MONITORING OF PORTFOLIO COMPANIES

Ares Capital Management closely monitors each investment we make, maintains a regular dialogue with both the management team and other stakeholders and seeks specifically tailored financial reporting. In addition, senior investment professionals of Ares sometimes take board seats or obtain board observation rights. As of December 31, 2007, of the 76 funded portfolio companies, Ares Capital Management had board seats or board observation rights on more than 38% of the operating companies in our portfolio.

Post-investment, in addition to covenants and other contractual rights, Ares seeks to exert significant influence through board participation, when appropriate, and by actively working with management on strategic initiatives. Ares often introduces managers of companies in which they have invested to other portfolio companies to capitalize on complementary business activities and best practices.

In addition to various risk management and monitoring tools, our investment adviser grades all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company business, the collateral coverage of the investments and other factors considered relevant.

Under this system, investments with a grade of 4 involve the least amount of risk in our portfolio. The portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. The portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially graded 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investment risk has increased materially since origination. The portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, we increase procedures to monitor the portfolio company and we will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full and we will reduce the fair market value of the investment to the amount we anticipate will be recovered. The investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of December 31, 2007, the weighted average investment grade of the investments in our portfolio was 3.0 and two loans were past due or on non-accrual.

MANAGERIAL ASSISTANCE

As a BDC, we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

COMPETITION

Our primary competitors to provide financing to middle market companies include public and private funds, commercial and investment banks, commercial financing companies and private equity funds. Many of our competitors are substantially larger and have considerably greater financial and marketing resources than we do. For example, some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC. We use the industry information of Ares' investment professionals to which we have access to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the relationships of the members of Ares Capital Management's investment committees and of the senior principals of Ares, enable us to learn about, and compete effectively for, financing opportunities with attractive middle market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see "Risk Factors Risks Relating to our Business We operate in a highly competitive market for investment opportunities."

STAFFING

We do not currently have any employees and do not expect to have any employees. Services necessary for our business are provided by individuals who are employees of Ares Capital Management and Ares Administration, pursuant to the terms of the management agreement and the administration agreement. Each of our executive officers described under "Management" is an employee of Ares Administration and/or Ares Capital Management. Our day-to-day investment operations are managed by our investment adviser. Most of the services necessary for the origination and administration of our investment portfolio are provided by investment professionals employed by Ares Capital Management. Including Michael Arougheti, our President, Ares Capital Management has 31 investment professionals who focus on origination and transaction development and the ongoing monitoring of our investments. In addition, we reimburse Ares Administration for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers and their respective staffs.

PROPERTIES

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are currently located at 280 Park Avenue, 22nd Floor, Building East, New York, New York 10017. We rent office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, we have entered into a sublease with Ares Management LLC whereby Ares Management LLC subleases approximately 25% of the office space for a fixed rent equal to 25% of the basic annual rent payable by us under the lease, plus certain additional costs and expenses.

LEGAL PROCEEDINGS

Neither we nor Ares Capital Management are currently subject to any material legal proceedings.

PORTFOLIO COMPANIES

Our investment adviser employs an investment rating system to categorize our investments. See "Business Ongoing Relationships With and Monitoring of Portfolio Companies." As of December 31, 2007, the weighted average investment grade of the debt in our portfolio was 3.0. As of December 31, 2007, the weighted average yield of debt and income producing equity securities in our portfolio was approximately 11.68% (computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (b) total debt and income producing equity securities at fair value).

The following table describes each of the businesses included in our portfolio and reflects data as of December 31, 2007. Percentages shown for class of investment securities held by us represent percentage of the class owned and do not necessarily represent voting ownership. Percentages shown for equity securities, other than warrants or options, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of class of security we may own assuming we exercise our warrants or options before dilution.

We have indicated by footnote portfolio companies where we directly or indirectly own more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the Investment Company Act and companies that represent portfolio companies where we directly or indirectly own 5% to 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the Investment Company Act. We directly or indirectly own less than 5% of the outstanding voting securities of all other portfolio companies (or have no other affiliations with such portfolio companies) listed on the table. We offer to make significant managerial assistance to our portfolio companies. We may receive rights to observe the meetings of our portfolio companies' boards of directors.

ARES CAPITAL CORPORATION AND SUBSIDIARIES
PORTFOLIO COMPANIES
As of December 31, 2007

Company	Industry	Investment	Interest(1)	Maturity	% of Class Held	Fair Value
3091779 Nova Scotia Inc. 2700 Matheson Blvd. East, Ste. 800, East Tower Mississauga, Ontario L4W 4V9, Canada	Baked goods manufacturer	Junior secured loan	11.50%	11/3/2012		$ 14,021,000
		Common stock warrants			2.25%	$ (2)
Abingdon Investments Limited(32) P. O. Box 44 Dorey Court, Admiral Park St. Peter Port Guernsey GYI 3BG	Investment company	Ordinary shares			9.49%	$ 7,745,166
ADF Capital, Inc. & ADF Restaurant Group, LLC 165 Passaic Avenue Suite 301 Fairfield, NJ 07004	Restaurant owner and operator	Senior secured revolving loan	8.88% (Libor + 3.50%/Q)	11/27/2013		$ 2,000,000(3)
		Senior secured revolving loan	9.75% (Base Rate + 2.50%/D)	11/27/2013		$ 2,236,726(3)
		Senior secured loan	13.88% (Libor + 8.50%/Q)	11/27/2012		$ 19,606,317
		Senior secured loan	13.88% (Libor + 8.50%/Q)	11/27/2012		$ 990,000
		Senior secured loan	13.88% (Libor + 8.50%/Q)	11/27/2012		$ 14,053,683
		Promissory note	10.00% PIK	11/27/2016		$ 10,725,191
		Common stock warrants			45.70%	$ (2)
American Broadband Communications, LLC and American Broadband Holding Company 401 North Tryon 10th Floor Charlotte, NC 28208	Broadband communication services	Senior subordinated loan	8.00% cash, 8.00% PIK	11/7/2014		$ 9,327,115
		Common stock warrants			17.00%	$ (2)
		Senior secured revolving loan		11/7/2014		$ (4)
American Renal Associates, Inc.	Dialysis provider	Senior secured loan	8.36% (Libor+ 3.25%/S)	12/31/2010		$ 2,131,147
		Senior secured loan	8.45% (Libor + 3.25%/Q)	12/31/2010		$ 16,393

Company	Industry	Investment	Interest(1)	Maturity	% of Class Held	Fair Value	
5 Cherry Hill Drive,		Senior secured loan	9.00% (Base Rate + 1.75%/D)	12/31/2010		$ 196,721	
Suite 120		Senior secured loan	8.36% (Libor + 3.25%/S)	12/31/2011		$ 5,770,491	
Danvers, MA 01923		Senior secured loan	9.00% (Base Rate + 1.75%/D)	12/31/2011		$ 27,868	
		Senior secured loan	8.36% (Libor + 3.25%/S)	12/31/2011		$ 261,997	
		Senior secured loan	8.48% (Libor + 3.25%/Q)	12/31/2011		$ 2,619,971	
		Senior secured revolving loan		12/31/2010		$	(5)
American Residential Services, LLC 860 Ridge Lake Blvd A3-1860 Memphis, TN 38120	Plumbing, heating and air-conditioning services	Junior secured loan	10.00% Cash, 2.00% PIK	4/1/2015		$ 20,101,111	

AP Global Holdings, Inc. 1043 N. 47th Avenue Phoenix, Arizona 85043	Safety and security equipment manufacturer	Senior secured loan	9.73% (Libor + 4.50%/M)	10/26/2013		$ 20,000,000
Apogee Retail, LLC 1387 Cope Ave E Maplewood, MN 55109	For-profit thrift retailer	Senior secured loan	10.39% (Libor + 5.25%/S)	3/27/2012		$ 9,373,422
		Senior secured loan	10.39% (Libor + 5.25%/S)	3/27/2012		$ 19,850,000
		Senior secured loan	10.39% (Libor + 5.25%/S)	3/27/2012		$ 11,910,000
		Senior secured revolving loan		3/27/2012		$ (6)
Apple & Eve, LLC and US Juice Partners, LLC(32) PO Box K Roslyn, NY 11576	Juice manufacturer	Senior secured revolving loan	10.93% (Libor + 6.00%/M)	10/5/2013		$ 1,846,000(7)
		Senior secured revolving loan	10.93% (Libor + 6.00%/M)	10/5/2013		$ 1,000,000(7)
		Senior secured loan	10.93% (Libor + 6.00%/M)	10/5/2013		$ 33,915,000
		Senior secured loan	10.93% (Libor + 6.00%/M)	10/5/2013		$ 11,970,000
		Senior units			11.65%	$ 5,000,000
Arrow Group Industries, Inc. 1680 Route 23 North Wayne, NJ 07470	Residential and outdoor shed manufacturer	Senior secured loan	10.20% (Libor + 5.00%/Q)	4/1/2010		$ 5,616,000
Athletic Club Holdings, Inc. 5201 East Tudor Road Anchorage, AK 99504	Premier health club operator	Senior secured loan	9.63% (Libor + 4.5%/Q)	10/11/2013		$ 29,423,559
		Senior secured loan	9.63% (Libor + 4.5%/Q)	10/11/2013		$ 4,488,339
		Senior secured loan	9.47% (Libor + 4.50/Q)	10/11/2013		$ 50,125
		Senior secured loan	9.47% (Libor + 4.50/Q)	10/11/2013		$ 7,646
		Senior secured loan	10.75% (Libor + 3.50%/Q)	10/11/2013		$ 26,316
		Senior secured loan	10.75% (Libor + 3.50%/Q)	10/11/2013		$ 4,015
		Senior secured revolving loan		10/11/2013		$ (8)
AWTP, LLC 2080 Lunt Avenue Elk Grove Village, IL 60007	Water treatment services	Junior secured loan	13.43% (Libor + 8.50%/Q)	12/23/2013		$ 1,612,343
		Junior secured loan	13.43% (Libor + 8.50%/Q)	12/23/2013		$ 12,061,413
Badanco Enterprises, Inc. 994 Riverview Drive Totowa, NJ 07512	Luggage manufacturer	Senior secured revolving loan	10.50% (Base Rate + 3.25%/D)	1/24/2012		$ 2,150,000(9)
		Senior secured loan	10.50% (Base Rate + 3.25%/D)	1/24/2012		$ 312,500
		Senior secured loan	9.37% (Libor + 4.50%/M)	1/24/2012		$ 5,937,500
		Senior secured loan	9.39% (Libor + 4.50%/B)	1/24/2012		$ 4,375,000
Best Brands Corporation 1765 Yankee Doodle Road Eagan, MN 55121	Baked goods manufacturer	Junior secured loan	17.23% (Libor + 12.00%/Q)	6/30/2013		$ 27,115,461
		Junior secured loan	17.23% (Libor + 12.00%/Q)	6/30/2013		$ 12,168,314
Canon Communications LLC 11444 W. Olympic Blvd. Los Angeles, CA 90064	Print publications services	Junior secured loan	11.60% (Libor + 6.75%/M)	11/30/2011		$ 7,525,000
		Junior secured loan	11.60% (Libor + 6.75%/M)	11/30/2011		$ 4,250,000
		Junior secured loan	11.60% (Libor + 6.75%/M)	11/30/2011		$ 12,000,000
Capella Healthcare, Inc. Two Corporate Center, Suite 200 501 Corporate Center Drive Franklin, TN 37067	Acute care hospital operator	Junior secured loan	10.34% (Libor + 5.50%/Q)	11/30/2013		$ 19,000,000
		Junior secured loan	10.34% (Libor + 5.50%/Q)	11/30/2013		$ 30,000,000
Captive Plastics, Inc. 251 Circle Drive North Piscataway, NJ 08854	Plastics container manufacturer	Junior secured loan	12.34% (Libor + 7.25%/Q)	2/28/2012		$ 3,500,000
		Junior secured loan	12.34% (Libor + 7.25%/Q)	2/28/2012		$ 12,000,000
Charter Baking Company, Inc. 3300 Walnut Street Unit C Boulder, CO 80301	Baked goods manufacturer	Preferred stock			3.00%	$ 2,499,998
Courtside Acquisition Corp. 1700 Broadway New York, NY 10019	Community newspaper publisher	Senior subordinated loan	15.00% PIK	6/29/2014		$ 32,279,694

CT Technologies	Healthcare	Senior secured revolving loan	10.38% (Libor + 5.00%/Q)	6/15/2013		$ 810,000(10)
Intermediate	information	Senior secured revolving loan	10.25% (Libor + 5.00%/M)	6/15/2013		$ 810,000(10)
Holdings, Inc. and CT	management	Senior secured revolving loan	10.15% (Libor + 5.00%/Q)	6/15/2013		$ 810,000(10)
Technologies	services	Senior secured loan	10.38% (Libor + 5.00%/S)	6/15/2013		$ 13,000,000
Holdings, LLC(32)		Senior secured loan	10.38% (Libor + 5.00%/S)	6/15/2013		$ 4,000,000
8901 Farrow Rd		Senior secured loan	10.25% (Libor + 5.00%/M)	6/15/2013		$ 6,500,000
Columbia, SC 29203		Senior secured loan	10.25% (Libor + 5.00%/M)	6/15/2013		$ 2,000,000
		Senior secured loan	10.15% (Libor + 5.00%/Q)	6/15/2013		$ 19,500,000
		Senior secured loan	10.15% (Libor + 5.00%/Q)	6/15/2013		$ 6,000,000
		Preferred stock			20.00%	$ 6,000,000
		Common stock			5.90%	$ 4,000,003
		Common stock			20.00%	$
		Senior secured revolving loan		6/17/2013		$ (11)
Daily Candy, Inc.(32)	Internet publication	Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$ 497,406
c/o Pilot Group LP	provider	Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$ 11,629,133
745 Fifth Avenue,		Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$ 4,520
24th Floor		Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$ 105,674
New York, NY 10151		Senior secured loan	9.84% (Libor + 5.00%/Q)	5/29/2009		$ 2,836
		Senior secured loan	9.84% (Libor + 5.00%/Q)	5/29/2009		$ 66,298
		Common stock			5.00%	$ 4,085,000
		Common stock warrants			5.00%	$ 4,514,997(2)
Direct Buy Holdings, Inc.	Membership-based	Senior secured loan	9.74% (Libor + 4.50%/M)	11/30/2012		$ 2,400,000
and Direct Buy	buying club	Partnership interests			19.31%	$ 10,000,000
Investors LP(32)	franchisor and					
8450 Broadway	operator from the					
Merrillville, IN 46410	manufacturer					
Diversified Collection	Collections services	Senior secured loan	10.60% (Libor + 5.75%/M)	2/4/2011		$ 760,744
Services, Inc.		Senior secured loan	10.60% (Libor + 5.75%/M)	2/4/2011		$ 4,260,167
333 North Canyons		Senior secured loan	13.35% (Libor + 8.50%/M)	8/4/2011		$ 1,358,781
Pkwy.		Senior secured loan	13.35% (Libor + 8.50%/M)	8/4/2011		$ 5,271,219
Livermore, CA 94551		Preferred stock			0.56%	$
		Common stock			0.68%	$

DSI Renal, Inc.	Dialysis provider	Senior subordinated note	12.00% Cash, 2.00% PIK	4/7/2014		$ 53,932,626
511 Union Street		Senior subordinated note	12.00% Cash, 2.00% PIK	4/7/2014		$ 11,576,507
Suite 1800		Senior secured revolving loan	10.25% (Base Rate + 3.00%/D)	3/31/2013		$ 3,024,000(12)
Nashville, TN 37219		Senior secured revolving loan	8.19% (Libor + 3.00%/Q)	3/31/2013		$ 1,440,000(12)
		Senior secured revolving loan	8.13% (Libor + 3.00%/Q)	3/31/2013		$ 1,296,000(12)
ELC Acquisition	Developer,	Senior secured revolving loan	9.18% (Libor + 3.75%/Q)	11/29/2012		$ 2,707,304(13)
Corporation	manufacturer and	Senior secured loan	9.18% (Libor + 3.75%/Q)	11/30/2012		$ 354,578
2 Lower Ragsdale Drive	retailer of	Junior secured loan	12.11% (Libor + 7.00%/Q)	11/29/2013		$ 8,333,333
Monterey, CA 93940	educational					
	products					
Emerald Performance	Polymers and	Senior secured loan	9.00% (Base Rate + 1.75%/D)	5/22/2011		$ 10,164,115
Materials, LLC	performance	Senior secured loan	10.75% (Base Rate + 3.50%/D)	5/22/2011		$ 1,522,742
2020 Front Street,	materials	Senior secured loan	13.00%	5/22/2011		$ 4,422,077
Suite 100	manufacturer					
Cuyahoga Falls, OH						
44221						
Encanto Restaurants, Inc.	Restaurant owner	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		$ 24,352,333
c/o Harvest Partners, Inc.	and operator	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		$ 1,014,681
280 Park Avenue,						
33rd Floor						
New York, NY 10017						
Equinox EIC	Medical school	Senior secured revolving loan	11.36% (Libor + 6.00%/Q)	12/31/2012		$ 3,000,000(14)
Partners, LLC and	operator	Senior secured revolving loan	12.75% (Base Rate + 5.00%/D)	12/31/2012		$ 3,138,503(14)
MUA Management(33)		Senior secured revolving loan	12.75% (Base Rate + 5.00%/D)	12/31/2012		$ 2,000,000(15)
Company, Ltd.		Senior secured revolving loan	11.24% (Libor + 6.00%/Q)	12/31/2012		$ 2,000,000(15)
1750 W. Broadway St.		Senior secured loan	10.86% (Libor + 6.00%/Q)	12/31/2012		$ 5,474,738
#222		Senior secured loan	11.11% (Libor + 6.00%/Q)	12/31/2012		$ 14,112,565
Oviedo, FL 32765		Senior secured loan	11.21% (Libor + 6.00%/Q)	12/31/2012		$ 7,450,000
		Common membership interest			26.27%	$ 15,000,000
Firstlight Financial	Investment	Senior subordinated loan	10.00% PIK	12/31/2016		$ 64,944,323
Corporation(32)	company	Common stock			20.00%	$ 7,500,000
1700 E. Putnum Ave.		Common stock			100.00%	$ 22,500,000
Old Greenwich, CT						
06870						
GCA Services	Custodial	Senior secured loan	12.00%	12/31/2011		$ 30,000,000
Group, Inc.	services	Senior secured loan	12.00%	12/31/2011		$ 12,000,000
300 Four Falls Corporate						
Center, Suite 650						
West Conshohocken, PA						
19428						
GG Merger Sub I, Inc.	Drug testing	Senior secured loan	9% (Libor + 4.00%/S)	12/13/2014		$ 23,330,000
12120 Sunset Hills Road,	services					
Suite 600						
Reston, VA 20190						
Growing Family, Inc.	Photography	Senior secured revolving loan	8.02% (Libor + 3.00%/Q)	3/16/2011		$ 480,000(16)
and GFH Holdings, LLC	services	Senior secured revolving loan	8.26% (Libor + 3.00%/Q)	3/16/2011		$ 732,000(16)
3613 Mueller Road		Senior secured loan	8.56% (Libor + 3.50%/Q)	3/16/2011		$ 352,272
Saint Charles, MO 63301		Senior secured loan	8.56% (Libor + 3.50%/Q)	3/16/2011		$ 9,259,728
		Senior secured loan	8.47% (Libor + 3.50%/Q)	3/16/2011		$ 67,728
		Senior secured loan	8.47% (Libor + 3.50%/Q)	3/16/2011		$ 1,780,272
		Senior secured loan	10.97% (Libor + 6.00%/Q)	3/16/2011		$ 3,147,309
		Senior secured loan	10.97% (Libor + 6.00%/Q)	3/16/2011		$ 45,834
		Common stock			1.77%	$ 90,002
HB&G Building	Synthetic and	Senior subordinated loan	13.00% cash, 3.00% PIK	3/7/2011		$ 8,839,106
Products	wood product	Common stock			2.40%	$ 376,447
P.O. Box 589	manufacturer	Common stock warrants			3.90%	$ 326,255(2)
Troy, AL 36081						
ILC Industries, Inc.	Industrial	Junior secured loan	11.50%	8/24/2012		$ 12,000,000
105 Wilbur Place	products provider					

Bohemia, NY 11716						
Imperial Capital Group, LLC(32) 2000 Avenue of the Stars, 9th Floor S Los Angeles, CA 90067	Investment banking services	Common units Common units Common units			5.00% 5.00% 4.99%	$ 14,997,160 $ 2,526 $ 315
Industrial Container Services, LLC 1540 Greenwood Avenue Montebello, CA 90640	Industrial container manufacturer, reconditioner and servicer	Senior secured revolving loan Senior secured revolving loan Senior secured loan Senior secured loan Senior secured loan Common stock	10.25% (Base Rate + 3.00%/D) 8.93% (Libor + 4.00%/M) 8.93% (Libor + 4.00%/M) 8.93% (Libor + 4.00%/M) 8.93% (Libor + 4.00%/M)	9/30/2011 9/30/2011 9/30/2011 9/30/2011 9/30/2011	 11.41%	$ 1,858,696(17) $ 4,130,435(17) $ 5,896,523 $ 989,873 $ 15,160,594 $ 5,000,004
Innovative Brands, LLC 4729 East Union Hills Drive, Suite #103 Phoenix, AZ 85050	Consumer products and personal care manufacturer	Senior secured loan Senior secured loan	11.13% 11.13%	9/22/2011 9/22/2011		$ 12,837,500 $ 11,880,000
Instituto de Banca y Comercio, Inc. Calle Santa Ana 1660 Santurce, PR 00909-2309	Private school operator	Senior secured revolving loan Senior secured loan Senior secured loan Senior secured revolving loan	8.10% (Libor + 3.00%/M) 9.96% (Libor + 5.00%/Q) 9.96% (Libor + 5.00%/Q)	3/15/2014 3/15/2014 3/15/2014 3/15/2014		$ 1,125,000(18) $ 12,377,500 $ 11,940,000 $ (19)
Investor Group Services, LLC(32) 2020 Front Street, Suite 100 Boston, MA 02116	Financial services	Senior secured loan Limited liability company membership interest Senior secured revolving loan	12.00%	6/23/2011 6/26/2011	 10.00%	$ 1,000,000 $ $ (20)
Ivy Hill Middle Market Credit Fund, Ltd.(33) 280 Park Avenue, 22nd Floor East New York, NY 10017	Investment company	Class B deferrable interest notes Subordinated notes	11.00% (Libor + 6.00%/Q)	11/20/2018 11/20/2018	 25.00%	$ 40,000,000 $ 16,000,000
The Kenan Advantage Group, Inc. 4895 Dressler Road, N.W. #100 Canton, OH 44718	Fuel transportation provider	Senior subordinated notes Senior secured loan Preferred stock Common stock Senior secured revolving loan	9.50% cash, 3.50% PIK 7.58% (Libor + 2.75%/Q)	12/16/2013 12/16/2011 12/16/2011	 1.15% 1.04%	$ 9,524,320 $ 2,205,022 $ 1,292,984 $ 35,993 $ (21)

Lakeland Finance, LLC 590 Peter Jefferson Parkway, Suite 30 Charlottesville, VA 22911	Private school operator	Senior secured note	11.50%	12/15/2012		$ 18,000,000
		Senior secured note	11.50%	12/15/2012		$ 15,000,000
LVCG Holdings LLC(33) 4265 W Sunset Rd Las Vegas, NV 89118	Commercial printer	Membership interests			56.53%	$ 6,600,000
Mactec, Inc. 1105 Sanctuary Parkway, Suite 300 Alpharetta, GA 30004	Engineering and environmental services	Common stock			0.01%	$ 334
		Common stock			0.01%	$ 115,444
Making Memories Wholesale, Inc.(32) 1168 West 500 North Centerville, UT 84014	Scrapbooking branded products manufacturer	Senior secured loan	9.75% (Base Rate + 2.50%/D)	3/31/2011		$ 7,125,000
		Senior subordinated loan	12.00% cash, 4.00% PIK	5/6/2012		$ 6,802,200
		Preferred stock			9.64%	$
		Senior secured revolving loan		3/31/2011		$ (22)
Miller Heiman, Inc. 10509 Professional Circle, Suite 100 Reno, NV 89521	Sales consulting services	Senior secured loan	8.31% (Libor + 3.25%/Q)	6/6/2010		$ 1,427,901
		Senior secured loan	8.58% (Libor + 3.75%/Q)	6/6/2012		$ 3,976,803
		Senior secured revolving loan		6/6/2010		$ (23)
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc. 21540 Plummer Street Chatsworth, CA 91311	Healthcare equipment services	Junior secured loan	11.53% (Libor + 6.25%/Q)	1/31/2014		$ 15,000,000
		Junior secured loan	11.53% (Libor + 6.25%/Q)	1/31/2014		$ 9,000,000
		Common stock			2.90%	$ 2,500,000
MWD Acquisition Sub, Inc. 680 Hehli Way PO Box 69 Mondovi, WI 54755	Dental services	Junior secured loan	11.57% (Libor + 6.25%/Q)	5/3/2013		$ 5,000,000
National Print Group, Inc. 2464 Amicola Highway Chattanooga, TN 37406	Printing management services	Senior secured revolving loan	9.75% (Base Rate + 2.50%/D)	3/2/2012		$ 834,692
		Senior secured revolving loan	8.75% (Libor + 3.50%/M)	3/2/2012		$ 1,369,565(24)
		Senior secured loan	8.33% (Libor + 3.50%/Q)	3/2/2012		$ 4,774,539(24)
		Senior secured loan	8.58% (Libor + 3.50%/Q)	3/2/2012		$ 5,110,685
		Senior secured loan	12.09% (Libor + 7.00%/B)	3/2/2012		$ 406,132
		Senior secured loan	11.96% (Libor + 7.00%/Q)	3/2/2012		$ 349,802
		Preferred stock		3/2/2012	10.94%	$ 2,000,000
NPA Acquisition, LLC c/o Transportation Resources Partners, L.P. 2555 Telegraph Rd. Bloomfield Hills, MI 48302	Powersport vehicle auction operator	Junior secured loan	12.50% (Base Rate + 5.25%/D)	2/24/2013		$ 12,000,000
		Common units			1.94%	$ 1,500,000
OnCURE Medical Corp. 610 Newport Center Drive, Suite 650 Newport Beach, CA 92660	Radiation oncology care provider	Senior subordinated note	11.00% Cash, 1.50% PIK	8/18/2013		$ 26,056,205
		Common stock			3.30%	$ 3,000,000
		Senior secured revolving loan	9.25% (Libor + 3.50%/Q)	8/23/2008		$ (25)
Partnership Capital Growth Fund I, L.P. One Embarcadero, Suite 3810 San Francisco, CA 94111	Investment partnership	Limited partnership interest			25.00%	$ 1,317,082
Pillar Holdings LLC and PHL Holding Co.(32) 7420 E. Pinnacle Peak Road Suite124 Scottsdale, AZ 85255	Mortgage services	Senior secured revolving loan	10.37% (Libor + 5.50%/M)	11/20/13		$ 500,000(26)
		Senior secured loan	10.33% (Libor + 5.50%/Q)	11/20/13		$ 55,000,000
		Common stock			9.66%	$ 4,000,000

Planet Organic Health Corp. 7917 - 104 Street Edmonton Alberta Canada TGE 4E1	Organic grocery store operator	Senior secured loan Senior secured loan Senior subordinated loan Senior secured revolving loan	10.45% (Libor + 5.50%/Q) 10.45% (Libor + 5.50%/Q) 11.00% Cash, 2.00% PIK	7/3/2014 7/3/2014 7/3/2012 7/3/2014		$ 7,000,000 $ 10,500,000 $ 9,332,430 $	 (27)
Primis Marketing Group, Inc. and Primis Holdings, LLC(32) c/o Pcap Managers, LLC 75 State Street, 26th Floor Boston, MA 02109	Database marketing services	Senior subordinated note Preferred units Common units	11.00% Cash, 2.50% PIK	2/27/2013	 8.02% 7.38%	$ 8,586,770 $ $	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.) 1544 Old Alabama Road Roswell, GA 30076	Bankruptcy and foreclosure processing services	Senior subordinated notes Senior subordinated notes Preferred stock	11.50% Cash, 2.00% PIK 11.50% Cash, 2.00% PIK	2/23/2014 2/23/2014	 3.30%	$ 21,557,337 $ 29,522,650 $ 4,500,000	
Qualitor, Inc. 24800 Denso Drive, Suite 255 Southfield, MI 48034	Automotive aftermarket components supplier	Senior secured loan Junior secured loan	9.08% (Libor + 4.25%/Q) 12.08% (Libor + 7.25%/Q)	12/31/2011 6/30/2012		$ 1,774,785 $ 5,000,000	
R2 Acquisition Corp. Modern Media Building 207 NW Park Ave Portland, OR 97209	Marketing services	Common stock Senior secured revolving loan		 5/29/2013	0.33%	$ 250,000 $	 (28)
RedPrairie Corporation c/o Francisco Partners 2882 Sand Hill Road, Suite 280 Menlo Park, CA 94045	Software manufacturer	Junior secured loan Junior secured loan	11.39% (Libor + 6.50%/Q) 11.39% (Libor + 6.50%/Q)	1/20/2013 1/20/2013		$ 6,500,000 $ 12,000,000	
Reflexite Corporation(33) 120 Darling Drive Avon, CT 06001	Developer and manufacturer of high-visibility reflective products	Common stock			36.01%	$ 54,666,494	
Savers, Inc. and SAI Acquisition Corporation 11400 SE 6th St. Suite 220 Bellevue, WA 98004	For-profit thrift retailer	Senior subordinated notes Common stock	10.00% cash, 2.00% PIK	8/11/2014	 1.87%	$ 28,281,392 $ 4,500,000	

Saw Mill PCG Partners LLC 31005 Solon Road Solon, OH 44139	Precision components manufacturer	Common units			2.57%	$	400,000
Shoes for Crews, LLC 1400 Centerpark Blvd., Suite 310 West Palm Beach, FL 33401	Safety footwear and slip-related mats	Senior secured revolving loan	9.25% (Base Rate + 2.00%/D)	7/6/2010		$	2,333,333(29)
		Senior secured loan	7.72% (Libor + 3.00%/S)	7/6/2010		$	970,875
		Senior secured loan	9.25% (Base Rate + 2.00%/D)	7/6/2010		$	74,683
Sigma International Group, Inc. 700 Goldman Drive Cream Ridge, NJ 08514	Water treatment parts manufacturer	Junior secured loan	12.37% (Libor + 7.50%/Q)	10/10/13		$	1,833,333
		Junior secured loan	12.37% (Libor + 7.50%/Q)	10/10/13		$	4,000,000
		Junior secured loan	12.73% (Libor + 7.50/M)	10/10/13		$	2,750,000
		Junior secured loan	12.73% (Libor + 7.50/M)	10/10/13		$	6,000,000
		Junior secured loan	12.29% (Libor + 7.50%/S)	10/10/13		$	916,667
		Junior secured loan	12.29% (Libor + 7.50%/S)	10/10/13		$	2,000,000
Summit Business Media, LLC 375 Park Avenue New York, NY 10152-0002	Business media consulting services	Junior secured loan	11.85% (Libor + 7.00%/M)	11/3/2013		$	10,000,000
The Teaching Company, LLC and The Teaching Company Holdings, Inc. 4151 Lafayette Center Drive, No. 100 Chantilly, VA 20151	Education publications provider	Senior secured loan	10.50%	9/29/2012		$	28,000,000
		Preferred stock			3.64%	$	3,995,924
		Common stock			3.64%	$	4,105
Thermal Solutions LLC and TSI Group, Inc. 94 Tide Mill Road Hampton, NH 03842	Thermal management and electronics packaging manufacturer	Senior secured loan	10.50% (Base Rate + 3.25%/D)	3/27/2012		$	2,752,490
		Senior secured loan	10.00% (Base Rate + 2.75%/D)	3/27/2011		$	1,164,276
		Senior subordinated notes	11.50% cash, 2.75% PIK	3/27/2012		$	2,016,523
		Senior subordinated notes	11.50% cash, 2.75% PIK	3/27/2012		$	3,184,843
		Senior subordinated notes	11.50% cash, 2.50% PIK	3/27/2013		$	2,516,567
		Preferred stock			1.32%	$	693,482
		Common stock			1.06%	$	14,164
Things Remembered, Inc. and TRM Holdings Corporation 5500 Avion Park Drive Highland Heights, OH 44143	Personalized gifts retailer	Senior secured loan	9.95% (Libor + 4.75%/M)	9/29/2012		$	4,632,000
		Senior secured loan	11.00% (Base Rate + 3.75%/D)	9/29/2012		$	120,000
		Senior secured loan	11.20% (Libor + 6.00%/M)	9/29/2012		$	14,000,000
		Senior secured loan	11.20% (Libor + 6.00%/M)	9/29/2012		$	14,000,000
		Senior secured loan	11.20% (Libor + 6.00%/M)	9/29/2012		$	7,200,000
		Preferred stock			4.10%	$	1,800,000
		Common stock			4.10%	$	200,000
		Senior secured revolving loan		9/29/2012		$	(30)
The Thymes, LLC(33) 629 9th Street SE Minneapolis, MN 55414	Cosmetic products manufacturer	Preferred stock	8.00% PIK		70.34%	$	7,188,536
		Common stock			70.34%	$	
Triad Laboratory Alliance, LLC 4380 Federal Drive, Suite 100 Greensboro, NC 27410	Laboratory services	Senior subordinated loan	12.00% cash, 1.75% PIK	12/23/2012		$	15,090,532
		Senior secured loan	8.08% (Libor + 3.25%/Q)	12/23/2011		$	6,174,000
		Senior secured loan	8.08% (Libor + 3.25%/Q)	12/23/2011		$	2,646,000
Universal Lubricants, LLC 2820 N. Ohio Wichita, KS 67219	Oil lubricants manufacturer	Senior secured revolving loan		12/24/2012		$	(31)
Universal Trailer Corporation(32) 11590 Century Blvd., Suite 103 Cincinnati, OH 45246	Livestock and specialty trailer manufacturer	Common stock			9.51%	$	484,711
		Common stock warrants		5/15/2012	50.00%	$	215,289(2)

VSS-Tranzact Holdings, LLC(32) 2200 Fletcher Avenue, 4th Floor Fort Lee, NJ 07024	Management Consulting Services	Common membership interest			8.51%	$ 10,000,000
Waste Pro USA, Inc. 2101 West State Road 434, Suite 315 Longwood, FL 32779	Waste management services	Senior subordinated loan	11.50%	11/9/2013		$ 25,000,000
		Preferred stock	10.00% PIK		22.59%	$ 15,000,000
		Common stock warrants		11/9/2013	3.75%	$ 3,999,999
Wastequip, Inc.(32) 25800 Science Park Drive, Suite 140 Beachwood, OH 44122	Waste management equipment manufacturer	Senior subordinated loan	12.00%	2/5/2015		$ 10,210,488
		Common stock			5.34%	$ 694,445
Wear Me Apparel, LLC(32) 31 W 34th Street New York, NY 10001-3009	Clothing manufacturer	Senior subordinated notes	12.60% cash, 1.00% PIK	4/2/2013		$ 22,559,191
		Common stock			12.30%	$ 2,000,000
X-rite, Incorporated 3100 44th Street SW Grandville, MI 49418	Artwork software manufacturer	Junior secured loan	12.38% (Libor + 7.50%/Q)	10/24/13		$ 4,800,000
		Junior secured loan	12.38% (Libor + 7.50%/Q)	10/24/13		$ 12,000,000
Total						$ 1,774,201,841

(1) All interest is payable in cash unless otherwise indicated. A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset daily (D), monthly (M), bi-monthly (B), quarterly (Q) or semi-annually (S). For each such loan, we have provided the current interest rate in effect as of December 31, 2007.

(2) Percentages shown for warrants or convertible preferred stock held represent the percentages of common stock we may own on a fully diluted basis, assuming we exercise our warrants or convert our preferred stock to common stock.

(3) $763,274 of total commitment of $5,000,000 for the revolver remains unfunded as of December 31, 2007.

(4) Total commitment of $15,000,000 remains unfunded as of December 31, 2007.

(5) Total commitment of $3,278,689 remains unfunded as of December 31, 2007.

(6) Total commitment of $19,505,495 remains unfunded as of December 31, 2007.

(7) $9,654,000 of total commitment of $12,500,000 for the revolver remains unfunded as of December 31, 2007.

(8) Total commitment of $10,000,000 remains unfunded as of December 31, 2007.

(9) $5,350,000 of total commitment of $7,500,000 remains unfunded as of December 31, 2007.

(10) $5,284,268 of total commitment of $9,000,000 for the revolver remains unfunded as of December 31, 2007.

(11) Total commitment of $35,000,000 remains unfunded as of December 31, 2007.

(12) $5,600,000 of total commitment of $12,000,000 for the revolver remains unfunded as of December 31, 2007.

(13) $378,410 of total commitment of $3,085,714 for the revolver remains unfunded as of December 31, 2007.

(14) $13,861,497 of total commitment of $20,000,000 for the revolver remains unfunded as of December 31, 2007.

(15) $8,500,000 of total commitment of $12,500,000 for the revolver remains unfunded as of December 31, 2007.

(16) $1,237,500 of total commitment of $2,500,000 for the revolver remains unfunded as of December 31, 2007.

(17) $7,268,559 of total commitment of $15,695,652 for the revolver remains unfunded as of December 31, 2007.

(18) $9,301,076 of total commitment of $15,000,000 for the revolver remains unfunded as of December 31, 2007.

(19) Total commitment of $7,500,000 for the revolver remains unfunded as of December 31, 2007.

(20) $2,000,000 of total commitment of $2,500,000 for the revolver remains unfunded as of December 31, 2007.

(21) Total commitment of $1,612,903 remains unfunded as of December 31, 2007.

(22) Total commitment of $333,333 remains unfunded as of December 31, 2007.

(23) Total commitment of $1,057,705 remains unfunded as of December 31, 2007.

(24) $3,274,004 of total commitment of $5,478,261 remains unfunded as of December 31, 2007.

(25) Total commitment of $4,500,000 remains unfunded as of December 31, 2007.

(26) $500,000 of total commitment of $5,000,000 remains unfunded as of December 31, 2007.

(27) Total commitment of $2,500,000 remains unfunded as of December 31, 2007.

(28) Total commitment of $8,000,000 remains unfunded as of December 31, 2007.

(29) $6,000,001 of total commitment of $8,333,334 remains unfunded as of December 31, 2007.

(30) Total commitment of $5,000,000 remains unfunded as of December 31, 2007.

(31)

Total commitment of $37,000,000 remains unfunded as of December 31, 2007.

(32) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities.

(33) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement).

Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets as of December 31, 2007.

FirstLight Financial Corporation

FirstLight Financial Corporation ("FirstLight") is a specialty finance company providing financing solutions to middle market clients. FirstLight has a focus on single tranche one stop financings and first and second lien financings for acquisitions, buyouts, recapitalizations and restructurings, with segment expertise in healthcare, media, telecommunications and energy.

MANAGEMENT

Our business and affairs are managed under the direction of our board of directors. The responsibilities of the board of directors include, among other things, the quarterly valuation of our assets. The board of directors currently consists of five members, three of whom are not "interested persons" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act. We refer to these individuals as our independent directors. Our board of directors elects our officers, who will serve at the discretion of the board of directors. The board of directors maintains an audit committee and nominating committee, and may establish additional committees from time to time as necessary.

EXECUTIVE OFFICERS AND BOARD OF DIRECTORS

Under our charter, our directors are divided into three classes. Each class of directors will hold office for a three year term. However, the initial members of the three classes have initial terms of one, two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Directors

Information regarding the board of directors is as follows:

Name	Age	Position	Director Since	Expiration of Term
Independent Directors				
Douglas E. Coltharp	46	Director	2004	2008
Frank E. O'Bryan	74	Director	2005	2010
Eric B. Siegel	50	Director	2004	2010
Interested Directors				
Robert L. Rosen	61	Director	2004	2009
Bennett Rosenthal	44	Chairman and Director	2004	2009

The address for each director is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

Executive officers who are not directors

Information regarding our executive officers who are not directors is as follows:

Name	Age	Position
Michael J. Arougheti	35	President
Richard S. Davis	49	Chief Financial Officer
Merritt S. Hooper	46	Secretary and Assistant Treasurer
Daniel F. Nguyen	36	Treasurer
Karen A. Tallman	50	Chief Compliance Officer
Michael D. Weiner	55	Vice President and General Counsel

The address for each executive officer is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

Biographical information

Directors

Our directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the Investment Company Act.

Independent directors

Douglas E. Coltharp, 46, has served as a director of the Company since 2004. Mr. Coltharp is a partner at Arlington Capital Advisors, a Birmingham-based investment banking and private equity firm. Prior to that, from November 1996 to May 2007, he was the Executive Vice President and Chief Financial Officer of Saks Incorporated. Prior to joining Saks Incorporated Mr. Coltharp spent ten years in the Corporate Finance Department of NationsBank (now known as Bank of America), most recently as Senior Vice President and head of the Southeast Corporate Finance Group headquartered in Atlanta. Mr. Coltharp holds a B.S. in Finance and Economics from Lehigh University in Bethlehem, Pennsylvania and an M.B.A. from the Wharton School, University of Pennsylvania, in Philadelphia, Pennsylvania. Mr. Coltharp also serves on the boards of directors of Stratus Technologies, Inc. and Under Armour, Inc.

Frank E. O'Bryan, 74, has served as a director of the Company since 2005. Mr. O'Bryan served as Chairman of the Board of WMC Mortgage Company from 1997 to 2003 and as a Vice Chairman until 2004 when the company was sold to General Electric Corporation. Mr. O'Bryan served as Vice Chairman of Shearson/American Express Mortgage Corp. and as a Director of Shearson American Express from 1981 to 1985 and prior to that served as a Director and senior executive of Shearson Hayden Stone from 1979 to 1981. Mr. O'Bryan has been a Director of The First American Corporation since 1994. Since 2003 he has been a Director of Standard Pacific Corporation and a Director of Farmers & Merchants Bank. Mr. O'Bryan is a past member of the board of directors of both Damon Corporation and Grubb & Ellis.

Eric B. Siegel, 50, has served as a director of the Company since 2004. Since 1995, Mr. Siegel has been an independent business consultant providing advice through a limited liability company owned by Mr. Siegel, principally with respect to acquisition strategy and structuring, and the subsequent management of acquired entities. Mr. Siegel is currently a member of the Advisory Board of and consultant to the Milwaukee Brewers Baseball Club and a Director and Chairman of the Executive Committee of El Paso Electric Company, an NYSE publicly traded utility company. Mr. Siegel is also a past member of the boards of directors of a number of public companies, including Kerzner International Ltd. until it went private in 2006. Mr. Siegel is a retired limited partner of Apollo Advisors, L.P. and Lion Advisors, L.P. Mr. Siegel is also a member of the Board of Trustees of the Marlborough School, where he also serves as Finance Chair, a member of the Board of Directors of the Friends of the Los Angeles Free Clinic and a board member of Reprise! Broadway's Best, a non-profit theatre organization. Mr. Siegel holds his Bachelor of Arts degree Summa Cum Laude and Phi Beta Kappa and law degree Order of the Coif from the University of California at Los Angeles.

Interested directors

Robert L. Rosen, 61, has served as a director of the Company since 2004. Mr. Rosen is managing partner of RLR Capital Partners and RLR Focus Fund which invests principally in the securities of publicly traded North American companies. Mr. Rosen served from 2003 until 2005 as co-Managing Partner of Dolphin Domestic Fund II. In 1998, Mr. Rosen founded National Financial Partners ("NFP"), an independent distributor of financial services to high net worth individuals and small to medium-sized corporations. He served as NFP's CEO from 1998 to 2000 and as its Chairman until January 2002. From 1987 to the present, Mr. Rosen has been CEO of RLR Partners, LLC, a private investment firm with interests in financial services, healthcare, media and multi-industry companies. From 1989 to 1993 Mr. Rosen was Chairman and CEO of Damon Corporation, a leading healthcare and laboratory testing company that was ultimately sold to Quest Diagnostics. From 1983 to 1987, Mr. Rosen was Vice Chairman of Maxxam Group. Prior to that, Mr. Rosen spent twelve years at Shearson American Express in positions in research, investment banking and senior management, and for two years was Assistant to Sanford Weill, the then Chairman and CEO of Shearson. Mr. Rosen holds an MBA in finance from NYU's Stern School. Mr. Rosen also serves on the board of directors of Marietta Corporation. From time to time Ares Management is in discussions with Mr. Rosen regarding expanding his relationship with Ares Management. If those discussions were to bear fruit, Mr. Rosen may no longer be considered an "independent" director of Ares Capital. As a result, in an abundance of caution, we treat Mr. Rosen as an "interested person" of the Company as defined in section 2(a)(19) of the Investment Company Act. However, the Board may recharacterize Mr. Rosen as an "independent" director in the future if such discussions do not result in any relationships that would cause Mr. Rosen to be an "interested person."

Bennett Rosenthal, 44, has served as Chairman and a director of the Company since 2004. Mr. Rosenthal is a founding member of Ares Management, a member of Ares and functions as a Senior Partner in the Private Equity Group. Since 1998, Mr. Rosenthal has also overseen all of Ares' mezzanine debt investments. Prior to joining Ares, Mr. Rosenthal was a Managing Director in the Global Leveraged Finance Group of Merrill Lynch and was responsible for originating, structuring and negotiating many leveraged loan and high yield financings. Mr. Rosenthal was also a senior member of Merrill Lynch's Leveraged Transaction Commitment Committee. Mr. Rosenthal is a member of the following boards of directors: AmeriQual Group LLC, Aspen Dental Management, Inc. and Hanger Orthopedic Group, Inc. He is also the Co-Chairman of the Board of Directors of National Bedding Company LLC (Serta). Mr. Rosenthal graduated summa cum laude with a BS in Economics from the University of Pennsylvania's Wharton School of Business where he also received his MBA with distinction. Mr. Rosenthal is an "interested person" of the Company as defined in section 2(a)(19) of the Investment Company Act because he is on the investment committee of Ares Capital Management, the Company's investment adviser, and is a member of Ares Partners Management Company LLC, the parent of Ares Management, the managing member of the investment adviser.

Executive officers who are not directors

Michael J. Arougheti, 35, is President of the Company and joined Ares Management in May 2004 and is a member of Ares. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and serves on the Investment Committee of Ares Capital Management and all Ares European Credit Funds. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. At RBC Capital Partners, Mr. Arougheti oversaw an investment team that originated, managed and monitored a diverse portfolio of middle market leveraged loans, senior and junior subordinated debt, preferred equity, and common stock and warrants on behalf of RBC and other third-party institutional investors. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Mr. Arougheti sat on the firm's Investment Committee and was also active in the firm's private equity fund investment and fund of funds program. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group advising clients in various industries, including natural resources, pharmaceuticals and consumer products. Mr. Arougheti has extensive experience in leveraged finance, including senior bank loans, mezzanine debt and private equity. He has worked on a range of transactions for companies in the consumer products, manufacturing, healthcare, retail and technology industries. Mr. Arougheti received a BA in Ethics, Politics and Economics, cum laude, from Yale University.

Richard S. Davis, 49, is Chief Financial Officer of the Company and joined Ares Management in June 2006. From December 1997 to May 2006, Mr. Davis was with Arden Realty, Inc., a real estate investment trust and formerly the largest publicly traded office owner in Southern California, serving as its Executive Vice President, Chief Financial Officer from July 2000. From 1996 to 1997, Mr. Davis was with Catellus Development Corporation where he was responsible for accounting and finance for the asset management and development divisions. From 1985 to 1996, Mr. Davis served as a member of the audit staff of both KPMG LLP and Price Waterhouse LLP. Mr. Davis is a Certified Public Accountant in the states of California and Missouri and a member of the American Institute of CPAs. Mr. Davis received his Bachelor of Science Degree in Accounting from the University of Missouri at Kansas City.

Merritt S. Hooper, 46, is Secretary and Assistant Treasurer of the Company. From July 2004 to March 2007, Ms. Hooper served as Treasurer of the Company and, from July 2004 to May 2007, as Vice President of Investor Relations of the Company. Ms. Hooper is a founding member of Ares Management and functions as Senior Vice President and Director of Investor Relations for all Ares funds as well as a senior investment analyst in the Capital Markets Group. Prior to Ares, Ms. Hooper was associated with Lion Advisors (an affiliate of Apollo Advisors) from 1991 to 1997 and worked as a senior credit analyst participating in both portfolio management and strategy. From 1987 until 1991, Ms. Hooper was with Columbia Savings and Loan, most recently as Vice President in the Investment Management Division. Ms. Hooper serves on the executive and investment boards of Cedars-Sinai Medical Center in Los Angeles. Ms. Hooper graduated from the University of California at Los Angeles (UCLA) with a BA in Mathematics and received her MBA in Finance from UCLA's Anderson School of Management.

Daniel F. Nguyen, 36, is Treasurer of the Company and joined Ares Management in August 2000 and currently serves as its Chief Financial Officer. From 1996 to 2000, Mr. Nguyen was with Arthur Andersen LLP, where he was in charge of conducting business audits on numerous financial clients, performing due diligence investigation of potential mergers and acquisitions, and analyzing changes in accounting guidelines for derivatives. At Arthur Andersen LLP, Mr. Nguyen also focused on treasury risk management and on mortgage-backed securities and other types of structured financing. Mr. Nguyen graduated with a BS in Accounting from the University of Southern California's Leventhal School of Accounting and received an MBA in Global Business from Pepperdine University's Graziadio School of Business and Management. Mr. Nguyen also studied European business environment at Oxford University in England as part of the MBA curriculum. Mr. Nguyen is a CFA charterholder and a Certified Public Accountant.

Karen A. Tallman, 50, is Chief Compliance Officer of the Company and joined Ares Management in June 2007. From April 2006 to June 2007, Ms. Tallman acted as counsel to Ares Management. Prior to joining Ares, Ms. Tallman was General Counsel of Continuum Commerce LLC, a direct response marketing firm. From 1997 to 2002, Ms. Tallman was General Counsel and Secretary of Merisel, Inc., a NASDAQ-listed computer products distributor, and served as Senior Vice President beginning in 2001. From 1992 to 1997, Ms. Tallman was employed by CB Commercial Real Estate Group, Inc., most recently in the positions of Vice President, Secretary and Senior Counsel. Previously, Ms. Tallman was a corporate attorney for nine years at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP.

Michael D. Weiner, 55, is Vice President and General Counsel of the Company. Mr. Weiner joined Ares Management in September 2006 as its Chief Legal Officer and General Counsel and currently serves as a member of Ares. Previously, Mr. Weiner served as general counsel to Apollo Management L.P. and had been an officer of the corporate general partners of Apollo since 1992. Prior to joining Apollo, Mr. Weiner was a partner in the law firm of Morgan, Lewis & Bockius specializing in corporate and alternative financing transactions, securities law and general partnership and corporate and regulatory matters. Mr. Weiner has served and continues to serve on the boards of directors of several corporations including Hughes Communications, Inc. and SkyTerra Communications, Inc. Mr. Weiner graduated with a BS in Business and Finance from the University of California at Berkeley and a JD from the University of Santa Clara.

INVESTMENT COMMITTEE

Information regarding the members of Ares Capital Management's investment committee is as follows:

Name	Age	Position
Michael J. Arougheti	35	President of the Company, Member of Investment Committee
R. Kipp deVeer	35	Member of Investment Committee, Portfolio Manager
Mitchell Goldstein	41	Member of Investment Committee, Portfolio Manager
John Kissick	66	Member of Investment Committee
Antony P. Ressler	47	Member of Investment Committee
Bennett Rosenthal	44	Chairman and Director of the Company, Member of Investment Committee
David Sachs	48	Member of Investment Committee
Michael L. Smith	36	Member of Investment Committee, Portfolio Manager

The address for each member of Ares Capital Management's investment committee is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

Members of Ares Capital Management's investment committee who are not directors or officers of the Company

R. Kipp deVeer Mr. deVeer joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. deVeer was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital, where he was Vice President in the Merchant Banking Group. Mr. deVeer has also worked at J.P. Morgan and Co., both in the Special Investment Group of J.P. Morgan Investment Management, Inc. and the Investment Banking Division of J.P. Morgan Securities Inc. Mr. deVeer received a BA from Yale University and an MBA from Stanford University's Graduate School of Business.

Mitchell Goldstein Mr. Goldstein joined Ares Management in May 2005 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. At CSFB, Mr. Goldstein was responsible for providing investment banking services to private equity funds and hedge funds with a focus on M&A and restructurings and capital raisings, including high yield, bank debt, mezzanine debt, and IPOs. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. From 1993 to 1998, Mr. Goldstein worked at Bankers Trust, where he was responsible for financing and advising clients in various industries including media and telecommunications, consumer products, automotive and healthcare. Mr. Goldstein began his career as a CPA at Ernst & Young. Mr. Goldstein graduated summa cum laude from SUNY Binghamton with a BS in Accounting and received an MBA from Columbia Business School.

John Kissick Mr. Kissick is a founding member of Ares Management, a member of Ares and functions as a Senior Partner in the Private Equity Group. Mr. Kissick is a Senior Advisor to all funds in the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Antony Ressler, Mr. Kissick oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P., an affiliate of Apollo Management L.P., from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert, where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars-Sinai Medical Center in Los Angeles, the Stanford University Graduate School of Business and the Fulfillment Fund, which helps economically disadvantaged kids graduate from high school and college through mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

Antony P. Ressler Mr. Ressler is a founding member of Ares Management, a member of Ares and functions as a Senior Partner in the Private Equity Group. Mr. Ressler is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. Prior to Ares, Mr. Ressler was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Mr. Kissick, Mr. Ressler oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisers, L.P. from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Ressler served as a Senior Vice President in the High Yield Bond Department of Drexel Burnham Lambert Incorporated, with responsibility for the New Issue/Syndicate Desk. Mr. Ressler serves on several boards of directors including Kinetics Holdings LLC, National Bedding Company LLC and WCA Waste Corporation. Mr. Ressler also serves on the Boards of Trustees of the Center for Early Education, the Los Angeles County Museum of Art ("LACMA"), the Alliance for College-Ready Public Schools, the Small School Alliance, the Asia Society of Southern California and is involved in the U.S. Chapter of Right to Play (formerly known as Olympic Aid). Mr. Ressler received his BSFS from Georgetown University's School of Foreign Service and received his MBA from Columbia University's Graduate School of Business.

David Sachs Mr. Sachs is a founding member of Ares Management, a member of Ares and functions as Co-Portfolio Manager of the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. From 1994 until 1997, Mr. Sachs was a principal of Onyx Partners, Inc. specializing in merchant banking and related capital raising activities in the mezzanine debt and private equity markets for middle market companies. From 1990 to 1994, Mr. Sachs was employed by Taylor & Co., an investment manager providing investment advisory and consulting services to members of the Bass Family of Fort Worth, Texas. From 1984 to 1990, Mr. Sachs was with Columbia Savings and Loan Association, most recently as Executive Vice President, responsible for all asset-liability management as well as running the Investment Management Department. Mr. Sachs serves on the Board of Directors of Terex Corporation. Mr. Sachs graduated from Northwestern University with a BS in Industrial Engineering and Management Science.

Michael L. Smith Mr. Smith joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Smith was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. Smith joined RBC in October 2001 from Indosuez Capital, where he was a Vice President in the Merchant Banking Group. Previously, Mr. Smith worked at Kenter, Glastris & Company, a private equity investment firm specializing in leveraged management buyouts and at Salomon Brothers Inc., in their Debt Capital Markets Group and Financial Institutions Group. Mr. Smith received a Masters in Management from the J.L. Kellogg Graduate School of Management and a BS in Business Administration, cum laude, from the University of Notre Dame.

COMMITTEES OF THE BOARD OF DIRECTORS

Our board of directors has established an audit committee and a nominating committee. We do not have a compensation committee because our executive officers do not receive any direct compensation from us. During 2007, the board of directors held fourteen formal meetings, the audit committee held five formal meetings and the nominating committee held one formal meeting. The Company encourages, but does not require, the directors to attend the Company's annual meeting of its stockholders.

Audit committee

The members of the audit committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market's corporate governance regulations. Mr. Coltharp serves as chairman of the audit committee. The audit committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. The audit committee is also responsible for aiding our board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board to value each portfolio investment at least once during a trailing 12 month period.

Nominating committee

The members of the nominating committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market corporate governance regulations. Mr. Siegel serves as chairman of the nominating committee. The nominating committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and our management.

The nominating committee may consider recommendations for nomination of directors from our stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by our bylaws) and received at our principal executive offices not earlier than 150 days nor fewer than 120 days in advance of the first anniversary of the date on which we first mailed our proxy materials for the previous year's annual meeting of stockholders; provided, however, that if the date of the annual meeting has changed by more than 30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than the later of (i) the 120th day prior to the date of such annual meeting or (ii) the 10th day following the day on which public announcement of such meeting date is first made.

Compensation committee

We do not have a compensation committee because our executive officers do not receive any direct compensation from us.

The following table sets forth the dollar range of our equity securities based on the closing price of the Company's common stock on March 11, 2008 and the number of shares beneficially owned by each of our directors as of December 31, 2007. We are not part of a "family of investment companies," as that term is defined in the Investment Company Act.

Name of Director	Aggregate Dollar Range of Equity Securities in Ares Capital(1)(2)
Independent Directors(3)	
Douglas E. Coltharp	none
Frank E. O'Bryan	none
Eric B. Siegel	$100,001 $500,000
Interested Directors	
Robert L. Rosen	none
Bennett Rosenthal	none

(1) Dollar ranges are as follows: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000 or over $1,000,000.

(2) Beneficial ownership determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.

(3) As of March 11, 2008, to the best of the Company's knowledge, other than as specified in the table, none of the independent directors or nominees, nor any of their immediate family members, had any interest in the Company, the Company's investment adviser, or any person or entity directly or indirectly controlling, controlled by, or under common control with the Company.

COMPENSATION TABLE

The following table shows information regarding the compensation received by the directors, none of which is an employee of the Company, for the fiscal year ending December 31, 2007. No compensation is paid by the Company to directors who are or are being treated as "interested persons." No information has been provided with respect to executive officers of the Company, since our executive officers do not receive any direct compensation from us.

Name	Fess Earned or Paid in Cash	All Other Compensation	Total
Independent directors			
Douglas E. Coltharp	$ 96,000	None	$ 96,000
Frank E. O'Bryan	$ 91,000	None	$ 91,000
Eric B. Siegel	$ 93,000	None	$ 93,000
Interested directors			
Robert L. Rosen(3)	None	None	None
Bennett Rosenthal	None	None	None

(1) For a discussion of the independent directors' compensation, see below.

(2) We do not have a stock or option plan, non-equity incentive plan or pension plan for our directors.

(3)

While Mr. Rosen did not receive any compensation from the Company for the fiscal year ended December 31, 2007, he did receive $85,000 from Ares Management LLC for such period in connection with his service as a director of the Company.

The independent directors receive an annual fee of $50,000. They also receive $2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and will receive $1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of $5,000 and each chairman of any other committee receives an annual fee of $2,000 for their additional services in these capacities. In addition, we purchase directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment.

PORTFOLIO MANAGERS

The portfolio managers are comprised of (i) the underwriting committee, whose primary responsibility is to recommend investments for approval to the Investment Committee and (ii) members of the Investment Committee who are not otherwise on the underwriting committee. The following individuals function as portfolio managers with the most significant responsibility for the day-to-day management of the Company's portfolio.

Name	Position	Length of Service with Ares (years)	Principal Occupation(s) During Past 5 Years
Michael J. Arougheti	President of the Company	3.5	Mr. Arougheti is President of the Company and joined Ares Management in May 2004 and is a member of Ares. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and serves on the Investment Committee of Ares Capital Management and all Ares European Credit Funds.
Eric B. Beckman	Partner in Private Debt Group	9	Mr. Beckman joined Ares Management in 1998 and serves as a Partner in the Private Debt Group. Before joining the Private Debt Group, Mr. Beckman served as a Senior Partner of the Private Equity Group of Ares Management and a member of its Investment Committee, and as a member of the team responsible for Ares' mezzanine debt investments. Prior to joining Ares, Mr. Beckman was a member of the Leveraged Finance Group of Goldman, Sachs & Co. While at Goldman Sachs, he was involved in executing leveraged loan and high yield bond offerings, in raising and managing a dedicated fund providing subordinated bridge loans, and in certain restructuring advisory and distressed lending activities. Mr. Beckman is the Co-Chair of the Los Angeles Advisory Board of the Posse Foundation and a member of the Steering Committee for the Cedars-Sinai Medical Center Sports Spectacular. Mr. Beckman graduated summa cum laude with a BA in Political Theory and Economics from Cornell University and received his JD from the Yale Law School.

R. Kipp deVeer	Partner in Private Debt Group	3.5	Mr. deVeer joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. deVeer was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital where he was Vice President in the Merchant Banking Group.
Mitchell Goldstein	Partner in Private Debt Group	2.5	Mr. Goldstein joined Ares Management in May 2005 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal.
Michael L. Smith	Partner in Private Debt Group	3.5	Mr. Smith joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle market financing and principal investment business. Mr. Smith joined RBC in October 2001 from Indosuez Capital, where he was a Vice President in the merchant banking group.

None of the individuals listed above is primarily responsible for the day-to-day management of the portfolio of any other account. See "Risk Factors There are significant potential conflicts of interest that could impact our investment returns."

Each of the individuals listed above is equally responsible for deal origination, execution and portfolio management. Mr. Arougheti, as our President, spends a greater amount of his time on corporate and administrative activities in his role as an officer.

As of December 31, 2007, each portfolio manager identified above is a full-time employee of Ares Capital Management LLC and receives a fixed salary for the services he provides to the Company. Each will also receive an annual amount that is equal to a fixed percentage of any incentive fee received by Ares Capital Management LLC from the Company for a fiscal year. None of the portfolio managers receives any direct compensation from the Company.

The following table sets forth the dollar range of equity securities of the Company based on the closing price of the Company's common stock on March 11, 2008 and the number of shares beneficially owned by each of the portfolio managers described above as of December 31, 2007.

Name	Aggregate Dollar Range of Equity Securities in Ares Capital(1)
Michael J. Arougheti	$100,001 $500,000(2)
Eric B. Beckman	$100,001 $500,000
R. Kipp deVeer	$100,001 $500,000
Mitchell Goldstein	$100,001 $500,000
Michael L. Smith	$100,001 $500,000

(1) Dollar ranges are as follows: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000 or over $1,000,000.

(2) Ares Investments LLC, whose sole manager is Ares Partners Management Company LLC, owned 1,216,667 shares of our common stock as of March 11, 2008. Each of the members of Ares Partners Management Company LLC (which includes Mr. Arougheti or vehicles controlled by him) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments LLC, except to the extent of any indirect pecuniary interest therein.

INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

Management services

Ares Capital Management serves as our investment adviser. Ares Capital Management is an investment adviser that is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors, the investment adviser manages the day-to-day operations of, and provides investment advisory and management services to, Ares Capital. Under the terms of the investment advisory and management agreement, Ares Capital Management:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make; and
- determines the securities and other assets that we purchase, retain or sell.

Ares Capital Management was initially formed to provide investment advisory services to us and it has not previously provided investment advisory services to anyone else. However, its services to us under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities.

The sole member of Ares Capital Management is Ares Management LLC, an independent international investment management firm that currently manages investment funds that have approximately $20.0 billion of committed capital.

Management fee

Pursuant to the investment advisory and management agreement, we pay Ares Capital Management a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.5% of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds). The base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter will be appropriately pro rated.

The incentive fee has the following two parts:

One part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities), accrued income that we have not yet received in cash. The investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness) at the end of the immediately preceding calendar quarter, will be compared to a fixed "hurdle rate" of 2.00% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Our pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

We will pay Ares Capital Management an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

- 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.50%) as the "catch-up." The "catch-up" is meant to provide our investment adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.50% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.50% in any calendar quarter.

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

Quarterly Incentive Fee Based on Net Investment Income

Pre-incentive fee net investment income
(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income
allocated to income-related portion of incentive fee

These calculations will be appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee (the "Capital Gains Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of the our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in the Company's portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in the Company's portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

Examples of Quarterly Incentive Fee Calculation

Example 1: Income Related Portion of Incentive Fee(1):

Assumptions

Hurdle rate(2) = 2.00%
Management fee(3) = 0.375%
Other expenses (legal, accounting, custodian, transfer agent, etc.)(4) = 0.20%

Alternative 1

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%
Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 0.675%
Pre-incentive fee net investment income does not exceed hurdle rate, therefore there is no incentive fee.

Alternative 2

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%
Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 2.125%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

Incentive Fee	=	100% × "Catch-Up" + the greater of 0% **AND** (20% × (pre-incentive fee net investment income - 2.50%)
	=	(100% × (2.125% - 2.00%)) + 0%
	=	100% × 0.125%
	=	0.125%

(1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets. In addition, the example assumes that during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) is at least 8.0% of our net assets at the beginning of such period (as adjusted for any share issuances or repurchases).

(2) Represents 8.0% annualized hurdle rate.

(3) Represents 1.5% annualized management fee.

(4) Excludes offering expenses.

Alternative 3

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.50%

Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 2.925%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

Incentive Fee	=	100% × "Catch-Up" + the greater of 0% **AND** (20% × (pre-incentive fee net investment income - 2.50%)
	=	(100% × (2.50% - 2.00%)) + (20% × (2.925% - 2.50%))
	=	0.50% + (20% × 0.425%)
	=	0.50% + 0.085%
	=	0.585%

Example 2: Capital Gains Portion of Incentive Fee:

Alternative 1:

Assumptions

Year 1: $20 million investment made in Company A ("Investment A"), and $30 million investment made in Company B ("Investment B")

Year 2: Investment A is sold for $50 million and fair market value ("FMV") of Investment B determined to be $32 million

Year 3: FMV of Investment B determined to be $25 million

Year 4: Investment B sold for $31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: $6 million (20% multiplied by $30 million realized capital gains on sale of Investment A)

Year 3: None; $5 million (20% multiplied by ($30 million realized cumulative capital gains less $5 million cumulative capital depreciation)) less $6 million (previous capital gains fee paid in Year 2)

Year 4: $200,000; $6.2 million (20% multiplied by $31 million cumulative realized capital gains) less $6 million (capital gains fee paid in Year 2)

Alternative 2

Assumptions

Year 1: $20 million investment made in Company A ("Investment A"), $30 million investment made in Company B ("Investment B") and $25 million investment made in Company C ("Investment C")

Year 2: Investment A sold for $50 million, FMV of Investment B determined to be $25 million and FMV of Investment C determined to be $25 million

Year 3: FMV of Investment B determined to be $27 million and Investment C sold for $30 million

Year 4: FMV of Investment B determined to be $35 million

Year 5: Investment B sold for $20 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: $5 million (20% multiplied by $25 million ($30 million realized capital gains on Investment A less $5 million unrealized capital depreciation on Investment B))

Year 3: $1.4 million ($6.4 million (20% multiplied by $32 million ($35 million cumulative realized capital gains less $3 million unrealized capital depreciation)) less $5 million (capital gains fee paid in Year 2))

Year 4: None

Year 5: None ($5 million (20% multiplied by $25 million (cumulative realized capital gains of $35 million less realized capital losses of $10 million)) less $6.4 million (cumulative capital gains fee paid in Year 2 and Year 3))

For the year ended December 31, 2007, we incurred $23,530,805 in base management fees, $23,521,695 in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains. As of December 31, 2007, $13,041,060 was unpaid.

For the year ended December 31, 2006, we incurred $13,645,724 in base management fees, $16,067,931 in incentive management fees related to pre-incentive fee net investment income and $3,448,462 in incentive management fees related to realized capital gains.

For the year ended December 31, 2005, we incurred $5,147,492 in base management fees, $3,222,690 in incentive management fees related to pre-incentive fee net investment income and $979,388 in incentive management fees related to realized capital gains.

Payment of our expenses

All investment professionals of the investment adviser and its staff when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Ares Capital Management. We bear all other costs and expenses of our operations and transactions, including those relating to: organization; calculation of our net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by Ares Capital Management payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on debt, if any, incurred to finance our investments; offerings of our common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents of the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent we are covered by any joint insurance policies, our allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us or Ares Administration in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including our allocable portion of the salary and cost of our officers (including our chief compliance officer, our chief financial officer and our vice president of investor relations and treasurer) and their respective staffs (including travel).

Duration and termination

The amended and restated investment advisory and management agreement was approved by our stockholders on May 30, 2006 and entered into on June 1, 2006. Unless terminated earlier, it will continue in effect until June 1, 2008, and will automatically renew for successive annual periods thereafter if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The investment advisory and management agreement will automatically terminate in the event of its assignment. The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other. Moreover, conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the terms for compensation.

While any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act, we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement. See "Risk Factors Risks Relating to our Business We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals."

Indemnification

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Capital Management, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Ares Capital for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Capital Management's services under the investment advisory and management agreement or otherwise as an investment adviser of Ares Capital.

Organization of the investment adviser

Ares Capital Management LLC is a Delaware limited liability company that is registered as an investment adviser under the Advisers Act. The principal executive offices of Ares Capital Management are located at 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

Board Consideration of the Investment Advisory and Management Agreement

At a meeting of the board of directors of the Company held on February 24, 2006, the board of directors, including all of the directors who are not "interested persons" of the Company as defined in the Investment Company Act, unanimously voted to approve the investment advisory and management agreement. The independent directors had the opportunity to consult in executive session with counsel to the Company regarding the approval of such agreement. In reaching a decision to approve the investment advisory and management agreement, the board of directors reviewed a significant amount of information and considered, among other things:

(i) the nature, extent and quality of the advisory and other services to be provided to the Company by the investment adviser;

(ii) the investment performance of the Company and the investment adviser;

(iii) the costs of the services to be provided by the investment adviser (including management fees, advisory fees and expense ratios) and the profits realized by the investment adviser;

(iv) the limited potential for economies of scale in investment management associated with a larger capital base for investments in first and second lien senior loans and mezzanine debt and whether such limited economies of scale would benefit our stockholders;

(v) our investment adviser's estimated pro forma profitability with respect to managing us;

(vi) the limited potential for additional benefits to be derived by our investment adviser and its affiliates as a result of our relationship with our investment adviser; and

(vii) various other matters.

In approving the investment advisory and management agreement, the entire board of directors, including all of the directors who are not "interested persons" made the following conclusions:

Nature, Extent and Quality of Services. The board of directors considered the nature, extent and quality of the investment selection process employed by our investment adviser, including the flow of transaction opportunities resulting from Ares Capital Management's investment professionals' significant capital markets, trading and research expertise, the employment of Ares Capital Management's investment philosophy, diligence procedures, credit recommendation process, investment structuring, and ongoing relationships with and monitoring of portfolio companies, in light of the investment objective of the Company. The board of directors also considered our investment adviser's personnel and their prior experience in connection with the types of investments made by us, including such personnel's network of relationships with intermediaries focused on middle market companies. In addition, the board of directors considered the other terms and conditions of the investment advisory and management agreement. The board of directors concluded that the substantive terms of the investment advisory management agreement, including the services to be provided, are generally the same as those of comparable business development companies described in the available market data and that it would be difficult to obtain similar services from other third party services providers or through an internally managed structure. In addition, the board of directors considered the fact that we have the ability to terminate the investment advisory and management agreement without penalty upon 60 days' written notice to the investment adviser. The board of directors further concluded that our investment adviser is served by a dedicated origination team of investment professionals, and that these investment professionals have historically focused on investments in middle market companies and have developed an investment process and an extensive network of relationships with intermediaries focused on middle market companies, which experience and relationships coincide with our investment objective and generally equal or exceed those of the management teams of other comparable business development companies described in the available market data.

Investment Performance. The board of directors reviewed the long-term and short-term investment performance of the Company and the investment adviser, as well as comparative data with respect to the long-term and short-term investment performance of other business development companies and their externally managed investment advisers. The board of directors concluded that the investment adviser was delivering results consistent with the investment objective of the Company and that the Company's investment performance was generally above average when compared to comparable business development companies.

Costs of the Services Provided to the Company and the Profits Realized by the Investment Adviser. The board of directors considered comparative data based on publicly available information with respect to services rendered and the advisory fees (including the management fees and incentive fees) of other business development companies with similar investment objectives, our projected operating expenses and expense ratio compared to other business development companies with similar investment objectives, as well as the administrative services that our administrator, Ares Operations, LLC, will provide to us at cost. Based upon its review, the board of directors concluded that the fees to be paid under the investment advisory and management agreement are generally less than those payable under agreements of comparable business development companies described in the available market data. In addition, the board of directors concluded that our expected expenses as a percentage of net assets attributable to common stock are generally equal to or less than those typically incurred by comparable business development companies described in the available market data.

Economies of Scale. The board of directors considered information about the potential of stockholders to experience economies of scale as the Company grows in size. The board of directors considered that because there are no break points in the investment adviser's fees, any benefits resulting from the growth in the Company's assets where the Company's fixed costs did not increase proportionately, would not inure to the benefit of the stockholders.

Profitability of Investment Adviser. The board of directors concluded that the investment adviser's pro forma profitability with respect to managing us was generally less than the profitability of investment advisers managing comparable business development companies described in the available market data.

Additional Benefits Derived by Investment Adviser. The board of directors concluded that there is limited potential for additional benefits, such as soft dollar arrangements with brokers, to be derived by our investment adviser and its affiliates as a result of our relationship with our investment adviser.

Other Matters Considered. In addition, our board of directors considered the interests of senior management described in "Certain Relationships and Related Transactions" and concluded that the judgment and performance of our senior management will not be impaired by those interests. Our investment adviser does not manage any other accounts.

In view of the wide variety of factors that our board of directors considered in connection with its evaluation of the investment advisory and management agreement, it is not practical to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. The board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of the board of directors. Rather, our board of directors based its approval on the totality of information presented to, and the investigation conducted by, it. In considering the factors discussed above, individual directors may have given different weights to different factors. Based on its review of the abovementioned factors and discussion of the investment advisory and management agreement, the board of directors (including a majority of the directors who are not "interested persons") concluded that the investment advisory and management fee rates are fair and reasonable in relation to the services to be provided and approved the investment advisory and management agreement as being in the best interests of the Company and the Company's stockholders. The board of directors then directed that the investment advisory and management agreement be submitted to stockholders for approval with the board of directors' recommendation that stockholders of the Company vote to approve the investment advisory and management agreement.

Our stockholders approved the investment advisory and management agreement on May 30, 2006. A similar discussion regarding the basis for our board of directors' approval of our investment advisory and management agreement is also included in our proxy statement for the 2006 annual stockholders meeting.

ADMINISTRATION AGREEMENT

We are also party to a separate administration agreement with our administrator, Ares Administration. Our board of directors approved an amended and restated administration agreement on May 30, 2007, which extended the term of the agreement until June 1, 2008. Pursuant to the administration agreement, Ares Administration furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Administration assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement will be equal to an amount based upon our allocable portion of Ares Administration's overhead in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60-days' written notice to the other party.

For the year ended December 31, 2007, we incurred $997,470 in administrative fees. For the year ended December 31, 2006, we incurred $953,400 in administrative fees. For the year ended December 31, 2005, we incurred $888,081 in administrative fees.

Indemnification

The administration agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Administration, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Ares Capital for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Administration's services under the administration agreement or otherwise as administrator for Ares Capital.

CERTAIN RELATIONSHIPS

We are party to an investment advisory and management agreement with Ares Capital Management, whose sole member is Ares Management LLC, an entity in which certain members of our senior management and our chairman of the board have indirect ownership and financial interests. Certain members of our senior management also serve as principals of other investment managers affiliated with Ares Management LLC that may in the future manage investment funds with investment objectives similar to ours. In addition, certain of our executive officers and directors and the members of the investment committee of our investment adviser, Ares Capital Management, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by our affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Ares Management LLC. However, our investment adviser and other members of Ares intend to allocate investment opportunities in a fair and equitable manner that meet our investment objective and strategies so that we are not disadvantaged in relation to any other client. See "Risk Factors Risks Relating to our Business There are significant potential conflicts of interest that could impact our investment returns."

Pursuant to the terms of the administration agreement, Ares Administration currently provides us with the administrative services necessary to conduct our day-to-day operations. Ares Management LLC is the sole member of and controls Ares Administration. We lease office space directly from a third party. In addition, we have a sublease agreement with Ares Management LLC whereby Ares Management LLC subleases approximately 25% of our office space for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses.

We have also entered into a license agreement with Ares pursuant to which Ares has agreed to grant us a non-exclusive, royalty-free license to use the name "Ares." Under this agreement, we will have a right to use the Ares name, for so long as Ares Capital Management or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we will have no legal right to the "Ares" name. This license agreement will remain in effect for so long as the investment advisory and management agreement with our investment adviser is in effect.

In connection with our initial public offering, our investment adviser paid to underwriters, on our behalf, an additional sales load of $2,475,000. This amount accrued interest at a variable rate that adjusted quarterly equal to the three-month LIBOR plus 2.00% per annum. We repaid this amount in full, plus accrued and unpaid interest, in February 2006.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

To our knowledge, as of March 11, 2008, there were no persons that owned 25% or more of our outstanding voting securities, and no person would be deemed to control us, as such term is defined in the Investment Company Act.

The following table sets forth, as of March 11, 2008, the number of shares of the Company's common stock beneficially owned by each of its current directors and executive officers, all directors and executive officers as a group, and certain beneficial owners, according to information furnished to the Company by such persons.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of our shares of common stock is based upon Schedule 13D, Schedule 13G or other filings by such persons with the SEC and other information obtained from such persons.

The address for each of the directors and executive officers is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Beneficial Owners of more than 5%:		
Non-Management Beneficial Owners		
FMR LLC(2)	8,603,165	11.84%
Entities affiliated with Merrill Lynch & Co.(3)	4,650,219	6.39%
Entities affiliated with John S. Osterweis(4)	3,712,590	5.1%
Directors and Executive Officers:		
Interested Directors		
Robert L. Rosen	None	
Bennett Rosenthal	None(5)	
Independent Directors		
Douglas E. Coltharp	None	
Frank E. O'Bryan	None	
Eric B. Siegel	14,840	*
Executive Officers		
Michael J. Arougheti	28,000(5)	*
Richard S. Davis	23,100	*
Merritt S. Hooper	None	
Daniel F. Nguyen	2,500	*
Karen A. Tallman	10,000	
Michael D. Weiner	4,000(5)	*
All Directors and Executive Officers as a Group (11 persons)	82,440(5)	*

* Represents less than 1%.

(1) Based on 72,684,090 shares of common stock outstanding as of March 11, 2008.

(2) Fidelity Management & Research Company ("Fidelity"), a wholly owned subsidiary of FMR LLC, is the beneficial owner of 7,418,282 shares of our common stock as a result of acting as an investment adviser to various investment companies registered under Section 8 of the Investment Company Act. Edward C. Johnson III is Chairman of FMR LLC and members of his family are the predominant owners, directly or through trusts, of Series B shares of common stock of FMR LLC, representing 49% of the voting power of FMR LLC. As a result, members of the Johnson family may be deemed to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Edward C. Johnson III has the sole power to

vote or direct the voting of the shares owned directly by the funds managed by Fidelity, which power resides with the funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the funds' Boards of Trustees. The address for each of FMR LLC, Fidelity and Edward C. Johnson III is 82 Devonshire Street, Boston, Massachusetts 02109.

(3)

Of the 4,650,219 shares, Merrill Lynch International holds 49,224 shares, Merrill Lynch Financial Markets, Inc. holds 115,900 shares and Merrill Lynch, Pierce, Fenner & Smith Incorporated holds 4,485,095 shares. Each of these entities is a wholly owned subsidiary of Merrill Lynch & Co., Inc. Merrill Lynch & Co., Inc. disclaims beneficial ownership in all shares of Ares Capital Corporation. The address for each of Merrill Lynch & Co., Inc., Merrill Lynch Financial Markets, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated is 4 World Financial Center, 250 Vesey St. New York, New York 10080. The address for Merrill Lynch International is 2 King Edward Street, London EC1A 1HQ, England.

(4)

Osterweis Capital Management, Inc. holds 568,582 of these shares and Osterweis Capital Management, LLC holds 1,287,713 of these shares. John S. Osterweis is the President of both Osterweis Capital Management, Inc. and Osterweis Capital Management, LLC and as a result, may be deemed to be the indirect beneficial owner of the shares beneficially owned by Osterweis Capital Management, Inc. and Osterweis Capital Management, LLC. The address for each of Osterweis Capital Management, Inc., Osterweis Capital Management, LLC and John S. Osterweis is One Maritime Plaza, Suite 800, San Francisco, California 94111.

(5)

Ares Investments LLC, whose sole manager is Ares Partners Management Company LLC, owned 1,216,667 shares of our common stock as of March 11, 2008. Each of the members of Ares Partners Management Company LLC (which include Messrs. Rosenthal, Arougheti and Weiner or vehicles controlled by them) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments LLC, except to the extent of any indirect pecuniary interest therein.

DETERMINATION OF NET ASSET VALUE

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

In calculating the value of our total assets, investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies without market quotations subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in determining the fair value of our investments generally focus on the enterprise value of a portfolio company, as well as other factors such as the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment in conjunction with our portfolio management team.

- Preliminary valuation conclusions are then documented and discussed with our management.

- The audit committee of our board of directors reviews these preliminary valuations, as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

- The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and independent valuation firms.

DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend in cash by notifying Computershare Trust Company, Inc., the plan administrator and an affiliate of our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing no later than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our obligations under the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on The NASDAQ Global Select Market on the valuation date for such dividend. Market price per share on that date will be the closing price for such shares on The NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There are no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator's fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a $15 transaction fee plus a $0.12 per share brokerage commission from the proceeds.

Stockholders who receive dividends in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received in a dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at *www.computershare.com*, by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator at 2 N. LaSalle Street, Chicago, IL 60602 or by calling the plan administrator's hotline at 1-877-292-9685.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan administrator by mail at 2 N. LaSalle Street, Chicago, IL 60602 or by telephone at (312) 588-4993.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our preferred stock or common stock. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our preferred stock or common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding the offerings pursuant to this prospectus and any accompanying prospectus supplement. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets. It also does not discuss the tax aspects of common or preferred stock sold in units with the other securities being registered.

This summary does not discuss the consequences of an investment in our subscription rights, debt securities or warrants representing rights to purchase shares of our preferred stock, common stock or debt securities or as units in combination with such securities. The U.S. federal income tax consequences of such an investment will be discussed in a relevant prospectus supplement. In addition, we may issue preferred stock with terms resulting in U.S. federal income taxation of holders with respect to such preferred stock in a manner different from as set forth in this summary. In such instances, such differences will be discussed in a relevant prospectus supplement.

A "U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A "Non-U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our preferred stock or common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partnership holding shares of our preferred stock or common stock or a partner of such a partnership should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our preferred stock or common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

ELECTION TO BE TAXED AS A RIC

As a BDC, we have elected to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, we must distribute to our stockholders, for each taxable year, an amount equal to at least 90% of our "investment company taxable income," which is generally our ordinary income plus the excess of net short-term capital gain over net long-term capital loss, reduced by deductible expenses (the "Annual Distribution Requirement"). See "Risk Factors We will be subject to corporate-level income tax if we are unable to qualify as a RIC."

TAXATION AS A RIC

If we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement;

then we will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (generally, net long-term capital gain in excess of net short-term capital loss) we distribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in preceding years (the "Excise Tax Avoidance Requirement"). We have in the past and can be expected to pay such excise tax on a portion of our income.

To qualify as a RIC for federal income tax purposes, we generally must, among other things:

- qualify to be treated as a BDC under the Investment Company Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and

no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses (the "Diversification Tests").

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

In addition, certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur and (v) adversely alter the characterization of certain complex financial transactions. We will monitor our transactions and may make certain tax elections in order to mitigate the effect of these provisions.

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

Our investment in non-U.S. securities may be subject to non-U.S. income, withholding or other taxes. In that case, our yield on those securities would be decreased. Stockholders will generally not be entitled to claim a credit or deduction with respect to non-U.S. taxes paid by us.

If we purchase shares in a "passive foreign investment company" (a "PFIC"), we may be subject to U.S. federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend by us to our stockholders. Additional charges in the nature of interest may be imposed on us in respect of deferred taxes arising from such distributions or gains. If we invest in a PFIC and elect to treat the PFIC as a "qualified electing fund" under the Code (a "QEF"), in lieu of the foregoing requirements, we will be required to include in income each year a portion of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed to us. Alternatively, we can elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent it does not exceed prior increases included in income. Under either election, we may be required to recognize in a year income in excess of our distributions from PFICs and our proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of the 4% excise tax. See "Taxation as a RIC" above.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time we accrue income, expenses or other liabilities denominated in a foreign currency and the time we actually collect such income or pay such expenses or liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

If we borrow money, we may be prevented by loan covenants from declaring and paying dividends in certain circumstances. Limits on our payment of dividends may prevent us from meeting the Annual Distribution Requirement, and may, therefore, jeopardize our qualification for taxation as a RIC, or subject us to the 4% excise tax.

We are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the Investment Company Act, we are not permitted to make distributions to our stockholders while our debt obligations and senior securities are outstanding unless certain "asset coverage" tests are met. See "Regulation Indebtedness and Senior Securities." Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets to meet the Annual Distribution Requirement, the Diversification Test, or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we will be subject to tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. In that case, all of our income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated. See "Election to be Taxed as a RIC" and "Risk Factors We will be subject to corporate-level income tax if we are unable to qualify as a RIC."

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

TAXATION OF U.S. STOCKHOLDERS

Distributions by us generally are taxable to U.S. stockholders as ordinary income or long-term capital gain. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus net short-term capital gain in excess of net long-term capital loss, reduced by deductible expenses) will be taxable as ordinary income to U.S. stockholders to the extent of our current and accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from certain U.S. and foreign corporations, such distributions generally will be eligible for a maximum tax rate of 15% provided that certain holding period requirements are met. Distributions of our net capital gain (which is generally our net long-term capital gain in excess of net short-term capital loss) properly designated by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains, at a maximum rate of 15% in the case of non-corporate U.S. stockholders, regardless of the U.S. stockholder's holding period for his, her or its preferred stock or common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's preferred stock or common stock and, after the adjusted basis is reduced to zero, will constitute capital gain to such U.S. stockholder.

Although we currently intend to distribute any long-term capital gain at least annually, we may in the future decide to retain some or all of our long-term capital gain, but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its preferred stock or common stock. Since we expect to pay tax on any retained capital gain at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gain, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for federal income tax. A U.S. stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

We will be subject to alternative minimum tax, also referred to as "AMT," but any items that are treated differently for AMT purposes must be apportioned between us and our stockholders and this may affect U.S. stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless a different method for particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our preferred stock or common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of his, her or its investment.

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our preferred stock or common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our preferred stock or common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our preferred stock or common stock may be disallowed if other shares of our preferred stock or common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

In general, non-corporate U.S. stockholders currently are subject to a maximum federal income tax rate of 15% on their net capital gain (generally, the excess of net long-term capital gain over net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in our shares). Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate that also applies to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital loss in excess of capital gain) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15% maximum rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation. The Company's ordinary income dividends, but not capital gain dividends, to corporate U.S. stockholders, may, if certain conditions are met, qualify for the 70% dividends received deduction to the extent that the Company has received qualifying dividends during the taxable year.

We may be required to withhold U.S. federal income tax ("backup withholding"), currently at a rate of 28%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability and may entitle such stockholder to a refund, provided that proper information is timely provided to the IRS.

Under Treasury regulations, if a stockholder recognizes a loss with respect to shares of $2 million or more for a non-corporate stockholder or $10 million or more for a corporate stockholder in any single taxable year (or a greater loss over a combination of years), the stockholder must file with the IRS a disclosure statement on Form 8886. Direct stockholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, stockholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. Stockholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

TAXATION OF NON-U.S. STOCKHOLDERS

Whether an investment in the shares of our preferred stock or common stock is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares of our preferred stock or common stock by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our preferred stock or common stock.

Distributions of our "investment company taxable income" to Non-U.S. stockholders will be subject to withholding of U.S. federal income tax at a 30% rate (or lower rate provided by an applicable income tax treaty) to the extent of our current and accumulated earnings and profits unless the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, and, if an income tax treaty applies, are attributable to a permanent establishment in the United States of the Non-U.S. stockholder, in which case the distributions will be subject to federal income tax at the rates applicable to U.S. persons. In that case, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.

However, "interest-related dividends" and "short-term capital gain dividends" paid to our Non-U.S. stockholders with respect to our taxable years beginning on or after January 1, 2005 and ending on or before December 31, 2007 will not be subject to withholding of U.S. federal income tax if the requirements below are satisfied. The amount of "interest-related dividends" that we may pay each year is limited to the amount of "qualified interest income" that we receive during that year, less the amount of our expenses properly allocable to such interest income. "Qualified interest income" includes, among other items, interest paid on debt obligations of a U.S. issuer, interest paid on deposits with U.S. banks and any "interest-related dividends" from another RIC. The exemption from withholding tax on "interest-related dividends," however, does not apply to distributions to a Non-U.S. stockholder (i) that has not complied with applicable certification requirements, (ii) of interest on an obligation issued by the Non-U.S. stockholder or by an issuer of which the Non-U.S. stockholder is a 10% shareholder, (iii) that is within certain foreign countries that have inadequate information exchange with the United States, or (iv) of interest paid by a person that is a related person of the Non-U.S. stockholder and the Non-U.S. stockholder is a controlled foreign corporation. The amount of "short-term capital gain dividends" that we may pay each year generally is limited to the excess of our net short-term capital gains over our net long-term capital losses, without any reduction for our expenses allocable to such gains. The exemption from U.S. tax on "short-term capital gain dividends", however, does not apply with respect to an individual Non-U.S. stockholder who is present in the United States for 183 days or more during the taxable year of the distribution. If our income for a taxable year includes "qualified interest income" or net short-term capital gains, we may designate dividends as "interest-related dividends" or "short-term capital gain dividends" by written notice mailed to Non-U.S. stockholders not later than 60 days after the close of our taxable year. As indicated above, these provisions apply only to dividends paid with respect to taxable years beginning on or after January 1, 2005 and will not apply to dividends paid with respect to taxable years beginning after December 31, 2007. These provisions may be extended retroactively, but we cannot provide any assurances to that effect. You should consult with your own tax advisor regarding any such potential extensions. If a Non-U.S. stockholder holds our shares of preferred stock or common stock through a brokerage account, no assurance can be given that the exemptions to taxation described in this paragraph will apply to you. Furthermore, no assurance can be given that we will designate any of our distributions as interest-related dividends or short-term capital gain dividends, even if we are permitted to do so.

Actual or deemed distributions of our net capital gain to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our preferred stock or common stock, will not be subject to withholding of U.S. federal income tax and generally will not be subject to U.S. federal income tax (a) unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States or (b) the Non-U.S. stockholder is an individual, has been present in the United States for 183 days or more during the taxable year, and certain other conditions are satisfied.

If we distribute our net capital gain in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the Non-U.S. stockholder's allocable share of the tax we pay on the capital gain deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our preferred stock or common stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable income tax treaty).

Accordingly, investment in our shares of our preferred stock or common stock may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares of our preferred stock or common stock.

FAILURE TO QUALIFY AS A RIC

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would generally be taxable to our stockholders as ordinary dividend income eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate U.S. stockholders would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. If we were to fail to meet the RIC requirements for more than two consecutive years and then to seek to requalify as a RIC, we would be required to recognize gain to the extent of any unrealized appreciation in our assets unless we made a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period.

DESCRIPTION OF SECURITIES

This prospectus contains a summary of the common stock, preferred stock, subscription rights, debt securities and warrants. These summaries are not meant to be a complete description of each security. However, this prospectus and the accompanying prospectus supplement will contain the material terms and conditions for each security.

Any of the securities described herein and in a prospectus supplement may be issued separately or as part of a unit consisting of two or more securities, which may or may not be separable from one another.

DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

STOCK

Our authorized stock consists of 200,000,000 shares of stock, par value $0.001 per share, all of which are currently designated as common stock. Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." On March 11, 2008, the last reported sales price of our common stock on The NASDAQ Global Select Market was $13.39 per share. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of Ares Capital, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

The following are our outstanding classes of capital stock as of March 11, 2008:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Registrant or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under(3)
Common Stock	200,000,000		72,684,090

Preferred Stock

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the Investment Company Act. The Investment Company Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other indebtedness and senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the Investment Company Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

LIMITATION ON LIABILITY OF DIRECTORS AND OFFICERS; INDEMNIFICATION AND ADVANCE OF EXPENSES

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act.

Our charter authorizes us and our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the Investment Company Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. In addition to the indemnification provided for in our bylaws, we have entered into indemnification agreements with each of our current directors and officers and with members of our investment adviser's investment committee and we intend to enter into indemnification agreements with each of our future directors and officers. The indemnification agreements attempt to provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities incurred which such person may incur by reason of his status as a present or former director or officer or member of our investment adviser's investment committee in any action or proceeding arising out of the performance of such person's services as a present or former director or officer or member of our investment adviser's investment committee.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND OUR CHARTER AND BYLAWS

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified board of directors

Our board of directors is divided into three classes of directors serving staggered three-year terms, with the term of office of only one of the three classes expiring each year. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

Election of directors

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

Number of directors; vacancies; removal

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. Our charter sets forth our election, subject to certain requirements, to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, at such time, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the Investment Company Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by stockholders

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written or electronically transmitted consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance notice provisions for stockholder nominations and stockholder proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of special meetings of stockholders

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of extraordinary corporate action; amendment of charter and bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. See "Risk Factors Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock." However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The "continuing directors" are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

No appraisal rights

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of our board of directors determines that such rights will apply.

Control share acquisitions

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are directors of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the Investment Company Act, which will prohibit any such repurchase other than in limited circumstances. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock. Such provision could also be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests based on our determination that our being subject to the Control Share Acquisition Act does not conflict with the Investment Company Act.

Business combinations

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the Investment Company Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with the Investment Company Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the Investment Company Act, the applicable provision of the Investment Company Act will control.

DESCRIPTION OF OUR PREFERRED STOCK

In addition to shares of common stock, our charter authorizes the issuance of preferred stock. If we offer preferred stock under this prospectus, we will issue an appropriate prospectus supplement. We may issue preferred stock from time to time in one or more classes or series, without stockholder approval. Prior to issuance of shares of each class or series, our board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Any such an issuance must adhere to the requirements of the Investment Company Act, Maryland law and any other limitations imposed by law.

The Investment Company Act requires, among other things, that (1) immediately after issuance and before any distribution is made with respect to common stock, the liquidation preference of the preferred stock, together with all other senior securities, must not exceed an amount equal to 50% of our total assets (taking into account such distribution) and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on the preferred stock are in arrears by two years or more.

For any series of preferred stock that we may issue, our board of directors will determine and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, as well as whether such dividends are cumulative or non-cumulative and participating or non-participating;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our board of directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which cumulative dividends, if any, thereon will be cumulative.

DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

GENERAL

We may issue subscription rights to our stockholders to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the period of time the offering would remain open (which shall be open a minimum number of days such that all record holders would be eligible to participate in the offering and shall not be open longer than 120 days);
- the title of such subscription rights;
- the exercise price for such subscription rights (or method of calculation thereof);
- the ratio of the offering (which, in the case of transferable rights, will require a minimum of three shares to be held of record before a person is entitled to purchase an additional share);
- the number of such subscription rights issued to each stockholder;
- the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;
- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights shall commence, and the date on which such right shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;
- any termination right we may have in connection with such subscription rights offering; and
- any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

EXERCISE OF SUBSCRIPTION RIGHTS

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the shares of common stock purchasable upon such exercise. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

DESCRIPTION OF OUR WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common stock and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and

any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the Investment Company Act, we may generally only offer warrants provided that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of Ares Capital and its stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The Investment Company Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities.

DESCRIPTION OF OUR DEBT SECURITIES

We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an "indenture". An indenture is a contract between us and U.S. Bank National Association, a financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under "Events of Default Remedies if an Event of Default Occurs". Second, the trustee performs certain administrative duties for us.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. Some of the definitions are repeated in this prospectus, but for the rest you will need to read the indenture. We have filed the form of the indenture with the SEC. See "Available Information" for information on how to obtain a copy of the indenture.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including, among other things:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities;

the denominations in which the offered debt securities will be issued;

the provision for any sinking fund;

any restrictive covenants;

- any Events of Default;
- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- special federal income tax implications, including, if applicable, federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit the distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors Risks Relating to our Business Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital."

GENERAL

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement ("offered debt securities") and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities ("underlying debt securities"), may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of or premium or interest, if any, on debt securities will include additional amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the "indenture securities". The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See "Resignation of Trustee" below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term "indenture securities" means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

We expect that we will usually issue debt securities in book-entry only form represented by global securities.

CONVERSION AND EXCHANGE

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

PAYMENT AND PAYING AGENTS

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the "record date". Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called "accrued interest".

Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants.

Payments on Certificated Securities

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, NY and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Payment When Offices Are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

EVENTS OF DEFAULT

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following (unless the prospectus supplement relating to such debt securities states otherwise):

- We do not pay the principal of, or any premium on, a debt security of the series on its due date, and do not cure this default within 5 days.

- We do not pay interest on a debt security of the series when due, and such default is not cured within 30 days.

- We do not deposit any sinking fund payment in respect of debt securities of the series on its due date, and do not cure this default within 5 days.

- We remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series.

- We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days.

- On the last business day of each of twenty-four consecutive calendar months, we have an asset coverage of less than 100%.

- Any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series.

The trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity"). (Section 315 of the Trust Indenture Act of 1939) If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

- You must give your trustee written notice that an Event of Default has occurred and remains uncured.

- The holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action.

- The trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity.

- The holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than:

- the payment of principal, any premium or interest; or

- in respect of a covenant that cannot be modified or amended without the consent of each holder.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

MERGER OR CONSOLIDATION

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, unless the prospectus supplement relating to certain debt securities states otherwise, we may not take any of these actions unless all the following conditions are met:

- Where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities.

- Immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing.

- Under the indenture, no merger or sale of assets may be made if as a result any of our property or assets or any property or assets of one of our subsidiaries, if any, would become subject to any mortgage, lien or other encumbrance unless either (i) the mortgage, lien or other encumbrance could be created pursuant to the limitation on liens covenant in the indenture without equally and ratably securing the indenture securities or (ii) the indenture securities are secured equally and ratably with or prior to the debt secured by the mortgage, lien or other encumbrance.

- We must deliver certain certificates and documents to the trustee.

- We must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

MODIFICATION OR WAIVER

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

Changes Requiring Your Approval

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on a debt security;

- reduce any amounts due on a debt security;

- reduce the amount of principal payable upon acceleration of the maturity of a security following a default;

- adversely affect any right of repayment at the holder's option;

- change the place (except as otherwise described in the prospectus or prospectus supplement) or currency of payment on a debt security;

impair your right to sue for payment;

adversely affect any right to convert or exchange a debt security in accordance with its terms;

modify the subordination provisions in the indenture in a manner that is adverse to holders of the debt securities;

- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;
- modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and
- change any obligation we have to pay additional amounts.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

Changes Requiring Majority Approval

Any other change to the indenture and the debt securities would require the following approval:

- If the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series.
- If the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under " Changes Requiring Your Approval".

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

- For original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default.
- For debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement.
- For debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Defeasance Full Defeasance".

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We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

DEFEASANCE

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

Covenant Defeasance

Under current United States federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called "covenant defeasance". In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions described under "Indenture Provisions Subordination" below. In order to achieve covenant defeasance, we must do the following:

- If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

- We must deliver to the trustee a legal opinion of our counsel confirming that, under current United States federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Full Defeasance

If there is a change in United States federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

- If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

- We must deliver to the trustee a legal opinion confirming that there has been a change in current United States federal tax law or an Internal Revenue Service ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity. Under current United States federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit.

- We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under "Indenture Provisions Subordination".

FORM, EXCHANGE AND TRANSFER OF CERTIFICATED REGISTERED SECURITIES

Holders may exchange their certificated securities, if any, for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities, if any, at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, if any, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

RESIGNATION OF TRUSTEE

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

INDENTURE PROVISIONS SUBORDINATION

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness, but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution must be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

- our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities, and

- renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness outstanding as of a recent date.

THE TRUSTEE UNDER THE INDENTURE

U.S. Bank National Association will serve as the trustee under the indenture.

CERTAIN CONSIDERATIONS RELATING TO FOREIGN CURRENCIES

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

BOOK-ENTRY DEBT SECURITIES

DTC will act as securities depository for the debt securities. The debt securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the debt securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC").

DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of debt securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the debt securities on DTC's records. The ownership interest of each actual purchaser of each security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or

Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the debt securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in debt securities, except in the event that use of the book-entry system for the debt securities is discontinued.

To facilitate subsequent transfers, all debt securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of debt securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the debt securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such debt securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the debt securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the debt securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the debt securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the debt securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from us or the trustee on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the trustee, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the trustee, but disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the debt securities at any time by giving reasonable notice to us or to the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

REGULATION

We have elected to be regulated as a BDC under the Investment Company Act and have elected to be treated as a RIC under Subchapter M of the Code. As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. The Investment Company Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and certain affiliates of those affiliates or underwriters. Among other things, we cannot invest in any portfolio company in which any of the funds managed by Ares currently has an investment (although we may co-invest on a concurrent basis with other funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC and we have currently determined not to pursue obtaining such an order. The Investment Company Act also requires that a majority of the directors be persons other than "interested persons," as that term is defined in the Investment Company Act. In addition, the Investment Company Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless that change is approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the Investment Company Act as the lesser of: (i) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy or (ii) more than 50% of the outstanding shares of such company.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. We may change each of the foregoing policies without stockholder approval.

QUALIFYING ASSETS

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) below. Thus, under the Investment Company Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the Investment Company Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions):

(A) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the Investment Company Act as any issuer which:

(i) is organized under the laws of, and has its principal place of business in, the United States;

(ii) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the Investment Company Act; and

(iii) does not have any class of securities listed on a national securities exchange.

(B) is a company that meets the requirements of (A)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if:

(i) at the time of the purchase, we own at least 50% of the (a) greatest number of equity securities of such issuer and securities convertible into or exchangeable for such securities; and (b) the greatest amount of debt securities of such issuer, held by us at any point in time during the period when such issuer was an eligible portfolio company; and

(ii) we are one of the 20 largest holders of record of such issuer's outstanding voting securities.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

MANAGERIAL ASSISTANCE TO PORTFOLIO COMPANIES

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above under "Qualifying Assets," the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if the offer is accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

TEMPORARY INVESTMENTS

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary

investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

INDEBTEDNESS AND SENIOR SECURITIES

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors Risks Relating to our Business Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital."

CODE OF ETHICS

We and Ares Capital Management have each adopted a code of ethics pursuant to Rule 17j-1 under the Investment Company Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics is filed as an exhibit to our registration statement of which this prospectus is a part. For information on how to obtain a copy of the code of ethics, see "Available Information."

PROXY VOTING POLICIES AND PROCEDURES

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In most cases, Ares Capital invests in securities that do not generally entitle it to voting rights in its portfolio companies. When Ares Capital does have voting rights, it delegates the exercise of such rights to Ares Capital Management. Ares Capital Management's proxy voting policies and procedures are summarized below:

In determining how to vote, officers of our investment adviser consults with each other and other investment professionals of Ares, taking into account the interests of Ares Capital and its investors as well as any potential conflicts of interest. Our investment adviser consults with legal counsel to identify potential conflicts of interest. Where a potential conflict of interest exists, our investment adviser may, if it so elects, resolve it by following the recommendation of a disinterested third party, by seeking the direction of the independent directors of Ares Capital or, in extreme cases, by abstaining from voting. While our investment adviser may retain an outside service to provide voting recommendations and to assist in analyzing votes, our investment adviser will not delegate its voting authority to any third party.

An officer of Ares Capital Management keeps a written record of how all such proxies are voted. Our investment adviser retains records of (1) proxy voting policies and procedures, (2) all proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof), (3) all votes cast, (4) investor requests for voting information, and (5) any specific documents prepared or received in connection with a decision on a proxy vote. If it uses an outside service, our investment adviser may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

Our investment adviser's proxy voting policies are not exhaustive and are designed to be responsive to the wide range of issues that may be subject to a proxy vote. In general, our investment adviser votes our proxies in accordance with these guidelines unless: (1) it has determined otherwise due to the specific and unusual facts and circumstances with respect to a particular vote, (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) we find it necessary to vote contrary to our general guidelines to maximize stockholder value or the best interests of Ares Capital. In reviewing proxy issues, our investment adviser generally uses the following guidelines:

Elections of Directors: In general, our investment adviser will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on a portfolio company's board of directors, or our investment adviser determines that there are other compelling reasons for withholding our vote, it will determine the appropriate vote on the matter. We may withhold votes for directors that fail to act on key issues, such as failure to: (1) implement proposals to declassify a board, (2) implement a majority vote requirement, (3) submit a rights plan to a stockholder vote or (4) act on tender offers where a majority of stockholders have tendered their shares. Finally, our investment adviser may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

Appointment of Auditors: We believe that a portfolio company remains in the best position to choose its independent auditors and our investment adviser will generally support management's recommendation in this regard.

Changes in Capital Structure: Changes in a portfolio company's charter or bylaws may be required by state or federal regulation. In general, our investment adviser will cast our votes in accordance with the management on such proposals. However, our investment adviser will consider carefully any proposal regarding a change in corporate structure that is not required by state or federal regulation.

Corporate Restructurings, Mergers and Acquisitions: We believe proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, our investment adviser will analyze such proposals on a case-by-case basis and vote in accordance with its perception of our interests.

Proposals Affecting Stockholder Rights: We will generally vote in favor of proposals that give stockholders a greater voice in the affairs of a portfolio company and oppose any measure that seeks to limit such rights. However, when analyzing such proposals, our investment adviser will balance the financial impact of the proposal against any impairment of stockholder rights as well as of our investment in the portfolio company.

Corporate Governance: We recognize the importance of good corporate governance. Accordingly, our investment adviser will generally favor proposals that promote transparency and accountability within a portfolio company.

Anti-Takeover Measures: Our investment adviser will evaluate, on a case-by-case basis, any proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

Stock Splits: Our investment adviser will generally vote with management on stock split matters.

Limited Liability of Directors: Our investment adviser will generally vote with management on matters that could adversely affect the limited liability of directors.

Social and Corporate Responsibility: Our investment adviser will review proposals related to social, political and environmental issues to determine whether they may adversely affect stockholder value. Our investment adviser may abstain from voting on such proposals where they do not have a readily determinable financial impact on stockholder value.

Stockholders may obtain information regarding how we voted proxies with respect to our portfolio securities free of charge by making a written request for proxy voting information to: Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

PRIVACY PRINCIPLES

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our stockholders to employees of our investment adviser and its affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

OTHER

We will be periodically examined by the SEC for compliance with the Investment Company Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to Ares Capital or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Compliance with the Sarbanes-Oxley Act of 2002 and The NASDAQ Global Select Market Corporate Governance Regulations

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. The Sarbanes-Oxley Act has required us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

In addition, The NASDAQ Global Select Market has adopted various corporate governance requirements as part of its listing standards. We believe we are in compliance with such corporate governance listing standards. We will continue to monitor our compliance with all future listing standards and will take actions necessary to ensure that we are in compliance therewith.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Our securities are held under a custody agreement by U.S. Bank National Association. The address of the custodian is Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110. Computershare Investor Services, LLC will act as our transfer agent, dividend paying agent and registrar. The principal business address of Computershare is 2 N. LaSalle Street Chicago, IL 60602, telephone number: (312) 588-4993.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we will generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use brokers in the normal course of our business. Subject to policies established by our board of directors, the investment adviser will be primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. The investment adviser does not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for Ares Capital, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While the investment adviser generally will seek reasonably competitive trade execution costs, Ares Capital will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the investment adviser may select a broker based partly upon brokerage or research services provided to the investment adviser and Ares Capital and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the investment adviser determines in good faith that such commission is reasonable in relation to the services provided.

PLAN OF DISTRIBUTION

We may offer, from time to time, up to $600,000,000 of our common stock, preferred stock, subscription rights to purchase shares of our common stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, in one or more offerings. We may sell the securities through underwriters or dealers, directly to one or more purchasers, including existing stockholders in a rights offering, through agents or through a combination of any such methods of sale. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our common stock, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders, or (iii) under such circumstances as the SEC may permit.

In connection with the sale of the securities, underwriters or agents may receive compensation from us or from purchasers of the securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell the securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of the securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement. The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority or independent broker-dealer will not be greater than 8% for the sale of any securities being registered.

Any securities sold pursuant to a prospectus supplement may be traded on The NASDAQ Global Select Market, or another exchange on which the securities are traded.

Under agreements that we may enter, underwriters, dealers and agents who participate in the distribution of shares of our securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase shares of our securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority or independent broker-dealer will not be greater than 8% for the sale of any securities being registered under this registration statement.

In order to comply with the securities laws of certain states, if applicable, our securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

LEGAL MATTERS

The legality of the securities offered hereby will be passed upon for Ares Capital by Proskauer Rose LLP, New York, New York, Sutherland Asbill & Brennan LLP, Washington, D.C. and Venable LLP, Baltimore, Maryland. Certain legal matters in connection with the offering will be passed upon for the underwriters, if any, by the counsel named in the prospectus supplement.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP, located at 355 South Grand Avenue, Los Angeles, California 90071, is the independent registered public accounting firm of Ares Capital.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act of 1933, with respect to the securities offered by this prospectus. The registration statement contains additional information about us and the securities being offered by this prospectus.

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us collect at (310) 201-4200 or on our website at *www.arescapitalcorp.com.* You also may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at *www.sec.gov*. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549-0102.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Ares Capital Corporation:

We have audited the accompanying consolidated balance sheets of Ares Capital Corporation (and subsidiaries) (the Company) as of December 31, 2007 and 2006, including the consolidated schedule of investments as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal controls over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ares Capital Corporation (and subsidiaries) as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Ares Capital Corporation (and subsidiaries) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

Los Angeles, CA
February 25, 2008

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of	
	December 31, 2007	**December 31, 2006**
ASSETS		
Investments at fair value (amortized cost of $1,795,620,922 and $1,245,758,040, respectively)		
Non-control/non-affiliate investments	$ 1,167,200,429	$ 991,529,464
Non-controlled affiliate company investments	430,370,575	244,292,372
Controlled affiliate company investments	176,630,837	
Total investments at fair value	1,774,201,841	1,235,821,836
Cash and cash equivalents	21,142,004	91,538,878
Receivable for open trades	1,342,588	1,026,053
Interest receivable	23,730,490	10,121,104
Other assets	8,987,814	9,483,083
Total assets	$ 1,829,404,737	$ 1,347,990,954
LIABILITIES		
Debt	$ 681,528,056	$ 482,000,000
Payable for open trades		60,000,000
Accounts payable and other liabilities	5,516,257	2,027,948
Management and incentive fees payable	13,041,060	12,485,016
Interest and facility fees payable	4,769,441	2,044,586
Total liabilities	$ 704,854,814	$ 558,557,550
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY		
Common stock, par value $.001 per share, 100,000,000 common shares authorized, 72,684,090 and 52,036,527 common shares issued and outstanding, respectively	72,683	52,037
Capital in excess of par value	1,136,598,754	785,192,573
Accumulated undistributed net investment income	7,004,815	7,038,469
Accumulated net realized gain on sale of investments	1,470,951	7,086,529
Net unrealized (depreciation) appreciation on investments	(20,597,280)	(9,936,204)
Total stockholders' equity	1,124,549,923	789,433,404
Total liabilities and stockholders' equity	$ 1,829,404,737	$ 1,347,990,954
NET ASSETS PER SHARE	$ 15.47	$ 15.17

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
INVESTMENT INCOME:			
From non-control/non-affiliated company investments:			
Interest from investments	$ 135,144,798	$ 85,641,997	$ 30,360,311
Capital structuring service fees	12,473,580	14,633,691	3,314,440
Interest from cash & cash equivalents	2,946,386	2,419,540	1,457,830
Dividend income	1,880,286	2,227,843	744,818
Other income	1,054,494	553,020	256,467
Total investment income from non-control/non-affiliated company investments	153,499,544	105,476,091	36,133,866
From non-control affiliated company investments:			
Interest from investments	21,412,632	11,229,734	3,605,200
Capital structuring service fees	2,635,000	1,383,810	1,921,250
Dividend income	1,223,564		
Other income	1,131,466	230,207	190,161
Total investment income from non-control affiliated company investments	26,402,662	12,843,751	5,716,611
From control affiliated company investments:			
Interest from investments	5,875,375	1,458,918	
Capital structuring service fees	2,899,231		
Dividend income	121,074	242,148	
Other income	75,342		
Total investment income from control affiliated company investments	8,971,022	1,701,066	
Total investment income	188,873,228	120,020,908	41,850,477
EXPENSES:			
Interest and credit facility fees	36,888,872	18,583,815	1,528,060
Base management fees	23,530,805	13,645,724	5,147,492
Incentive management fees	23,521,695	19,516,393	4,202,078
Professional fees	4,907,165	3,016,217	1,398,125
Insurance	1,081,199	866,218	630,513
Administrative	997,470	953,400	888,081
Depreciation	410,328	258,563	
Directors fees	280,000	250,169	309,536
Interest to the Investment Adviser		25,879	154,078
Other	3,133,083	1,341,637	310,714
Total expenses	94,750,617	58,458,015	14,568,677
NET INVESTMENT INCOME BEFORE INCOME TAXES	94,122,611	61,562,893	27,281,800
Income tax expense, including excise tax	(826,437)	4,931,288	158,000
NET INVESTMENT INCOME	94,949,048	56,631,605	27,123,800

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
REALIZED AND UNREALIZED NET GAINS ON INVESTMENTS AND FOREIGN CURRENCIES:			
Net realized gains (losses):			
Non-control/non-affiliate company investments	2,753,857	27,569,148	10,345,991
Non-control affiliated company investments		47,283	(4,278)
Control affiliated company investment	3,808,759		
Foreign currency transactions	(18,124)		
Net realized gains	6,544,492	27,616,431	10,341,713
Net unrealized gains (losses):			
Non-control/non-affiliate company investments	(3,387,618)	(15,554,499)	7,814,761
Non-control affiliated company investments	(34,497,635)	1,001,785	(3,429,198)
Control affiliated company investments	27,231,176		
Foreign currency transactions	(6,999)		
Net unrealized gains (losses)	(10,661,076)	(14,552,714)	4,385,563
Net realized and unrealized gains (losses) from investments and foreign currencies	(4,116,584)	13,063,717	14,727,276
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 90,832,464	$ 69,695,322	$ 41,851,076
BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 4)	$ 1.37	$ 1.61	$ 1.78
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING (see Note 4)	66,410,968	43,156,462	23,487,935

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of December 31, 2007

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Healthcare Services								
American Renal Associates, Inc.	Dialysis provider	Senior secured loan ($2,131,147 par due 12/2010)	8.36% (Libor + 3.25%/S)	12/14/05	$ 2,131,147	$ 2,131,147	$ 1.00(3)	
		Senior secured loan ($16,393 par due 12/2011)	8.45% (Libor + 3.25%/Q)	12/14/05	16,393	16,393	$ 1.00(3)	
		Senior secured loan ($196,721 par due 12/2010)	9.00% (Base Rate + 1.75%/D)	12/14/05	196,721	196,721	$ 1.00(3)	
		Senior secured loan ($5,770,491 par due 12/2011)	8.36% (Libor + 3.25%/S)	12/14/05	5,770,491	5,770,491	$ 1.00(3)	
		Senior secured loan ($27,868 par due 12/2011)	9.00% (Base Rate + 1.75%/D)	12/14/05	27,868	27,868	$ 1.00(3)	
		Senior secured loan ($261,997 par due 12/2011)	8.36% (Libor + 3.25%/S)	12/14/05	261,997	261,997	$ 1.00(3)	
		Senior secured loan ($2,619,971 par due 12/2011)	8.48% (Libor + 3.25% /Q)	12/14/05	2,619,971	2,619,971	$ 1.00(3)	
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan ($19,000,000 par due 11/2013)	10.34% (Libor + 5.50%/Q)	12/1/05	19,000,000	19,000,000	$ 1.00	
		Junior secured loan ($30,000,000 par due 11/2013)	10.34% (Libor + 5.50%/Q)	12/1/05	30,000,000	30,000,000	$ 1.00(2)	
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Healthcare information management services	Senior secured revolving loan ($810,000 par due 3/2012)	10.38% (Libor + 5.00%/Q)	6/15/07	810,000	810,000	$ 1.00	
		Senior secured revolving loan ($810,000 par due 3/2012)	10.25% (Libor + 5.00%/M)	6/15/07	810,000	810,000	$ 1.00	
		Senior secured revolving loan ($810,000 par due 3/2012)	10.15% (Libor + 5.00%/Q)	6/15/07	810,000	810,000	$ 1.00	
		Senior secured loan ($13,000,000 par due 3/2012)	10.38% (Libor + 5.00%/S)	6/15/07	13,000,000	13,000,000	$ 1.00	
		Senior secured loan ($4,000,000 par due 3/2012)	10.38% (Libor + 5.00%/S)	6/15/07	4,000,000	4,000,000	$ 1.00(3)	
		Senior secured loan ($6,500,000 par due 3/2012)	10.25% (Libor + 5.00%/M)	6/15/07	6,500,000	6,500,000	$ 1.00	
		Senior secured loan ($2,000,000 par due 3/2012)	10.25% (Libor + 5.00%/M)	6/15/07	2,000,000	2,000,000	$ 1.00(3)	
		Senior secured loan ($19,500,000 par due 3/2012)	10.15% (Libor + 5.00%/Q)	6/15/07	19,500,000	19,500,000	$ 1.00	
		Senior secured loan ($6,000,000 par due 3/2012)	10.15% (Libor + 5.00%/Q)	6/15/07	6,000,000	6,000,000	$ 1.00(3)	

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Preferred stock (6,000 shares)		6/15/07	6,000,000	6,000,000	$ 1,000.00(5)	

		Common stock (9,679 shares)		6/15/07	4,000,000	4,000,003	$ 413.27(5)	
		Common stock (1,546 shares)		6/15/07			$ (5)	
DSI Renal, Inc.	Dialysis provider	Senior subordinated note ($53,932,626 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	53,955,881	53,932,626	$ 1.00(4)	
		Senior subordinated note ($11,575,864 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	11,576,507	11,576,507	$ 1.00(4)(3)	
		Senior secured revolving loan ($3,360,000 par due 3/2013)	10.25% (Base Rate + 3.00%/D)	4/4/06	3,360,000	3,024,000	$ 0.90	
		Senior secured revolving loan ($1,600,000 par due 3/2013)	8.19% (Libor + 3.00%/Q)	4/4/06	1,600,000	1,440,000	$ 0.90	
		Senior secured revolving loan ($1,440,000 par due 3/2013)	8.13% (Libor + 3.00%/Q)	4/4/06	1,440,000	1,296,000	$ 0.90	
GG Merger Sub I, Inc.	Drug testing services	Senior secured loan ($23,330,000 par due 12/2014)	9.00% (Libor + 4.00%/S)	12/14/07	22,286,455	23,330,000	$ 1.00	
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Junior secured loan ($20,000,000 par due 1/2014)	11.53% (Libor + 6.25%/Q)	1/31/07	20,000,000	15,000,000	$ 0.75	
		Junior secured loan ($12,000,000 par due 1/2014)	11.53% (Libor + 6.25%/Q)	1/31/07	12,000,000	9,000,000	$ 0.75(3)	
		Common stock (50,000 shares)		1/31/07	5,000,000	2,500,000	$ 50.00(5)	
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan ($5,000,000 par due 5/2012)	11.57% (Libor + 6.25%/Q)	5/3/07	5,000,000	5,000,000	$ 1.00	
OnCURE Medical Corp.	Radiation oncology care provider	Senior subordinated note ($26,055,119 par due 8/2013)	11.00% Cash, 1.50% PIK	8/18/06	26,056,205	26,056,205	$ 1.00(4)	
		Common stock (857,143 shares)		8/18/06	3,000,000	3,000,000	$ 3.50(5)	
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated note ($15,090,532 par due 12/2012)	12.00% cash, 1.75% PIK	12/21/05	15,090,532	15,090,532	$ 1.00(4)	
		Senior secured loan ($6,860,000 par due 12/2011)	8.08% (Libor + 3.25%/Q)	12/21/05	6,860,000	6,174,000	$ 0.90	
		Senior secured loan ($2,940,000 par due 12/2011)	8.08% (Libor + 3.25%/Q)	12/21/05	2,940,000	2,646,000	$ 0.90(3)	
					313,620,168	302,520,461		26.85%
Financial								
Abingdon Investments Limited(6)(8)(9)	Investment company	Ordinary shares (948,500 shares)		12/15/06	9,032,978	7,745,166	$ 8.17(5)	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($64,926,583 par due 12/2016)	10.00% PIK	12/31/06	64,944,323	64,944,323	$ 1.00(4)	
		Common stock (10,000 shares)		12/31/06	10,000,000	7,500,000	$ 750.00(5)	

	Common stock (30,000 shares)	12/31/06	30,000,000	22,500,000	$ 750.00(5)

Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)	Investment company	Class B deferrable interest notes ($40,000,000 par due 11/2018)	11.00% (Libor + 6.00%/Q)	11/20/07	40,000,000	40,000,000	$ 1.00	
		Subordinated notes (16,000,000 par due 11/2018)		11/20/07	16,000,000	16,000,000	$ 1.00(5)	
Imperial Capital Group, LLC(6)(9)	Investment banking services	Common units (7,710 units)		5/10/07	14,997,159	14,997,160	$ 1,945.16(5)	
		Common units (2,526 units)		5/10/07	2,526	2,526	$ 1.00(5)	
		Common units (315 units)		5/10/07	315	315	$ 1.00(5)	
Partnership Capital Growth Fund I, L.P.(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/06	1,317,082	1,317,082	(5)	
					186,294,383	175,006,572		15.53%
Business Services								
Investor Group Services, LLC(16)	Financial services	Senior secured loan ($1,000,000 par due 6/2011)	12.00%	6/22/06	1,000,000	1,000,000	$ 1.00(3)	
		Limited liability company membership interest (10.00% interest)		6/22/06			$ (5)	
Miller Heiman, Inc.	Sales consulting services	Senior secured loan ($1,427,901 par due 6/2010)	8.31% (Libor + 3.25%/Q)	6/20/05	1,427,901	1,427,901	$ 1.00(3)	
		Senior secured loan ($3,976,803 par due 6/2012)	8.58% (Libor + 3.75%/Q)	6/20/05	3,976,803	3,976,803	$ 1.00(3)	
Pillar Holdings LLC and PHL Holding Co.(6)	Mortgage services	Senior secured revolving loan ($500,000 par due 11/2013)	10.37% (Libor + 5.50%/M)	11/20/07	500,000	500,000	$ 1.00	
		Senior secured loan ($55,000,000 par due 11/2013)	10.33% (Libor + 5.50%/Q)	11/20/07	55,000,000	55,000,000	$ 1.00	
		Common stock (97 shares)		11/20/07	4,000,000	4,000,000	$ 41,420.73(5)	
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated note ($10,222,345 par due 2/2013)	11.00% Cash, 2.50% PIK	8/24/06	10,222,345	8,586,770	$ 0.84(2)(4)	
		Preferred units (4,000 units)		8/24/06	3,600,000		$ (5)	
		Common units (4,000,000 units)		8/24/06	400,000		$ (5)	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)	Bankruptcy and foreclosure processing services	Senior subordinated note ($21,557,336 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/07	21,557,336	21,557,337	$ 1.00(4)	

Senior subordinated note ($29,522,650 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/07	29,522,650	29,522,650	$	1.00(2)(4)
Preferred stock (30,000 shares)		4/11/06	3,000,000	4,500,000	$	150.00(5)

R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/07	250,000	250,000	$ 1.00(5)	
Summit Business Media, LLC	Business media consulting services	Junior secured loan ($10,000,000 par due 11/2013)	11.85% (Libor + 7.00%/M)	8/3/07	10,000,000	10,000,000	$ 1.00(3)	
VSS-Tranzact Holdings, LLC(6)	Management Consulting Services	Common membership interest (8.51% interest)		10/26/07	10,000,000	10,000,000	(5)	
					154,457,035	150,321,461		13.34%
Printing, Publishing and Media								
Canon Communications LLC	Print publications services	Junior secured loan ($7,525,000 par due 11/2011)	11.60% (Libor + 6.75%/M)	5/25/05	7,525,000	7,525,000	$ 1.00	
		Junior secured loan ($4,250,000 par due 11/2011)	11.60% (Libor + 6.75%/M)	5/25/05	4,250,000	4,250,000	$ 1.00(2)	
		Junior secured loan ($12,000,000 par due 11/2011)	11.60% (Libor + 6.75%/M)	5/25/05	12,000,000	12,000,000	$ 1.00(3)	
Courtside Acquisition Corp.	Community newspaper publisher	Senior subordinated loan ($32,279,694 par due 6/2014)	15.00% PIK	6/29/07	32,279,694	32,279,694	$ 1.00(4)	
Daily Candy, Inc.(6)	Internet publication provider	Senior secured loan ($497,406 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	573,096	497,406	$ 1.00	
		Senior secured loan ($11,629,133 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	13,398,727	11,629,133	$ 1.00(3)	
		Senior secured loan ($4,520 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	5,208	4,520	$ 1.00	
		Senior secured loan ($105,674 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	121,754	105,674	$ 1.00(3)	
		Senior secured loan ($2,836 par due 5/2009)	9.84% (Libor + 5.00%/Q)	5/25/06	3,268	2,836	$ 1.00	
		Senior secured loan ($66,298 par due 5/2009)	9.84% (Libor + 5.00%/Q)	5/25/06	76,387	66,298	$ 1.00(3)	
		Common stock (1,250,000 shares)		5/25/06	2,375,000	4,085,000	$ 3.27(5)	
		Warrants to purchase 1,381,578 shares		5/25/06	2,624,998	4,514,997	$ 3.27(5)	
LVCG Holdings LLC(7)	Commercial printer	Membership interest (56.53% interest)		10/12/07	6,600,000	6,600,000	$ 100.00(5)	
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($834,692 par due 3/2012)	9.75% (Base Rate + 2.50%/D)	3/2/06	834,692	834,692	$ 1.00	
		Senior secured revolving loan ($1,369,565 par due 3/2012)	8.75% (Libor + 3.50%/M)	3/2/06	1,369,565	1,369,565	$ 1.00	
		Senior secured loan ($4,774,539 par due 3/2012)	8.33% (Libor + 3.50%/Q)	3/2/06	4,774,539	4,774,539	$ 1.00(3)	
		Senior secured loan ($5,110,685 par due 3/2012)	8.58% (Libor + 3.50%/Q)	3/2/06	5,110,685	5,110,685	$ 1.00(3)	
		Senior secured loan ($406,132 par due	12.09% (Libor +	3/2/06	406,132	406,132	$ 1.00(3)	

8/2012)	7.00%/B)					
Senior secured loan ($349,802 par due 8/2012)	11.96% (Libor + 7.00%/Q)	3/2/06	349,802	349,802	$	1.00(3)

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		Preferred stock (9,344 shares)		3/2/06	2,000,000	2,000,000	$	214.04(5)	
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(11)	Education publications provider	Senior secured loan ($28,000,000 par due 9/2012)	10.50%	9/29/06	28,000,000	28,000,000	$	1.00	
		Preferred stock (29,969 shares)		9/29/06	2,996,921	3,995,924	$	133.33(5)	
		Common stock (15,393 shares)		9/29/06	3,079	4,105	$	0.27(5)	
					127,678,547	130,406,002			11.57%
Education									
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($2,707,304 par due 11/2012)	9.18% (Libor + 3.75%/Q)	11/30/06	2,707,304	2,707,304	$	1.00	
		Senior secured loan ($354,578 par due 11/2012)	9.18% (Libor + 3.75%/Q)	11/30/06	354,578	354,578	$	1.00(3)	
		Junior secured loan ($8,333,333 par due 11/2013)	12.11% (Libor + 7.00%/Q)	11/30/06	8,333,333	8,333,333	$	1.00(3)	
Equinox EIC Partners, LLC and MUA Management Company, Ltd.(1)(7)	Medical school operator	Senior secured revolving loan ($3,000,000 par due 12/2012)	11.36% (Libor + 6.00%/Q)	4/3/07	3,000,000	3,000,000	$	1.00	
		Senior secured revolving loan ($3,138,503 par due 12/2012)	12.75% (Base Rate + 5.00%/D)	4/3/07	3,138,503	3,138,503	$	1.00	
		Senior secured revolving loan ($2,000,000 par due 12/2012)	12.75% (Base Rate + 5.00%/D)	4/3/07	2,000,000	2,000,000	$	1.00	
		Senior secured revolving loan ($2,000,000 par due 12/2012)	11.24% (Libor + 6.00%/Q)	4/3/07	2,000,000	2,000,000	$	1.00	
		Senior secured loan ($5,474,738 par due 12/2012)	10.86% (Libor + 6.00%/Q)	4/3/07	5,474,738	5,474,738	$	1.00	
		Senior secured loan ($14,112,565 par due 12/2012)	11.11% (Libor + 6.00%/Q)	9/21/07	14,112,565	14,112,565	$	1.00	
		Senior secured loan ($7,450,000 par due 12/2012)	11.21% (Libor + 6.00%/Q)	4/3/07	7,450,000	7,450,000	$	1.00(3)	
		Common membership interest (26.27% interest)		9/21/07	15,000,000	15,000,000		(5)	
Instituto de Banca y Comercio, Inc.(8)	Private school operator	Senior secured revolving loan ($1,125,000 par due 3/2014)	8.10% (Libor + 3.00%/M)	3/15/07	1,125,000	1,125,000	$	1.00	
		Senior secured loan ($12,377,500 par due 3/2014)	9.96% (Libor + 5.00%/Q)	3/15/07	12,377,500	12,377,500	$	1.00	
		Senior secured loan ($11,940,000 par due 3/2014)	9.96% (Libor + 5.00%/Q)	3/15/07	11,940,000	11,940,000	$	1.00(3)	
Lakeland Finance, LLC	Private school operator	Senior secured note ($18,000,000 par due 12/2012)	11.50%	12/13/05	18,000,000	18,000,000	$	1.00	
		Senior secured note ($15,000,000 par due 12/2012)	11.50%	12/13/05	15,000,000	15,000,000	$	1.00(2)	

	122,013,521	122,013,521	10.83%

Retail								
Apogee Retail, LLC	For-profit thrift retailer	Senior secured loan ($9,373,422 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	9,373,422	9,373,422	$ 1.00	
		Senior secured loan ($19,850,000 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	19,850,000	19,850,000	$ 1.00(2)	
		Senior secured loan ($11,910,000 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	11,910,000	11,910,000	$ 1.00(3)	
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated note ($28,281,392 par due 8/2014)	10.00% cash, 2.00% PIK	8/8/06	28,281,392	28,281,392	$ 1.00(2)(4)	
		Common stock (1,170,182 shares)		8/8/06	4,500,000	4,500,000	$ 3.85(5)	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($4,632,000 par due 9/2012)	9.95% (Libor + 4.75%/M)	9/28/06	4,632,000	4,632,000	$ 1.00(3)	
		Senior secured loan ($120,000 par due 9/2012)	11.00% (Base Rate + 3.75%/D)	9/28/06	120,000	120,000	$ 1.00(3)	
		Senior secured loan ($14,000,000 par due 9/2012)	11.20% (Libor + 6.00%/M)	9/28/06	14,000,000	14,000,000	$ 1.00(2)	
		Senior secured loan ($14,000,000 par due 9/2012)	11.20% (Libor + 6.00%/M)	9/28/06	14,000,000	14,000,000	$ 1.00	
		Senior secured loan ($7,200,000 par due 9/2012)	11.20% (Libor + 6.00%/M)	9/28/06	7,200,000	7,200,000	$ 1.00(3)	
		Preferred stock (80 shares)		9/28/06	1,800,000	1,800,000	$ 22,500.00(5)	
		Common stock (800 shares)		9/28/06	200,000	200,000	$ 250.00(5)	
					115,866,814	115,866,814		10.28%
Beverage, Food and Tobacco								
3091779 Nova Scotia Inc.(12)	Baked goods manufacturer	Junior secured loan (Cdn$14,000,000 par due 11/2012)	11.50%	11/2/07	14,849,800	14,021,000	$ 1.00(12)	
		Warrants to purchase 57,545 shares					$ (5)	
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior secured revolving loan ($1,846,000 par due 10/2013)	10.93% (Libor + 6.00%/M)	10/5/07	1,846,000	1,846,000	$ 1.00	
		Senior secured revolving loan ($1,000,000 par due 10/2013)	10.93% (Libor + 6.00%/M)	10/5/07	1,000,000	1,000,000	$ 1.00	
		Senior secured loan ($33,915,000 par due 10/2013)	10.93% (Libor + 6.00%/M)	10/5/07	33,915,000	33,915,000	$ 1.00	
		Senior secured loan ($11,970,000 par due 10/2013)	10.93% (Libor + 6.00%/M)	10/5/07	11,970,000	11,970,000	$ 1.00(3)	
		Senior units (50,000 units)		10/5/07	5,000,000	5,000,000	$ 100.00(5)	
					110,364,575	109,535,773		9.72%
Best Brands Corporation	Baked goods manufacturer	Junior secured loan ($27,1154610 par due	17.23% (Libor +	12/14/06	27,115,462	27,115,461	$ 1.02(2)	

6/2013)	12.00%/Q)

		Junior secured loan ($12,168,314 par due 6/2013)	17.23% (Libor + 12.00%/Q)	12/14/06	12,168,313	12,168,314	$	1.02(3)
Charter Baking Company, Inc.	Baked goods manufacturer	Preferred stock (6,258 shares)		9/1/06	2,500,000	2,499,998	$	399.49(5)
Services Other								
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Junior secured loan ($20,101,111 par due 4/2015)	10.00% Cash, 2.00% PIK	4/17/07	20,101,111	20,101,111	$	1.00(4)
Diversified Collection Services, Inc.	Collections services	Senior secured loan ($874,419 par due 8/2011)	10.60% (Libor + 5.75%/M)	2/2/05	769,489	760,744	$	0.87
		Senior secured loan ($4,896,743 par due 8/2011)	10.60% (Libor + 5.75%/M)	2/2/05	4,896,743	4,260,167	$	0.87(3)
		Senior secured loan ($1,742,026 par due 2/2011)	13.35% (Libor + 8.50%/M)	2/2/05	1,742,026	1,358,781	$	0.78(2)
		Senior secured loan ($6,757,973 par due 8/2011)	13.35% (Libor + 8.50%/M)	2/2/05	6,757,974	5,271,219	$	0.78(3)
		Preferred stock (14,927 shares)		5/18/06	169,123		$	(5)
		Common stock (114,004 shares)		2/2/05	295,270		$	(5)
GCA Services Group, Inc.	Custodial services	Senior secured loan ($30,000,000 par due 12/2011)	12.00%	12/15/06	30,000,000	30,000,000	$	1.00(2)
		Senior secured loan ($12,000,000 par due 12/2011)	12.00%	12/15/06	12,000,000	12,000,000	$	1.00(3)
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured revolving loan ($500,000 par due 8/2011)	8.02% (Libor + 3.00%/Q)	3/16/07	500,000	480,000	$	0.96
		Senior secured revolving loan ($762,500 par due 8/2011)	8.26% (Libor + 3.00%/Q)	3/16/07	762,500	732,000	$	0.96
		Senior secured loan ($366,950 par due 8/2011)	8.56% (Libor + 3.50%/Q)	3/16/07	366,950	352,272	$	0.96
		Senior secured loan ($9,645,550 par due 8/2011)	8.56% (Libor + 3.50%/Q)	3/16/07	9,645,550	9,259,728	$	0.96(3)
		Senior secured loan ($70,550 par due 8/2011)	8.47% (Libor + 3.50%/Q)	3/16/07	70,550	67,728	$	0.96
		Senior secured loan ($1,854,450 par due 8/2011)	8.47% (Libor + 3.50%/Q)	3/16/07	1,854,450	1,780,272	$	0.96(3)
		Senior secured loan ($3,575,000 par due 8/2011)	10.97% (Libor + 6.00%/Q)	3/16/07	3,576,309	3,147,309	$	0.88
		Senior secured loan ($52,063 par due 8/2011)	10.97% (Libor + 6.00%/Q)	3/16/07	52,082	45,834	$	0.88
		Common stock (552,430 shares)		3/16/07	872,286	90,002	$	0.16(5)
NPA Acquisition, LLC	Powersport vehicle auction operator	Junior secured loan ($12,000,000 par due 2/2013)	12.50% (Base Rate + 5.25%/D)	8/23/06	12,000,000	12,000,000	$	1.00(3)
				8/23/06	1,000,000	1,500,000	$	877.71(5)

Common units (1,709 units)			
	107,432,413	103,207,167	9.16%

Consumer Products Non-Durable									
Badanco Enterprises, Inc.	Luggage manufacturer	Senior secured revolving loan ($2,150,000 par due 1/2012)	10.50% (Base Rate + 3.25%/D)	1/24/07	2,150,000	2,150,000	$	1.00	
		Senior secured loan ($312,500 par due 1/2012)	10.50% (Base Rate + 3.25%/D)	1/24/07	312,500	312,500	$	1.00(3)	
		Senior secured loan ($5,937,500 par due 1/2012)	9.37% (Libor + 4.50%/M)	1/24/07	5,937,500	5,937,500	$	1.00(3)	
		Senior secured loan ($4,375,000 par due 1/2012)	9.39% (Libor + 4.50%/B)	1/24/07	4,375,000	4,375,000	$	1.00(3)	
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior Secured Loan ($12,837,500 par due 9/2011)	11.13%	10/12/06	12,837,500	12,837,500	$	1.00	
		Senior Secured Loan ($11,880,000 par due 9/2011)	11.13%	10/12/06	11,880,000	11,880,000	$	1.00(3)	
Making Memories Wholesale, Inc.(6)	Scrapbooking branded products manufacturer	Senior secured loan ($7,125,000 par due 3/2011)	9.75% (Base Rate + 2.50%/D)	5/5/05	7,125,000	7,125,000	$	1.00(3)	
		Senior subordinated loan ($10,464,923 par due 5/2012)	12.00% cash, 4.00% PIK	5/5/05	10,464,923	6,802,200	$	0.65(2)(4)	
		Preferred stock (3,759 shares)		5/5/05	3,758,800		$	(5)	
Shoes for Crews, LLC	Safety footwear and slip-related mats	Senior secured revolving loan ($2,333,333 par due 7/2010)	9.25% (Base Rate + 2.00%/D)	6/16/06	2,333,333	2,333,333	$	1.00	
		Senior secured loan ($970,875 par due 7/2010)	7.72% (Libor + 3.00%/S)	10/8/04	970,875	970,875	$	1.00(3)	
		Senior secured loan ($74,683 par due 7/2010)	9.25% (Base Rate + 2.00%/D)	10/8/04	74,683	74,683	$	1.00(3)	
The Thymes, LLC(7)	Cosmetic products manufacturer	Preferred stock (7,188 shares)	8.00% PIK	6/21/07	7,188,537	7,188,536	$	1,000.02(4)	
		Common stock (6,850 shares)		6/21/07			$	(5)	
Wear Me Apparel, LLC(6)	Clothing manufacturer	Senior subordinated notes ($22,500,000 par due 4/2013)	12.60% cash, 1.00% PIK	4/2/07	22,559,191	22,559,191	$	1.00(2)(4)	
		Common stock (10,000 shares)		4/2/07	10,000,000	2,000,000	$	200.00(5)	
					101,967,842	86,546,318			7.68%
Environmental Services									
AWTP, LLC	Water treatment services	Junior secured loan ($1,608,099 par due 12/2012)	13.43% (Libor + 8.50%/Q)	12/23/05	1,612,343	1,612,343	$	1.00	
		Junior secured loan ($12,060,743 par due 12/2012)	13.43% (Libor + 8.50%/Q)	12/23/05	12,061,413	12,061,413	$	1.00(3)	
Mactec, Inc.	Engineering and environmental services	Common stock (16 shares)		11/3/04		334	$	20.78(5)	
		Common stock (5,556 shares)		11/3/04		115,444	$	20.78(5)	

Sigma International Group, Inc.	Water treatment parts manufacturer	Junior secured loan (1,833,333 par due 10/13)	12.37% (Libor + 7.50%/Q)	10/11/07	1,833,333	1,833,333	$ 1.00	
		Junior secured loan (4,000,000 par due 10/13)	12.37% (Libor + 7.50%/Q)	10/11/07	4,000,000	4,000,000	$ 1.00(3)	
		Junior secured loan (2,750,000 par due 10/13)	12.73% (Libor + 7.50/M)	11/1/07	2,750,000	2,750,000	$ 1.00	
		Junior secured loan (6,000,000 par due 10/13)	12.73% (Libor + 7.50/M)	11/1/07	6,000,000	6,000,000	$ 1.00(3)	
		Junior secured loan (916,667 par due 10/13)	12.29% (Libor + 7.50%/S)	11/6/07	916,667	916,667	$ 1.00	
		Junior secured loan (2,000,000 par due 10/13)	12.29% (Libor + 7.50%/S)	11/6/07	2,000,000	2,000,000	$ 1.00(3)	
Waste Pro USA, Inc.	Waste management services	Senior subordinated loan ($25,000,000 par due 11/2013)	11.50%	11/9/06	25,000,000	25,000,000	$ 1.00(2)	
		Preferred stock (15,000 shares)	10.00% PIK	11/9/06	15,000,000	15,000,000	$ 1,000.00(4)	
		Warrants to purchase 882,671 shares		11/9/06		3,999,999	$ 4.53(5)	
Wastequip, Inc.(6)	Waste management equipment manufacturer	Senior subordinated loan ($12,602,083 par due 2/2015)	12.00%	2/5/07	12,730,904	10,210,488	$ 0.81	
		Common stock (13,889 shares)		2/2/07	1,388,890	694,445	$ 50.00(5)	
					85,293,550	86,194,466		7.65%
Manufacturing								
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan ($5,616,000 par due 4/2010)	10.20% (Libor + 5.00%/Q)	3/28/05	5,649,721	5,616,000	$ 1.00(3)	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($10,164,115 par due 5/2011)	9.00% (Base Rate + 1.75%/D)	5/16/06	10,164,115	10,164,115	$ 1.00(3)	
		Senior secured loan ($1,522,742 par due 5/2011)	10.75% (Base Rate + 3.50%/D)	5/16/06	1,522,742	1,522,742	$ 1.00(3)	
		Senior secured loan ($4,410,683 par due 5/2011)	13.00%	5/16/06	4,422,077	4,422,077	$ 1.00	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan ($1,774,785 par due 12/2011)	9.08% (Libor + 4.25%/Q)	12/29/04	1,774,785	1,774,785	$ 1.00(3)	
		Junior secured loan ($5,000,000 par due 6/2012)	12.08% (Libor + 7.25%/Q)	12/29/04	5,000,000	5,000,000	$ 1.00(3)	
Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Common Stock (1,821,860 shares)		3/28/06	27,435,318	54,666,494	$ 30.01(5)	
Saw Mill PCG Partners LLC	Precision components	Common units (1,000 units)		2/2/07	1,000,000	400,000	$ 400.00(5)	

	manufacturer

Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (50,000 shares)		10/8/04	6,424,645	484,711	$	9.69(5)	
		Warrants to purchase 22,208 shares		10/8/04	1,505,776	215,289	$	9.69(5)	
					64,899,179	84,266,213			7.48%
Restaurants									
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan ($2,000,000 par due 11/2013)	8.88% (Libor + 3.50%/Q)	11/27/06	2,000,000	2,000,000	$	1.00	
		Senior secured revolving loan ($2,236,726 par due 11/2013)	9.75% (Base Rate + 2.50%/D)	11/27/06	2,236,726	2,236,726	$	1.00	
		Senior secured loan ($19,606,317 par due 11/2012)	13.88% (Libor + 8.50%/Q)	11/27/06	19,606,317	19,606,317	$	1.00	
		Senior secured loan ($990,000 par due 11/2012)	13.88% (Libor + 8.50%/Q)	11/27/06	990,000	990,000	$	1.00(2)	
		Senior secured loan ($14,053,683 par due 11/2012)	13.88% (Libor + 8.50%/Q)	11/27/06	14,053,683	14,053,683	$	1.00(3)	
		Promissory note ($10,713,390 par due 11/2016)	10.00% PIK	6/1/06	10,713,390	10,725,191	$	1.00(4)	
		Warrants to purchase 0.61 shares		6/1/06			$	(5)	
Encanto Restaurants, Inc.(8)	Restaurant owner and operator	Junior secured loan ($24,352,333 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	24,352,333	24,352,333	$	1.00(4)	
		Junior secured loan ($1,014,681 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	1,014,681	1,014,681	$	1.00(3)(4)	
					74,967,130	74,978,931			6.66%
Containers Packaging									
Captive Plastics, Inc.	Plastics container manufacturer	Junior secured loan ($3,500,000 par due 2/2012)	12.34% (Libor + 7.25%/Q)	12/19/05	3,500,000	3,500,000	$	1.00	
		Junior secured loan ($12,000,000 par due 2/2012)	12.34% (Libor + 7.25%/Q)	12/19/05	12,000,000	12,000,000	$	1.00(3)	
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured revolving loan ($1,858,696 par due 9/2011)	10.25% (Base Rate + 3.00%/D)	6/21/06	1,858,696	1,858,696	$	1.00	
		Senior secured revolving loan ($4,130,435 par due 9/2011)	8.93% (Libor + 4.00%/M)	6/21/06	4,130,435	4,130,435	$	1.00	
		Senior secured loan ($5,896,523 par due 9/2011)	8.93% (Libor + 4.00%/M)	9/30/05	5,896,523	5,896,523	$	1.00	
		Senior secured loan ($989,873 par due 9/2011)	8.93% (Libor + 4.00%/M)	6/21/06	989,873	989,873	$	1.00(2)	
		Senior secured loan ($15,160,594 par due 9/2011)	8.93% (Libor + 4.00%/M)	6/21/06	15,160,594	15,160,594	$	1.00(3)	
		Common stock (1,800,000 shares)		9/29/05	1,800,000	5,000,004	$	2.78(5)	

	45,336,121	48,536,125	4.31%

Aerospace & Defense									
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan ($20,000,000 par due 10/2013)	9.73% (Libor + 4.50%/M)	11/8/07	19,607,288	20,000,000	$	1.00	
ILC Industries, Inc.	Industrial products provider	Junior secured loan ($12,000,000 par due 8/2012)	11.50%	6/27/06	12,000,000	12,000,000	$	1.00(3)	
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan ($2,797,246 par due 3/2012)	10.50% (Base Rate + 3.25%/D)	3/28/05	2,797,246	2,752,490	$	0.98(3)	
		Senior secured loan ($1,182,006 par due 3/2011)	10.00% (Base Rate + 2.75%/D)	3/28/05	1,182,006	1,164,276	$	0.98(3)	
		Senior subordinated notes ($2,049,153 par due 9/2012)	11.50% cash, 2.75% PIK	3/28/05	2,068,459	2,016,523	$	0.98(4)	
		Senior subordinated notes ($3,235,328 par due 9/2012)	11.50% cash, 2.75% PIK	3/28/05	3,236,609	3,184,843	$	0.98(2)(4)	
		Senior subordinated notes ($2,613,069 par due 3/2013)	11.50% cash, 2.50% PIK	3/21/06	2,613,250	2,516,567	$	0.96(2)(4)	
		Preferred stock (71,552 shares)		3/28/05	715,520	693,482	$	9.69(5)	
		Common stock (1,460,246 shares)		3/28/05	14,602	14,164	$	0.01(5)	
					44,234,980	44,342,345			3.94%
Computers and Electronics									
RedPrairie Corporation	Software manufacturer	Junior secured loan ($6,500,000 par due 1/2013)	11.39% (Libor + 6.50%/Q)	7/13/06	6,500,000	6,500,000	$	1.00	
		Junior secured loan ($12,000,000 par due 1/2013)	11.39% (Libor + 6.50%/Q)	7/13/06	12,000,000	12,000,000	$	1.00(3)	
X-rite, Incorporated	Artwork software manufacturer	Junior secured loan ($4,800,000 par due 7/2013)	12.38% (Libor + 7.50%/Q)	7/6/06	4,800,000	4,800,000	$	1.00	
		Junior secured loan ($12,000,000 par due 7/2013)	12.38% (Libor + 7.50%/Q)	7/6/06	12,000,000	12,000,000	$	1.00(3)	
					35,300,000	35,300,000			3.13%
Health Clubs									
Athletic Club Holdings, Inc.(13)	Premier health club operator	Senior secured loan ($29,423,559 par due 10/2013)	9.63% (Libor + 4.50%/Q)	10/11/07	29,423,559	29,423,559	$	1.00	
		Senior secured loan ($4,488,339 par due 10/2013)	9.63% (Libor + 4.50%/Q)	10/11/07	4,488,339	4,488,339	$	1.00(3)	
		Senior secured loan ($50,125 par due 10/2013)	9.47% (Libor + 4.50%/Q)	10/11/07	50,125	50,125	$	1.00	
		Senior secured loan ($7,646 par due 10/2013)	9.47% (Libor + 4.50%/Q)	10/11/07	7,646	7,646	$	1.00(3)	
		Senior secured loan ($26,316 par due 10/2013)	10.75% (Libor + 3.50%/Q)	10/11/07	26,316	26,316	$	1.00	

	Senior secured loan ($4,015 par due 10/2013)	10.75% (Libor + 3.50%/Q)	10/11/07	4,015	4,015	$ 1.00(3)	
				34,000,000	34,000,000		3.02%

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Grocery								
Planet Organic Health Corp.(8)	Organic grocery store operator	Senior secured loan ($7,000,000 par due 7/2014)	10.45% (Libor + 5.50%/Q)	7/3/07	7,000,000	7,000,000	$ 1.00	
		Senior secured loan ($10,500,000 par due 7/2014)	10.45% (Libor + 5.50%/Q)	7/3/07	10,500,000	10,500,000	$ 1.00(3)	
		Senior subordinated loan ($9,332,430 par due 7/2012)	11.00% Cash, 2.00% PIK	7/3/07	9,332,430	9,332,430	$ 1.00(4)	
					26,832,430	26,832,430		2.38%
Cargo Transport								
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated notes ($9,524,320 par due 12/2013)	9.50% cash, 3.50% PIK	12/15/05	9,524,320	9,524,320	$ 1.00(2)(4)	
		Senior secured loan ($2,450,025 par due 12/2011)	7.58% (Libor + 2.75%/Q)	12/15/05	2,450,025	2,205,022	$ 0.90(3)	
		Preferred stock (10,984 shares)		12/15/05	1,098,400	1,292,984	$ 117.72(5)	
		Common stock (30,575 shares)		12/15/05	30,575	35,993	$ 1.18(5)	
					13,103,320	13,058,319		1.16%
Consumer Products Durable								
Direct Buy Holdings, Inc. and Direct Buy Investors LP(6)	Membership-based buying club franchisor and operator from the manufacturer	Senior secured loan ($2,500,000 par due 11/2012)	9.74% (Libor + 4.50%/M)	12/14/07	2,400,000	2,400,000	$ 0.96	
		Partnership interests (19.31% interest)		11/30/07	10,000,000	10,000,000	$ 100.00(5)	
					12,400,000	12,400,000		1.10%
Housing Building Materials								
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,838,294 par due 3/2011)	13.00% cash, 3.00% PIK	10/8/04	8,826,407	8,839,109	$ 1.00(2)(4)	
		Common stock (2,743 shares)		10/8/04	752,888	376,444	$ 137.24(5)	
		Warrants to purchase 4,464 shares		10/8/04	652,504	326,255	$ 73.09(5)	
					10,231,799	9,541,808		0.85%
Telecommunications								
American Broadband Communciations, LLC and American Broadband Holding Company	Broadband communication services	Senior subordinated loan ($9,327,115 par due 11/2014)	8.00% cash, 8.00% PIK	11/7/07	9,327,115	9,327,115	$ 1.00(4)	
		Warrants to purchase 170 shares		11/7/07			$ (5)	
					9,327,115	9,327,115		0.83%
Total					$ 1,795,620,922	$ 1,774,201,841		

(1) Other than our investments in Equinox EIC Partners, LLC, Ivy Hill Middle Market Credit Fund, Ltd., LVCG Holdings LLC, Reflexite Corporation and The Thymes, LLC, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act. In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restriction on sales which as of December 31, 2007 represented 158% of the Company's net assets.

(2) Pledged as collateral for the CP Funding Facility and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 8 to the consolidated financial statements).

(3)

Pledged as collateral for the ARCC CLO and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 8 to the consolidated financial statements).

(4)

Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).

(5)

Non-income producing at December 31, 2007.

(6)

As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. Transactions during the period for the year ended December 31, 2007 in which the issuer was an Affiliate (but not a portfolio company that we "Control") are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains/losses	Net unrealized gains/losses
Abingdon Investments Limited	$	$	$	$	$	$ 1,223,564	$	$	$ (1,287,812)
Apple & Eve, LLC and US Juice Partners, LLC	$ 74,846,000	$ 115,000	$ 21,000,000	$ 1,647,899	$ 1,353,415	$	$ 12,637	$	$
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$ 135,930,000	$	$ 72,500,000	$ 3,571,499	$ 2,597,500	$	$ 148,646	$	$
Daily Candy, Inc.	$	$ 2,569,133	$ 10,000,000	3,068,164	$	$	$	$	$ 2,653,753
Direct Buy Holdings, Inc. and Direct Buy Investors LP	$ 12,400,000	$	$	$ 11,833	$	$	$	$	$
Firstlight Financial Corporation	$ 40,000,000	$	$	$ 4,944,322	$ 37,500	$	$ 750,000	$	$ (10,000,000)
Imperial Capital Group, LLC	$ 15,000,000	$	$	$	$ 300,000	$ 201,287	$	$	$
Industrial Container Services, LLC	$ 9,665,217	$ 9,475,565	$ 16,000,000	$ 3,170,964	$	$	$ 154,027	$	$ 3,200,004
Investor Group Services, LLC	$ 400,000	$ 1,400,000	$	$ 300,592	$	$	$ 38,171	$	$
Pillar Holdings LLC and PHL Holding Co.	$ 59,500,000	$	$	$ 677,847	$ 1,056,000	$	$ 15,063	$	$
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$ 860,848	$	$	$	$	$ (5,635,575)
Making Memories Wholesale, Inc.	$	$ 633,333	$	$ 1,998,699	$	$	$ 421	$	$ (4,982,723)
Universal Trailer Corporation	$	$	$	$	$	$	$	$	$ (7,230,421)
VSS-Tranzact Holdings, LLC	$ 10,000,000	$	$	$	$	$	$	$	$
Wastequip, Inc.	$ 13,888,889	$ 27,000,000	$	$ 1,118,314	$	$	$	$	$ (3,214,861)
Wear Me Apparel, LLC	$ 32,500,000	$	$	$ 2,320,500	$ 325,000	$ 62,703	$ 25,000	$	$ (8,000,000)

(7)

As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2007 in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains/losses	Net unrealized gains/losses
Equinox EIC Partners, LLC	$ 94,238,503	$ 32,270,039	$ 22,500,000	$ 3,796,322	$ 2,734,231	$	$ 19,162	$ 3,488,289	$
Ivy Hill Middle Market Credit Fund, Ltd.	$ 56,000,000	$	$	$ 501,111	$	$	$ 45,424	$	$
LVCG Holdings, LLC	$ 6,600,000	$	$	$	$	$	$	$	$
Reflexite Corporation	$ 1,752,427	$ 10,682,338	$	$ 451,518	$	$ 121,074	$	$ 320,470	$ 27,231,176
The Thymes, LLC	$ 6,925,000	$	$ 75,000	$ 338,537	$ 165,000	$	$	$	$

(8)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)

Non-registered investment company.

(10)

A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset semi-annually (S), quarterly (Q), bi-monthly (B) monthly (M) or daily (D). For each such loan, we have provided the current interest rate in effect at December 31, 2007.

(11)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $23.3 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(12)

Principal amount denominated in Canadian dollars has been translated into U.S. dollars (see Note 2).

(13)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $25.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of December 31, 2006

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Healthcare Services								
American Renal Associates, Inc.	Dialysis provider	Senior secured loan ($2,688,524 par due 12/2010)	9.37% (Libor+ 4.00%/S)	12/14/2005	$ 2,688,524	$ 2,688,524	$ 1.00(3)	
		Senior secured loan ($377,049 par due 12/2010)	10.75% (Base Rate + 2.50%/D)	12/14/2005	377,049	377,049	$ 1.00(3)	
		Senior secured loan ($5,803,279 par due 12/2011)	9.87% (Libor + 4.50%/S)	12/14/2005	5,803,279	5,803,279	$ 1.00(3)	
		Senior secured loan ($54,098 par due 12/2011)	11.25% (Base Rate + 3.00%/D)	12/14/2005	54,098	54,098	$ 1.00(3)	
		Senior secured loan ($393,741 par due 12/2011)	12.37% (Libor + 7.00%/S)	12/14/2005	393,741	393,741	$ 1.00(3)	
		Senior secured loan ($261,997 par due 12/2011)	12.37 (Libor + 7.00%/S)	12/14/2005	261,997	261,997	$ 1.00(3)	
		Senior secured loan ($3,937,406 par due 12/2011)	12.37% (Libor + 7.00% /Q)	12/14/2005	3,937,406	3,937,406	$ 1.00	
		Senior secured loan ($2,619,971 par due 12/2011)	12.37% (Libor + 7.00% /Q)	12/14/2005	2,619,971	2,619,971	$ 1.00(3)	
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan ($31,000,000 par due 11/2013)	11.36% (Libor +6.00%/Q)	12/1/2005	31,000,000	31,000,000	$ 1.00	
DSI Renal, Inc.	Dialysis provider	Senior subordinated note ($60,940,868 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	60,940,868	60,940,868	$ 1.00(4)	
		Senior subordinated note ($5,050,125 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	5,050,125	5,050,125	$ 1.00(4)(3)	
		Senior secured revolving loan ($4,000,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/2006	4,000,000	4,000,000	$ 1.00	
		Senior secured revolving loan ($960,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/2006	960,000	960,000	$ 1.00	
		Senior secured revolving loan ($1,600,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/2006	1,600,000	1,600,000	$ 1.00	
		Senior secured revolving loan ($1,600,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/2006	1,600,000	1,600,000	$ 1.00	
		Senior secured revolving loan ($2,096,000 par due 3/2013)	10.75% (Base Rate + 2.50%/D)	4/4/2006	2,096,000	2,096,000	$ 1.00	
OnCURE Medical Corp.	Radiation oncology	Senior subordinated note ($23,318,089 par	11.00% cash, 1.50% PIK	8/18/2006	23,318,089	23,318,089	$ 1.00(4)	

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
	care provider	due 8/2013)						
		Senior secured loan ($3,403,750 par due 8/2011)	8.94% (Libor + 3.50%/S)	8/23/2006	3,403,750	3,403,750	$ 1.00	
		Common stock (857,143 shares)		8/18/2006	3,000,000	3,000,000	$ 3.50(5)	
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated note ($14,829,356 par due 12/2012)	12.00% cash, 1.75% PIK	12/21/2005	14,829,356	14,829,355	$ 1.00(4)	

		Senior secured loan ($6,930,000 par due 12/2011)	8.61% (Libor + 3.25%/Q)	12/21/2005	6,930,000	6,930,000	$	1.00	
		Senior secured loan ($2,970,000 par due 12/2011)	8.61% (Libor + 3.25%/Q)	12/21/2005	2,970,000	2,970,000	$	1.00(3)	
					177,834,253	177,834,252			22.53%
Printing, Publishing and Media									
Canon Communications LLC	Print publications services	Junior secured loan ($7,525,000 par due 11/2011)	12.10% (Libor + 6.75%/M)	5/25/2005	7,525,000	7,525,000	$	1.00	
		Junior secured loan ($4,250,000 par due 11/2011)	12.10% (Libor + 6.75%/M)	5/25/2005	4,250,000	4,250,000	$	1.00(2)	
		Junior secured loan ($12,000,000 par due 11/2011)	12.10% (Libor + 6.75%/M)	5/25/2005	12,000,000	12,000,000	$	1.00(3)	
Daily Candy, Inc.(6)	Internet publication provider	Senior secured loan ($12,422,111 par due 5/2009)	10.36% (Libor + 5.00%/S)	5/25/2006	12,744,556	12,422,111	$	1.00	
		Senior secured loan ($11,577,889 par due 5/2009)	10.36% (Libor + 5.00%/S)	5/25/2006	11,878,414	11,577,889	$	1.00(3)	
		Senior secured loan ($388,191 par due 5/2009)	10.36% (Libor + 5.00%/Q)	5/25/2006	398,267	388,191	$	1.00	
		Senior secured loan ($361,809 par due 5/2009)	10.36% (Libor + 5.00%Q)	5/25/2006	371,200	361,809	$	1.00(3)	
		Senior secured loan ($64,698 par due 5/2009)	12.25% (Base Rate + 4.00%/D)	5/25/2006	66,378	64,698	$	1.00	
		Senior secured loan ($60,302 par due 5/2009)	12.25% (Base Rate + 4.00%/D)	5/25/2006	61,867	60,302	$	1.00(3)	
		Common stock (1,250,000 shares)		5/25/2006	2,375,000	2,375,000	$	1.90(5)	
		Warrants to purchase 1,381,578 shares		5/25/2006	2,624,998	2,624,998	$	1.90(5)	
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($2,336,173 par due 3/2012)	10.75% (Base Rate + 2.50%/D)	3/2/2006	2,336,173	2,336,173	$	1.00	
		Senior secured loan ($5,295,652 par due 3/2012)	8.86% (Libor + 3.50%/Q)	3/2/2006	5,295,652	5,295,652	$	1.00(3)	
		Senior secured loan ($273,913 par due 3/2012)	10.75% (Base Rate + 2.50%/D)	3/2/2006	273,913	273,913	$	1.00(3)	
		Senior secured loan ($5,295,652 par due 3/2012)	8.85% (Libor + 3.50%/B)	3/2/2006	5,295,652	5,295,652	$	1.00(3)	
		Senior secured loan ($2,319,368 par due 8/2012)	12.37% (Libor + 7.00%/Q)	3/2/2006	2,319,368	2,319,368	$	1.00	
		Senior secured loan ($419,763 par due 8/2012)	12.37% (Libor + 7.00%/Q)	3/2/2006	419,763	419,763	$	1.00(3)	
		Senior secured loan ($1,932,806 par due 8/2012)	12.38% (Libor + 7.00%/Q)	3/2/2006	1,932,806	1,932,806	$	1.00	
		Senior secured loan ($349,802 par due 8/2012)	12.38% (Libor + 7.00%/Q)	3/2/2006	349,802	349,802	$	1.00(3)	
		Preferred stock (9,344 shares)		3/2/2006	2,000,000	2,000,000	$	214.04(5)	

The Teaching Company, LLC and The Teaching Company Holdings, Inc.(11)	Education publications provider	Senior secured loan ($28,000,000 par due 9/2012)	10.50%	9/29/2006	28,000,000	28,000,000	$	1.00

		Senior secured loan ($12,000,000 par due 9/2012)	10.50%	9/29/2006	12,000,000	12,000,000	$	1.00(3)	
		Preferred stock (29,969 shares)		9/29/2006	2,996,921	2,996,921	$	100.00(5)	
		Common stock (15,393 shares)		9/29/2006	3,079	3,079	$	1.00(5)	
					117,518,809	116,873,127			14.8%
Manufacturing									
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan ($6,000,000 par due 4/2010)	10.36% (Libor + 5.00%/Q)	3/28/2005	6,038,283	6,000,000	$	1.00(3)	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($10,421,053 par due 5/2011)	9.60% (Libor + 4.25%/B)	5/16/2006	10,421,053	10,421,053	$	1.00(3)	
		Senior secured loan ($3,736,842 par due 5/2011)	11.35% (Libor + 6.00%/M)	5/16/2006	3,736,842	3,736,842	$	1.00	
		Senior secured loan ($1,526,316 par due 5/2011)	11.35% (Libor + 6.00%/M)	5/16/2006	1,526,316	1,526,316	$	1.00(3)	
		Senior secured loan ($4,210,526 par due 5/2011)	13.00%	5/16/2006	4,210,526	4,210,526	$	1.00	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan ($1,960,000 par due 12/2011)	9.61% (Libor + 4.25%/Q)	12/29/2004	1,960,000	1,960,000	$	1.00(3)	
		Junior secured loan ($5,000,000 par due 6/2012)	12.61% (Libor + 7.25%/Q)	12/29/2004	5,000,000	5,000,000	$	1.00(3)	
Professional Paint, Inc.	Paint manufacturer	Junior secured loan ($4,500,000 par due 5/2013)	11.13% (Libor + 5.75%/S)	5/25/2006	4,500,000	4,500,000	$	1.00	
		Junior secured loan ($12,000,000 par due 5/2013)	11.13% (Libor + 5.75%/S)	5/25/2006	12,000,000	12,000,000	$	1.00(3)	
Reflexite Corporation(7)	Developer and manufacturer of high visibility reflective products	Senior subordinated loan ($10,616,954 par due 12/2011)	11.00% cash, 3.00% PIK	12/30/2004	10,616,954	10,616,954	$	1.00(2)(4)	
		Common Stock (1,729,627 shares)		3/28/2006	25,682,891	25,682,891	$	14.85(5)	
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (50,000 shares)		10/8/2004	6,424,645	5,500,000	$	110.00(5)	
		Warrants to purchase 22,208 shares		10/8/2004	1,505,776	2,442,880	$	110.00(5)	
Varel Holdings, Inc.	Drill bit manufacturer	Common stock (30,451 shares)		5/18/2005	3,045	1,011,569	$	33.22(5)	
					93,626,331	94,609,031			11.98%
Services Other									
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Senior subordinated note ($8,767,425 par due 9/2013)	12.00% Cash, 3.00% PIK	11/9/2006	8,767,425	8,767,425	$	1.00(4)	
Diversified Collection	Collections services	Senior secured loan ($5,242,026 par due	9.60% (Libor + 4.25%/M)	2/2/2005	5,242,026	5,242,026	$	1.00(3)	

Services, Inc.	2/2011)	

		Senior secured loan ($1,742,026 par due 8/2011)	11.35% (Libor + 6.00%/M)	2/2/2005	1,742,026	1,742,026	$	1.00(2)	
		Senior secured loan ($6,757,974 par due 8/2011)	11.35% (Libor + 6.00%/M)	2/2/2005	6,757,974	6,757,974	$	1.00(3)	
		Preferred stock (14,927 shares)		5/18/2006	169,123	169,123	$	11.33(5)	
		Common stock (114,004 shares)		2/2/2005	295,270	295,270	$	2.59(5)	
GCA Services Group, Inc.	Custodial services	Senior secured loan ($50,000,000 par due 12/2011)	12.00%	12/15/2006	50,000,000	50,000,000	$	1.00(4)	
NPA Acquisition, LLC	Powersport vehicle auction operator	Senior secured loan ($4,533,333 par due 8/2012)	8.57% (Libor + 3.25%/S)	8/28/2006	4,533,333	4,533,333	$	1.00	
		Senior secured loan ($400,000 par due 8/2012)	8.60% (Libor + 3.25%/Q)	8/28/2006	400,000	400,000	$	1.00	
		Senior secured loan ($66,667 par due 8/2012)	10.25% (Base Rate + 2.00%/D)	8/28/2006	66,667	66,667	$	1.00	
		Junior secured loan ($2,000,000 par due 2/2013)	12.11% (Libor + 6.75%/Q)	8/23/2006	2,000,000	2,000,000	$	1.00	
		Junior secured loan ($12,000,000 par due 2/2013)	12.11% (Libor + 6.75%/Q)	8/23/2006	12,000,000	12,000,000	$	1.00(3)	
		Common units (1,709 units)		8/23/2006	1,000,000	1,000,000	$	585.14(5)	
					92,973,844	92,973,844			11.78%
Containers-Packaging									
Captive Plastics, Inc.	Plastics container manufacturer	Junior secured loan ($15,500,000 par due 2/2012)	12.63% (Libor + 7.25%/Q)	12/19/2005	15,500,000	15,500,000	$	1.00	
		Junior secured loan ($12,000,000 par due 2/2012)	12.63% (Libor + 7.25%/Q)	12/19/2005	12,000,000	12,000,000	$	1.00(3)	
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured loan ($11,939,547 par due 9/2011)	11.94% (Libor + 6.50%/S)	9/30/2005	11,939,547	11,939,547	$	1.00(3)	
		Senior secured loan ($16,504,747 par due 9/2011)	11.94% (Libor + 6.50%/S)	6/21/2006	16,504,747	16,504,747	$	1.00	
		Senior secured loan ($9,950,000 par due 9/2011)	11.94% (Libor + 6.50.%/S)	9/30/2005	9,950,000	9,950,000	$	1.00	
		Senior secured revolving loan ($4,130,435 par due 9/2011)	9.88% (Libor + 4.50%/Q)	9/30/2005	4,130,435	4,130,435	$	1.00	
		Senior secured revolving loan ($1,239,130 par due 9/2011)	11.25% (Base Rate + 3.00%/D)	9/30/2005	1,239,130	1,239,130	$	1.00	
		Common stock (1,800,000 shares)		9/29/2005	1,800,000	1,800,000	$	1.00(5)	
LabelCorp	Consumer	Senior subordinated	12.00% cash,	3/16/2006	9,320,235	9,320,235	$	1.00(4)	

Holdings, Inc.	product labels manufacturer	notes ($9,320,235 par due 9/2012)	3.00% PIK			
				82,384,094	82,384,094	10.44%

Restaurants									
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan ($4,236,726 par due 11/2013)	10.25% (Base Rate + 2.00%/D)	11/27/2006	4,236,726	4,236,726	$	1.00	
		Senior secured loan ($4,937,500 par due 11/2013)	10.25% (Base Rate + 2.00%/D)	11/27/2006	4,937,500	4,937,500	$	1.00	
		Senior secured loan ($23,060,000 par due 11/2012)	14.75% (Base Rate + 6.50%/D)	11/27/2006	23,060,000	23,060,000	$	1.00	
		Senior secured loan ($11,940,000 par due 11/2012)	14.75% (Base Rate + 6.50%/D)	11/27/2006	11,940,000	11,940,000	$	1.00(3)	
		Warrants to purchase 9,500,000 units		6/1/2006	9,488,200	9,500,000	$	1.00(5)	
Encanto Restaurants, Inc.(8)	Restaurant owner and operator	Junior secured loan ($13,170,625 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	13,170,625	13,170,625	$	1.00(4)	
		Junior secured loan ($12,157,500 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	12,157,500	12,157,500	$	1.00(3)(4)	
					78,990,551	79,002,351			10.01%
Retail									
Savers, Inc and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated note ($28,220,888 par due 8/2014)	10.00% cash, 2.00% PIK	8/8/2006	28,220,888	28,220,888	$	1.00(4)	
		Common stock (1,170,182 shares)		8/8/2006	4,500,000	4,500,000	$	3.85(5)	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($4,800,000 par due 9/2012)	10.10% (Libor + 4.75%/M)	9/28/2006	4,800,000	4,800,000	$	1.00(3)	
		Senior secured loan ($28,000,000 par due 9/2012)	11.35% (Libor + 6.00%/M)	9/28/2006	28,000,000	28,000,000	$	1.00	
		Senior secured loan ($7,200,000 par due 9/2012)	11.35% (Libor + 6.00%/M)	9/28/2006	7,200,000	7,200,000	$	1.00(3)	
		Preferred stock (80 shares)		9/28/2006	1,800,000	1,800,000	$	22500.00(5)	
		Common stock (800 shares)		9/28/2006	200,000	200,000	$	250.00(5)	
					74,720,888	74,720,888			9.47%
Consumer Products Non-Durable									
AWTP, LLC	Water treatment services	Junior secured loan ($1,600,000 par due 12/2012)	12.86% (Libor + 7.50%/Q)	12/21/2005	1,600,000	1,600,000	$	1.00	
		Junior secured loan ($12,000,000 par due 12/2012)	12.86% (Libor + 7.50%/Q)	12/21/2005	12,000,000	12,000,000	$	1.00(3)	
Making Memories Wholesale, Inc.(6)	Scrapbooking branded products manufacturer	Senior secured loan ($7,758,333 par due 3/2011)	9.88% (Libor + 4.50%/Q)	5/5/2005	7,758,333	7,758,333	$	1.00(3)	
		Senior subordinated loan ($10,204,325 par	12.50% cash, 2.00% PIK	5/5/2005	10,204,325	10,204,325	$	1.00(4)	

		due 5/2012)						
		Preferred stock (3,759 shares)		5/5/2005	3,758,800	1,320,000	$	351.16(5)
Shoes for Crews, LLC	Safety footwear and slip-related mats	Senior secured loan ($1,248,680 par due 7/2010)	8.61% (Libor + 3.25%/S)	10/8/2004	1,256,027	1,256,027	$	1.01(3)
		Senior secured loan ($60,747 par due 7/2010)	8.61% (Libor + 3.25%/Q)	10/8/2004	61,104	61,104	$	1.01(3)

		Senior secured loan ($60,747 par due 7/2010)	10.25% (Base Rate + 2.00%/D)	10/8/2004	61,104	61,104	$	1.01(3)	
		Senior secured revolving loan ($3,333,333 par due 7/2010)	10.25% (Base Rate + 2.00%/D)	6/16/2006	3,333,333	3,333,333	$	1.00	
Tumi Holdings, Inc.	Branded luggage designer, marketer and distributor	Senior secured loan ($2,500,000 par due 12/2012)	8.11% (Libor + 2.75%/Q)	5/24/2005	2,500,000	2,500,000	$	1.00(3)	
		Senior secured loan ($5,000,000 par due 12/2013)	8.61% (Libor + 3.25%/Q)	3/14/2005	5,000,000	5,000,000	$	1.00(3)	
		Senior subordinated loan ($13,682,839 par due 12/2014)	16.36% (Libor + 6.00% cash, 5.00% PIK/Q)	3/14/2005	13,682,839	13,682,839	$	1.00(2)(4)	
UCG Paper Crafts, Inc.	Scrapbooking materials manufacturer	Senior secured loan ($1,985,000 par due 2/2013)	8.60% (Libor + 3.25%/M)	2/23/2006	1,985,000	1,985,000	$	1.00(3)	
		Junior secured loan ($2,952,625 par due 2/2013)	12.85% (Libor + 7.50%/M)	2/23/2006	2,952,625	2,952,625	$	1.00	
		Junior secured loan ($9,949,875 par due 2/2013)	12.85% (Libor + 7.50%/M)	2/23/2006	9,949,875	9,949,875	$	1.00(3)	
					76,103,365	73,664,565			9.33%
Financial									
Abingdon Investments Limited(6)(8)(9)	Investment company	Ordinary shares (948,500 shares)		12/15/2006	9,032,978	9,485,000	$	10.00(5)	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($36,000,000 par due 12/2016)	10.00% PIK	12/31/2006	36,000,000	36,000,000	$	1.00(4)	
		Common stock (6,000 shares)		12/31/2006	6,000,000	6,000,000	$	1000.00(5)	
		Common stock (18,000 shares)		12/31/2006	18,000,000	18,000,000	$	1000.00(5)	
Partnership Capital Growth Fund I, L.P.(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/2006	225,260	225,260	$	-5.00	
					69,258,238	69,710,260			8.83%
Environmental Services									
Mactec, Inc.	Engineering and environmental services	Common stock (186 shares)		11/3/2004			$	(5)	
Waste Pro USA, Inc.	Waste management services	Senior subordinated loan ($25,000,000 par due 11/2013)	11.50%	11/9/2006	25,000,000	25,000,000	$	1.00	
		Preferred stock (15,000 shares)	10.00% PIK	11/9/2006	15,000,000	15,000,000	$	1000.00(4)	
		Warrants to purchase 882,671 shares		11/9/2006			$	(5)	

Wastequip, Inc.	Waste management equipment manufacturer	Junior secured loan ($15,000,000 par due 7/2012)	10.85% (Libor + 5.50%/M)	8/4/2005	15,000,000	15,000,000	$ 1.00	
		Junior secured loan ($12,000,000 par due 7/2012)	10.85% (Libor + 5.50%/M)	8/4/2005	12,000,000	12,000,000	$ 1.00(3)	
					67,000,000	67,000,000		8.49%

Education									
Equinox SMU Partners LLC and	Medical school operator	Senior secured revolving loan ($1,932,342 par due 12/2010)	13.25% (Base Rate + 5.00%/Q)	1/26/2006	1,932,342	1,932,342	$	1.00	
SMU Acquisition Corp.(6)(8)		Senior secured revolving loan ($3,000,000 par due 12/2010)	11.36% (Libor + 6.00%/B)	1/26/2006	3,000,000	3,000,000	$	1.00	
		Senior secured loan ($4,858,118 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/2006	4,858,118	4,858,118	$	1.00	
		Senior secured loan ($4,966,882 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/2006	4,966,882	4,966,882	$	1.00(3)	
		Senior secured loan ($1,500,000 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/2006	1,500,000	1,500,000	$	1.00	
		Senior secured loan ($1,500,000 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/2006	1,500,000	1,500,000	$	1.00(3)	
		Limited liability company membership interest (17.39% interest)		1/25/2006	4,000,000	4,000,000	$	-5.00(5)	
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Junior secured loan ($8,333,333 par due 11/2013)	12.37% (Libor + 7.00%/Q)	11/30/2006	8,333,333	8,333,333	$	1.00(3)	
Lakeland Finance, LLC	Private school operator	Senior secured note ($33,000,000 par due 12/2012)	11.50%	12/13/2005	33,000,000	33,000,000	$	1.00	
					63,090,675	63,090,675			7.99%
Business Services									
Investor Group Services, LLC	Financial services	Senior secured loan ($1,500,000 par due 6/2011)	12.00%	6/22/2006	1,500,000	1,500,000	$	1.00(3)	
		Senior secured revolving loan ($500,000 par due 6/2011)	11.04% (Libor + 5.50%/S)	6/22/2006	500,000	500,000	$	1.00	
		Limited liability company membership interest (10.00% interest)		6/22/2006			$	-5.00	
Miller Heiman, Inc.	Sales consulting services	Senior secured loan ($3,093,785 par due 6/2010)	8.60% (Libor + 3.25%/M)	6/20/2005	3,093,785	3,093,785	$	1.00(3)	
		Senior secured loan ($4,017,591 par due 6/2012)	9.12% (Libor + 3.75%/Q)	6/20/2005	4,017,591	4,017,591	$	1.00(3)	
MR Processing Holding Corp.	Bankruptcy and foreclosure processing services	Senior subordinated note ($20,303,747 par due 2/2013)	12.00% Cash, 2.00% PIK	3/23/2006	20,303,747	20,303,747	$	1.00(4)	
		Senior secured loan ($1,990,000 par due	9.02% (Libor + 3.50%/S)	3/28/2006	1,990,000	1,990,000	$	1.00	

		2/2012)						
		Preferred stock (30,000 shares)		4/11/2006	3,000,000	3,000,000	$	100.00(5)
Primis Marketing Group, Inc. and	Database marketing services	Senior subordinated note ($10,085,790 par due 2/2013)	11.00% Cash, 2.50% PIK	8/25/2006	10,085,790	10,085,790	$	1.00(4)
Primis Holdings, LLC(6)		Preferred units (4,000 units)		8/25/2006	3,600,000	3,600,000	$	9.00(5)
		Common units (4,000,000 units)		8/25/2006	400,000	400,000	$	0.10(5)

Summit Business Media, LLC	Business media consulting services	Junior secured loan ($10,000,000 par due 11/2013)	12.35% (Libor + 7.00%/M)	12/18/2006	10,000,000	10,000,000	$ 1.00	
					58,490,913	58,490,913		7.41%
Beverage, Food and Tobacco								
Best Brands Corporation	Baked goods manufacturer	Junior secured loan ($40,000,000 par due 6/2013)	11.85% (Libor + 6.50%/M)	12/14/2006	40,000,000	40,000,000	$ 1.00	
Charter Baking Company, Inc.	Baked goods manufacturer	Preferred stock (6,258 shares)		9/1/2006	2,500,000	2,500,000	$ 399.49(5)	
Farley's & Sathers Candy Company, Inc.	Branded candy manufacturer	Junior secured loan ($10,000,000 par due 3/2011)	11.36% (Libor + 6.00%/S)	3/23/2006	10,000,000	10,000,000	$ 1.00(3)	
					52,500,000	52,500,000		6.65%
Aerospace & Defense								
ILC Industries, Inc.	Industrial products provider	Junior secured loan ($12,000,000 par due 8/2012)	11.50%	6/27/2006	12,000,000	12,000,000	$ 1.00(3)	
		Junior secured loan ($3,000,000 par due 8/2012)	11.50%	6/27/2006	3,000,000	3,000,000	$ 1.00	
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan ($3,225,625 par due 3/2012)	9.37% (Libor + 4.00%/Q)	3/28/2005	3,225,625	3,225,625	$ 1.00(3)	
		Senior secured loan ($8,125 par due 3/2012)	11.25% (Base Rate + 3.00%/D)	3/28/2005	8,125	8,125	$ 1.00(3)	
		Senior secured loan ($1,611,842 par due 3/2011)	9.02% (Libor + 3.50%/Q)	3/28/2005	1,611,842	1,611,849	$ 1.00(3)	
		Senior secured loan ($46,053 par due 3/2011)	10.75% (Base Rate + 2.50%/D)	3/28/2005	46,053	46,053	$ 1.00(3)	
		Senior subordinated notes ($3,126,808 par due 9/2012)	11.50% cash, 2.75% PIK	3/28/2005	3,137,948	3,126,808	$ 1.00(2)(4)	
		Senior subordinated notes ($2,548,751 par due 3/2013)	11.50% cash, 2.50% PIK	3/21/2006	2,548,752	2,548,752	$ 1.00(2)(4)	
		Preferred stock (53,900 shares)		3/28/2005	539,000	539,000	$ 10.00(5)	
		Common stock (1,100,000 shares)		3/28/2005	11,000	11,000	$ 0.01(5)	
					26,128,345	26,117,212		3.31%
Broadcasting and Cable								
Patriot Media & Communications CNJ, LLC	Cable services	Junior secured loan ($5,000,000 par due 10/2013)	10.50% (Libor + 5.00%/S)	10/6/2005	5,000,000	5,000,000	$ 1.00(3)	
Pappas Telecasting	Television broadcasting	Senior secured loan ($11,695,696 par due	14.73% (Libor + 4.48%	3/1/2006	11,695,696	11,695,696	$ 1.00(4)(3)	

Incorporated	2/2010)	cash, 5.00% PIK/Q)						
	Senior secured loan ($8,129,405 par due 2/2010)	14.73% (Libor + 4.48% cash, 5.00% PIK/Q)	3/1/2006	8,129,405	8,129,405	$	1.00(4)	
	Senior secured loan ($369,212 par due 2/2010)	14.25% (Libor + 4.00% cash, 5.00% PIK/Q)	3/1/2006	369,212	369,212	$	1.00(4)	
	Senior secured loan ($531,180 par due 2/2010)	14.25% (Libor + 4.00% cash, 5.00% PIK/Q)	3/1/2006	531,180	531,180	$	1.00(4) (3)	
				25,725,493	25,725,493			3.26%

Consumer Products Durable									
Berkline/Benchcraft Holdings LLC	Furniture manufacturer and distributor	Junior secured loan ($5,000,000 par due 5/2012)	15.25% (Base Rate + 5.00%, 2.00%PIK/D)	11/3/2004	5,000,000	504,206	$	0.10(2)	
		Preferred units (2,536 units)		10/8/2004	1,046,343		$	(5)	
		Warrants to purchase 483,020 units		10/8/2004	2,752,559		$	(5)	
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior Secured Loan ($13,000,000 par due 9/2011)	11.13%	10/12/2006	13,000,000	13,000,000	$	1.00	
		Senior Secured Loan ($12,000,000 par due 9/2011)	11.13%	10/12/2006	12,000,000	12,000,000	$	1.00(3)	
					33,798,902	25,504,206			3.23%
Computers and Electronics									
RedPrairie Corporation	Software manufacturer	Junior secured loan ($12,00,000 par due 1/2013)	11.87% (Libor + 6.50%/Q)	7/13/2006	12,000,000	12,000,000	$	1.00(3)	
X-rite, Incorporated	Artwork software manufacturer	Junior secured loan ($10,000,000 par due 7/2013)	10.37% (Libor + 5.00%/Q)	7/6/2006	10,000,000	10,000,000	$	1.00	
					22,000,000	22,000,000			2.79%
Cargo Transport									
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated notes ($9,198,136 par due 12/2013)	9.5% cash, 3.50% PIK	12/15/2005	9,198,136	9,198,136	$	1.00(4)	
		Senior secured loan ($2,475,008 par due 12/2011)	8.36% (Libor + 3.00%/Q)	12/15/2005	2,475,008	2,475,008	$	1.00(3)	
		Preferred stock (10,984 shares)		12/15/2005	1,098,400	1,098,400	$	100.00(5)	
		Common stock (30,575 shares)		12/15/2005	30,575	30,575	$	1.00(5)	
					12,802,119	12,802,119			1.62%
Farming and Agriculture									
The GSI Group, Inc.	Agricultural equipment manufacturer	Senior notes ($10,000,000 par due 5/2013)	12.00%	5/11/2005	10,000,000	10,000,000	$	1.00	
		Common stock (7,500 shares)		5/12/2005	750,000	750,000	$	100.00(5)	
					10,750,000	10,750,000			1.36%
Housing Building Materials									
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,655,829 par due 3/2011)	13.00% cash, 2.00% PIK	10/8/2004	8,655,829	8,663,415	$	1.01(2)(4)	
				10/8/2004	752,888	752,888	$	274.48(5)	

Common stock (2,743 shares)					
Warrants to purchase (4,464 shares)	10/8/2004	652,503	652,503	$	146.17(5)

ITEM 16G.Corporate Governance

See Item 6. Directors, Senior Management and Employees Compliance with New York Stock Exchange Listing Standards on Corporate Governance.

PART III

ITEM 17. Financial Statements

The registrant has responded to Item 18 in lieu of responding to this Item.

ITEM 18. Financial Statements

The following financial statements are filed as part of this annual report:

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Consolidated Statements of Comprehensive Income of YPF S.A. for the years ended December 31, 2015, 2014 and 2013	F-8
Consolidated Statement of Financial Position of YPF S.A. as of December 31, 2015, 2014 and 2013	F-7
Consolidated Statements of Changes in Shareholders Equity of YPF S.A. for the years ended December 31, 2015, 2014 and 2013	F-9
Consolidated Statements of Cash Flow of YPF S.A. for the years ended December 31, 2015, 2014 and 2013	F-12
Notes to the Audited Consolidated Financial Statements of YPF S.A. for the years ended December 31, 2015, 2014 and 2013	F-13

ITEM 19. Exhibits

1.1	By-laws (Estatutos) of YPF S.A. as amended (Spanish Version) *
1.2	By-laws (Estatutos) of YPF S.A. as amended (English Version) **
11.1	Code of Ethics***
12.1	Section 302 Certification by Chief Executive Officer
12.2	Section 302 Certification by Chief Financial Officer
13.1	Section 906 Certification
23.1	Consent of DeGolyer and MacNaughton
23.2	Consent of IHS Global Canada Limited
99.1(a)	Reserves Audit Report of DeGolyer and MacNaughton for Maxus Energy Corporation as of December 31,

2015, dated January 25, 2016.

99.1(b)	Reserves Audit Report of IHS Global Canada Limited for YPF S.A. as of December 31, 2015, dated February 17, 2016.

* Filed as Exhibit 1.1 to YPF s 2009 annual report on Form 20-F filed on June 29, 2010.

** Filed as Exhibit 1.2 to YPF s 2009 annual report on Form 20-F filed on June 29, 2010.

*** Incorporated by reference to YPF s 2014 annual report on Form 20-F filed on March 30, 2015.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

YPF SOCIEDAD ANÓNIMA

By: /s/ Daniel Gonzalez
Name: Daniel Gonzalez
Title: Chief Financial Officer

Dated: March 17, 2016

SOCIEDAD ANONIMA

Consolidated Financial Statements

as of December 31, 2015

and Comparative Information

Independent Auditors Report

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of YPF SOCIEDAD ANONIMA:

We have audited the accompanying consolidated statements of financial position of YPF SOCIEDAD ANONIMA (an Argentine Corporation) and its controlled companies (the Company) as of December 31, 2015, 2014 and 2013, and the related consolidated statements of comprehensive income, cash flows and changes in shareholders equity for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company s Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YPF SOCIEDAD ANONIMA and its controlled companies as of December 31, 2015, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the Company s internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2016, expressed an unqualified opinion on the Company s internal control over financial reporting.

Buenos Aires City, Argentina

March 3, 2016

Deloitte & Co. S.A.

/s/ Guillermo D. Cohen

Partner

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of YPF SOCIEDAD ANONIMA:

We have audited the internal control over financial reporting of YPF SOCIEDAD ANONIMA (an Argentine Corporation) and its controlled companies (the Company) as of December 31, 2015, based on the criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management s Report on Internal Control over Financial Reporting (Item 15)*. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated financial statements of YPF SOCIEDAD ANONIMA and its controlled companies as of and for the year ended December 31, 2015 and our report dated March 3, 2016 expressed an unqualified opinion on those consolidated financial statements.

Buenos Aires City, Argentina

March 3, 2016

Deloitte & Co. S.A.

/s/ Guillermo D. Cohen

Partner

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015

AND COMPARATIVE INFORMATION

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YPF SOCIEDAD ANONIMA

Macacha Güemes 515   Autonomous City of Buenos Aires, Argentina

FISCAL YEAR NUMBER 39

BEGINNING ON JANUARY 1, 2015

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND COMPARATIVE INFORMATION

LEGAL INFORMATION

Principal business of the Company: exploration, development and production of oil, natural gas and other minerals and refining, transportation, marketing and distribution of oil and petroleum products and petroleum derivatives, including petrochemicals, chemicals and non-fossil fuels, biofuels and their components; production of electric power from hydrocarbons; rendering telecommunications services, as well as the production, industrialization, processing, marketing, preparation services, transportation and storage of grains and its derivatives.

Filing with the Public Registry: Bylaws filed on February 5, 1991 under No. 404, Book 108, Volume A , Corporations, with the Public Registry of Buenos Aires City, in charge of Inspección General de Justicia (Argentine Registrar of Companies); and Bylaws in substitution of previous Bylaws, filed on June 15, 1993, under No. 5109, Book 113, Volume A , Corporations, with the above mentioned Registry.

Duration of the Company: through June 15, 2093.

Last amendment to the bylaws: April 14, 2010.

Optional Statutory Regime related to Compulsory Tender Offer provided by Decree No. 677/2001 art. 24: not incorporated (modified by Law No. 26,831).

Capital structure as of December 31, 2015

(expressed in Argentine pesos)

Subscribed, paid-in and authorized for stock exchange listing	3,933,127,930 (1)

(1) Represented by 393,312,793 shares of common stock, Argentine pesos 10 per value and 1 vote per share

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YPF SOCIEDAD ANONIMA AND CONTROLLED COMPANIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2015, 2014 AND 2013

(Amounts expressed in millions of Argentine Pesos, except shares and per share amounts expressed in Argentine Pesos, and as otherwise indicated Note 1.b.1)

	Notes	2015	2014	2013
ASSETS				
Noncurrent Assets				
Intangible assets	6.a	7,279	4,393	2,446
Fixed assets	6.b	270,905	156,930	93,496
Investments in companies	6.c	4,372	3,177	2,124
Deferred income tax assets, net	6.i	954	244	34
Other receivables	6.e	2,501	1,691	2,927
Trade receivables	6.f	469	19	54
Total noncurrent assets		286,480	166,454	101,081
Current Assets				
Inventories	6.d	19,258	13,001	9,881
Other receivables	6.e	19,413	7,170	6,506
Trade receivables	6.f	22,111	12,171	7,414
Investment in financial assets	5	804		
Cash and cash equivalents	6.g	15,387	9,758	10,713
Total current assets		76,973	42,100	34,514
TOTAL ASSETS		363,453	208,554	135,595
SHAREHOLDER S EQUITY				
Shareholders contributions		10,349	10,400	10,600
Reserves, other comprehensive income and retained earnings		110,064	62,230	37,416
SHAREHOLDERS EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		120,413	72,630	48,016
Non-controlling interest		48	151	224
TOTAL SHAREHOLDERS EQUITY		120,461	72,781	48,240
LIABILITIES				
Noncurrent Liabilities				
Provisions	6.h	39,623	26,564	19,172
Deferred income tax liabilities, net	6.i	44,812	18,948	11,459

Taxes payable		207	299	362
Salaries and social security				8
Loans	6.j	77,934	36,030	23,076
Accounts Payable	6.k	625	566	470
Total noncurrent liabilities		163,201	82,407	54,547
Current Liabilities				
Provisions	6.h	2,009	2,399	1,396
Income tax liability		1,487	3,972	122
Taxes payable		6,047	1,411	1,045
Salaries and social security		2,452	1,903	1,119
Loans	6.j	27,817	13,275	8,814
Accounts Payable	6.k	39,979	30,406	20,312
Total current liabilities		79,791	53,366	32,808
TOTAL LIABILITIES		242,992	135,773	87,355
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		363,453	208,554	135,595

Accompanying notes are an integral part of consolidated financial statements.

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YPF SOCIEDAD ANONIMA AND CONTROLLED COMPANIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015, 2014 and 2013

(Amounts expressed in millions of Argentine pesos, except for per share amounts in Argentine pesos, and as otherwise indicated Note 1.b.1)

	Notes	2015	2014	2013
Revenues	6.l	156,136	141,942	90,113
Cost of sales	6.m	(119,537)	(104,492)	(68,094)
Gross profit		36,599	37,450	22,019
Selling expenses	6.n	(11,099)	(10,114)	(7,571)
Administrative expenses	6.n	(5,586)	(4,530)	(2,686)
Exploration expenses	6.n	(2,473)	(2,034)	(829)
Other operating results, net	6.o	(853)	(1,030)	227
Operating income		16,588	19,742	11,160
Income on investments in companies	7	318	558	353
Financial income	6.p	27,263	11,301	8,740
Financial loss	6.p	(16,016)	(9,826)	(6,008)
Other financial results	6.p	910	297	103
Financial results, net	6.p	12,157	1,772	2,835
Net income before income tax		29,063	22,072	14,348
Income tax	6.i	(24,637)	(13,223)	(9,269)
Net income for the year		4,426	8,849	5,079
Net income for the year attributable to:				
Shareholders of the parent company		4,579	9,002	5,125
Non-controlling interest		(153)	(153)	(46)
Earnings per share attributable to shareholders of the parent company basic and diluted	9	11.68	22.95	13.05
Other comprehensive income:				
Actuarial results Pension plans[(1)]		6	25	6
Exchange differences from investments in companies[(2)]		(189)		
Translation differences from investments in companies[(3)]		(1,466)	(677)	(416)
Translation differences from YPF S.A.[(4)]		45,407	16,928	12,441

Total other comprehensive income for the year(5)	43,758	16,276	12,031
Total comprehensive income for the year	48,184	25,125	17,110

(1) Immediately reclassified to retained earnings
(2) Exchange differences as recognized by the indirectly controlled company Gas Argentino S.A. in its statement of comprehensive income, which was reclassified by YPF as other comprehensive income upon the acquisition of negotiable obligations of the said controlled company (See Note 6.j).
(3) Will be reversed to net income at the moment of the sale of the investment or full or partial reimbursement of the capital.
(4) Will not be reversed to net income.
(5) Entirely assigned to the parent company s shareholders.

Accompanying notes are an integral part of consolidated financial statements.

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YPF SOCIEDAD ANONIMA AND CONTROLLED COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015, 2014 AND 2013

(Amounts expressed in millions of Argentine Pesos, except shares and per share amounts expressed in Argentine Pesos, and as otherwise indicated Note 1.b.1)

	2015								
	Shareholders contributions								
	Subscribed capital	Adjustment to contributions	Treasury shares	Adjustment to treasury shares	Share-based benefit plans	Acquisition cost of treasury shares	Share trading premium	Issuance premiums	Total
Balances as of December 31, 2014	3,922	6,083	11	18	51	(310)	(15)	640	10,400
Accrual of share-based benefit plans					124				124
Repurchase of treasury shares	(4)	(6)	4	6		(120)			(120)
Settlement of share-based benefit plans [(3)]	4	6	(4)	(6)	(108)	153	(100)		(55)
Balances as of December 31, 2015	3,922	6,083	11	18	67	(277)	(115)	640	10,349

	2015									
	Reserves									
	Legal	Future dividends	Investments	Purchase of treasury shares	Initial IFRS adjustment	Other comprehensive income	Retained earnings	Equity attributable to Shareholders of the parent company	Non-controlling interest	Total shareholders equity
Balances as of December 31, 2014	2,007	5	12,854	320	3,648	34,363	9,033	72,630	151	72,781
Accrual of share-based benefit plans								124		124
								(120)		(120)

Repurchase of treasury shares										
Settlement of share-based benefit plans (3)								(55)		(55)
Contributions of non-controlling interest									50	50
As decided by Ordinary and Extraordinary Shareholders meeting of April 30, 2015 (4)		503	8,410	120			(9,033)			
As decided by the Board of Directors of June 8, 2015 (4)		(503)						(503)		(503)
Actuarial gains reclassification Pension Plan (2)						(6)	6			
Other comprehensive income						43,758		43,758		43,758
Net income							4,579	4,579	(153)	4,426
Balances as of December 31, 2015	2,007	5	21,264	440	3,648	78,115(1)	4,585	120,413	48	120,461

(1) Includes 80,982 corresponding to the effect of the translation of the financial statements of YPF S.A. and (2,867) corresponding to the effect of the translation of the financial statements of investments in companies with functional currency different to U.S. dollar, as detailed in Note 1.b.1
(2) Pension plans of investments in controlled companies.
(3) Net of employees income tax withholding related to the share-based benefit plans
(4) See Note 8.

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YPF SOCIEDAD ANONIMA AND CONTROLLED COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015, 2014 AND 2013 (Cont.)

(Amounts expressed in millions of Argentine Pesos, except shares and per share amounts expressed in Argentine Pesos, and as otherwise indicated Note 1.b.1)

	2014								
	Shareholders contributions								
	Subscribed capital	**Adjustment to contributions**	**Treasury shares**	**Adjustment to treasury shares**	**Share-based benefit plans**	**Acquisition cost of treasury shares**	**Share trading premium**	**Issuance premiums**	**Total**
Balances as of December 31, 2013	3,924	6,087	9	14	40	(110)	(4)	640	10,600
Accrual of share-based benefit plans					80				80
Repurchase of treasury shares	(6)	(10)	6	10		(200)			(200)
Settlement of share-based benefit plans (3)	4	6	(4)	(6)	(69)		(11)		(80)
Balances as of December 31, 2014	3,922	6,083	11	18	51	(310)	(15)	640	10,400

	2014									
	Reserves							**Equity attributable to**		
	Legal	**Future dividends**	**Investments**	**Purchase of treasury shares**	**Initial IFRS adjustment**	**Other comprehensive income**	**Retained earnings**	**Parent company s shareholders**	**Non-controlling interest**	**Total shareholders equity**
Balances as of December 31, 2013	2,007	4	8,394	120	3,648	18,112	5,131	48,016	224	48,240
Accrual of share-based benefit plans								80		80
								(200)		(200)

Repurchase of treasury shares										
Accrual of share-based benefit plans [3]								(80)		(80)
Contributions of non-controlling interest									80	80
As decided by Ordinary and Extraordinary Shareholders meeting of April 30, 2014		465	4,460	200			(5,125)			
As decided by the Board of Directors of June 11, 2014		(464)						(464)		(464)
Other comprehensive income						16,276		16,276		16,276
Actuarial gains reclassification Pension Plan [2]						(25)	25			
Net income							9,002	9,002	(153)	8,849
Balances as of December 31, 2014	2,007	5	12,854	320	3,648	34,363[1]	9,033	72,630	151	72,781

(1) Includes 35,764 corresponding to the effect of the translation of the financial statements of YPF S.A. and (1,401) corresponding to the effect of the translation of the financial statements of investments in companies with functional currency different to U.S. dollar, as detailed in Note 1.b.1.

(2) Pension plans of investments in controlled companies.

(3) Net of employees income tax withholding related to the share-based benefit plans

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YPF SOCIEDAD ANONIMA AND CONTROLLED COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015, 2014 AND 2013 (Cont.)

(Amounts expressed in millions of Argentine Pesos, except shares and per share amounts expressed in Argentine Pesos, and as otherwise indicated Note 1.b.1)

	2013								
	Shareholders contributions								
	Subscribed capital	Adjustment to contributions	Treasury shares	Adjustment to treasury shares	Share-based benefit plans	Acquisition cost of treasury shares	Share trading premium	Issuance premiums	Total
Balances as of December 31, 2012	3,933	6,101						640	10,674
Accrual of share-based benefit plans					81(4)				81
Repurchase of treasury shares	(12)	(19)	12	19		(120)			(120)
Settlement of share-based benefit plans (3)	3	5	(3)	(5)	(41)	10	(4)		(35)
Balances as of December 31, 2013	3,924	6,087	9	14	40	(110)	(4)	640	10,600

	2013									
	Reserves									
	Legal	Future dividends	Investments	Purchase of treasury shares	Initial IFRS adjustment	Other comprehensive income	Retained earnings	Equity attributable to Shareholders of the parent company	Non-controlling interest	Total shareholders equity
Balances as of December 31, 2012	2,007		5,751			6,087	6,741	31,260		31,260
Accrual of share-based benefit plans								81		81
								(120)		(120)

Repurchase of treasury shares										
Settlement of share-based benefit plans [3]								(35)		(35)
Purachase of equity interest in controlled company									178	178
Contributions of non-controlling interest									92	92
As decided by Ordinary and Extraordinary Shareholders meeting of April 30, 2013		330	2,643	120	3,648		(6,741)			
As decided by the Board of Directors of August 9, 2013		(326)						(326)		(326)
Other comprehensive income						12,031		12,031		12,031
Actuarial gains reclassification Pension Plan [2]						(6)	6			
Net income							5,125	5,125	(46)	5,079
Balances as of December 31, 2013	2,007	4	8,394	120	3,648	18,112[1]	5,131	48,016	224	48,240

(1) Includes 18,836 corresponding to the effect of the translation of the financial statements of YPF S.A. and (724) corresponding to the effect of the translation of the financial statements of investments in companies with functional currency different to U.S. dollar, as detailed in Note 1.b.1 During fiscal year ended on December 31, 2013, (115) have been reclassified for purposes of the effect of the conversion of Pluspetrol Energy S.A s financial statements due to the said company s spin off.

(2) Pension plans of investments in controlled companies.

(3) Net of employees income tax withholding related to the share-based benefit plans.

(4) Includes 38 corresponding to long-term benefit plans as of December 31, 2012, which were converted to share-based benefit plans (see Note 1.b.10) and 43 corresponding to the accrual of share-based benefit plans for the year ended December 31, 2013.

Accompanying notes are an integral part of consolidated financial statements.

YPF SOCIEDAD ANONIMA AND CONTROLLED COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2015, 2014 AND 2013

(Amounts expressed in millions of Argentine Pesos, except shares and per share amounts expressed in Argentine Pesos, and as otherwise indicated Note 1.b.1)

	2015	2014	2013
Cash flows from operating activities			
Net income	4,426	8,849	5,079
Adjustments to reconcile net income to cash flows provided by operating activities:			
Result on investments in companies	(318)	(558)	(353)
Depreciation of fixed assets	26,685	19,936	11,236
Amortization of intangible assets	323	469	197
Consumption of materials and retirement of fixed assets and intangible assets, net of provisions.	3,773	4,041	2,336
Charge on income tax	24,637	13,223	9,269
Net increase in provisions	6,133	5,561	3,390
Exchange differences, interest and other (1)	(13,449)	(2,116)	(3,669)
Share-based benefit plan	124	80	81
Accrued insurance	(1,688)	(2,041)	(1,956)
Changes in assets and liabilities:			
Trade receivables	(8,031)	(3,824)	(2,627)
Other receivables	(6,143)	248	(1,332)
Inventories	101	(244)	(732)
Accounts payable	6,211	5,067	3,243
Taxes payables	4,544	218	272
Salaries and social security	549	727	253
Decrease in provisions due to payment/use	(1,758)	(1,974)	(713)
Dividends received	180	299	280
Proceeds from collection of lost profit insurance	2,036	1,689	
Income tax payments	(6,931)	(3,496)	(3,290)
Net cash flows provided by operating activities	41,404	46,154	20,964
Investing activities: (2)			
Acquisition of fixed assets and intangible assets	(63,774)	(50,213)	(27,639)
Contributions and acquisitions of interests in companies and joint operations	(163)	(967)	(20)
Advances received from sale of fixed and intangible assets		2,060	5,351
Acquisition of subsidiaries net of acquired cash and cash equivalents		(6,103)	107
Investments in financial assets	(324)		
Proceeds from collection of damaged property s insurance	212	1,818	
Net cash flows used in investing activities	(64,049)	(53,405)	(22,201)

Financing activities: [(2)]			
Payments of loans	(24,090)	(13,320)	(6,804)
Payments of interest	(6,780)	(5,059)	(2,696)
Proceeds from loans	55,158	23,949	16,829
Repurchase of treasury shares	(120)	(200)	(120)
Contributions of non-controlling interests		80	96
Dividends paid	(503)	(464)	(326)
Net cash flows provided by financing activities	23,665	4,986	6,979
Translation differences provided by cash and cash equivalents	4,609	1,310	224
Net increase (decrease) in cash and cash equivalents	5,629	(955)	5,966
Cash and cash equivalents at the beginning of year	9,758	10,713	4,747
Cash and cash equivalents at the end of year	15,387	9,758	10,713
Net increase (decrease) in cash and cash equivalents	5,629	(955)	5,966
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
- Cash	13,920	6,731	4,533
- Cash equivalents	1,467	3,027	6,180
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	15,387	9,758	10,713

(1) Does not include exchange differences generated by cash and cash equivalents, which is exposed separately in the statement.

(2) The main investing and financing transactions that have not affected cash and cash equivalents correspond to :

	2015	**2014**	**2013**
Acquisition of fixed assets and concession extension easements not paid	6,799	7,567	5,604
Net increases (decreases) related to hydrocarbon wells abandonment obligation costs	(1,281)	(268)	4,357
Dividends receivable	100		
Decrease of loans for El Orejano agreement	2,373		
Contributions of non-controlling interests	50		
Capital contributions in kind from investments in companies		342	133

Accompanying notes are an integral part of consolidated financial statements.

YPF SOCIEDAD ANONIMA AND CONTROLLED COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015 AND COMPARATIVE INFORMATION

(Amounts expressed in millions of Argentine Pesos, except shares and per share amounts expressed in Argentine Pesos, and as otherwise indicated Note 1.b.1)

1. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1.a. Basis of preparation

Application of International Financial Reporting Standards

The consolidated financial statements of YPF S.A. (hereinafter YPF or the Company) and its controlled companies (hereinafter and all together, the Group) for the year ended December 31, 2015 are presented in accordance with International Financial Reporting Standard (IFRS). The adoption of these standards as issued by the International Accounting Standards Board (IASB) was determined by the Technical Resolution No. 26 (ordered text) issued by Argentine Federation of Professional Councils in Economic Sciences (FACPCE) and the Regulations of the Argentine Securities Commission (CNV).

Also, some additional issues required by the Argentine General Corporations Law and/or CNV s regulations have been included. This information is contained in the Notes to these consolidated financial statements, only for purposes of fulfillment of these regulatory requirements.

The amounts and other information corresponding to the years ended on December 31, 2014 and 2013 are an integral part of the consolidated financial statements mentioned above and are intended to be read only in relation to these financial statements.

These financial statements were approved by the Board of Directors meeting and authorized to be issued on March 3, 2016 and will be considered by the next annual Shareholders meeting. In addition for purpose of its presentation to the Securities and Exchange Commission of the United States of America, the Note 20 Supplemental information on Oil and Gas producing activities (unaudited) has been included.

Current and non-current classification

The presentation in the statement of financial position makes a distinction between current and non-current assets and liabilities, according to the activities operating cycle.

The operating cycle for the Group activities is 12 months. Therefore, current assets and liabilities include assets and liabilities which are realized or settled within the 12-month period from the end of the fiscal year.

All other assets and liabilities are classified as non-current. Current and deferred tax assets and liabilities are presented separately from each other and from other assets and liabilities, as current and non-current, respectively.

Fiscal year-end

The Company s fiscal year begins on January 1 and ends on December 31, each year.

Use of estimates

The preparation of financial statements at a certain date requires the Management to make estimates and assessments affecting the amount of assets and liabilities recorded, contingent assets and liabilities disclosed at such date, as well as income and expenses recorded during the period. Actual future results might differ from the estimates and assessments made at the date of preparation of these consolidated financial statements.

Significant judgments made by Management in applying the Group s accounting policies and the main estimations and critical judgments are disclosed in Note 1.c)

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Consolidation policies

a) General criteria

For purpose of presenting the consolidated financial statements, the full consolidation method was used with respect to those subsidiaries in which the Company holds, either directly or indirectly, control, understood as the ability to establish/manage the financial and operating policies of a company to obtain benefits from its activities. This capacity is, in general but not exclusively, obtained by the ownership, directly or indirectly of more than 50% of the voting shares of a company.

Interest in joint operations and other agreements which gives the Company a percentage contractually established over the rights of the assets and obligations that emerge from the contract (joint operations), have been consolidated line by line on the basis of the mentioned participation over the assets, liabilities, income and expenses related to each contract. Assets, liabilities, income and expenses of joint operations are presented in the consolidated financial position and in the consolidated statement of comprehensive income, in accordance with their respective nature.

Note 16 details the fully consolidated controlled companies. Note 17 details the main joint operations, on a *pro rata* consolidation basis.

In the consolidation process, balances, transactions and profits between consolidated companies and joint operations have been eliminated.

The Company s consolidated financial statements are based on the most recent available financial statements of the companies in which YPF holds control, taking into consideration, where necessary, significant subsequent events and transactions, information available to the Company s management and transactions between YPF and such controlled companies, which could have produced changes to their shareholders equity. The date of the financial statements of such controlled companies used in the consolidation process may differ from the date of YPF s financial statements due to administrative reasons. The accounting principles and procedures used by controlled companies have been homogenized, where appropriate, with those used by YPF in order to present the consolidated financial statements based on uniform accounting and presentation policies. The financial statements of controlled companies whose functional currency is different from the presentation currency are translated using the procedure set out in Note 1.b.1.

The Company, directly and indirectly, holds approximately 100% of capital of the consolidated companies, with the exception of the indirect holdings in Metrogas S.A. (Metrogas) and YPF Tecnología S.A. In accordance with the previously mentioned, there are no material non-controlling interests to be disclosed, as required by IFRS 12 Disclosure of Interests in Other Entities .

b) Business combinations

As detailed in Note 2, on February 12, 2014, YPF and its subsidiary YPF Europe B.V. accepted the offer made by Apache Overseas Inc. and Apache International S.à.r.l. for the acquisition of 100% of its interest in companies controlling Apache Group s assets in Argentina completing the precedent conditions set forth in that agreement on March 13, 2014 (take over control date). Additionally, during the second quarter of 2013 the Company obtained control over Gas Argentino S.A. (GASA), parent company of Metrogas, and as from August, 2013, over YPF Energía Eléctrica S.A. (YPF Energía Eléctrica), a company resulting from the spin-off of Pluspetrol Energy S.A.

The Company has consolidated the results of operations of Apache Group (hereinafter YSUR), GASA, and consequently of its subsidiaries, and of YPF Energía Eléctrica as from the moment in which it obtained control over such companies. The accounting effects of the above mentioned transactions, which include the purchase price allocation to the assets and liabilities acquired, are disclosed in Note 2.

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1.b) Significant Accounting Policies

1.b.1) Functional and Reporting Currency and tax effect on Other Comprehensive Income

Functional Currency

YPF based on parameters set out in IAS 21 The effects of change in foreign exchange rates , has defined the U.S. dollar as its functional currency. Consequently, non-monetary cost-based measured assets and liabilities, as well as income or expenses, are remeasured into functional currency by applying the exchange rate prevailing at the date of the transaction.

Transactions in currencies other than the functional currency of the Company are deemed to be foreign currency transactions and are remeasured into functional currency by applying the exchange rate prevailing at the date of the transaction (or, for practical reasons and when exchange rates do not fluctuate significantly, the average exchange rate for each month). At the end of each year or at the time of cancellation the balances of monetary assets and liabilities in currencies other than the functional currency are measured at the exchange prevailing at such date and the exchange differences arising from such measurement are recognized as Financial results, net in the consolidated statement of comprehensive income for the year in which they arise.

Assets, liabilities and results of controlled companies and investments in other companies are shown in their respective functional currencies. The effects of the conversion into U.S. dollars of the financial information of those companies whose functional currency is other than U.S. dollar are recorded as Other comprehensive income in the Consolidated Statement of Comprehensive Income.

Presentation currency:

According to CNV Resolution No. 562, the Company must present its financial statements in pesos. Therefore, the financial statements prepared in the Company s functional currency are translated into the presentation currency, as per the following procedures:

Assets and liabilities of each of the balance sheets presented are translated using the exchange rate at the balance sheet closing date;

Items of the Consolidated Statement of Comprehensive Income are translated using the exchange rate at the time the transactions were generated (or, for practical reasons, and provided the exchange rate has not changed significantly, using each month s average exchange rate);

All translation differences resulting from the foregoing are recognized under Other Comprehensive Income .

Tax effect on Other comprehensive Income:

Results included in Other Comprehensive Income in connection with translation differences generated by investments in companies whose functional currency is other than US dollar as well as conversion differences arising from the translation of YPF´s financial statements into its presentation currency (pesos), have no effect on the income tax or in the deferred tax since at the time they were generated, the relevant transactions did not make any impact on net income or taxable income.

1.b.2) <u>Financial Assets</u>

a) Classification

In accordance with IFRS 9 Financial instruments , the Group classifies its financial assets into two categories: assets measured at fair value and assets measured at amortized cost. This classification depends on whether the financial asset is a debt instrument or an equity instrument.

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i. Debt instruments

Financial assets at amortized cost

A debt instrument is classified as an asset measured at amortized cost if both of the following criteria are met: (i) the objective of the Group s business model is to hold the assets to collect the contractual cash flow, and (ii) the contractual terms only require specific dates for payment of capital and interest.

As of the closing date of these financial statements, the Group s financial assets at amortized cost include certain elements of cash and cash equivalent, trade receivables and other receivables.

Financial assets at fair value through profit or loss

If either of the two criteria above is not met, the debt instrument is classified as an asset measured at fair value through profit or loss .

Changes in fair values and gains from disposals of financial assets at fair value through profit or loss (except for the derivative instruments referred to in Note 1.b.17) are recorded within Financial Results, net , in the Consolidated Statement of Comprehensive Income.

As of the closing date of these financial statements, the Group s financial assets at fair value through profit or loss include derivative financial instruments and mutual funds.

ii. Equity instruments

As of the closing date of these financial statements, the Group does not hold any equity instrument.

b) Recognition and measurement

Purchases and sales of financial assets are recognized on the date on which the Group commits to purchase or sell the assets. Financial assets are derecognized when the rights to receive cash flows from the investments and the risks and rewards of ownership have expired or have been transferred.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset which is not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

In general, the Group uses the transaction price to ascertain the fair value of a financial instrument on initial recognition. In the other cases, the Group records a gain or loss on initial recognition only if the fair value of the financial instrument can be supported by other comparable and observable market transactions for the same type of instrument or if it is based in a technical valuation that only inputs observable market information. Unrecognized gains or losses on initial recognition of a financial asset are recognized later on, only to the extent they arise from a change in the factors (including time) that market participants would consider upon setting the price.

Gains/losses on debt instruments measured at amortized cost and not included for hedging purposes are charged to income when the financial assets are derecognized or an impairment loss is recognized and during the amortization process using the effective interest rate method.

The Group reclassifies all affected debt instruments only when its business model for managing those assets changes.

c) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. 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 assets and such impairment may be reliably measured.

Evidence of impairment may include indications that debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankrupt or other financial reorganization, and when observable information indicates that there is a measurable decrease in the estimated future cash flows.

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The impairment amount 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 carrying amount of the asset is reduced and the amount or the loss is recognized in the statement of comprehensive income. For practical purposes, the Group may measure impairment on the basis of an instrument s fair value, using an observable market price. If, in a subsequent period, the amount the impairment loss decreases and the decrease can be related objectively to and event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statements of income.

d) Offsetting financial instruments

Financial assets and liabilities are offset 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.

1.b.3) Inventories

Inventories are valued at the lower of their cost and their net realizable value. Cost includes acquisition costs (less trade discount, rebates and other similar items), transformation and other costs which have been incurred when bringing the inventory to its present location and condition.

In the case of refined products, costs are allocated in proportion to the selling price of the related products (isomargen method) due to the difficulty for distributing the production costs to each product.

The Group assesses the net realizable value of the inventories at the end of each year and recognizes in profit or loss in the consolidated statement of comprehensive income the appropriate valuation adjustment if the inventories are overstated. When the circumstances that previously caused impairment no longer exist or when there is clear evidence of an increase in the inventories net realizable value because of changes in economic circumstances, the amount of a write-down is reversed.

Raw materials, packaging and others are valued at their acquisition cost.

1.b.4) Intangible assets

The Group initially recognizes intangible assets at their acquisition or development cost. This cost is amortized on a straight-line basis over the useful lives of these assets (see Note 6.a). At the end of each year, such assets are measured at cost, considering the criteria adopted by the Group in the transition to IFRS, less any accumulated amortization and any accumulated impairment losses.

The main intangible assets of the Group are as follows:

I. *Service concessions arrangements:* includes transportation and storage concessions (see Note 6.a). These assets are valued at their acquisition cost, considering the criteria adopted by the Group in the transition to IFRS, net of accumulated amortization. They are depreciated using the straight-line method during the course of the concession period.

II. *Exploration rights:* the Group recognizes exploration rights as intangible assets, which are valued at their cost, considering the criteria adopted by the Group in the transition to IFRS, net of the related impairment, if applicable. Investments related to unproved properties are not depreciated. These investments are reviewed for impairment at least once a year or whenever there are indicators that the assets may have become impaired. Any impairment loss or reversal is recognized in profit or loss in the consolidated statement of comprehensive income. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of unproved reserves and other expenditures relating to exploration activities), excluding exploratory wells drilling costs, are charged to expense in the consolidated statement of comprehensive income as incurred.

III. *Other intangible assets:* mainly includes costs relating to computer software development expenditures, as well as assets that represent the rights to use technology and knowledge (know how) for the manufacture and commercial exploitation of equipment related to oil extraction. These items are valued at their acquisition cost, considering the criteria adopted by the Group in the transition to IFRS, net of the related depreciation and impairment, if applicable. These assets are amortized on a straight-line basis over their useful lives, which range between 3 and 14 years. The Group reviews annually the mentioned estimated useful life.

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Service concessions: the Argentine Hydrocarbons Law permits the executive branch of the Argentine government to award 35-year concessions for the transportation of oil, gas and petroleum products following submission of competitive bids. The term of a transportation concession may be extended for an additional ten-year term. Pursuant to Law No. 26,197, provincial governments have the same powers. Holders of production concessions are entitled to receive a transportation concession for the oil, gas and petroleum products that they produce. The holder of a transportation concession has the right to:

- transport oil, gas and petroleum products;
- construct and operate oil, gas and products pipelines, storage facilities, pump stations, compressor plants, roads, railways and other facilities and equipment necessary for the efficient operation of a pipeline system.

In addition, a transportation concession holder is under an obligation to transport hydrocarbons to third parties, without discrimination, for a tariff. This obligation, however, is applicable to oil or gas producers only to the extent the concession holder has available additional capacity, and is expressly subject to the transportation requirements of the concession holder. Transportation tariffs are subject to approval by the Federal Energy Secretariat for oil and petroleum derivatives pipelines, and by ENARGAS, for gas pipelines. Upon expiration of a transportation concession, oil pipelines and related facilities revert to the Argentine Government, without any payment to the concession holder.

In connection with the foregoing, the Privatization Law granted the Company 35-year transportation concessions for the transportation facilities operated by Yacimientos Petroquímicos Fiscales as of such date. The main pipelines related to said transportation concessions are the following:

- La Plata / Dock Sud
- Puerto Rosales / La Plata
- Monte Cristo / San Lorenzo
- Puesto Hernández / Luján de Cuyo
- Luján de Cuyo / Villa Mercedes

Thus, assets meeting certain requirements set forth by the IFRIC 12, which at Management s judgment are met in the facilities mentioned in the preceding paragraphs, are recognized as intangible assets.

The Group has no intangible assets with indefinite useful lives as of December 31, 2015, 2014 and 2013.

1.b.5) <u>Investments in companies</u>

Investments in affiliated companies and Joint Ventures are valued using the equity method. Affiliated companies are considered those in which the Company has significant influence, understood as the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. Significant influence is presumed when the Company has an interest of 20% or more in a company.

Under the provisions of IFRS 11, Joint Arrangements , and IAS 28 (2011), Investments in Associates and Joint Ventures , investments in which two or more parties have joint control (defined as a Joint Arrangement) shall be classified as either a Joint Operation (when the parties that have joint control have rights to the assets and obligations for the liabilities relating to the Joint Arrangement) or a Joint Venture (when the parties that have joint control have rights to the net assets of the Joint Arrangement). Considering such classification, Joint Operations shall be proportionally consolidated and Joint Ventures shall be accounted for under the equity method.

The equity method consists in the incorporation in the balance sheet line Investments in companies , of the value of net assets and goodwill, if any, of the participation in the affiliated company or Joint Venture. The net income or expense for each year corresponding to the interest in these companies is reflected in the statement of comprehensive income in the Income on investments in companies line.

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Investments in companies have been valued based upon the latest available financial statements of these companies as of the end of each year, taking into consideration, if applicable, significant subsequent events and transactions, available management information and transactions between YPF and the related company which have produced changes on the latter s shareholders equity. The dates of the financial statements of such related companies and Joint Operations used in the consolidation process may differ from the date of the Company s financial statements due to administrative reasons. The accounting principles and procedures used by affiliated companies have been homogenized, where appropriate, with those used by YPF in order to present the consolidated financial statements based on uniform accounting and presentation policies. The financial statements of affiliated companies whose functional currency is different from the presentation currency are translated using the procedure set out in Note 1.b.1).

Investments in companies in which the Company has no joint control or significant influence, have been valued at cost.

Investments in companies with negative shareholders equity are disclosed in the Accounts payable account.

The carrying value of the investments in companies does not exceed their estimated recoverable value.

In Note 16 are detailed the investments in companies.

As from the effective date of Law No. 25,063, dividends, either in cash or in kind, that the Company receives from investments in other companies and which are in excess of the accumulated income that these companies carry upon distribution shall be subject to a 35% income tax withholding as a sole and final payment. YPF has not recorded any charge for this tax since it has estimated that dividends from earnings recorded by the equity method will not be subject to such tax.

1.b.6) Fixed assets

i. General criteria:

Fixed assets are valued at their acquisition cost, plus all the costs directly related to the location of such assets for their intended use, considering the criteria adopted by the Group in the transition to IFRS.

Borrowing costs of assets that require a substantial period of time to be ready for their intended use are capitalized as part of the cost of these assets.

Major inspections, necessary to restore the service capacity of the related asset are capitalized and depreciated on a straight-line basis over the period until the next overhaul is scheduled.

The costs of renewals, betterments and enhancements that extend the useful life of properties and/or improve their service capacity are capitalized. As fixed assets are retired, the related cost and accumulated depreciation are derecognized.

Repair, conservation and ordinary maintenance expenses are recognized in the statement of comprehensive income as incurred.

These assets are reviewed for impairment at least once a year or whenever there are indicators that the assets may have become impaired, as detailed in Note 1.b.8.

ii. Depreciation:

Fixed assets, other than those related to oil and gas exploration and production activities, are depreciated using the straight-line method, over the years of estimated useful life of the assets, as follows:

	Years of Estimated Useful Life
Buildings and other constructions	50
Refinery equipment and petrochemical plants	20-25
Infrastructure of natural gas distribution	20-50
Transportation equipment	5-25
Furniture, fixtures and installations	10
Selling equipment	10
Electric power generation facilities	15-20
Other property	10

Land is classified separately from the buildings or facilities that may be located on it and is deemed to have an indefinite useful life. Therefore, it is not depreciated.

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The Group reviews annually the estimated useful life of each class of assets.

iii. Oil and gas exploration and production activities:

The Group recognizes oil and gas exploration and production transactions using the successful-efforts method. The costs incurred in the acquisition of new interests in areas with proved and unproved reserves are capitalized as incurred under Mineral properties, wells and related equipment. Costs related to exploration permits are classified as intangible assets (see Notes 1.b.4 and 6.a).

Exploration costs, excluding the costs associated to exploratory wells, are charged to expense as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, are capitalized pending determination as to whether the wells have found proved reserves that justify commercial development. If such reserves are not found, the mentioned costs are charged to expense. Occasionally, an exploratory well may be determined to have found oil and gas reserves, but classification of those reserves as proved cannot be made. In those cases, the cost of drilling the exploratory well shall continue to be capitalized if the well has found a sufficient quantity of reserves to justify its completion as a producing well, and the Group is making sufficient progress assessing the reserves as well as the economic and operating viability of the project. If any of the mentioned conditions are not met, cost of drilling exploratory wells is charged to expense. In addition, the exploratory activity involves, in many cases, the drilling of multiple wells through several years in order to completely evaluate a project. As a consequence some exploratory wells may be kept in evaluation for long periods, pending the completion of additional wells and exploratory activities needed to evaluate and quantify the reserves related to each project. The detail of the exploratory well costs in evaluation stage is described in Note 6.b).

Intangible drilling costs applicable to productive wells and to developmental dry holes, as well as tangible equipment costs related to the development of oil and gas reserves, have been capitalized.

The capitalized costs described above are depreciated as follows:

a) The capitalized costs related to productive activities have been depreciated by field on a unit-of-production basis by applying the ratio of produced oil and gas to the estimated proved and developed oil and gas reserves.

b) The capitalized costs related to the acquisition of property and the extension of concessions with proved reserves have been depreciated by field on a unit-of-production basis by applying the ratio of produced oil and gas to the estimated proved oil and gas reserves.

Revisions in oil and gas proved reserves are considered prospectively in the calculation of depreciation. Revisions in estimates of reserves are performed at least once a year. Additionally, estimates of reserves are audited by independent petroleum engineers on a three-year rotation plan.

iv. Costs related to hydrocarbon wells abandonment obligations:

Costs related to hydrocarbon wells abandonment obligations are capitalized at their discounted value along with the related assets, and are depreciated using the unit-of-production method. As compensation, a liability is recognized for this concept at the estimated value of the discounted payable amounts. Revisions of the payable amounts are performed upon consideration of the current costs incurred in abandonment obligations on a field-by-field basis or other external available information if abandonment obligations were not performed. Due to the number of wells in operation and/or not abandoned and likewise the complexity with respect to different geographic areas where the wells are located, current costs incurred in plugging activities are used for estimating the plugging activities costs of the wells pending abandonment. Current costs incurred are the best source of information in order to make the best estimate of asset retirement obligations. Future changes in the costs above mentioned, as well as changes in regulations related to abandonment obligations, which are not possible to be predicted at the date of issuance of these financial statements, could affect the value of the abandonment obligations and, consequently, the related asset, affecting the results of future operations.

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v. Environmental tangible assets:

The Group capitalizes the costs incurred in limiting, neutralizing or preventing environmental pollution only in those cases in which at least one of the following conditions is met: (a) the expenditure improves the safety or efficiency of an operating plant (or other productive assets); (b) the expenditure prevents or limits environmental pollution at operating facilities; or (c) the expenditure is incurred to prepare assets for sale and do not raise the assets carrying value above their estimated recoverable value.

The environmental related assets and the corresponding accumulated depreciation are disclosed in the consolidated financial statements together with the other elements that are part of the corresponding assets which are classified according to their accounting nature.

1.b.7) Provisions

The Group makes a distinction between:

a) Provisions: represent legal or assumed obligations, arising from past events, the settlement of which is expected to give rise to an outflow of resources and which amount and timing are uncertain. Provisions are recognized when the liability or obligation giving rise to an indemnity or payment arises, to the extent that its amount can be reliably estimated and that the obligation to settle is probable or certain. Provisions include both obligations whose occurrence does not depend on future events (such as provisions for environmental liabilities and provision for hydrocarbon wells abandonment obligations), as well as those obligations that are probable and can be reasonably estimated whose realization depends on the occurrence of a future events that are out of the control of the Company (such as provisions for contingencies). The amount recorded as provision corresponds to the best estimate of expenditures required to settle the obligation, taking into consideration the relevant risks and uncertainties (see Note 10); and

b) Contingent liabilities: represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company, or present obligations arising from past events, the amount of which cannot be estimated reliably or whose settlement is not likely to give rise to an outflow of resources embodying future economic benefits. Contingent liabilities are not recognized in the consolidated financial statements, but rather are disclosed to the extent they are significant, as required by IAS 37, Provisions, contingent liabilities and contingent assets (see Note11).

When a contract qualifies as onerous, the related unavoidable liabilities are recognized in the consolidated financial statements as provisions, net of the expected benefits.

Except for provisions for hydrocarbon wells abandonment obligations, where the timing of settlement is estimated on the basis of the work plan of the Group, and considering the estimated production of each field (and therefore its abandonment) and provisions for pension plans, in relation to other noncurrent provisions, it is not possible to reasonably estimate a specific schedule of settlement of the provisions considering the characteristics of the concepts included.

1.b.8) Impairment of fixed assets and intangible assets

For the purpose of evaluating the impairment of fixed assets and intangible assets, the Group compares their carrying value with their recoverable amount at the end of each year, or more frequently, if there are indicators that the carrying value of an asset may not be recoverable.

In order to assess impairment, assets are grouped into Cash-Generating Units (CGU), whereas the assets do not generate cash flows that are independent of those generated by other assets or CGU, considering regulatory, economic, operational and commercial conditions. Considering the above mentioned, the Group´s assets were grouped into eleven CGU.

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Exploration and Production Segment

The assets included in this segment have been grouped into seven CGU. One that gathers the assets of YPF fields, which basically have crude oil reserves; five CGU that group the assets of YPF and YSUR fields which basically have natural gas reserves, according to the Argentina s basins, and another one that gathers the assets in the United States fields.

CGU Oil YPF;

CGU Oil YPF Holdings

CGU Gas Neuquina Basin YPF;

CGU Gas Noroeste Basin YPF;

CGU Gas Austral Basin YPF;

CGU Gas Neuquina Basin YSUR;

CGU Gas Austral Basin YSUR.

Downstream Segment

The assets included in this segment have been grouped in three CGU. The YPF Downstream CGU which mainly includes the assets assigned to the crude oil refining activity (or that complement such activity), the petrochemical industry and marketing of such products. The Metrogas CGU, which includes assets related to the distribution of natural gas and YPF Energía Eléctrica CGU, which includes assets related to generation and commercialization of electric energy.

Corporate Segment

A-Evangelista CGU mainly included of the assets used for the construction activity related to the Company s business.

This aggregation is the best reflection of how the Group currently makes its management decisions for the generation of separate cash flows of the assets.

The recoverable amount is the higher of, the fair value less costs of disposal and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a rate that reflects the weighted average capital cost employed for each CGU.

If the recoverable amount of a CGU is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable amount, and an impairment loss is recognized as an expense under Other operating results, net in the Consolidated Statement of Comprehensive Income.

Any impairment loss is allocated to the assets comprising the CGU on a pro-rata basis based on their carrying amount. Consequently, the basis for future depreciation or amortization will take into account the reduction in the value of the asset as a result of any accumulated impairment losses.

Upon the occurrence of new events or changes in existing circumstances, which prove that an impairment loss previously recognized could have disappeared or decreased, a new estimate of the recoverable amount of the corresponding asset is calculated to determine whether a reversal of the impairment losses recognized in previous periods needs to be made.

In the event of a reversal, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined in case no impairment loss had been recognized for the asset (or the CGU) in the past.

1.b.9) <u>Methodology used in the estimation of recoverable amounts</u>

Group´s General Criteria: The recoverable amount of fixed assets and intangible assets is generally estimated on the basis of their value in use, calculated on the basis of future expected cash flows derived from the use of the assets, discounted at a rate that reflects the weighted average capital cost employed.

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In the assessment of the value in use, cash flow forecasts based on the best estimate of income and expense available for each CGU using sector inputs, past results and future expectations of business evolution and market development are utilized. The most sensitive aspects included in the cash flows used in all the CGU are the purchase and sale prices of hydrocarbons (including gas distribution applicable fees), outstanding regulations, estimation of cost increase, employee costs and investments.

The cash flows from the exploration and production assets are generally projected for a period that covers the economically productive useful lives of the oil and gas fields and is limited by the contractual expiration of the concessions permits, agreements or exploitation contracts. The estimated cash flows are based on production levels, commodity prices and estimates of the future investments that will be necessary in relation to undeveloped oil and gas reserves, production costs, field decline rates, market supply and demand, contractual conditions and other factors. The unproved reserves are weighted with risk factors, on the basis of the type of each one of the exploration and production assets.

Downstream cash flows are estimated on the basis of the projected sales trends, contribution margins by unit, fixed costs and investment flows, in line with the expectations regarding the specific strategic plans of each business. However, cash inflows and outflows relating to planned restructurings or productivity enhancements are not considered. The projections evaluation horizon is 10 years, considering an annual rent for the last period, based on the long useful life of this GCU assets.

The reference prices considered are based on a combination of market prices available in those markets where the Group operates, also taking into consideration specific circumstances that could affect different products the Group commercializes and management s estimations and judgments.

Estimated net future cash flows are discounted to its present value using a rate that reflects the weighted average capital cost employed for each CGU.

1.b.10) Employee benefit plans and share-based payments

i. Retirement plan:

Effective March 1, 1995, the Group have established a defined contribution retirement plan that provides benefits for each employee who elects to join the plan. Each plan member will pay an amount between 3% and 10% of his monthly compensation and the Group will pay an amount equal to that contributed by each member.

The plan members will receive from the Group the contributed funds before retirement only in the case of voluntary termination under certain circumstances or dismissal without cause and, additionally, in case of death or incapacity. The Group has the right to discontinue this plan at any time, without incurring termination costs.

ii. Performance Bonus Programs:

These programs cover certain YPF and its controlled companies personnel. These bonuses are based on compliance with business unit objectives and performance. They are calculated considering the annual compensation of each employee, certain key factors related to the fulfillment of these objectives and the performance of each employee and are paid in cash.

iii. Share-based benefit plan:

From the year 2013, YPF has decided to implement a share-based benefit plan. This plan organized in annual programs, covers certain executive and management positions and key or with critical technical knowledge personnel. The above mentioned plan is aimed at aligning the performance of these personnel with the objectives of the strategic plan of the Company.

This plan consists in giving participation, through shares of the Company, to each selected employee with the condition of remaining in it for the previously defined period (up to three years from the grant date, hereinafter service period), being this the only condition necessary to access the agreed final retribution. During the year 2013, the implementation of these plans has included the conversion of certain long term compensation plans existing to date of implementation.

Consequently, during the month of June 2013, the Company has converted these existing plans to new share-based schemes, reversing a liability of 38 corresponding to existing plans as of December 31, 2012.

Consistent with share-based benefit plans approved in 2013, the Board of Directors at its meeting held on June 11, 2014, approved the creation of a new share-based benefit plan 2014-2016, which will be valid for three years from July 1, 2014 (grant date), with similar characteristics to those of the 2013-2015 plan.

Likewise, the Board of Directors at its meeting held on June 8, 2015, approved the creation of a new share-based benefit plan 2015-2017, which will be valid for three years from July 1, 2015 (grant date), with similar characteristics to the existing plans.

For accounting purposes, YPF recognizes the effects of the plans in accordance with the guidelines of IFRS 2, Share-based Payment . In this order, the total cost of the plans granted is measured at the grant date, using the fair value or market price of the Company s share in the United States market. The above mentioned cost is accrued in the Company s net income for the year, over the vesting period, with the corresponding increase in Shareholders equity in the Share-based Benefit Plans account.

iv. Pension plans and other Post- Retirement and Post- employment for YPF Holdings Inc.:

YPF Holdings Inc., which has operations in the United States of America, has certain defined benefit plans and post-retirement and post-employment benefits.

The funding policy related to the defined benefit plan, is to contribute amounts to the plan sufficient to meet the minimum funding requirements under governmental regulations, plus such additional amounts as management may determine to be appropriate.

In addition, YPF Holdings Inc. provides certain health care and life insurance benefits for eligible retired employees, and also certain insurance, and other post-employment benefits for eligible individuals in the event employment is terminated by YPF Holdings Inc. before their normal retirement. Employees become eligible for these benefits if they meet minimum age and years-of-service requirements. YPF Holdings Inc. accounts for benefits provided when payment of the benefit is probable and the amount of the benefit can be reasonably estimated. No assets were specifically reserved for the post-retirement and post-employment benefits, and consequently, payments related to them are funded as claims are received.

The plans mentioned above are valued at their net present value, are accrued based on the years of active service of the participating employees and are disclosed as noncurrent liabilities in the Salaries and social security account. The actuarial gains and losses arising from the remeasurement of the defined benefit liability of pension plans are recognized in Other Comprehensive Income as a component of shareholders equity, and are transfer directly to the retained earnings. YPF Holdings Inc. updates its actuarial assumptions at the end of each fiscal year.

Additional disclosures related to the mentioned plans, are included in Note 13.

Additionally, Management believes that the deferred tax asset generated by the cumulative actuarial losses related to the pension plans of YPF Holdings Inc., will not be recoverable based on estimated taxable income generated in the jurisdiction in which they are produced.

1.b.11) <u>Revenue recognition</u>

General criteria

Revenue is recognized on sales of crude oil, refined products and natural gas, in each case, when title and risks are transferred to the customer following the conditions described below:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group does not retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Revenue recognition related to Government incentive programs

Incentives to the Additional Injection of natural gas and to the production of crude oil (see Note 11.c) granted by the Planning and Strategic Coordination Commission of the National Plan of Hydrocarbons Investment by Resolutions No. 1/2013 and No. 14/2015, respectively, fall within the scope of the IAS 20 Accounting for Government grants and disclosure of government assistance , as they constitute economic compensations for the companies committed to increasing their respective production. Incentives have been included in Revenues in the Consolidated Statement of Comprehensive Income.

Likewise, these regulations also apply to the temporary economic assistance by Metrogas (see Note 11.c), as approved by Resolution No. 263/2015 of the Federal Energy Secretariat as its purpose is to fund the expenses and investments related to the normal operation of the natural gas distribution service through networks, while preserving the chain of payment to natural gas producers until the Tariff Review is concluded. The incentives have been included in the item Other operating results, net in the Consolidated Statement of Comprehensive Income.

In addition, Argentine tax authorities provide a tax incentive for investment in capital goods, computers and telecommunications for domestic manufacturers through a fiscal bond, provided that manufacturers have industrial establishments located in Argentina, a requirement that is satisfied by the controlled company A-Evangelista S.A. The Group recognizes such incentive when the formal requirements established by Decrees No. 379/01, 1551/01, its amendments and regulations are satisfied, to the extent that there is reasonable certainty that the grants will be received. The bond received may be computed as a tax credit for the payment of national taxes (i.e., Income Tax, Tax on Minimum Presumed Income, Value Added Tax and Domestic Taxes) and may also be transferred to third parties. The incentives have been included in the item Other operating results, net in the Consolidated Statement of Comprehensive Income.

Recognition of this income is made at its fair value when there is a reasonable certainty that incentives will be received and that regulatory requirements related therewith have been fulfilled.

Recognition of revenues and costs associated with construction contracts method

Revenues and costs related to construction activities performed by A-Evangelista S.A. are accounted for in the consolidated statement of comprehensive income for the year using the percentage of completion method, considering the final contribution margin estimated for each project at the date of issuance of the financial statements, which arises from technical studies on sales and total estimated costs for each of them, as well as their physical progress.

The adjustments in contract values, changes in estimated costs and anticipated losses on contracts in progress are reflected in earnings in the year when they become evident.

The table below details information related to the construction contracts as of December 31, 2015, 2014 and 2013:

		Contracts in progress		
	Revenues of the year	**Costs incurred plus accumulated recognized profits**	**Advances received**	**Retentions**
2015	455	577		

2014	419	418	
2013	312	2,359	368

1.b.12) Leases

Operating leases

A lease is classified as an operating lease when the lessor does not transfer substantially to the lessee the entire risks and rewards incidental to ownership of the asset.

Costs related to operating leases are recognized on a straight-line basis in Rental of real estate and equipment and Operation services and other service contracts of the Consolidated Statement of Comprehensive Income for the year in which they arise.

Financial Leases

The Group has no financial leases as they are defined by IFRS.

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1.b.13) Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to YPF s shareholders by the weighted average of shares of YPF outstanding during the year net of repurchased shares as mentioned in Note 8.

Diluted earnings per share is calculated by dividing the net income for the fiscal year by the weighted average of shares outstanding, and when dilutive, adjusted for the effect of all potentially dilutive shares, including share options, on an as if they had been converted.

In computing diluted earnings per share, income available to ordinary shareholders, used in the basic earnings per share calculation, is adjusted by those results that would result of the potential conversion into ordinary stock. The weighted average number of ordinary shares outstanding is adjusted to include the number of additional ordinary shares that would have been outstanding if the dilutive potential ordinary shares had been issued. Diluted earnings per share is based on the most advantageous conversion rate or exercise price over the entire term of the instrument from the standpoint of the security holder. The calculation of diluted earnings per share excludes potential ordinary shares if their effect is anti-dilutive.

As of the date of the issuance of these financial statements, there are no YPF´s instruments outstanding that imply the existence of potential ordinary shares (also taking into account the Company s intent to cancel the Share-based benefit plans through their repurchase in the market). Thus the basic earnings per share matches the diluted earnings per share. See Note 9.

1.b.14) Financial liabilities

Financial liabilities are initially recognized at their fair value less the transaction costs incurred. Since the Group does not have financial liabilities whose characteristics require the recognition at their fair value, according to IFRS, after their initial recognition, financial liabilities are measured at amortized cost. Any difference between the financing received (net of transaction costs) and the repayment value is recognized in the consolidated statement of comprehensive income over the life of the related debt instrument, using the effective interest rate method.

The Group derecognizes financial liabilities when the related obligations are settled or expire.

At the closing of these consolidated financial statements, the Group s financial liabilities at amortized cost include account payables and loans.

In order to account for the exchange of debt obligations arising from the voluntary reorganization petition of Metrogas and GASA for new negotiable obligations executed on January 11, 2013 and March 15, 2013, respectively, the Group has followed the guidelines provided by IFRS 9, Financial Instruments .

IFRS 9 states that an exchange of debt instruments between a borrower and a lender shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability when the instruments have substantially different terms. The difference between the carrying amount of the financial liability extinguished and the consideration paid, which includes any non-cash assets transferred or liabilities assumed, is recognized in net incomef for the period or fiscal year. The Group considers that the terms of the outstanding debt obligations, arising from the voluntary reorganization petition, subject to the exchange are substantially different from the new negotiable obligations. Additionally, the Group has evaluated and positively concluded over the estimated funds that such companies will have to comply with the terms of the debt and that allows the recognition of the debt relief. Consequently, Metrogas and GASA have recorded the debt instruments exchange following the guidelines mentioned above. Also, according to IFRS 9 the new negotiable obligations were recognized initially at fair value, net of transaction costs incurred and subsequently measured at amortized cost. In the initial recognition, the fair value of such debt has been estimated using the discounted cash flow method, in the absence of quoted prices in active markets representative for the amount issued.

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1.b.15) Taxes, withholdings and royalties

Income tax and tax on minimum presumed income

The Group recognizes the income tax applying the liability method, which considers the effect of the temporary differences between the financial and tax basis of assets and liabilities and the tax loss carry forwards and other tax credits, which may be used to offset future taxable income, at the current statutory rate of 35%.

Additionally, the Group calculates tax on minimum presumed income applying the current 1% tax rate to taxable assets as of the end of each year. This tax complements income tax. The Company s tax liability will coincide with the higher between the determination of tax on minimum presumed income and the Company s tax liability related to income tax, calculated applying the current 35% income tax rate to taxable income for the year. However, if the tax on minimum presumed income exceeds income tax during one tax year, such excess may be computed as prepayment of any income tax excess over the tax on minimum presumed income that may be generated in the next ten years.

Under Law No. 25,063, dividends distributed, either in cash or in kind, in excess of accumulated taxable income as of the end of the year immediately preceding the dividend payment or distribution date, shall be subject to a 35% income tax withholding as a sole and final payment, except for those distributed to shareholders resident in countries benefited from treaties for the avoidance of double taxation, which will be subject to a minor tax rate.

Additionally, on September 20, 2013, Law No. 26,893 was enacted, establishing changes to the Income Tax Law, and determining, among other things, an obligation respecting such tax as a single and final payment of 10% on dividends paid in cash or in kind (except in shares) to foreign beneficiaries and individuals residing in Argentina, in addition to the 35% retention mentioned above. The dispositions of this Law came in force on September 23, 2013, date of its publication in the Official Gazette.

Personal assets tax Substitute responsible

Individuals and foreign entities, as well as their undistributed estates, regardless of whether they are domiciled or located in Argentina or abroad, are subject to personal assets tax of 0.5% of the value of any shares or ADSs issued by Argentine entities, held at December 31 of each year. The tax is levied on the Argentine issuers of such shares or ADSs, such as YPF, which must pay this tax in substitution of the relevant shareholders, and is based on the equity value (following the equity method), or the book value of the shares derived from the latest financial statements at December 31 of each year. Pursuant to the Personal Assets Tax Law, the Group is entitled to seek reimbursement of such paid tax from the applicable shareholders, using the method the Group considers appropriate.

Royalties and withholding systems for hydrocarbon exports

A 12% royalty is payable on the estimated value at the wellhead of crude oil production and the commercialized natural gas volumes. The estimated value is calculated based upon the approximate sale price of the crude oil and gas produced, less the costs of transportation and storage. To calculate royalties, the Company has considered price agreements according to crude oil buying and selling operations obtained in the market for certain qualities of such product, and has applied these prices, net of the discounts mentioned above, according to regulations of Law No. 17,319 and its amendments. In addition, and pursuant to the extension of the original terms of exploitation concessions, the Company has agreed to pay an extraordinary production royalty and in some cases a royalty of 10% is payable over the production of unconventional hydrocarbons (see Note 11).

Royalty expense and the extraordinary production royalties are accounted for as a production cost.

Law No. 25,561 on Public Emergency and Exchange System Reform (Public emergency law), issued in January 2002, established duties for hydrocarbon exports for a five-year period. In January 2007, Law No. 26,217 extended this export withholding system for an additional five-year period and also established specifically that this regime is also applicable to exports from Tierra del Fuego province , which were previously exempted. In addition, Law No. 26,732 published in the Official Gazette in December 2011 extended for an additional 5 years the mentioned regime. On November 16, 2007, the Ministry of Economy and Production (MEP) published Resolution No. 394/2007, modifying the withholding regime on exports of crude oil and other refined products. In addition, the Resolution No. 1/2013, published on January 3, 2013 and the Resolution No. 803/2014 published on October 21, 2014 from the Ministry of Economy and Public Finance modified the reference and floor prices.

Resolution No. 1,077/2014 dated on December 29, 2014 repealed Resolution No. 394/2007 and amended and established a new withholding system based on the International Price of crude oil (IP), calculated on the basis of the Brent value applicable to the export month minus eight dollars per barrel (US$ 8.0 per barrel). The new regime establishes a general nominal rate of 1% while IP is below US$ 71 per barrel. Additionally, the Resolution establishes an increasing variable rate for export of crude oil while IP is above US$ 71 per barrel; therefore, the producer will collect a maximal value of about US$ 70 per exported barrel, depending on the quality of crude oil sold. Likewise, the Resolution establishes a variable increasing withholding rates for exports of diesel, gasoline, lubricants and other petroleum derivatives when IP exceeds US$ 71 per barrel by using formulas allowing the producer to collect a portion of such higher price.

Furthermore, in March 2008, Resolution No. 127/2008 of the MEP increased the natural gas export withholding rate to 100% of the highest price from any natural gas import contract. This resolution has also established a variable withholding system applicable to liquefied petroleum gas, similar to the one established by the Resolution No. 394/2007.

1.b.16) Shareholders equity accounts

Shareholders equity accounts have been valued in accordance with accounting principles in effect as of the transition date. The accounting transactions that affect shareholders equity accounts were accounted for in accordance with the decisions taken by the Shareholders meetings, and legal standards or regulations.

Subscribed capital stock and adjustments to contributions

Consists of the shareholders contributions represented by shares and includes the outstanding shares at face value net of treasury shares mentioned in the following paragraph Treasury shares and adjustment to treasury shares . The subscribed capital account has remained at its historical value and the adjustment required previous Argentine GAAP to state this account in constant Argentine pesos is disclosed in the Adjustments to contributions account.

The adjustment to contributions cannot be distributed in cash or in kind, but is allowed its capitalization by issuing shares. Also, this item may be used to compensate accumulated losses.

Treasury shares and adjustments to treasury shares

Corresponds to the reclassification of the nominal value and the corresponding adjustment in constant peso (Adjustment to Contributions) of shares issued and repurchased by YPF in market transactions, as is required by the CNVs regulations in force.

Share-based benefit plans

Corresponds to the balance related to the share-based benefit plans as mentioned in Note 1.b.10.iii).

Acquisition cost of repurchased shares

Corresponds to the cost incurred in the acquisition of the shares that YPF holds as treasury shares (see Note 8).

Considering the CNV regulations RG 562, the distribution of retained earnings is restricted by the balance of this account.

Share trading premium

Corresponds to the difference between accrued amount in relation to the shared-based benefit plan and acquisition cost of the shares settled during the year in relation with the mentioned plan.

Considering the debit balance of the premium, distribution of retained earnings is restricted by the balance of this premium.

Issuance premiums

Corresponds to the difference between the amount of subscription of the capital increase and the corresponding face value of the shares issued.

Legal reserve

In accordance with the provisions of Law No. 19,550, YPF has to appropriate to the legal reserve no less than 5% of the algebraic sum of net income, prior year adjustments, transfers from other comprehensive income to retained earnings and accumulated losses from previous years, until such reserve reaches 20% of the subscribed capital plus adjustment to contributions. As of December 31, 2015, the legal reserve has been fully integrated amounting 2,007.

Reserve for future dividends

Corresponds to the allocation made by the YPF s Shareholders meeting, whereby a specific amount is transferred to the reserve for future dividends.

Reserve for investments and reserve for purchase of treasury shares

Corresponds to the allocation made by the YPF s Shareholders meeting, whereby a specific amount is being assigned to be used in future investments and in the purchase of YPF s shares to meet the obligations arising from share-based benefit plan described in Note 1.b.10.iii).

Initial IFRS adjustment reserve

Corresponds to the initial adjustment in the transition to IFRS application, which was approved by the Shareholders meeting of April 30, 2013, in accordance with the General Resolution No. 609 of the CNV.

Such reserve cannot be used in distributions in cash or in kind to the shareholders or owners of YPF and may only be reversed for capitalization or absorption of an eventual negative balance on the Retained earnings account according the aforementioned Resolution.

Other comprehensive income

Includes income and expenses recognized directly in equity accounts and the transfer of such items from equity accounts to the income statement of the year or to retained earnings, as defined by IFRS.

Retained earnings

Includes accumulated gains or losses without a specific appropriation that being positive can be distributed upon the decision of the Shareholders meeting, while not subject to legal restrictions. Additionally, it includes the net income of previous years that was not distributed, the amounts transferred from other comprehensive income and adjustments to income of previous years produced by the application of new accounting standards.

Additionally, pursuant to the regulations on the CNV, when the net balance of other comprehensive income account is positive, it shall not be distributed, capitalized nor used to compensate accumulated losses, and when the net balance of these results at the end of a year is negative, a restriction on the distribution of retained earnings for the same amount will be imposed.

Non-controlling interest

Corresponds to the interest in the net assets acquired and net income of Metrogas (30%) and YPF Tecnología S.A. (49%), representing the rights on shares that are not owned by YPF.

1.b.17) Derivative financial instruments and hedge transactions

Derivative financial instruments are recognized at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge instrument, and, if so, the nature of the item being hedged.

The Group manages exposures to several risks using different financial instruments. The Group does not use derivative financial instruments for speculative purposes. As of this date, the Group has used US dollar future exchange rate agreements.

The Group s policy is to apply hedge accounting to hedging relationships where it is both permissible under IFRS 9, practical to do so and its application reduces volatility. Transactions that may be effective hedges in economic terms may not always qualify for hedge accounting under IFRS 9. As of this date, the Group has not applied hedge accounting to its derivative financial instruments. Gains or losses from these derivative financial instruments are classified as Financial results, net , in the statement of comprehensive income.

Fair values of derivative financial instruments that are traded in active markets are computed by reference to market prices. The fair value of derivative financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each fiscal year. As of December 31, 2015, the Group only holds derivative instruments traded on active markets

1.b.18) Trade receivables and other receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

A provision for bad debt is created where there is objective evidence that the Group may not be able to collect all receivables within the original payment terms. Indicators of bad debts include significant financial distress of the debtor, the debtor potentially filing a petition for reorganization or bankrupt, or any event of default or past due account.

In the case of larger non-homogenous receivables, the impairment provision is calculated on an individual basis. When assessed individually, the Group records a provision for impairment which amounts to the difference between the value of the discounted expected future cash flows of the receivable and its carrying amount, taking into account existing collateral, if any. This provision takes into consideration the financial condition of the debtor, the resources, payment track-record and, if applicable, the value of collateral.

The Group does not hold significant homogeneous credits.

The carrying amount of the assets is reduced through the use of the provision account, and the amount of the loss is recognized in the statement of comprehensive income within Selling expenses . Subsequent recoveries of amounts previously written off are credited against Selling expenses in the statement of comprehensive income.

1.b.19) Cash and cash equivalents

In the consolidated statement of cash flow, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquidity investments with original maturities of three months or less. They do not include bank overdrafts.

1.b.20) Dividends distribution

Dividends payable by the Group are recognized as liabilities in the period in which they are approved.

1.b.21) Business combinations

Business combinations are accounted for by applying the acquisition method when YPF takes effective control over the acquired company.

The Group recognizes in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest and, goodwill, if any, in accordance with IFRS 3.

The acquisition cost is measured as the sum of the consideration transferred, measured at fair value at their acquisition date and the amount of any non-controlling interest in the acquired entity. The Group will measure the non-controlling interest in the acquired entity at fair value or at the non-controlling interest s proportionate share of the acquired entity s identifiable net assets.

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If the business combination is achieved in stages, the Group shall remeasure its previously held equity interest in the acquired entity at its acquisition date fair value and recognize a gain or loss in the statement of comprehensive income.

The goodwill cost is measured as the excess of the consideration transferred over the identifiable assets acquired and liabilities assumed net by the Group. If this consideration is lower than the fair value of the assets identifiable and liabilities assumed, the difference is recognized in the statement of comprehensive income.

1.b.22) Total or partial disposal of foreign operation whose functional currency is other than the U.S. Dollar

On the disposal of a foreign operation (that is, a disposal of the Group s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation) all of the translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated translation differences are re-attributed to non-controlling interest and are not recognized in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Translation differences arising are recognized in other comprehensive income.

1.b.23) Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the top authority decision-maker, who is the person responsible for allocating resources and assessing the performance of the operating segments. Operating segments are described in Note 4.

1.b.24) New standards issued

As required by IAS 8, Accounting policies, changes in accounting estimates and errors , we detail below a brief summary of the standards or interpretations issued by the IASB, whose application is mandatory as of the closing date of these consolidated financial statements, as well as of those whose application has not been mandatory as of the closing date of these consolidated financial statement and, therefore, have not been adopted by the Group.

The standards, interpretations and related amendments published by the IASB whose application is mandatory as of the closing date of these consolidated financial statements and, therefore, have been applied by the Group, are the following:

IAS 19 Employee Benefits

In November 2013, IASB issued an amendment to IAS 19, to simplify the accounting on employees contribution or third party to the defined benefit plans, allowing recognition of the aforementioned contribution as a reduction in the service cost in the period in which the related service was rendered rather than recognizing it at the service period.

It is applicable for fiscal years beginning on or after July 1, 2014.

Annual improvements of IFRS 2010-2012 Cycle

The 2010-2012 annual improvements are applicable to fiscal years beginning on or after July 1, 2014. There follows a summary of the main standards amended and the purposes thereof.

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Standard	Purpose of the amendment
IFRS 2 *Share-based payment*	Definition of the vesting conditions.
IFRS 3 *Business Combinations*	Accounting for the contingent consideration under a business combination
IFRS 8 Operating Segments	(i) Disclosure of criteria applied to decided whether or not to group operating segments, (ii) when is required reconciliation of all assets of the reportable segments to the assets of an entity
IFRS 13 Fair value measurement	Short-term receivables and payables
IAS 16 *Property, Plant and Equipment and IAS 38 Intangible assets*	Method of revaluation, pro rata restructuring of acumulated depreciation (amortization)
IAS 24 Relates Parties Disclosures	Key management staff

Annual improvements of IFRS. 2011-2013 Cycle

The 2011-2013 annual improvements are applicable to fiscal years beginning on or after July 1, 2014. There follows a summary of the main standards amended and the purposes thereof.

Standard	Purpose of the amendment
IFRS 3 *Business combinations*	Exemptions to the scope of joint ventures
IFRS13 *Fair value measurement*	Scope of paragraph 52 (portfolio exception)
IAS 40 *Investment Property*	Clarification of the interpretation between IFRS 3 and IAS 40 in classifying of property as investment property or property occupied by owner

Standards or interpretations issued by the IASB whose application is not mandatory at the closing date of these consolidated financial statements and have not been adopted by the Company.

IFRS 9 Financial Instruments

In July 2014, IASB introduced an amendment to supersede IAS 39. The standard includes the requirements for classification and measurement, impairment and hedge accounting of financial instruments. It is effective for fiscal years beginning on or after January 1, 2018 with early application permitted.

IFRS 11 Join Arrangements

In May 2014, IASB amended IFRS 11 in order to establish that acquisitions of participations in joint operations whose activities constitute a business as defined by IFRS 3, apply the accounting principles set out in this standard. It is effective for fiscal years beginning on or after January 1, 2016, with the early application permitted.

Amendments to IFRS 11 provide guidelines as to how to account for the acquisition of an interest in a joint venture in which activities constitute a business as per the definition of IFRS 3, Business Combinations .

Also, a joint operator is required to disclose the significant information requested by the IFRS 3 and other standards applicable to business combinations.

Entities must apply amendments prospectively to the acquisitions of interests in joint ventures occurring from the beginning of fiscal years commencing on January 1, 2016.

The Company s Management does not anticipate that the application of these amendments to IFRS 11 will have a significant effect on the financial statements of the Company, as the Company does not deal in these types of transactions.

IFRS 14 Regulatory deferral accounts

In January 2014, the IASB approved IFRS 14 which is applicable to all fiscal years beginning on or after January 1, 2016, and which is authorized to be applied in advance. The scope of this Standard is limited to entities which have adopted the IFRS for the first time and which have recognized the balances of the regulated activities deferral accounts in their financial statements according to their previous accounting standards. The first accounting statements presented by the Group under the IFRS were as of December 31, 2012 and the standard was issued in January 2014. Therefore, the Group has not applied this standard to its financial statements.

IFRS 15 Revenues from contracts with customers

IFRS 15 is effective for periods reported as beginning on January 1, 2018 or later, though its early application is permitted. Entities may decide whether to apply the model retrospectively or use an amended transition approach, to which the standard will be applied retrospectively only in the event of contracts which have not been completed by the initial application date (e.g. January 1, 2018 for a company whose fiscal year ends on December 31)

IFRS 15 sets forth a comprehensive and detailed model for the entities to use it in the accounting of revenues from contracts with customers. It shall substitute for the following revenues Standards and Interpretations as of its effective date:

- IAS 18 Revenue;

- IAS 11 Construction contracts;

- IFRIC 13 Customer loyalty programmes;

- IFRIC 15 Agreements for the construction of real estate;

- IFRIC 18 Transfer of assets from customers; and

- SIC 31: Barter transactions involving advertising services.

IAS 16 and 38 Depreciation and amortization methods

Amendments to IAS 16, Property, plant and equipment prohibits entities from applying a depreciation method based in the income from property, plant and equipment items. On the other hand, amendments to IAS 38, Intangible assets include legal presumptions ascertaining that revenues are not appropriate principles for the amortization of intangible assets.

Amendments apply prospectively to annual fiscal years beginning on or after January 1, 2016, and its advanced application is permitted.

IAS 16 and 41 Agriculture Production Plants

Amendments to IAS 16 and IAS 41, Agriculture define the concept of production plant . In addition they require biological assets to meet this definition in order to be accounted for as property, plant and equipment under IAS 16 rather than IAS 41. As to the amendments, production plants may be measured using the cost model or the revaluation model set forth in IAS 16.

Amendments are retroactively applied for fiscal years beginning on or after January 1, 2016 and advanced application is permitted. As a temporary provision, entities need not disclose the quantitative information required by paragraph 28 (f) of IAS 8 for the current period. However, quantitative information is required for the previous fiscal year filed.

IAS 27 Separate Financial Statements

Amendments focus on separate financial statements and allow the use of the equity method in such financial statements.

Amendments are retroactively applied for fiscal years beginning on or after January 1, 2016 and advanced application is permitted

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IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

In September 2014, the IASB amended IFRS 10 and the IAS 28 to clarify that in transactions involving a controlled company, the extension of the profit or loss to be recognized in the financial statements depends on whether the controlled company sold or contributed constitutes a business according to the IFRS 3.

On August 10, 2015, the IASB issued a proposal to postpone the effective date of these amendments indefinitely depending on the result of its research project on the accounting through the equity method, which was approved on December 17, 2015.

IAS 1 Presentation of the financial statements Disclosures initiative

Amendments to IAS 1 are effective for fiscal years beginning on or after January 1, 2016 and advanced application is permitted. The application of the amendments need not be disclosed.

The amendments were a response to the comments that there were difficulties in the application of the materiality concept in practice at the time of drafting some of the requirements of IAS 1 has been interpreted to avoid the use of judgment. Some highlights of the amendments are as follow:

The entity should not reduce the understandability of its financial statements by concealing substantial information with irrelevant information or by adding material elements with different nature or function.

The entity does not need to disclose specific information required by the IAS if the resulting information is not material.

In the section Other comprehensive income of a Statement of Comprehensive Income and other comprehensive income, amendments require separate disclosures for the following elements:

- the proportion of other comprehensive income of associates and joint ventures which is recognized by the equity method and which will not be subsequently reclassified to results, and

- the proportion of other comprehensive income of associates and joint ventures which is recognized by the equity method and which will be subsequently reclassified to results.

In addition, amendments to IAS 1 are related to the following matters:

Materiality

Disaggregation and subtotals

Notes

Disclosure of accounting policies

Other comprehensive income resulting from investments recognized by the equity method

IFRS 10, IFRS 12 and IAS 28 Exemption from consolidation for investment entities.

In December 2014, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 28 which are applicable to fiscal years beginning on or after January 1, 2016, and may be applied in advance.

Amendments clarify, among other things that the exemption from preparation of consolidated financial statements is available for a controlling entity which is controlled by an investment entity, even if the investment entity measures all its controlled companies at fair value under IFRS 10. The amendments resulting from IAS 28 to clarify the exemption from applying the equity method is applicable to an investor in an associate or joint venture if such investor is controlled by an investment entity which measures all its investments at fair value.

Amendments further clarify that the requirement that an investment entity consolidate a controlled company that provides services related to the foregoing investment activities is only applicable to controlled companies which are not investment entities.

On the other hand, amendments clarify that by applying the equity method to an associate or joint venture which is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its affiliates.

Finally, it is also made clear that an investment entity that measures all its controlled companies at fair value must make the disclosures required by IFRS 12 Disclosure of interest in other entities .

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Annual improvements to the IFRS- 2012-2014 Cycle

In September 2014, the IASB issued 2012-2014 annual improvements which are applicable to fiscal years beginning on or after January 1, 2016, and may be applied in advance.

There follows a summary of the main standards amended and their respective purposes:

Standard	Purpose of amendment
IFRS 5 Non-current assets held for sale and discontinued operations.	Changes in assets disposal methods
IFRS 7 Financial instruments disclosures (with amendments results from IFRS 1 amendments)	(i) Service Agreements (ii) Applicability of IFRS 7 amendments to compensation disclosures in condensed interim financial statements.
IAS 19 Employee Benefits	Discount rate: regional market issues
IAS 34 Interim financial reporting	Disclosure of information included elsewhere in the interim financial statement

Currently the Group is analyzing the impact of the enforcement of standard amended and new standards.

1.c) Accounting Estimates and Judgments

The items in the financial statements and areas which require the highest degree of judgment and estimates in the preparation of the financial statements are: (1) crude oil and natural gas reserves; (2) provisions for litigation and other contingencies; (3) provisions for environmental liabilities and hydrocarbon wells abandonment obligations (see Note 1.b.6 paragraph iv); (4) the calculation of income tax and deferred income tax; and (5) provision for impairment of fixed assets and intangible asset (see Note 1.b.9).

Crude oil and natural gas reserves

Estimating crude oil and gas reserves is an integral part of the Company s decision-making process. The volume of crude oil and gas reserves is used to calculate the depreciation using unit of production ratio and to assess the impairment of the capitalized costs related to the exploration and production assets (see Notes 1.b.8 and 1.b.9 and last paragraph of this note)

The Group prepares its estimates of crude oil and gas reserves in accordance with the rules and regulations established for the crude oil and natural gas industry by the U.S. Securities and Exchange Commission (SEC).

Provisions for litigation and other contingencies

The final costs arising from litigation and other contingencies, and the perspective given to each issue by the Management may vary from their estimates due to different interpretations of laws, contracts, opinions and final assessments of the amount of the claims. Changes in the facts or circumstances related to these types of contingencies can have, as a consequence, a significant effect on the amount of the provisions for litigation and other contingencies recorded or the perspective given by the Management.

Provisions for environmental costs

Given the nature of its operations, the Group is subject to various provincial and national laws and regulations relating to the protection of the environment. These laws and regulations may, among other things, impose liability on companies for the cost of pollution clean-up and environmental damages resulting from operations. YPF management believes that the Group s operations are in substantial compliance with laws and regulations of Argentina and the countries where the Group operates, relating to the protection of the environment as such laws have historically been interpreted and enforced.

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The Group periodically conducts new studies to increase its knowledge of the environmental situation in certain geographic areas where it operates in order to establish the status, cause and remedy of a given environmental issue and, depending on its years of existence, analyze the Argentine Government s possible responsibility for any environmental liabilities existing prior to December 31, 1990. The Group cannot estimate what additional costs, if any, will be required until such studies are completed and evaluated; however, provisional remedial or other measures may be required.

In addition to the hydrocarbon wells abandonment legal obligation, the Group has accrued the environmental remediation which evaluations and/or remediation works are probable and can be reasonably estimated, based on the Company s existing remediation program. Legislative changes, on individual costs and/or technologies may cause a re-evaluation of the estimates. The Group cannot predict what environmental legislation or regulation will be enacted in the future or how future laws or regulations will be administered. In the long-term, these potential changes and ongoing studies could materially affect the Group s future results of operations.

Additionally, certain environmental contingencies in the United States of America were assumed by Tierra Solutions Inc. and Maxus Energy Corporation, indirect controlled companies through YPF Holdings Inc. The detail of these contingencies is disclosed in Note 10.

Income tax and deferred income tax assets and liabilities

The proper assessment of income tax expenses depends on several factors, including interpretations related to tax treatment for transactions and/or events that are not expressly provided for by current tax law, as well as estimates of the timing and realization of deferred income taxes. The actual collection and payment of income tax expenses may differ from these estimates due to, among others, changes in applicable tax regulations and/or their interpretations, as well as unanticipated future transactions impacting the Group´s tax balances.

Provision for impairment of fixed assets and intangible assets

As indicated in Note 1.b.8 and 1.b.9, as a general criterion, the method used to estimate the recoverable amount of fixed assets and intangible assets mainly consists in the calculation of the value in use, based on the future estimate cash flows resulting from the exploitation of the relevant assets, discounted at a rate that reflects the weighted average capital employed.

For fiscal year 2015, the discount rate was 10.33% after taxes (the discount rate applied for fiscal year 2014 was 10.86% after taxes).

Calculations of crude oil price estimates for fiscal year 2015 for the CGU Oil YPF of the Exploration and Production Segment have taken into account the disengagement of internal market prices from international prices with respect to this product in the latest years, based on the negotiations between country s Producers and Refineries and Argentine Government policies intended to preserve the sector activity levels and ensure the crude oil supply for the country. Therefore, the following local market price presumptions have been considered for the different varieties of crude oil: i) for 2016 and 2017 the Company has considered local market prices according to the negotiations between Producers and Refineries based on prices currently effective since January 2016, resulting in an estimate of US$/Bbl 67.5 for Medanito crude oil, US$/Bbl 54.9 for Escalante crude oil and US$/Bbl 55.9 for Cañadón Seco crude oil; ii) for 2018, 2019 and 2020, it has been considered the estimates for the local prices based on the the estimation of the international price (adjusted by the quality of each type of crude oil, freight and the relative shortage situation in the local market) set on the basis of estimate Brent crude oil values according to analysts consensus estimates available as of December 31, 2015 (at US$/Bbl 68.7 for 2018, US$/Bbl 68.3 for 2019 and US$/Bbl 69.3 for 2020); and iii) thereafter, a projected price curve is considered on the basis of an adjustment by United States of America forecasted inflation.

Based on the above mentioned methodology and presumptions, the Group has recorded a charge for impairment of fixed assets with respect to the CGU Oil - YPF of the Exploration and Production Segment of 2,361 as of December 31, 2015, mainly due to a decrease in the short-term price of oil in the local market and a reduction in the expectations of medium and long term international prices. The recoverable amount of the CGU Oil YPF, after taxes, amounts to 76,829.

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In addition, the Group has recorded a charge for impairment of fixed assets for the CGU Oil - YPF Holdings which groups the assets of crude oil production fields in the United States, of 94 as of December 31, 2015, due to a decrease in crude oil international prices. The recoverable amount of the CGU Oil YPF Holdings amounts to 179. Likewise, the Group has recorded a charge for impairment of intangible assets of 80 related to exploration rights of which the recoverable amount is zero.

For fiscal years ended December 31, 2014 and 2013, the Group has not recorded charges for impairment, or income from reversion of impairment of assets.

Main factors that could result in additional charges for impairment in future periods would be any increase in the discount rate used for the cash flow estimates and a further decline in the business, competitive and economic factors, such as oil and gas prices, change in the number of equipment units, the competitive context and the cost of raw material, as well as a potential revisions of previous estimates of reserves based on the new prices.

1.d) Comparative Information

Balance items as of December 31, 2014 and 2013 presented in these financial statements for comparison purposes arise from the consolidated financial statements then ended. Certain reclassifications have been made in order to present figures comparatively with those of this year.

2. ACQUISITIONS AND DISPOSALS

Fiscal year ended on December 31, 2015

May 7 2015, Repsol Butano S.A. transferred to YPF shares representing 33.997 % of YPF Gas S.A. s capital stock and Repsol Trading S.A. transferred to YPF 17.79% of Oleoducto Transandino Chile s capital stock, the transaction was made for an amount of 161.

Fiscal year ended on December 31, 2014

On February 12, 2014, YPF and its subsidiary YPF Europe BV (YPF Europe , constituted in January, 2014) accepted an offer made by Apache Overseas Inc. and Apache International Finance II S.à r.I. (collectively, Apache Group) for the acquisition of 100% of Apache s interest in controlled companies which are the owners of assets located in the Argentine Republic, and the acquisition of certain intercompany loans owed by the acquired companies to the Apache Group companies. The price agreed upon by the parties was US$ 786 million, which was canceled through by an initial deposit of US$ 50 million held on February 12, 2014, and the remaining balance was paid on March 13, 2014, date from which YPF has taken control of the mentioned companies (the acquisition date). Together with the assets and liabilities incorporated by these companies, local market debt was assumed for US$ 31 million.

As of result of the previously described transaction, YPF acquired the following corporate shares: (i) 100% of the capital stock of Apache Canada Argentina Investment S.à r.I. and 100% of the capital stock of Apache Canada Argentina Holdings S.à r.I.; (ii) 100% of the capital stock of Apache Argentina Corporation, through which it will control 65.28% of Apache Petrolera Argentina S.A., and (iii) 34.72% of Apache Petrolera Argentina S.A. Since YPF has acquired 100% of the interest, there is no non-controlling interest recorded.

As of the date of acquisition these companies controlled directly or indirectly assets in the provinces of Neuquen, Tierra del Fuego and Río Negro, with a total production of approximately 49,100 oil equivalent barrels per day and had an important infrastructure of pipelines and facilities and around 350 employees. In addition, certain assets have potential for exploration and development in the Vaca Muerta formation.

The fair value of the main identified assets and liabilities of the companies acquired (100% interest values and after consolidation adjustments), which have been incorporated in the Company´s balance sheet as of the date of acquisition is disclosed below:

Cash and cash equivalents	95
Assets held for sale	1,538
Inventories	55
Trade receivables	520
Other receivables and other assets	213
Intangible assets Exploration rights	1,246
Fixed assets	5,469
Provisions	781
Deferred income tax liabilities	1,241
Loans	110
Accounts payables	639
Social security and other taxes payables	134
Income tax liability	24

Below is detailed the information related with revenues, costs and expenses of the acquired companies required by IFRS:

	Since the acquisition date up to December 31, 2014	Since the beginning of the year up to December 31, 2014
Revenues	3,370	4,099
Cost of sales	(2,960)	(3,601)
Gross profit	410	498
Other operating expenses	(232)	(282)
Operating income	178	216
Financial result, net	(78)	(95)
Income tax	560	681
Net income for the period	660	802

Additionally, YPF and Apache Energía Argentina S.R.L. has entered into a transfer of assets agreement with Pluspetrol S.A. (Pluspetrol   ) whereby it will transfer, in exchange for US$ 217 million, an interest that belongs to Apache Energía Argentina S.R.L. (a subsidiary of Apache Canada Argentina Holdings S.à.r.l.), in three concessions and four joint operation contracts, as well as an interest of YPF in a joint operation contract. The aforementioned interests correspond to assets located in the Province of Neuquén, with the objective of jointly exploring and developing the Vaca Muerta formation. The mentioned transaction has been approved by the regulatory authority during November, 2014.

During October, 2014, the registered names of some companies have changed as follows: Apache Energía Argentina S.R.L. to YSUR Energía Argentina S.R.L.; Apache Natural Resources Petrolera Argentina S.R.L. to YSUR Recursos Naturales S.R.L.; Apache Petrolera Argentina S.A. to YSUR Petrolera Argentina S.A.; Apache Argentina Corporation to YSUR Argentina Corporation; Apache Canada Argentina Investment S.à.r.l. to YSUR Argentina Investment S.à.r.l.; and Apache Canada Argentina Holdings S.à.r.l. to YSUR Argentina Holdings S.à.r.l.

On January 31, 2014, YPF acquired Petrobras Argentina S.A. s 38.45% interest in the joint operation contract Puesto Hernández signed between both companies for the exploitation of the Puesto Hernández area (the Area). The Area is an exploitation concession located in the Provinces of Neuquén and Mendoza. YPF is the holder of the concession until 2027, which is operated under the aforementioned joint operation contract which expires on June 30, 2016 and will be early terminated. Now YPF owns 100% interest in the Area, and has become the operator. Puesto Hernández currently produces approximately 10,000 barrels per day of light crude oil (Medanito quality). The transaction was completed for the amount of US$ 40.7 million. By becoming the operator of the Area, YPF will be able to accelerate its investments plans to optimize the Area s production potential until 2027. The amount paid was mainly classified as fixed assets.

On February 7, 2014, YPF acquired Potasio Rio Colorado S.A. s 50% interest in the joint operation contract, Segment 5 Loma La Lata Sierra Barrosa (known as Lajas formation) signed by YPF and Potasio Rio Colorado S.A. for the exploitation of the Lajas formation concession area (the Area). The Area is an exploitation concession, located in the Province of Neuquén. YPF is the holder of the concession which expires in 2027. Exploitation of the Area was conducted under the aforementioned joint operation contract. The terms of the joint operation contract provided that it would expire upon the earlier of the expiration of the concession or the early termination of any agreement or contract that granted the right to continue exploiting the Area. As a result of the termination of the joint operation contract YPF will own 100% interest in the Area. The consideration for the transaction was US$ 25 million. The amount paid was mainly classified as fixed assets.

YPF and Sinopec Argentina Exploration and Production, Inc., Sucursal Argentina (SINOPEC), are part in a Joint Operating Agreement (JOA) in the area La Ventana , located in the basin of Cuyo in the Province of Mendoza, whose original due date was December 31, 2016. YPF is the exclusive owner of such exploitation concession whose due date was November 14, 2017, and through executive order of the Province of Mendoza No. 1,465/2011 the original due date was extended for 10 years more, to November 14, 2027, the new concession due date. On September 1, 2014 (effective date) YPF and SINOPEC extended the JOA s due date in relation with the Concession for the Exploitation of Hydrocarbons in the area La Ventana , until December 31, 2026. The extension of the Concession and the JOA involve the continuity of the participation of the parties in the rights and commitments that emerge from the Concession and that, as of the effective date, YPF s percentage of participation increased by an additional 10%, reaching 70%. The consideration for the transaction was US$ 44 million, an amount that SINOPEC will pay to YPF for the extension of the Concession. Additionally, the transaction generated an income of 369, which has been charged to Other operating result, net , in the statement of comprehensive income.

On December 5, 2014, an agreement has been signed between the Province of Neuquén, Gas y Petróleo del Neuquén S.A., YPF S.A. and YSUR Energía Argentina S.R.L. in which the restructuring of the Joint Operating Agreement has been arranged related to La Amarga Chica and Bajada de Añelo non-conventional hydrocarbons exploitation concession in which YPF and YSUR will hold the following interests: (i) La Amarga Chica, YPF S.A. 100% (ii) Bajada de Añelo: YPF S.A. 85% and YSUR Energía Argentina S.R.L. 15%. As compensation for the aforementioned restructuring (a), YPF S.A. has made a US$41 million payment to the Neuquén Province, US$ 12 million for and on behalf of YSUR Energía Argentina S.R.L. and (b) YPF and YSUR granted in favor of the Province of Neuquén, who thereby contributed to Gas y Petróleo de Neuquén S.A, the totality of YPF and YSUR s interests in the following areas: (i) Puesto Cortadera; (ii) Loma Negra NI; (iii) Cutral Co Sur; (iv) Neuquén del Medio; (v) Collon Cura Bloque I; (vi) Bajo Baguales. These transferences became effective on January 1, 2015.

Fiscal year ended on December 31, 2013

During May 2013, the Company, through its subsidiary YPF Inversora Energética S.A. took control of GASA (controlling company of Metrogas), by acquiring shares representing a 54.67% interest in GASA. Prior to this acquisition, the Company through its interest in YPF Inversora Energética S.A. owned 45.33% of the capital of GASA

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The main characteristics of the transaction, as well as information to enable users of the financial statements to assess the nature and financial effects of the business combination resulting from the aforementioned operation, as IFRS requires are described below.

Name and description of the acquired entity:	GASA is the parent company of Metrogas, company awarded with the license for the distribution of natural gas in the City of Buenos Aires and southern suburbs of Buenos Aires Province.
	GASA owns 70% equity interest of Metrogas by holding all of the class A representing a stake of 51% in capital, and class B shares representing a stake of 19% in capital.
	Metrogas provides distribution services to approximately 2.2 million customers within its service area (city of Buenos Aires and eleven municipalities in the south of Buenos Aires).
The acquisition date, the percentage acquired and primary reasons for the acquisition:	YPF has fulfilled with the obligations arising from the purchase agreement, which corresponded to the payment of the balance of the purchase price, during May 2013. As a result of the transaction (which includes shares representing 54.67% stake in GASA), YPF controls 100% of GASA.
	As described in Resolution No. 1/2566 D from Enargas, the operation is expected to result in a substantial benefit to customers of the distribution company as a consequence of applying to Metrogas a responsible management, not only in economic and financial matters, but also taking social principles upon which the welfare of current and future generations.
The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each main asset:	The price of the above operation (acquisition of shares representing 54.67% stake in GASA) was US$ 9.7 million, which implies a total value for the 100% of the participation in GASA of approximately US$ 17.7 million, which approximates the fair value of the net assets and liabilities of the acquired company.
	Below are the fair values of the main assets and liabilities of the acquired company (values at 100% interest) at acquisition date, which have been incorporated into YPF s balance sheet as of the acquisition date:

	Cash and cash equivalents	143
	Trade receivables	318
	Other receivables and other assets	23

	Fixed assets	1,788
	Provisions	104
	Loans	879
	Accounts payables	461
	Social security and other taxes payables	102
	Deferred income tax liabilities	328
	Income tax liability	12

Additionally, non-controlling interest amounted to 178 as of the date of acquisition, corresponding to the 30% interest in Metrogas, a company controlled by GASA.

Prior to the transaction, the carrying value of the interest in GASA amounted to zero. As a consequence of the acquisition, remeasurement of shares in GASA to fair value generated a gain of approximately 136, which has been recorded in the second quarter of 2013 under Income on investments in companies account in the comprehensive income statement of YPF for the year ended December 31, 2013.

Income and expenses from ordinary activities of GASA since the acquisition date included in the financial statements of the YPF for the year 2013:	Revenues	1,363
	Cost of sales	(1,044)
	Gross profit	319
	Other operating expenses	(266)
	Operating income	53
	Financial result, net	(326)
	Income tax	139
	Net loss for the year	(134)
Income and expenses from ordinary activities of GASA since the beginning 2013 and until December 31, 2013:	Revenues	1,848
	Cost of sales	(1,425)
	Gross profit	423
	Other operating expenses	(394)
	Operating income	29
	Financial result, net	721(1)
	Income tax	(253)
	Net income for the year	497

(1) Includes the gain as a result of debt restructuring of Metrogas and GASA prior to the acquisition date for a total amount of 1,141

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On June 4, 2013, YPF, Pluspetrol Resources Corporation B.V. (PPRC) and Pluspetrol Energy S.A. (PPE) signed an agreement to carry out a spin off PPE, without dissolving it, and allocate part of their assets to create a new spun off company.

This spin-off was done with effective date on August 1, 2013 and as a consequence, YPF Energía Eléctrica S.A. was created (spun off company), on which YPF directly or indirectly holds 100% interest and YPF withdrew its participation in PPE.

As a result of the spin off, YPF Energía Eléctrica S.A. maintained the electric generation business, previously operated by PPE, and a 27% interest in Ramos Consortium.

The main characteristics of the transaction, as well as information to enable users of the financial statements to assess the nature and financial effects of the business combination resulting from the aforementioned operation as IFRS requires, are described below.

Name and description of the parent company:	Pluspetrol Energy S.A. On July 31, 2013, YPF had 45% interest on its capital.
Name and description of the spun off company:	YPF Energía Eléctrica S.A. The main goal of this company is the electric generation business operating two power plants in the province of Tucuman, plus a 27% interest in the Ramos Consortium dedicated to the Exploration and Production of Hydrocarbons.
The spin off date:	July 31, 2013
Fair value of the consideration transferred and fair value of the main assets of the acquisition:	The fair value of the net assets and liabilities transferred to the company s spin off process, amounted to 485. Below are the main items:

Trade receivables	65
Fixed assets	638
Accounts payables	77
Loans	52
Social security and other taxes payables	50
Deferred income tax liabilities	35
Other Liabilities	4

Prior to the transaction, the carrying amount of the investment in PPE was 350 and YPF maintained a 115 translation difference reserve in relation with the mentioned investment. As a consequence of the spin-off, the fair value of the assets and liabilities emerging from the spin-off of Pluspetrol Energy S.A. generated a gain of approximately 20, that was recorded in the second semester of 2013 under the Income on investments in companies account in the comprehensive income statement of the Company for the year ended December 31, 2013.

Revenues	266
Cost of sales	(162)

Income and expenses from ordinary activities of YPF Energía Eléctrica since the acquisition date included in the financial statements of the Company for the year ended December 31, 2013:	Gross profit	104
	Other operating expenses	8
	Operating income	112
	Financial results, net	(16)
	Income tax	(28)
	Net income for the year	68

3. FINANCIAL RISK MANAGEMENT

The Group´s activities involve various types of financial risks: market risk (including exchange rate risk, interest rate risk and price risk, credit risk, liquidity risk, and capital risk). The Group maintains an organizational structure and systems that allow the identification, measurement and control of the risks to which it is exposed.

Market Risk

The market risk to which the Group is exposed is the possibility that the valuation of the Group s financial assets or financial liabilities as well as certain expected cash flows may be adversely affected by changes in interest rates, exchange rates or certain other price variables.

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The following is a description of these risks as well as a detail of the extent to which the Company is exposed and a sensitivity analysis of possible changes in each of the relevant market variables.

Exchange Rate Risk

The value of financial assets and liabilities denominated in a currency different from the Company´s functional currency is subject to variations resulting from fluctuations in exchange rates. Since YPF s functional currency is the U.S. dollar, the currency that generates the greatest exposure is the Argentine peso, the Argentine legal currency.

The Group does not use derivatives as a hedge against exchange rate fluctuations. While during this fiscal year the Group started to operate with US dollars future exchange rate agreements, for IFRS 7 Financial instruments: disclosures no exchange rate risk arises from financial instruments denominated in the Entity´s functional currency.

Otherwise, according to the Company s functional currency, and considering the translation process to presentation currency, the fluctuations in the exchange rate related to the financial assets and liabilities´ value in pesos does not have any effect in the Other comprehensive income in Shareholders equity.

The following table provides a breakdown of the effect a variation of 10% in the prevailing exchange rates on the Group s net income, taking into consideration the exposure of financial assets and liabilities denominated in pesos as of December 31, 2015

	Appreciation (+) / depreciation (-) of exchange rate of peso against dollar	**Income(loss) for fiscal year ended December 31, 2015**
Impact on net income before income tax corresponding to financial assets and liabilities	+10%	1,912
	-10%	(1,912)

Interest Rate Risk

The Group is exposed to risks related to interest rates to different extents, according to the different types of maturities and currencies in which a loan was borrowed or cash was invested.

The Company s short-term financial loans as of December 31, 2015 include negotiable obligations, pre-financing of exports and imports´ financing arrangements, local bank credit lines and financial loans with local and international financial institutions. Long-term financial loans include negotiable obligations and financial loans with local and international financial institutions. Approximately 73% (77,538) of the total of the financial loans of the Group is denominated in U.S. dollars and the rest in Argentine pesos, as of December 31, 2015. These loans are basically used for working capital and investments.

Financial assets mainly include, in addition to trade receivable which have low exposure to interest rate risk, bank deposits, fixed-interest deposits and investments in mutual funds such as money market or short-term fixed interest rate instruments.

Historically, the strategy for hedging interest rates is based on the fragmentation of financial counterparts, the diversification of the types of loans taken and, essentially, the maturities of such loans, taking into consideration the different levels of interest along the yield curve in pesos or U.S. dollars, and the amount of the loans based on future expectations and the timing of the future investment outlays to be financed.

The Group does not usually use derivative financial instruments to hedge the risks associated with interest rates.

Changes in interest rates may affect the interest income or expenses derived from financial assets and liabilities tied to a variable interest rate. Additionally, the fair value of financial assets and liabilities that accrue interests based on fixed interest rates may also be affected.

The table below provides information about the financial assets and liabilities as of December 31, 2015 that accrues interest considering the applicable rate:

	December 31,2015	
	Financial Assets (1)	**Financial Liabilities (2)**
Fixed interest rate	667	74,386
Variable interest rate	27	31,365
Total	694	105,751

(1) It only includes temporary investments and loans to related companies. Does not include trade receivables which mostly do not accrue interest.
(2) Includes only financial loans. Does not include accounts payable which mostly do not accrue interest.

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The portion of loans which accrues variable interest rate is mainly exposed to the fluctuations in LIBOR and BADLAR. Approximately 22,564 accrues variable interest of BADLAR plus a maximum spread of 4.75% and 8,801 accrues variable interest of LIBOR plus a spread between 4% and 7.5%.

The table below shows the estimated impact on the consolidated comprehensive income that an increase or decrease of 100 basis points in the interest rate would have.

	Increase (+) / decrease (-) in the interest rates (basis points)	**Income(loss) for fiscal year ended December 31, 2015**
Impact on the net income after income tax	+100	(129)
	-100	129

Other Price Risks

The Group is not significantly exposed to commodity price risks, as a result, among other reasons, of the existing regulatory, economic and government policies, which determines that local prices charged for gasoline, diesel and other fuels are not affected in the short-term by fluctuations in the price of such products in international and regional markets. Additionally, the Group is reached by certain regulations that affect the determination of export prices received by the Group, such as those mentioned in Notes 1.b.15 and 11.c, which consequently limits the effects of short-term price volatility in the international market.

In addition, the Group is exposed to the own price risk for investments in financial instruments (mutual funds and US dollars future exchange rate agreements), which were classified in the statement of financial position as at fair value through profit or loss . The Group continuously monitors the change in these investments for significant movements.

As of December 31, 2015, the aggregate value of investments in financial assets at fair value through profit or loss amounts to 1,578.

The following table shows the effect that a 10% variation in the prices of investments in financial instruments would have on the Company s results as of December 31, 2015:

	Increase (+) / decrease (-) in the prices of investments in financial	**Profit (loss) for the year ended December 31, 2015**
Impact on the net result before income tax	+10%	391
	-10%	(453)

Liquidity Risk

Liquidity risk is associated with the possibility of a mismatch between the need of funds to meet short, medium or long term obligations.

As mentioned in previous paragraphs, the Group intends to align the maturity profile of its financial debt to be related to its ability to generate enough cash flows for its payment, as well as to finance the projected expenditures for each year. As of December 31, 2015 the availability of liquidity reached 20,087, considering cash for 13,920, other liquid financial assets for 1,467 and available credit lines with banks for 4,700. Additionally, YPF has the ability to issue debt under the negotiable obligations global program originally approved by the Shareholders meeting in 2008 expanded in September 2012, in April 2013 and in February 2015 (see Note 6.j).

After the process which concluded with the change of shareholders mentioned in Note 8, the Group is still focused in structuring more efficiently the structure of maturity of its debt, in order to facilitate the daily operations and to allow the proper financing of planned investments.

To this end, the Group operates derivative financial instruments (US dollars future exchange rate agreements) as a way of managing liquidity risk. As of December 31, 2015, there are US dollars future exchange rate agreements with maturities between February and May 2016. These amount to 464 (see Note 5).

The following table sets forth the maturity dates of the Company s financial liabilities as of December 2015:

	December 31, 2015 Maturity date						
	0 - 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	Total
Financial Liabilities							
Accounts Payable (1)	39,511	514				103	40,128
Loans	27,817	6,888	21,928	3,892	5,914	39,312	105,751

(1) The amounts disclosed are the contractual, undiscounted cash flows associated to the financial liabilities given that they do not differ significantly from their face values

Most of the Company s financial debt contains usual covenants for contracts of this nature. Additionally, approximately 50% of the outstanding financial debt as of December 31, 2015 is subject to financial covenants related to the leverage ratio and debt service coverage ratio of the Company.

A portion of the financial debt provides that certain changes in control with respect to the Company may constitute an event of default. In addition, part of the financial debt also contains cross default or cross acceleration provisions (the Acceleration Clauses) which may result in their advanced enforceability if the debt containing provisions related to change of control becomes in default.

Credit Risk

Credit risk is defined as the possibility of a third party not complying with its contractual obligations, thus negatively affecting results of operations of the Group.

Credit risk in the Group is measured and controlled on an individual customer basis. The Group has its own systems to conduct a permanent evaluation of credit performance of all of its debtors, and the determination of risk limits with respect to third parties, in line with best practices using for such end internal customer records and external data sources.

Financial instruments that potentially expose the Group to a concentration of credit risk consist primarily of Cash and cash equivalents, trade receivables and other receivables. The Group invests excess cash primarily in high liquid investments with financial institutions with a strong credit rating both in Argentina and abroad. In the normal course of business and based on ongoing credit evaluations to its customers, the Group provides credit to its customers and certain related parties. Likewise, the Group accounts for doubtful trade losses in the Statement of Comprehensive Income, based on specific information regarding its clients. As of the date of these consolidated financial statements, the Company s customer portfolio is diversified.

The provisions for doubtful accounts are measured by the following criteria:

The aging of the receivable;

The analysis of the customer s capacity to return the credit granted, also taking into consideration special situations such as the existence of a voluntary reorganization petition, bankruptcy and arrears, guarantees, among others.

The maximum exposure to credit risk of the Group as of December 31, 2015 based on the type of its financial instruments and without excluding the amounts covered by guarantees and other arrangements mentioned below, is set forth below:

	Maximum exposure as of December 31, 2015
Cash and cash equivalents	15,387
Other financial assets	29,743

Considering the maximum exposure to the risk of the Other financial assets based on the concentration variable of the counterparties, the credit with the National Government and direct agencies accounts for 44% (12,848) while the Group s remaining debtors are diversified.

Following is the breakdown of the financial assets past due as of December 31, 2015.

	Current trade receivable	**Other current receivables**
Less than three months past due	4,395	1,557
Between three and six months past due	952	112
More than six months past due	1,991	197
	7,338	1,866

At such date, the provision for doubtful trade receivables amounted to 848 and the provisions for other doubtful receivables amounted to 33. These provisions are the Group´s best estimate of the losses incurred in relation with accounts receivables.

Guarantee Policy

As collateral of the credit limits granted to customers, the Group has several types of guarantees received from them. In the service stations and distributors market, where generally long-term relationships with customers are established, mortgages prevail. For foreign customers prevail the joint and several bonds from their parent companies. In the industrial and transport market, bank guarantees prevail. With a lower presence, the Group has also obtained other guarantees as credit insurances, surety bonds, guarantee customer supplier, car pledges, etc.

The Group has effective guarantees granted by third parties for a total amount of 6,277, 3,676 and 2,131 as of December 31, 2015, 2014 and 2013, respectively.

During the year ended December 31, 2015, the Group executed guarantees received for an amount of 2. As of December 31, 2014 and 2013, the Group executed guarantees received for an amount of 1 and 4, respectively.

4. SEGMENT INFORMATION

The different segments in which the Group is organized have in consideration the different activities from which the Group obtains income and incurs expenses. The mentioned organizational structure is based on the way in which the highest authority in the operational decision-making process analyzes the main financial and operating magnitudes while making decisions about resource allocation and performance assessment also considering the Group´s business strategy.

Exploration and production: it covers the exploration and production of hydrocarbons, including contractual purchases of natural gas and purchase of crude oil arising from service contracts and concession obligations, as well as crude oil and natural gas intersegment sales

Downstream: it covers the refining, petrochemistry, transport, purchase of crude oil and natural gas to third parties and intersegment, and marketing of crude oil, natural gas, refined products, petrochemicals, electric power generation and natural gas distribution. Grouping those businesses in a single segment is mainly because they are aligned in strategy, which is shared among them, considering the operational synergies generated between refining and petrochemical businesses, having the focus on maximizing fuel offered to the market carried out by the commercial department, in respect to volume and quality.

Corporate and Other: it covers other activities, not falling into these categories, principally including corporate administrative expenses and assets, construction activities, the environmental remediation and other legal expenses according to the controlled company YPF Holdings (see Note 10).

Sales between business segments were made at internal transfer prices established by the Company, which generally seek to approximate to market prices.

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Operating income and assets for each segment have been determined after consolidation adjustments.

	Exploration and Production	Downstream	Corporateand Other	Consolidation Adjustments[1]	Total
For the year ended December 31, 2015					
Revenues from sales	16,044	138,962	1,130		156,136
Revenues from intersegment sales	64,243	1,535	6,182	(71,960)	
Revenues	80,287	140,497	7,312	(71,960)	156,136
Operating income (loss)	7,535	8,446	(2,331)	2,938	16,588
Income (loss) on investments in companies		318			318
Depreciation of fixed assets	23,075	3,168	442		26,685
Impairment of fixed assets and intangible assets[4]	2,535				2,535
Acquisition of fixed assets	48,598	9,343	1,939		59,880
Assets	223,035	113,805	26,708	(95)	363,453
For the year ended December 31, 2014					
Revenues from sales	8,853	132,254	835		141,942
Revenues from intersegment sales	61,844	1,489	5,212	(68,545)	
Revenues	70,697	133,743	6,047	(68,545)	141,942
Operating income (loss)	12,353	10,978	(3,343)	(246)	19,742
Income (loss) on investments in companies	(10)	568			558
Depreciation of fixed assets	17,180	2,445	311		19,936
Acquisition of fixed assets[2]	41,371	8,392	1,408		51,171
Assets	126,228	68,509	16,356	(2,539)	208,554
For the year ended December 31, 2013					
Revenues from sales	3,851	85,624	638		90,113
Revenues from intersegment sales	38,846	1,147	2,285	(42,278)	
Revenues	42,697	86,771	2,923	(42,278)	90,113
Operating income (loss)	6,324	6,721	(1,522)	(363)	11,160
Income (loss) on investments in companies	(93)	446			353
Depreciation of fixed assets[3]	9,591	1,452	193		11,236
Acquisition of fixed assets[3]	28,849	4,903	453		34,205
Assets	70,775	51,336	15,161	(1,677)	135,595

(1) Correspond to the elimination of income among segments of the group YPF.

(2) Investments in fixed assets net of increases corresponding to YSUR Group at acquisition date, Joint Operations Puesto Hernández and Las Lajas, and La Ventana agreement at acquisition date of the additional interest. See Note 2.

(3) Investments and depreciations of fixed assets net of increases corresponding to GASA at acquisition date and YPF Energía Eléctrica at spin-off date (see Note 2).

(4) See Note 1.c).

The distribution of revenues by geographic area, according to the markets for which they are intended, for the years ended on December 31, 2015, 2014 and 2013, and fixed assets by geographic area as of December 31, 2015, 2014 and 2013 are as follows:

	Revenues			Fixed assets		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Argentina	143,851	126,539	78,070	269,914	156,415	93,255
Mercosur and associated countries	6,302	8,298	6,461	553	38	20
Rest of America	4,175	4,753	4,022	438	477	221
Europe	1,808	2,352	1,560			
Total	156,136	141,942	90,113	270,905	156,930	93,496

As of December 31, 2015 no foreign client represents 10% or more of the Group´s revenue from its ordinary activities.

5. FINANCIAL INSTRUMENTS BY CATEGORY

The following tables show the financial assets and liabilities by category of financial instrument and a reconciliation to the corresponding line item in the statements of financial position, as appropriate. Since the line items Trade receivables , Other receivables and Accounts payable contain both financial instruments and non-financial assets and liabilities (such as tax receivables, and receivables and payables in kind, among other) reconciliation is presented in the columns headed Non-financial assets and Non-financial Liabilities .

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Financial Assets	2015 Financial Assets at amortized cost	Financial Assets at fair value through profit or loss	Subtotal Financial Assets	Non-financial Assets	Total
Other receivables (excluding provision for other doubtful receivables)	6,392		6,392	15,574	21,966
Trade receivables (excluding provision for doubtful trade receivables)	23,428		23,428		23,428
Investment in financial assets		804	804		804
Cash and cash equivalents	14,613	774	15,387		15,387
	44,433	1,578	46,011	15,574	61,585

Financial Assets	2014 Financial Assets at amortized cost	Financial Assets at fair value through profit or loss	Subtotal Financial Assets	Non-financial Assets	Total
Other receivables (excluding provision for other doubtful receivables)	3,096		3,096	5,875	8,971
Trade receivables (excluding provision for doubtful trade receivables)	13,063		13,063		13,063
Cash and cash equivalents	8,223	1,535	9,758		9,758
	24,382	1,535	25,917	5,875	31,792

Financial Assets	2013 Financial Assets at amortized cost	Financial Assets at fair value through profit or loss	Subtotal Financial Assets	Non-financial Assets	Total
Other receivables (excluding provision for other doubtful receivables)	4,018		4,018	5,517	9,535
Trade receivables (excluding provision for doubtful trade receivables)	8,126		8,126		8,126
Cash and cash equivalents	8,691	2,022	10,713		10,713
	20,835	2,022	22,857	5,517	28,374

Financial Liabilities	Financial Liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Subtotal financial liabilities	Non-financial liabilities	Total
			2015		
Accounts Payable	40,128		40,128	476	40,604
Loans	105,751		105,751		105,751
	145,879		145,879	476	146,355

Financial Liabilities	Financial Liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Subtotal financial liabilities	Non-financial liabilities	Total
			2014		
Accounts Payable	30,552		30,552	420	30,972
Loans	49,305		49,305		49,305
Provisions	718		718	28,245	28,963
	80,575		80,575	28,665	109,240

Financial Liabilities	Financial Liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Subtotal financial liabilities	Non-financial liabilities	Total
			2013		
Accounts Payable	20,319		20,319	463	20,782
Loans	31,890		31,890		31,890
Provisions	485		485	20,083	20,568
	52,694		52,694	20,546	73,240

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Gains and losses on financial instruments are allocated to the following categories:

	2015		
	Financial and non-financial Assets / Liabilities at amortized cost	Financial Assets / Liabilities at fair value through profit or loss	Total
Interest income	1,638		1,638
Interest loss	(8,618)		(8,618)
Financial accretion	(1,987)		(1,987)
Exchange differences , net	20,214		20,214
Fair value gains on financial assets at fair value through profit or loss		446	446
Gains on derivative financial instruments		464	464
	11,247	910	12,157

	2014		
	Financial and non-financial Assets / Liabilities at amortized cost	Financial Assets / Liabilities at fair value through profit or loss	Total
Interest income	1,029		1,029
Interest loss	(5,456)		(5,456)
Financial accretion	(1,880)		(1,880)
Exchange differences, net	7,782		7,782
Fair value gains on financial assets at fair value through profit or loss		297	297
	1,475	297	1,772

	2013		
	Financial and non-	Financial Assets / Liabilities at	Total

	financial Assets / Liabilities at amortized cost	fair value through profit or loss	
Interest income	821		821
Interest loss	(2,514)		(2,514)
Financial accretion	(1,319)		(1,319)
Exchange differences , net	5,744		5,744
Fair value gains on financial assets at fair value through profit or loss		103	103
	2,732	103	2,835

Fair value measurements

IFRS 9 defines the fair value of a financial instrument as the amount for which an asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties in an arm s length transaction. All financial instruments recognized at fair value are allocated to one of the valuation hierarchy levels of IFRS 7. This valuation hierarchy provides for three levels.

In the case of Level 1, valuation is based on unadjusted quoted prices in active markets for identical financial assets or liabilities that the Group can refer to at the end of the period. A market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. Financial instruments assigned by the Group to this level comprise investments in listed mutual funds, and financial derivate.

In the case of Level 2, fair value is determined by using valuation methods based on inputs directly or indirectly observable in the market. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. The Group has not valued financial instruments under this category.

In the case of Level 3, the Group uses valuation techniques not based on inputs observable in the market. This is only permissible insofar as no market data are available. The inputs used reflect the Group s assumptions regarding the factors which market players would consider in their pricing. The Group uses the best available information for this, including internal company data. The Group has not valued financial instruments under this category.

YPF Finance Division has a team in place in charge of estimating valuation of financial instruments required to be reported in the financial statements, including the fair value of Level-3 instruments. The team directly reports to the Chief Financial Officer (CFO). The CFO and the valuation team discuss the valuation methods and results upon the acquisition of a financial instrument and, if necessary, on a quarterly basis, in line with the Group s quarterly reports.

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The Group s policy, transfers among the several categories of valuation hierarchies are recognized when occurred, or when there are changes in the prevailing circumstances requiring the transfer.

In addition, no transfer has occurred among the different hierarchies used to determine the fair value of the Group s financial instruments.

The tables below show the Group s financial assets and liabilities measured at fair value as of December 31, 2015, 2014 and 2013 and their allocation to their fair value levels.

	2015			
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments in financial assets:				
- Mutual funds	340			340
- Other financial assets	464			464
Cash and cash equivalents:				
- Mutual funds	774			774
	1,578			1,578

	2014			
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents:				
- Mutual funds	1,535			1,535
	1,535			1,535

	2013			
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents:				
- Mutual funds	2,022			2,022
	2,022			2,022

The Group has no financial liabilities at fair value through profit or loss.

Fair value of financial assets and financial liabilities measured at amortized cost

The estimated fair value of loans, considering unadjusted listed prices (Level 1) for Negotiable Obligations and interest rates offered to the Group (Level 3) for the other financial loans remaining, amounted to 106,336, 53,108 and 33,784 as of December 31, 2015, 2014 and 2013, respectively.

The fair value of the following financial assets and financial liabilities do not differ significantly from their book value:

- Other receivables
- Trade receivables
- Cash and cash equivalents
- Accounts payable

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6. ANALYSIS OF THE MAIN ACCOUNTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

6.a) Intangible assets:

	2015	2014	2013
Net book value Intangible assets	7,359	4,393	2,446
Provision for impairment of intangible assets (Note 1.c)	(80)		
	7,279	4,393	2,446

Changes in Group s intangible assets for the year ended December 31, 2015 and comparative information as follows:

	2015 Cost				
Main account	At beginning of year	Increases	Translation effect	Decreases and reclassifications	At the end of year
Servicie concession	5,707	653	3,218	(51)	9,527
Exploration Rights	1,975	270	928	(183)	2,990
Other intangibles	2,607	190	1,443	20	4,260
Total 2015	10,289	1,113	5,589	(214)	16,777
Total 2014	6,597	3,734(1)	2,205	(2,247)(1)(2)	10,289
Total 2013	4,443	624	1,547	(17)	6,597

	2015 Amortization						2014	2013
Main account	At beginning of year	Increases	Translation effect	Decreases and reclassifications	At the end of year	Net book value	Net book value	Net book value
Service consession	3,476	180	1,904	(6)	5,554	3,973	2,232	1,366
Exploration Rights	150		5		155	2,835	1,825	793
Other Intangibles	2,270	143	1,296		3,709	551	336	287

Total 2015	5,896	323	3,205	(6)	9,418	7,359		
Total 2014	4,151	469	1,314	(38)	5,896		4,393	
Total 2013	2,951	197	1,027	(24)	4,151			2,446

(1) Includes 2,784, of acquisitions corresponding to YSUR Group in Argentina at the time on the acquisition date and 1,538 of disposal of assets for the transfer of areas to Pluspetrol S.A., resectivelly . See note 2.

(2) Includes 682 reclasified to Mineral property, wells and related equipment of Fixed Assets as of December 31, 2014.

6.b) Fixed assets:

	2015	2014	2013
Net book value of fixed assets	274,122	157,243	93,662
Provision for obsolescence of materials and equipment	(762)	(313)	(166)
Provision for impairment of fixed assets (Note 1.c)	(2,455)		
	270,905	156,930	93,496

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Changes in Group s fixed assets for the year ended December 31, 2015 and comparative information as follows:

	2015				
	Cost				
Main account	At beginning of year	Increases	Translation effect	Decreases and reclassifications	At the end of year
Land and buildings	9,084	23	4,630	212	13,949
Mineral property, wells and related equipment	265,376	(1,140)	155,844	37,986[10]	458,066
Refinery equipment and petrochemical plants	42,081	7	23,707	3,634	69,429
Transportation equipment	2,160	5	1,155	330	3,650
Materials and equipment in warehouse	8,241	7,823	4,432	(7,018)	13,478
Drilling and work in progress	45,051	50,139	24,005	(42,392)	76,803
Exploratory drilling in progress[2]	1,781	2,767	992	(1,893)	3,647
Furniture, fixtures and installations	3,314	36	1,865	388	5,603
Selling equipment	5,520	1	3,640	1,617	10,778
Infrastructure for natural gas distribution	2,722			209	2,931
Electric power generation facilities	1,567			6	1,573
Other property	5,502	219	2,633	(63)	8,291
Total 2015	392,399	59,880 [6]	222,903	(6,984) [4]	668,198
Total 2014	258,603	58,613[3][5][6]	79,302	(4,119) [4][11]	392,399
Total 2013	170,843	39,220[6][7][8]	59,121	(10,581) [9]	258,603

	2015						2014	2013
	Amortization							
Main account	**At beginning of year**	**Increases**	**Translation effect**	**Decreases and reclassifications**	**At the end of year**	**Net book value**	**Net book value**	**Net book value**
Land and buildings	3,779	211	1,934	(4)	5,920	8,029	5,305	4,161
Mineral property, wells and related equipment	192,170	22,884	110,301	(433) (10)	324,922	133,144(1)	73,206 (1)	46,205 (1)
Refinery equipment and petrochemical plants	24,842	2,289	14,019	(12)	41,138	28,291	17,239	11,656
Transportation equipment	1,455	218	773	(54)	2,392	1,258	705	444
Materials and equipment in warehouse						13,478	8,241	5,576
Drilling and work in progress						76,803	45,051	19,840
Exploratory drilling in progress(2)						3,647	1,781	927
Furniture, fixtures and installations	2,817	323	1,559		4,699	904	497	277
Selling equipment	4,215	345	2,361		6,921	3,857	1,305	1,050
Infrastructure for natural gas distribution	1,116	68		(3)	1,181	1,750	1,702	1,615
Electric power generation facilities	1,171	112			1,283	290	396	482
Other property	3,591	235	1,796	(2)	5,620	2,671	1,815	1,429
Total 2015	235,156	26,685	132,743	(508) (4)	394,076	274,122		
Total 2014	164,941	19,936	50,671	(392) (4)(11)	235,156		157,243	
Total 2013	113,740	13,830 (7)(8)	38,901	(1,530) (9)	164,941			93,662

(1) Includes 8,435, 6,343 and 3,748 of mineral property as of December 31, 2015, 2014 and 2013, respectively.

(2) As of December 31, 2015, there are 58 exploratory wells in progress. During year ended on such date, 47 wells were drilled, 27 wells were charged to exploratory expense, 14 were transferred to proved properties which are included in the account Mineral property, wells and related equipment and 3 wells were assigned.

(3) Includes 858, 210 and 866 of increases corresponding to Puesto Hernandez, Las Lajas, and Bajada Añelo Amarga Chica joint operations, respectively and 39 corresponding to the La Ventana agreement, on the additional interest acquisition date.

(4) Includes 6 and 32 of net book value charged to fixed assets provisions for the years ended December 31, 2015 and 2014, respectively.

(5) Includes 5,469 of increases corresponding to YSUR Group in Argentina on the acquisition date. See Note 2.

(6) Includes (1,281), (268) and 4,357 corresponding to hydrocarbon wells abandonment costs for the years ended December 31, 2015, 2014 and 2013, respectively.

(7) Includes 1,878 and 1,242 of increases and accumulated depreciation, respectively, corresponding to YPF Energía Eléctrica at the split-off date.

(8) Includes 3,137 and 1,352 of increases and accumulated depreciation, respectively, corresponding to GASA on the acquisition date.

(9) Includes among others, 6,708 from the decrease of assets related to the investment project agreement (see Note 11.c) and the write-down of the assets of Coke A unit as a consequence of the incident in La Plata refinery on April 2013, as a result of the storm that took place in that city.

(10) Includes (2,671) of net book value for El Orejano area; (226) corresponding to derecognition of changes of interest in Magallanes area; and (8) corresponding to derecognition of Puesto Cortadera area.

(11) Includes (325) of derecognition of areas transferred by YPF and YSUR mentioned in Note 2.

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The Group capitalizes the financial cost as a part of the cost of the assets. For the year ended December 31, 2015, 2014 and 2013 the rate of capitalization has been 12.01%, 12.29% and 12.03%, respectively and the amount capitalized amounted to 1,003, 574 and 605, respectively for the years above mentioned.

Set forth below is the evolution of the provision for obsolescence of materials and equipment for the years ended December, 31 2015, 2014 and 2013:

	2015	2014	2013
Amount at beginning of year	313	166	132
Increase charged to expenses	243	133	16
Decreases charged to income		(4)	
Amounts incurred due to utilization	(6)	(32)	
Translation differences	212	50	18
Amount at end of year	762	313	166

Set forth below is the cost evolution for the exploratory wells in evaluation stage as of the years ended on December 31, 2015, 2014 and 2013:

	2015	2014	2013
Amount at beginning of year	993	710	815
Additions pending the determination of proved reserves	1,219	921	424
Decreases charged to exploration expenses	(479)	(336)	(255)
Decrease of assets assignment	(466)	(336)	
Reclassifications to mineral property, wells and related equipment with proved reserves	(89)	(188)	(481)
Translation difference	599	222	207
Amount at end of year	1,777	993	710

The following table shows the capitalized cost for exploratory wells for a period greater than a year and the number of projects related as of December 31, 2015.

	Amount	Number of proyects	Number of Wells
Between 1 and 5 years	242	3	3

6.c) Investments in companies:

	2015	2014	2013
Investments in companies (Notes 7 and 16)	4,384	3,189	2,136

Provision for impairment of investments in companies	(12)	(12)	(12)
	4,372	3,177	2,124

6.d) Inventories:

	2015	2014	2013
Refined products	10,709	7,720	5,713
Crude oil and natural gas	7,155	4,187	3,451
Products in process	169	99	115
Construction works in progress for third parties	85	271	107
Raw materials, packaging materials and others	1,140	724	495
	19,258(1)	13,001(1)	9,881(1)

(1) As of December 31, 2015, 2014 and 2013, the fair value of the inventories does not differ, significantly, from their cost.

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6.e) Other receivables:

	2015		2014		2013	
	Noncurrent	**Current**	**Noncurrent**	**Current**	**Noncurrent**	**Current**
Trade		928		664		377
Tax credit, export rebates and production incentives	304	8,058	130	1,066	22	1,233
Trust contributions Obra Sur	30	18	56	22	67	34
Loans to clients and balances with Related parties [1]	297	2,366	231	53	517	81
Collateral deposits	318	895	528	435	397	253
Prepaid expenses	198	682	39	451	11	490
Advances and loans to employees	8	285	7	299	3	166
Advances to suppliers and custom agents [2]		3,147		2,224		1,062
Receivables with partners in Joint Operations and agreements	1,118	1,881	612	764	1,852[3]	595[3]
Insurance receivables (Note 11.b)		808		1,068		1,956
Miscellaneous	241	384	95	227	62	357
	2,514	19,452	1,698	7,273	2,931	6,604
Provision for other doubtful receivables	(13)	(39)		(102)		(98)
Provision for valuation of other receivables to their estimated recoverable value			(7)	(1)	(4)	
	2,501	19,413	1,691	7,170	2,927	6,506

(1) See Note 12 for information about related parties.
(2) Includes among others, advances to customs agents for the payment of taxes and import rights related to the imports of fuels and goods.
(3) Includes the receivables related to the investment agreement with Chevron Corporation (see Note 11.c).

6.f) Trade receivables:

	2015		2014		2013	
	Noncurrent	**Current**	**Noncurrent**	**Current**	**Noncurrent**	**Current**
Accounts receivable and related parties [1]	469	22,959	26	13,037	60	8,066
Provision for doubtful trade receivables		(848)	(7)	(866)	(6)	(652)
	469	22,111	19	12,171	54	7,414

(1) See Note 12 for information about related parties.

Changes in the provision for doubtful trade receivables

	2015		2014		2013	
	Noncurrent	**Current**	**Noncurrent**	**Current**	**Noncurrent**	**Current**
Amount at beginning of year	7	866	6	652	5	494
Increases charged to expenses		313		210		191
Decreases charged to income		(412)		(41)		(73)
Amounts incurred due to utilization	(7)	(17)		(4)	1	
Translation differences		98	1	49		40
Amount at end of year		848	7	866	6	652

6.g) Cash and cash equivalents:

	2015	**2014**	**2013**
Cash	13,920	6,731	4,533
Short-term investments	693	1,492	4,158
Financial assets at fair value through profit or loss	774	1,535	2,022
	15,387	9,758	10,713

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6.h) Provisions:

	Provision for pending lawsuits and contingencies		Provision for environmental liabilities		Provision for hydrocarbon wells abandonment obligations		Provision for pensions	
	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current
Amount as of December 31, 2014	7,014	851	1,269	1,145	18,087	376	194	27
Increases charged to expenses	2,062	95	986		1,694		23	
Decreases charged to income	(434)	(141)			(314)			(13)
Amounts incurred due to payments/utilization		(374)		(1,030)		(283)		(71)
Exchange and translation differences, net	2,383	10	464	186	10,109	159	102	17
Change of interest in Joint Operation charged to expenses						(504)		
Reclassifications and other	(650)	(292)	(1,099)	1,099	(2,196)[(1)]	681[(1)]	(71)	71
Amount as of December 31, 2015	10,375	149	1,620	1,400	27,380	429	248	31

	Provision for pending lawsuits and contingencies		Provision for environmental liabilities		Provision for hydrocarbon wells abandonment obligations		Provision for pensions	
	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current
Amount as of December 31, 2013	5,020	159	764	926	13,220	289	168	22
Increases charged to expenses	3,367	24	1,066		1,366	3	11	
Decreases charged to income	(465)	(82)					(27)	
Increase from subsidiaries acquisition	20		21	2	724	14		
Increase from joint operation interest acquisition					339	153		
Amounts incurred due to	(5)	(1,126)		(621)	(61)	(136)	(14)	(11)

payments/utilization								
Exchange and translation differences, net	930	23	175	81	2,772	48	67	5
Reclassifications and other	(1,853)	1,853	(757)	757	(273)(1)	5(1)	(11)	11
Amount as of December 31, 2014	7,014	851	1,269	1,145	18,087	376	194	27

	Provision for pending lawsuits and contingencies		**Provision for environmental liabilities**		**Provision for hydrocarbon wells abandonment obligations**		**Provision for pensions**	
	Noncurrent	**Current**	**Noncurrent**	**Current**	**Noncurrent**	**Current**	**Noncurrent**	**Current**
Amount as of December 31, 2012	2,892	122	677	489	6,958	193	136	16
Increases charged to expenses	1,877	29	208	551	719		3	
Decreases charged to income	(90)	(41)						
Amounts incurred due to payments/utilization		(160)		(432)		(105)		(16)
Exchange and translation differences, net	579	9	138	59	1,355	29	46	5
Reclassifications and other	(238)	200	(259)	259	4,188(1)	172(1)	(17)	17
Amount as of December 31, 2013	5,020	159	764	926	13,220	289	168	22

(1) Includes (1,281), (268) and 4,357 from abandonment obligation costs which has counterpart in fixed assets for the years ended on December 31, 2015, 2014 and 2013, respectively; (226) from the derecognition for changes in interest in Magallanes area with counterpart in assets as of December 31.2015; and (8) of the derecongnition of the Puesto Cortadera area with counterpart in assets as of December 31, 2015.

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6.i) Income Tax:

The calculation of the income tax expense accrued for the years ended December 31, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Current income tax	517	(7,323)	(2,844)
Deferred income tax	(25,154)	(5,900)	(6,425)
	(24,637)	(13,223)	(9,269)

The reconciliation of pre-tax income included in the consolidated statement of comprehensive income, at the statutory tax rate, to the income tax as disclosed in the consolidated statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013, respectively, is as follows:

	2015	2014	2013
Net income before income tax	29,063	22,072	14,348
Statutory tax rate	35%	35%	35%
Statutory tax rate applied to net income before income tax	(10,172)	(7,725)	(5,022)
Effect of the valuation of fixed assets and intangible assets measured in functional currency	(31,200)	(10,064)	(7,186)
Exchange differences	19,164	5,872	4,008
Effect of the valuation of inventories	(2,412)	(1,156)	(807)
Income on investments in companies	111	195	124
Miscellaneous	(128)[1]	(345)	(386)
Income tax expense	(24,637)	(13,223)	(9,269)

(1) Includes 301 of tax loss carry-forwards originated during previous years.

Breakdown of deferred tax as of December 31, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Deferred tax assets			
Provisions and other non-deductible liabilities	3,093	2,479	1,723
Tax losses carry-forward and other tax credits	3,236	222	45
Miscellaneous	83	17	115
Total deferred tax assets	6,412	2,718	1,883

Deferred tax liabilities			
Fixed assets	(45,393)	(19,250)	(11,659)
Miscellaneous	(4,877)	(2,172)	(1,649)
Total deferred tax liabilities	(50,270)	(21,422)	(13,308)
Total deferred tax, net	(43,858)	(18,704)[1]	(11,425)

(1) Includes (1,241) arising form the business combination detailed in Note 2.

For fiscal year ended December 31, 2015, YPF estimated a tax loss carry-forward, therefore created a provision for 1,192 for minimum presumed income tax, which was charged to Other current receivables.

Deferred income tax assets are recognized for tax loss carry-forwards to the extent their setoff through future taxable profits is probable. Tax loss carry-forwards in Argentina expire within 5 years.

In order to fully realize the deferred income tax asset, the Group will need to generate taxable income. Based upon the level of historical taxable income and projections for future over the years in which the deferred income tax are deductible, the management believes that as of December 31, 2015 it is probable that the Group will realize all of the deferred income tax assets.

As of December 31, 2015, Group s tax loss carry-forwards at the statutory tax rate were as follows:

Date of generation	Date of expiration	Jurisdiction	Amount
2011	2016	Argentina	4
2012	2017	Argentina	85
2013	2018	Argentina	85
2014	2019	Argentina	134
2015	2020	Argentina	2,928
			3,236

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As of December 31, 2015, 2014 and 2013 the Group did not recognized deferred income tax assets for 4,373, 3,511 and 978, respectively, from which 2,041, 1,953 and 559 corresponds to taxable temporary differences not recoverable and 2,332, 1,558 and 419 corresponds to tax loss carry forwards from a foreign subsidiary, since they do not meet the recognition criteria set forth under IFRS. From the tax loss carry forwards above mentioned, as of December 2015, 957 will expire form 2017, 1,351 from 2032 and 24 have undetermined expiration date.

As of December 31, 2015, 2014 and 2013 the Group has classified as deferred tax asset 954, 244 and 34, respectively, and as deferred tax liability 44,812, 18,948 and 11,459, respectively, all of which arise from the net deferred tax balances of each of the separate companies included in this consolidated financial statements.

Likewise, 100 has not been recorded for minimum presumed income tax, with expiration between 2016 and 2024.

As of December 31 2015, 2014 and 2013, the causes that generate allocations to other comprehensive income, did not create temporary differences for income tax.

6.j) Loans:

	Interest rate [(1)]			**Maturity**	**2015**		**2014**		**2013**	
					Non-current	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Argentine pesos:										
Negotiable obligations	20.83%	-	29.31%	2016-2024	19,280	2,050	10,858	2,329	9,553	1,666
Loans	15.25%	-	29.06%	2016-2020	1,224[(3)]	1,104[(3)]	847	637	613	580
Account overdraft	24.50%	-	29.00%	2016		4,425[(5)]		2,398		111
					20,504	7,579	11,705	5,364	10,166	2,357
Currencies other than the Argentine peso:										
Negociable obligations[(2)(4)]	1.29%	-	10.00%	2016-2028	52,651	9,981	22,472	1,257	10,921	2,630
Export pre-financing	3.50%	-	7.20%	2016-2018	1,039	3,680		2,428		1,119
Imports financing	4.00%	-	6.81%	2016		4,736		2,848		1,601
Loans	2.30%	-	7.50%	2016-2019	3,740	1,841	1,853	1,378	1,989	1,107
					57,430	20,238	24,325	7,911	12,910	6,457
					77,934	27,817	36,030	13,275	23,076	8,814

(1) Annual interest rate as of December 31, 2015.
(2) Disclosed net of 1,349, 252 and 137 corresponding to YPF s outstanding Negotiable Obligations repurchased through open market transactions as of December 31, 2015, 2014 and 2013, respectively.
(3) Includes 460 corresponding to loans granted by Banco Nación Argentina, of which 210 accrue fixed interest rate of 15% until December 2015 and then accrue variable interest of BADLAR plus a spread of percentage points and 250 accrue variable interest of BADLAR plus a spread of 4 percentage points with a maximum lending interest rate of the overall portfolio of Banco Nación. See Note 12.
(4) Includes 9,970, 7,129 and 7,494 as of December 31, 2015, 2014 and 2013, respectively, of face value negotiable obligations, to be cancelled in argentine pesos at the prevailing exchange rate according to terms of issued series.
(5) Includes 1,926 of overdraft granted by Banco Nación Argentina as of December 31, 2015. See Note 12.

The breakdown of the Group s borrowings as of the year ended on December 31, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Amount at beginning of the year	49,305	31,890	17,104
Proceed form loans	55,158	23,949	16,829
Payments of loans	(24,090)	(13,320)	(6,804)
Decease of loans for El Orejano agreement[2]	(2,373)		
Payments of interest	(6,780)	(5,059)	(2,696)
Accrued interest[1]	8,342	5,447	2,939
Exchange differences and translation, net	26,189	6,398	4,518
Amount at the end of the year	105,751	49,305	31,890

(1) Includes capitalized financial costs. See Note 6.b
(2) See Note 11.

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On February 5, 2015 the General Shareholder s Meeting of YPF approved an increase of the amount of the Global Medium Term Notes (M.T.N.) Program of the Company for US$ 3,000 million, for a total maximum nominal outstanding amount at any time of the Program of US$ 8,000 million or its equivalent in other currencies.

In December, 2015, YPF and an investors group entered into a purchase and sale agreement whereby YPF purchased 100% of Series A-L Negotiable Obligations (NO) and Additional Series A-L NO (collectively, Series A-L NO) issued by GASA in a principal amount of up to US$ 61.9 million. In consideration therefor, YPF has granted to GASA bondholders the right to underwrite Series XXVI NO, which were issued in December 2015.

As a result of the above (i) YPF issued the relevant waiver to GASA with respect to any and all obligations assumed (including any principal and interest payment) under the Indenture between GASA and The Bank of New York Mellon, dated March 15, 2013, without such waiver implying a Triggering Event; (ii) The Bank of New York Mellon was given due notice of the acquisition of the Series A-L NO so that, in its capacity of Trustee, it may proceed to the settlement thereof under the restructuring merger to be executed by YPF with respect to GASA and YPF Inversora Energética S.A., the latter being the current controlling company of GASA as well as a company controlled by YPF and (iii) YPF agreed not to transfer the Series A-L NO until surrender thereof for cancellation.

As a result of the foregoing regarding the merger proceedings, and in compliance with IAS 21 The effects of change in foreign exchange rates guidelines, the exchange difference recognized by GASA in its statement of comprehensive income following the acquisition of Series A-L NO by YPF was accounted for in Other comprehensive income Exchange difference from investments in companies of the Company and will be offset with YPF s translation difference resulting from the merger.

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Details regarding the Negotiable Obligations of the Company are as follows:

						2015		2014	
incipal value	Rf.	Class	Interest rate(3)		Principal Maturity	Noncurrent	Current	Noncurren	Curr
$ 15	(1)(6)	-	Fixed	10.00%	2028	49	3	62	
200	(2)(6)	Class VII							
1,200	(2)(4)(6)	Class VIII							80
$ 130	(2)(5)(6)	Class IX							
$ 552	(2)(4)(5)(6)(8)	Class X	Fixed	6.25%	2016		7,258	4,690	5
2,110	(2)(4)(6)(8)	Class XI	BADLAR plus 4.25%	24.76%	2017	1,055	1,129	2,110	7
2,828	(2)(4)(6)(8)	Class XIII	BADLAR plus 4.75%	25.52%	2018	2,828	25	2,828	2
300	(2)(6)	Class XIV							
$ 230	(2)(5)(6)	Class XV							
300	(2)(6)	Class XVI							
2,250	(2)(4)(6)(8)	Class XVII	BADLAR plus 2.25%	22.68%	2020	2,250	91	2,250	8
$ 59	(2)(5)(6)	Class XVIII							50
$ 89	(2)(5)(6)	Class XIX	Fixed	1.29%	2017	1,156	3	757	
1,265	(2)(4)(6)	Class XX	BADLAR plus 2.25%	23.01%	2020	1,265	12	1,265	1
100	(2)(6)	Class XXI							
$ 92	(2)(5)(6)	Class XXII	Fixed	3.50%	2020	630	162	515	10
$ 150	(2)(6)	Class XXIV	Libor plus 7.50%	7.77%	2018	802	471	825	31
300	(2)(6)	Class XXV							31
$ 862	(2)	Class XXVI	Fixed	8.88%	2018	11,057	33	4,899	1
150	(2)(6)	Class XXVII							
$ 1,325	(2)	Class XXVIII	Fixed	8.75%	2024	17,212	364	8,501	18
500	(2)(6)(8)	Class XXIX	BADLAR	20.69%	2020	500	7	500	
379	(2)(6)	Class XXX							38
201	(2)(6)	Class XXXI							20
465	(2)(6)	Class XXXII	BADLAR plus 3.2%	23.92%	2016		157	155	31
$ 66	(2)(5)(6)	Class XXXIII	Fixed	2.00%	2017	287	574	563	
1,000	(2)(6)(8)	Class XXXIV	BADLAR plus 0.1%	20.83%	2024	1,000	56	1,000	5
750	(2)(4)(6)	Class XXXV	BADLAR plus 3.5%	24.23%	2019	750	49	750	4
950	(2)(8)(6)	Class XXXVI	BADLAR plus 4.74%	25.37%	2020	950	95		
250	(7)(2)(6)	Class XXXVII	BADLAR plus 3.49%	25.75%	2017	250	9		
935	(2)(4)(6)	Class XXXVIII	BADLAR plus 4.75%	25.31%	2020	935	55		
$ 1,500	(2)	Class XXXIX	Fixed	8.50%	2025	19,369	1,111		

	500	(2)	Class XL	BADLAR plus 3.49%	23.74%	2017	500	26		
	1,900	(2)(8)	Class XLI	BADLAR	21.69%	2020	1,900	112		
	1,697	(2)(4)	Class XLII	BADLAR plus 4%	25.69%	2020	1,697	119		
	2,000	(2)(8)	Class XLIII	BADLAR	21.06%	2023	2,000	83		
	1,400	(2)	Class XLIV	BADLAR plus 4.75%	29.31%	2018	1,400	25		
$	177		Series A-L	Fixed	8.88%	2018	1,906	2	1,186	
$	18		Series A-U	Fixed	8.88%	2018	183		120	
$	57		Series A-L						347	7
$	1		Series A-U						7	
							71,931	12,031	33,330	3,58

(1) Corresponds to the 1997 M.T.N. Program for US$1,000 million.
(2) Corresponds to the 2008 M.T.N. Program for US$ 8,000 million.
(3) Interest rate as of December 31, 2015.
(4) The ANSES and/or the Fondo Argentino de Hidrocarburos have participated in the primary subscription of these negotiable obligations, which may at the discretion of the respective holders, be subsequently traded in the securities market where these negotiable obligations are authorized to be traded.
(5) The payment currency of these Negotiable Obligations is the Argentine Peso at the Exchange rate applicable under the terms of the series issued.
(6) As of the date of issuance of these financial statements, the Company has fully complied with the use of proceeds disclosed in the pricing supplements.
(7) Until the course of twelve months since the date of issuance and liquidation to a fixed nominal annual rate of 25.75%; and from the course of twelve months since the date of issuance and liquidation and until the date of maturity of the negotiable obligations to a variable nominal annual rate of BADLAR plus 3.49%.
(8) Negotiable Obligations classifying as productive investment, computable as such for purposes of subsection 35.8.1, paragraph K of General Regulations applicable to Insurance Activities issued by the Argentine Insurance Supervision Bureau.

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6.k) Accounts payable:

	2015		2014		2013	
	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current
Trade and related parties [1]	204	38,782	66	28,522	153	18,553
Investments in companies with negative shareholders equity		1		2		127
Extension of Concessions	340	412	332	884	275	1,036
Guarantee deposits	8	467		418	8	328
Miscellaneous	73	317	168	580	34	268
	625	39,979	566	30,406	470	20,312

(1) For more information about related parties, see Note 12.

6.l) Revenues:

	2015	2014	2013
Sales [1]	159,387	147,020	92,978
Production incentive program (Note 11.c)	1,988		
Revenues from construction contracts	455	419	312
Turnover tax	(5,694)	(5,497)	(3,177)
	156,136	141,942	90,113

(1) Includes 12,345, 7,762 and 4,289 for the year ended on December 2015, 2014 and 2013, respectively, associated with revenues related to the natural gas additional injection stimulus program created by Resolution 1/2013 of the Planning and Strategic Coordination Commission of the National Plan of Hydrocarbons Investment. See Note 11.c).

6.m) Cost of sales:

	2015	2014	2013
Inventories at beginning of year	13,001	9,881	6,922
Purchases for the year	33,886	35,951	25,846
Production costs	85,550	68,840	42,980
Translation effect	6,358	2,821	2,227
Inventories at end of year	(19,258)	(13,001)	(9,881)
Cost of sales	119,537	104,492	68,094

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6.n) Expenses:

	2015					2014	2013
	Production costs	Administrative expenses	Selling expenses	Exploration expenses	Total	Total	Total
Salaries and social security taxes	7,566	2,065	1,207	224	11,062	8,031	5,906
Fees and compensation for services	775	1,378[(2)]	280	24	2,457	1,940	1,361
Other personnel expenses	2,303	277	121	42	2,743	1,986	1,370
Taxes, charges and contributions	1,144	259	2,885		4,288[(1)]	5,660[(1)]	3,893[(1)]
Royalties, easements and canons	11,932		17	28	11,977	9,544	5,871
Insurance	831	38	56		925	792	592
Rental of real estate and equipment	3,360	33	394	2	3,789	2,950	1,956
Survey expenses				504	504	251	77
Depreciation of fixed assets	25,706	382	597		26,685	19,936	11,236
Amortization of intangible assets	185	117	21		323	469	197
Industrial inputs, consumable materials and supplies	3,801	27	88	5	3,921	3,522	2,143
Operation services and other service contracts	6,261	237	546		7,044	5,908	3,043
Preservation, repair and maintenance	14,231	248	322	24	14,825	11,812	7,959
Unproductive exploratory drillings				1,425	1,425	1,265	514
Transportation, products and charges	4,796	25	3,756		8,577	6,881	4,805
Provision for doubtful trade receivables			(99)		(99)	169	118
Publicity and advertising expenses		395	292		687	710	265
Contractual commitments	31				31	52	174
Fuel, gas, energy and miscellaneous	2,628	105	616	195	3,544	3,640	2,586
Total 2015	85,550	5,586	11,099	2,473	104,708		
Total 2014	68,840	4,530	10,114	2,034		85,518	
Total 2013	42,980	2,686	7,571	829			54,066

(1) Include approximately 1,220, 1,775 and 1,757 corresponding to export withholdings for years ended December 2015, 2014 and 2013, respectively.

(2) Includes 140 of YPF s Directors and Statutory Auditor s fees and remunerations for all concepts. On April 30, 2015, the General Ordinary and Extraordinary Shareholder s meeting of YPF decided to ratify fees for the year 2014 for 123 and decided to approve as fees and remunerations for all concepts in advance for the year 2015 the sum of approximately 146.

The expense recognized in the consolidated statements of comprehensive income related to research and development activities during the years ended December 31, 2015, 2014 and 2013 amounted to 270, 215 and 83, respectively.

6.o) Other operating results, net:

	2015	2014	2013
Lawsuits	(1,188)	(2,034)	(1,069)
Environmental remediation from YPF Holdings Inc	(162)	(214)	(201)
Impairment of fixed assets and intangible assets (Note 1.c)	(2,535)		
Temporary economic assistance [(1)]	711		
Sale of extension of La Ventana and Magallanes concession agreement (Note 2)		428	
Construction incentive [(2)]	621	233	169
Insurance (Note 11.b)	371		1,479
Miscellaneous	1,329	557	(151)
	(853)	(1,030)	227

(1) Corresponds to the temporary economic assistance received by Metrogas S.A. ordered by the Argentine Energy Secretariat in Resolution No. 263/2015 (see Note 11.c).

(2) Corresponds to the incentive to Argentine manufacturers of capital goods received by A-Evangelista S.A. under the provisions of Executive Order No. 379/2001 of the Argentine Ministry of Economy.

6.p) Financial results, net:

	2015	2014	2013
Financial income			
Interest income	1,638	1,029	821
Exchange differences	25,625	10,272	7,919
Total financial income	27,263	11,301	8,740
Financial loss			
Interest loss	(8,618)	(5,456)	(2,514)
Financial accretion	(1,987)	(1,880)	(1,319)
Exchange differences	(5,411)	(2,490)	(2,175)
Total financial loss	(16,016)	(9,826)	(6,008)
Other financial results			
Fair value gains on financial assets at fair value through profit or loss	446	297	103
Gains on derivative financial instruments	464		
Total other financial results	910	297	103

Other financial results, net	12,157	1,772	2,835

7. INVESTMENTS IN COMPANIES AND JOINT OPERATIONS

The following table shows in aggregate, considering that none of the companies are individually material, the amount of investments in affiliated companies and joint ventures as of December 31, 2015, 2014 and 2013:

	2015	**2014**	**2013**
Amount of investments in affiliated companies	1,248	757	227
Amount of investments in joint ventures	3,136	2,432	1,909
Provision for impairment of investments in companies	(12)	(12)	(12)
	4,372	3,177	2,124

Investments in companies with negative shareholders equity are disclosed in Accounts payable .

The main changes that affected the amount of the investments previously mentioned, during the fiscal years ended December 31, 2015, 2014, and 2013 are the following:

	2015	**2014**	**2013**
Amount at the beginning of year	3,177	2,124	1,914
Acquisitions and contributions	163	448	153
Loss from investments in companies and joint ventures	318	558	353
Translation differences	999	470	470
Reclassification of investments in companies with negative shareholders equity	(1)	(125)	123
Distributed dividends	(280)	(299)	(280)
Other movements	(4)	1	(609)(1)
Amount at the end of year	4,372	3,177	2,124

(1) Includes, among others, the movements related to Pluspetrol Energy SA split-off.

Note 16 provides information of investments in companies.

The following table shows the main magnitudes of net results from the Group s investments in companies, calculated according to the equity method, for the fiscal year ended on December 31, 2015, 2014 and 2013. YPF has made adjustments, where applicable, to the amounts reported by such companies in order to comply with the accounting principles used by such companies to those used by the Company:

	Affiliated companies			Joint ventures		
	2015	2014	2013	2015	2014	2013
Net Income	321	234	63[(1)]	(3)	324	290
Other comprehensive income	50	18	120	949	452	350
Comprehensive income for the year	371	252	183	946	776	640

(1) Includes 156 corresponding to the comprehensive income generated in business combination with GASA and YPF Energía Eléctrica S.A. (see Note 2).

Additionally, the Group participates in joint operations and other agreements which give to the Group a contractually established percentage over the rights of the assets and obligations that emerge from the contracts. Interest in such joint operations have been consolidated line by line on the basis of the mentioned interest over the assets, liabilities, income and expenses related to each contract. Interest in Joint Operations have been calculated based upon the latest available financial statements as of the end of each year, taking into consideration significant subsequent events and transactions as well as management information available.

The exploration and production joint operations and other agreements in which YPF participates allocate the hydrocarbon production to each partner based on the ownership interest, consequently such hydrocarbons are commercialized directly by the partners recognizing each of them the corresponding economic effects.

Note 17 discloses the most relevant Joint Operations and other agreements on which the Company participates, and their operation nature.

The assets and liabilities as of December 31 2015, 2014 and 2013, and expenses for the three fiscal years ended on December 31, 2015, 2014 and 2013 of the Joint Operations and other agreements are as follows:

	2015	2014	2013
Noncurrent assets	47,322	22,439	9,472
Current assets	944	1,295	661
Total assets	48,266	23,734	10,133
Noncurrent liabilities	4,593	3,129	2,342
Current liabilities	6,391	4,641	1,247

Total liabilities	10,984	7,770	3,589

	2015	**2014**	**2013**
Production Cost	12,959	9,047	4,647
Exploration expenses	395	672	43

8. SHAREHOLDERS EQUITY

The Company s subscribed capital as of December 31, 2015, is 3,933 and is represented by 393,312,793 shares of common stock and divided into four classes of shares (A, B, C and D), with a par value of Argentine pesos 10 and one vote per share. These shares are fully subscribed, paid-in and authorized for stock exchange listing.

As of December 31 2015, there are 3,764 Class A outstanding shares. As long as any Class A share remains outstanding, the affirmative vote of Argentine Government is required for: 1) mergers, 2) acquisitions of more than 50% of YPF shares in an agreed or hostile bid, 3) transfers of all the YPF s production and exploration rights, 4) the voluntary dissolution of YPF or 5) change of corporate and/or tax address outside the Argentine Republic. Items 3) and 4) will also require prior approval by the Argentine Congress.

Until the enforcement of Law No. 26,741 detailed in the next paragraphs, Repsol S.A. (Repsol) had a participation in the Company, directly and indirectly, of approximately 57.43% shareholding while Petersen Energía S.A. (PESA) and its affiliates exercised significant influence through a 25.46% shareholding of YPF s capital stock.

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Law No. 26,741 enacted on May 4, 2012, changed YPF s shareholding structure. The mentioned Law declared as national public interest and subject to expropriation the Class D Shares of YPF owned by Repsol, its controlled or controlling entities, representing the 51% of YPF s equity. According to Law 26,741, achieving self-sufficiency in the supply of hydrocarbons as well as in the exploitation, industrialization, transportation and sale of hydrocarbons, is thereby declared of national public interest and a priority for Argentina, with the goal of guaranteeing socially equitable economic development, the creation of jobs, the increase of the competitiveness of various economic sectors and the equitable and sustainable growth of the provinces and regions. The shares subject to expropriation will be distributed as follows: 51% for the Argentine federal government and 49% for certain Argentine Provinces.

According to reports by Repsol to the BCBA dated May 7, 2014, Repsol sold to Morgan Stanley & Co. LLC and 11.86% of the capital stock of YPF, represented by 46,648,538 ordinary shares Class D, ceasing to be a shareholder of the company after such transaction.

On April 30, 2015, a General Ordinary and Extraordinary Shareholders meeting was held, which has approved the financial statements of YPF for the year ended December 31, 2014 and additionally decided the following in relation with the distribution of earnings of fiscal year ended as of December 31, 2014: (i) appropriate the amount of 120 to a reserve for future acquisition of YPF shares under the performance and bonus program mentioned in the Director s report of the consolidated financial statements for the year ended December 31, 2014 giving to the Board of Directors the opportunity to acquire shares when it considers it convenient and to comply with the commitments assumed and to be assumed in relation with the mentioned program; (ii) to appropriate the amount of 8,410 to constitute a reserve for investment in accordance with the article 70, third paragraph of the Law No. 19,550 of Argentine Corporations as amended; and (iii) the appropriation to a reserve for future dividends in an amount of 503, empowering the Board of Directors to determine the opportunity of payment which should not exceed the ending of the present fiscal year. On June 8, 2015, the Board of Directors decided to pay a dividend of 1.28 pesos per share for the amount of 503 which was available for shareholders on July 28, 2015.

During the fiscal years ended 2015, 2014 and 2013, YPF has repurchased 382,985, 634,204 and 1,232,362 shares for a total amount of 120, 200 and 120, respectively, and has settled 623,350, 563,754 and 479,174 shares to the beneficiaries of the Share-Based Benefit Plan, respectively, in order to fulfill the Share-Based Benefit Plans mentioned in Note 1.b.10.iii). The cost of such repurchases is accounted in equity in the Acquisition cost of treasury shares account, while the nominal value and the adjustment due to the monetary restatement effect pursuant Previous Argentine GAAP have been reclassified from Subscribed Capital and Adjustments to Contributions accounts to Treasury shares and Adjustment to treasury shares , respectively.

9. EARNINGS PER SHARE

The following table shows the net income and the number of shares that have been used for the calculation of the basic earnings per share:

	2015	2014	2013
Net income	4,579	9,002	5,125
Average number of shares outstanding	392,101,191	392,136,465	392,789,433
Basic and diluted earnings per share	11.68	22.95	13.05

Basic and diluted earnings per share are calculated as shown in Note 1.b.13.

10. PROVISIONS FOR PENDING LAWSUITS, CLAIMS AND ENVIRONMENTAL LIABILITIES

The Group is party to a number of labor, commercial, civil, tax, criminal, environmental, customs and administrative proceedings that, either alone or in combination with other proceedings, could, if resolved in whole or in part adversely against it, result in the imposition of material costs, fines, judgments or other losses. While the Group believes that such risks have been provisioned appropriately based on the opinions and advice of our external legal advisors and in accordance with applicable accounting standards, certain loss contingencies, are subject to change as new information develops and results of the presented evidence is obtain, among others. It is possible that losses resulting from such risks, if proceedings are decided in whole or in part adversely to the Group, could significantly exceed the recorded provisions.

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As of December 31, 2015, the Group has accrued pending lawsuits, claims and contingencies which are probable and can be reasonably estimated, amounting to 10,524. The most significant pending lawsuits and contingencies accrued are described in the following paragraphs.

Additionally, YPF is subject to various provincial and national laws and regulations relating to the protection of the environment. These laws and regulations may, among other things, impose liability on companies for the cost of pollution clean-up and environmental damages resulting from operations. Management believes that the Company s operations are in substantial compliance with Argentine laws and regulations currently in force relating to the protection of the environment as such laws have historically been interpreted and enforced.

However, the Company is periodically conducting new studies to increase its knowledge concerning the environmental situation in certain geographic areas where the Company operates in order to establish their status, causes and necessary remediation and, based on the aging of the environmental issue, to analyze the possible responsibility of Argentine Government, in accordance with the contingencies assumed by the Argentine Government for liabilities existing as of December 31, 1990. Until these studies are completed and evaluated, the Company cannot estimate what additional costs, if any, will be required. However, it is possible that other works, including provisional remedial measures, may be required.

Pending lawsuits: In the normal course of its business, the Company has been sued in numerous labor, civil and commercial actions and lawsuits. Management, in consultation with the external legal advisors, has recorded a provision considering its best estimation, based on the information available as of the date of the issuance of these consolidated financial statements, including counsel fees and judicial expenses.

Liabilities and contingencies assumed by the Argentine Government: The YPF Privatization Law provided for the assumption by the Argentine Government of certain liabilities of the predecessor as of December 31, 1990. In certain lawsuits related to events or acts that took place before December 31, 1990, YPF has been required to advance the payment established in certain judicial decisions. YPF has the right to be reimbursed for these payments by the Argentine Government pursuant to the above-mentioned indemnity.

Natural gas market: Pursuant to Resolution No. 265/2004 of the Secretariat of Energy, the Argentine Government created a program of useful curtailment of natural gas exports and their associated transportation service. Such program was initially implemented by means of Regulation No. 27/2004 of the Under-Secretariat of Fuels, which was subsequently substituted by the Program of Rationalization of Gas Exports and Use of Transportation Capacity (the Program) approved by Resolution No. 659/2004 of the Secretariat of Energy. Additionally, Resolution No. 752/2005 of the Secretariat of Energy provided that industrial users and thermal generators (which according to this resolution will have to request volumes of gas directly from the producers) could also acquire the natural gas from the cutbacks on natural gas exports through the Permanent Additional Injections mechanism created by this Resolution. By means of the Program and/or the Permanent Additional Injection, the Argentine Government requires natural gas exporting producers to deliver additional volumes to the domestic market in order to satisfy natural gas demand of certain consumers of the Argentine market (Additional Injection Requirements). Such additional volumes are not contractually committed by YPF, who is thus forced to affect natural gas exports, which execution has been conditioned. The mechanisms established by the Resolutions No. 659/2004 and 752/2005 have been adapted by the Secretariat of Energy Resolution No. 599/2007, modifying the conditions for the imposition of the requirements, depending on whether the producers have signed or not the proposed agreement, ratified by such resolution, between the Secretariat of Energy and the Producers. Also, through Resolution No. 1410/2010 of the National Gas Regulatory Authority (ENARGAS) approved the procedure which sets new rules for natural gas dispatch applicable to all participants in the natural gas industry, imposing new and more severe regulations to the producers availability of natural gas (Procedimiento para Solicitudes, Confirmaciones y Control de Gas). Additionally, the Argentine

Government, through instructions made using different procedures, has ordered limitations over natural gas exports (in conjunction with the Program and the Permanent Additional Injection, named the Export Administration). On January 5, 2012, the Official Gazette published Resolution of the Secretariat of Energy No. 172 which temporarily extends the rules and criteria established by Resolution No. 599/07, until new legislation replaces the Resolution previously mentioned. This Resolution was appealed on February 17, 2012 by filing a motion for reconsideration with the Secretariat of Energy.

As a result of the resolution mentioned before, in several occasions since 2004, YPF has been forced to suspend, either totally or partially, its natural gas deliveries to some of its export clients, with whom YPF has undertaken firm commitments to deliver natural gas.

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YPF has challenged the Program, the Permanent Additional Injection and the Additional Injection Requirements, established by Resolution of the Secretariat of Energy No. 599/2007, 172/2011 and Resolution ENARGAS No. 1410/2010, as arbitrary and illegitimate, and has invoked vis-à-vis the relevant clients that the Export Administration constitute a fortuitous case or force majeure event (act of authority) that releases YPF from any liability and/or penalty for the failure to deliver the contractual volumes. These clients have rejected the force majeure argument invoked by YPF, and some of them have demanded the payment of indemnifications and/or penalties for the failure to comply with firm supply commitments, and/or reserved their rights to future claims in such respect (the Claims). On December 9, 2015, the ENARGAS rejected YPF´s challenged Resolution N° 1410/2010. YPF is evaluating the course of action.

Among them, on June 25, 2008, AES Uruguaiana Emprendimientos S.A. (AESU) claimed damages in a total amount of US$ 28.1 million for natural gas deliver or pay penalties for cutbacks accumulated from September 16, 2007 through June 25, 2008, and also claimed an additional amount of US$ 2.7 million for natural gas deliver or pay penalties for cutbacks accumulated from January 18, 2006 until December 1, 2006. YPF has rejected both claims. On September 15, 2008, AESU notified YPF the interruption of the fulfillment of its commitments alleging delay and breach of YPF obligations. YPF has rejected the arguments of this notification. On December 4, 2008, YPF notified that having ceased the force majeure conditions, pursuant to the contract in force, it would suspend its delivery commitments, due to the repeated breaches of AESU obligations. AESU has rejected this notification. On December 30, 2008, AESU rejected YPF s right to suspend its natural gas deliveries. On March 20, 2009 AESU formally notified the termination of the contract. On April 6, 2009, YPF promoted an arbitration process at the International Chamber of Commerce (ICC) against AESU, Companhía do Gas do Estado do Río Grande do Sul (Sulgás) and Transportadora de Gas del Mercosur S.A. (TGM). On the same date YPF was notified by the ICC of an arbitration process initiated by AESU and Sulgás against YPF in which they claim, among other matters considered inadmissible by YPF, consequential loss, AESU s plant dismantling costs and the payment of deliver or pay penalties mentioned above, all of which totaled approximately US$ 1,052 million.

Additionally, YPF was notified of the arbitration process brought by TGM at the ICC, claiming YPF the payment of approximately US$ 10 million plus interest up to the date of effective payment, in connection with the payment of invoices related to the Transportation Gas Contract entered into in September 1998 between YPF and TGM, associated with the aforementioned exportation of natural gas contract signed with AESU. On April 8, 2009 YPF requested that this claim be rejected and counterclaimed for the termination of the natural gas transportation contract based on its termination rights upon the termination by AESU and Sulgás of the related natural gas export contract. In turn, YPF had initiated an arbitration process at the ICC against TGM, among others. YPF received the reply to the complaint from TGM, who requested the full rejection of YPF claims and deduced counterclaim against YPF asking the Arbitration Tribunal to condemn YPF to compensate TGM for all present and future damages suffered by TGM due to the extinction of the Transportation Gas Contract and the Memorandum of Agreement dated on October 2, 1998 by which YPF undertook to pay irrevocable non-capital contributions to TGM in return for the Uruguayana Project pipeline expansion; and to condemn AESU-Sulgás -in the case the Arbitration Tribunal finds that the termination of the Gas Contract occurred due to the failure of AESU or Sulgás- jointly and severally to indemnify all damages caused by such termination to TGM. Additionally, on July 10, 2009 TGM increased the amount of its claim to US$ 17 million and claimed an additional amount of approximately US$ 366 million for loss of profits, both considered inappropriate by YPF, and thus, rejected in its answer to such additional claim.

On April 6, 2011, the Arbitration Tribunal appointed in YPF vs. AESU arbitration decided to sustain YPF s motion, and determined the consolidation of all the related arbitrations (AESU vs. YPF , TGM vs. YPF and YPF vs. AESU) in YPF vs. AESU arbitration. Consequently, AESU and TGM desisted from and abandoned their respective arbitrations, and all the matters claimed in the three proceedings are to be solved in YPF vs. AESU arbitration. On April 19 and 24, 2012, AESU and SULGAS presented new evidence claiming their admission in the arbitration process. YPF and

TGM made their observations about the evidence on April 27, 2012. On May 1, 2012, the Arbitration Tribunal denied the admission of such evidence and ruled that the evidence would be accepted if the Tribunal considered it necessary.

On May 24, 2013 YPF was notified of the partial award decreed by a majority in the ICC Arbitration YPF vs. AESU and TGM whereby YPF was deemed responsible for the termination in 2009 of natural gas export and transportation contracts signed with AESU and TGM. Such award only decides on the liability of the parties, leaving the determination of the damages that could exist subject to the subsequent proceedings before the same Tribunal. Moreover, the Tribunal rejected the admissibility of deliver or pay claims asserted by Sulgás and AESU for the years 2007 and 2008 for a value of US$ 28 million and for the year 2006 for US$ 2.4 million.

On May 31, 2013 YPF filed with the Arbitration Tribunal a writ of Nullity, in addition to making several presentations in order to safeguard its rights. Against the rejection of the writ of nullity, on August 5, 2013 YPF filed a complaint appeal with the Argentinian Court in Commercial matters. On October 24, 2013, the Argentinian Court in Commercial matters declared its incompetency and submitted the file to the Federal Contentious Administrative Tribunal. On December 16, the acting prosecutor issued an opinion supporting the jurisdiction of the court.

Besides, on October 17, 2013 the Arbitration Tribunal decided to resume the arbitration and set a procedural schedule for the damages stage, which shall be developed along 2014 for which the reports of the experts proposed by the parties occurred.

On December 27, 2013, the Federal Contentious Administrative Tribunal hearing Administrative Litigation matters was moved to grant the reconsideration motion from denial on appeal, then sustaining the appeal for procedural violations and declaring that the grant thereof shall have stay effects in connection with the arbitration process. In addition, the court was moved to grant, until the appeal for procedural violations is finally admitted, a restrictive injunction to prevent the development of the arbitration process while a decision on the reconsideration motion from denial on appeal and on the appeal for procedural violations filed by YPF is pending. On October 7, 2014, the Federal Court of Appeals hearing Administrative Litigation matters, besides its jurisdiction in the application of the writ of nullity, ordered the suspension of the court calendar related to the second stage of its arbitration process until a final court decision was rendered on the writ of nullity filed by YPF against the arbitral award on adjudication of liability. On October 8, 2014, the Arbitration Tribunal was served with notice of the decision rendered by the said Federal Court of Appeals and on October 31, 2014, the Arbitration Tribunal determined to suspend the arbitration process until February 2, 2015. On November 5, 2014, YPF was notified of the extraordinary appeal filed by TGM against the resolution of suspension of the court schedule issued by the mentioned Federal Contentious Administrative Tribunal. YPF answered such appeal on November 19, 2014; and on December 30, 2014, the Federal Contentious Administrative Tribunal dismissed the extraordinary appeal filed by TGM. On April 24, 2015, the arbitration tribunal resumed the proceedings and invited the parties to consult with each other regarding the continuation of the arbitration and to provide joint or individual report on next steps. YPF notified the Federal Contentious Administrative Tribunal of the decision on April 27, 2015 given that its order to suspend the arbitration proceedings was in effect. On July 2, 2015 the Arbitration Tribunal ordered hearings for the second stage of arbitration to take place on November 16 and 17 of 2015. Although the Federal Contentious Administrative Tribunal ordered the suspension of the second stage of the arbitration, the hearings proceeded without the presence of TGM and YPF. Dated December 4, 2015, YPF presented a document to the Arbitration Tribunal claiming the nullity of the mediation. On December 23, 2015, the Federal Contentious Administrative Tribunal granted the nullity request and vacated the partial arbitral award. On the same date, YPF notified the Arbitration Tribunal of the decision and requested the termination of the arbitration proceeding. On February 3, 2016 TGM filed an extraordinary appeal against the Federal Contentious Administrative Tribunal ruling to the Supreme Court of Justice. On February 2, 2016 AESU and SULGAS filed a nullity request against the Federal Contentious Administrative Tribunal ruling.

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On the other hand, AESU filed a motion to the Uruguayan courts demanding the nullity of the Arbitration Tribunal s decision ordering the suspension of the arbitration proceedings and a restrictive injunction to prevent YPF from interrupting the development of the arbitration. AESU is trying to notify the various decisions rendered by the Uruguayan courts through letters rogatory and YPF has objected to such notification and also before the Argentine courts involved therein on the grounds of formal defects in such intended notification and also arguing that Uruguayan courts have no competence to deal with matters of this kind. On July 16, 2015 the Federal Contentious Administrative Tribunal 3 rejected one of the judicial petitions through which AESU tried to serve the nullity petition of the Arbitration Tribunal that declared the suspension of the Arbitration. On September 4, 2015 AESU requested an appeal. On December 23, 2015 the Federal Contentious Administrative Tribunal rejected the appeal and confirmed the resolution of the lower court.

On January 10, 2014, YPF was served with the complaint for damages filed by AESU with the Arbitration Tribunal claiming a total amount of US$ 815.5 million and also with the complaint for damages filed by TGM with the Arbitration Tribunal claiming a total amount of US$ 362.6 million. On April 25, 2014, YPF filed a reply to the complaint for damages with the Arbitration Tribunal rejecting the alleged sums claimed by TGM and AESU based on the fact that the said amounts are disproportionate due to errors in the technical valuations attached. On July 8, 2014, TGM filed an answer to the reply with the Arbitration Tribunal, which was in turn responded to by YPF on September 23, 2014 by filing a second answer thereto.

Considering the information available to date, the estimated time remaining until the end of the proceedings, the outcomes of the additional evidence presented in the continuation of the dispute and the provisions of the arbitral award, the Company has accrued its best estimate with respect to the amount of the claims.

Furthermore, there are certain claims in relation with payments of natural gas transportation contracts associated with exports of such hydrocarbon. Consequently, one of the parties, Transportadora de Gas del Norte S.A. (TGN), commenced mediation proceedings in order to determine the merits of such claims. The mediation proceedings did not result in an agreement and YPF was notified of the lawsuit filed against it, in which TGN is claiming the payment of unpaid invoices, according to their arguments, while reserving the right to claim for damages, which were claimed in a note addressed to YPF during November 2011. Additionally, the plaintiff notified YPF that it was terminating the contract invoking YPF s fault, basing its decision on the alleged lack of payment of transportation fees, reserving the right to claim for damages. After that, TGN filed the lawsuit claiming for damages mentioned above. The total amount claimed by TGN amounts to approximately US$ 207 million. YPF has answered the mentioned claims, rejecting them based in the legal impossibility for TGN to render the transportation service and in the termination of the transportation contract determined by YPF and notified with a complaint initiated before ENARGAS. On the trial for the collection of bills, on September 2011, YPF was notified of the resolution of the Court of Appeals rejecting YPF s claims and declaring that ENARGAS is not the appropriate forum to decide on the matter and giving jurisdiction to the Civil and Commercial Federal courts to decide on the claim for the payment of unpaid invoices mentioned above.

Regarding the previously mentioned issue, on April 8, 2009, YPF had filed a complaint against TGN with ENARGAS, seeking the termination of the natural gas transportation contract with TGN in connection with the natural gas export contract entered with AESU and other parties. The termination of the contract with that company is based on: (a) the impossibility for YPF to receive the service and for TGN to render the transportation service, due to (i) the termination of the natural gas contract with Sulgás/AESU and (ii) the legal impossibility of assigning the transportation contract to other shippers because of the regulations in effect, (b) the legal impossibility for TGN to render the transportation service on a firm basis because of certain changes in law in effect since 2004, and (c) the Teoría de la Imprevisión available under Argentine law, when extraordinary events render a party s obligations excessively burdensome.

On April 3, 2013 the complaint for damages brought by TGN was notified whereby TGN claimed YPF the amount of US$ 142 million, plus interests and legal fees for the termination of the transportation contract, and notified that YPF shall have 30 days to file and answer thereto. On May 31, 2013 YPF answered the claim requesting the dismissal thereof. On April 3, 2014 the evidence production period commenced for a 40-days lapse, and the court notified the parties that they shall submit a copy of evidence offered by them to create exhibit binder. As of the date of issuance of these consolidated financial statements, evidence offered by the parties is being produced.

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In addition, Nación Fideicomisos S.A. (NAFISA) had initiated a claim against YPF in relation to payments of applicable fees for natural gas transportation services to Uruguaiana corresponding to the transportation invoices claimed by TGN. A mediation hearing finished without arriving to an agreement, concluding the pre-trial stage. Additionally, on January 12, 2012 and following a mediation process which ended without any agreement, NAFISA filed a complaint against YPF, under article 66 of Law No. 24,076, before ENARGAS, claiming the payment of certain transportation charges in an approximate amount of 339. On February 8, 2012, YPF answered the claim raising ENARGAS lack of jurisdiction (as the Company did in the proceeding against TGN), the accumulation in the TGN vs. YPF trial and rejecting the claim based on the theory of legal impossibility. On the same date, was also submitted in the trial TGN vs. YPF similar order of accumulation. On April 12, 2012, ENARGAS resolved in favor of NAFISA. On May 12, 2012 YPF filed an appeal against such resolution to the National Court of Appeals in the Federal Contentious Administrative. On November 11, 2013, such court dismissed the direct appeal filed by YPF. In turn, on November 19, 2013 YPF submitted an ordinary appeal before the National Supreme Court of Justice and on November 27, an extraordinary appeal was lodged, also before the Supreme Court. The ordinary appeal was granted and YPF timely filed the grounds of such appeal. On September 29, 2015, the Supreme Court upheld YPF s appeal and reversed the resolution issued by the Federal Contentious Administrative Court Division IV on the grounds that ENARGAS lacks legal capacity to participate in these proceedings as the parties are not subject to the Gas Law.

YPF s Management has accrued its best estimate with respect to the claims mentioned above. As of December 31, 2015, the Company has accrued costs for penalties associated with the failure to deliver the contractual volumes of natural gas in the export and domestic markets which are probable and can be reasonably estimated.

Users and Consumers Association claim:

The Users and Consumers Association claimed (originally against Repsol YPF before extending its claim to YPF) the reimbursement of the overprice allegedly charged to bottled LPG consumers between 1993 and 1997 and 1997 to 2001. The claim amounts 91 for the period 1993 to 1997 (this sum brought up-to-date, would be approximately 502), together with an undetermined amount for the period 1997 to 2001. In the response to the claim, YPF requested the application of the statute of limitations since at the date of the extension of the claim, the two-year limit had already elapsed.

On December 28, 2015, the lower court rendered judgment admitting the claim seeking compensation for the term between 1993 to 1997 filed by Users and Consumers Association against YPF S.A. and ordered the Company to transfer the amount of 98 plus interest (to be estimated by the expert witness in the settlement period) to the Energy Secretariat, to be allocated to the trust fund created by Law No. 26.020.

The judgment dismissed the claim for the items corresponding to the 1997-2001 period considering the dominant position of YPF in the domestic bulk LPG market was not sufficiently proved. The Company appealed the decision of the lower court.

Finally, the judgment dismissed the complaint against Repsol as Repsol YPF S.A. had no equity interest in YPF S.A., nor any other kind of relation with YPF from 1993 to 1997, period in which the plaintiffs claim YPF abused its dominant position.

The updated judgment amount as of the date of these financial statements amounts to about 503 plus court costs.

Tax claims:

The Company has received several claims from the Administración Federal de Ingresos Públicos (AFIP) and from provincial and municipal fiscal authorities, which are not individually significant, and which have been accrued based on the best information available as of the date of the issuance of these financial statements.

La Plata and Quilmes environmental claims:

La Plata: In relation with the operation of the refinery that YPF has in La Plata, there are certain claims for compensation of individual damages purportedly caused by the operation of the La Plata refinery and the environmental remediation of the channels adjacent to the mentioned refinery. During 2006, YPF submitted a presentation before the Environmental Secretariat of the Province of Buenos Aires which put forward for consideration the performance of a study for the characterization of environmental associated risks. As previously mentioned, YPF has the right of indemnity for events and claims prior to January 1, 1991, according to Law No. 24,145 and Decree No. 546/1993. Besides, there are certain claims that could result in the requirement to make additional investments connected with the operations of La Plata refinery.

On January 25, 2011, YPF entered into an agreement with the environmental agency of the Government of the Province of Buenos Aires (Organismo Provincial para el Desarrollo Sostenible (OPDS)), within the scope of the Remediation, Liability and Environmental Risk Control Program, created by Resolution No. 88/10 of the OPDS. Pursuant to the agreement, the parties agreed to jointly perform an eight-year work program in the channels adjacent to the La Plata refinery, including characterization and risk assessment studies of the sediments. The agreement provides that, in the case that a required remediation action is identified as a result of the risk assessment studies, the different alternatives and available techniques will be considered, as well as the steps needed for the implementation. Dating studies will also be performed pursuant to the agreement, in order to determine responsibilities of the Argentine Government in accordance with its obligation to hold YPF harmless in accordance with the article 9 of the Privatization Law No. 24,145. YPF has provisioned the estimated cost of the characterization and risk assessment studies mentioned above. The cost of the remediation actions, if required, will be recorded in those situations where the loss is probable and can be reasonably estimated.

Quilmes: Citizens which allege to be residents of Quilmes, Province of Buenos Aires, have filed a lawsuit in which they have requested remediation of environmental damages and also the payment of 47 plus interests as a compensation for supposedly personal damages. They base their claim mainly on a fuel leak in the pipeline running from La Plata to Dock Sud, currently operated by YPF, which occurred in 1988 as a result of an illicit detected at that time, being at that moment YPF a state-owned company. Fuel would have emerged and became perceptible on November 2002, which resulted in remediation works that are being performed by the Company in the affected area, supervised by the environmental authority of the Province of Buenos Aires. The Argentine Government has denied any responsibility to indemnify YPF for this matter, and the Company has sued the Argentine Government to obtain a declaration of invalidity of such decision. The suit is still pending. On November 25, 2009, the proceedings were transferred to the Federal Court on Civil and Commercial Matters No. 3, Secretariat No. 6 in Buenos Aires City and on March 4, 2010, YPF answered the complaint and requested the citation of the Argentine Government. On December 18, 2014 the Argentine Government was cited, by notification of the demand and its extensions, by letter to the Ministry of Federal Planning. In addition to the aforementioned, the Company has other 24 judicial active claims against it with total claims amounting to approximately 19. Additionally, YPF is aware of the existence of other out of court claims which are based on similar allegations.

Other claims and environmental liabilities:

In relation to environmental obligations, and in addition to the hydrocarbon wells abandonment legal obligations for 27,809 as of December 31, 2015, the Group has accrued 3,020 corresponding to environmental remediation, which evaluations and/or remediation works are probable and can also be reasonably estimated, based on the Group s existing remediation program. Legislative changes, on individual costs and/or technologies may cause a re-evaluation of the estimates. The Group cannot predict what environmental legislation or regulation will be enacted in the future or how future laws or regulations will be administered. In the long-term, this potential changes and ongoing studies could materially affect future results of operations.

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Environmental liabilities of YPF Holdings Inc.

1. Introduction

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

YPF Holdings Inc. believes that its policies and procedures in the area of pollution control, product safety and occupational health are adequate to prevent reasonable risk of environmental and other damage, and of resulting financial liability, in connection with its business. Some risk of environmental and other damage is, however, inherent in particular operations of YPF Holdings Inc. and, as discussed below, Maxus Energy Corporation (Maxus) and Tierra Solutions Inc. (TS), both controlled by YPF Holdings Inc., could have certain potential liabilities associated with operations of Maxus former chemical subsidiary.

YPF Holdings Inc. 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 law regulations, as well as more vigorous enforcement policies of the regulatory agencies, could in the future require material expenditures by YPF Holdings Inc. for the installation and operation of systems and equipment for remedial measures, possible dredging requirements, among other things.

Also, certain laws allow for recovery of natural resource damages from responsible parties and ordering the implementation of interim remedies to abate an imminent and substantial endangerment to the environment. Potential expenditures for any such actions cannot be reasonably estimated.

In the following discussion, references to YPF Holdings Inc. include, as appropriate and solely for the purpose of this information, references to Maxus and TS.

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

YPF Holdings Inc. s management believes it has adequately provisioned for all environmental contingencies, which are probable and can be reasonably estimated; however, changes in circumstances, including new information or new requirements of governmental entities, could result in changes, including additions, to such provisions in the future. The most significant contingencies are described in the following paragraphs:

2. Environmental Issues relating to Lister site and Passaic River

2.1 Environmental administrative Issues relating to the lower 8 miles of the Passaic River

Newark, New Jersey

A consent decree, previously agreed upon by the U.S. Environmental Protection Agency (EPA), the New Jersey Department of Environmental Protection and Energy (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 Chemical s former Newark, New Jersey agricultural chemicals plant. The interim remedial plan has been completed and paid for by TS. This project is in the operation and maintenance phase.

Passaic River, New Jersey

Maxus, complying with its contractual obligation to act on behalf of Occidental, negotiated an agreement with the EPA (the 1994 AOC) under which TS has conducted testing and studies near the Newark plant site, adjacent to the Passaic River. While some work remains, the work under the 1994 AOC was substantially subsumed by reason of an administrative arrangement dated 2007 (the 2007 AOC) with about 70 companies (including Occidental and TS). Under the 2007 AOC, the lower 17 miles of the Passaic River, from the mouth at Newark Bay to Dundee Dam, should be subjected to a Remedial Investigation / Feasibility Study (RI/FS). Participants of the 2007 AOC are discussing the possibility of conducting additional remedial works with the EPA. The entities that have agreed to fund the RI/FS have negotiated an interim allocation of RI/FS costs among themselves based on a number of considerations. This group is called the Cooperative Parties Group (the CPG). The 2007 AOC is being coordinated with a joint federal, state, local and private sector cooperative effort designated as the Lower Passaic River Restoration Project (PRRP).

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On May 29, 2012, Occidental, Maxus and TS withdrew from the CPG under protest and reserving all their rights. A description of the circumstances of such decision can be found below in the paragraph titled Passaic River Mile 10.9 Removal Action . However, Occidental continues to be a member of the 2007 AOC and its withdrawal from the CPG does not change its obligations under the 2007 AOC. The RI/FS concerning the 2007 AOC is expected to be completed by 2016 together with the filing with the EPA by the CPG of a preliminary report containing its recommendation as to preferred remediation. EPA will have to assess such recommendation and then render an opinion in this connection. This process may take from 12 to 18 months. After an agreement is reached by the CPG and the EPA on preferred remediation, the report will be published for public opinion, which will be considered for the purpose of issuing a Record of Decision or final decision on remediation.

The EPA s findings of fact in the 2007 AOC (which amended the 1994 AOC) indicate that combined sewer overflow/storm water outfall discharges are an ongoing source of hazardous substances to the Lower Passaic River Study Area. For this reason, during the first half of 2011, Maxus and TS signed with the EPA, on behalf of Occidental, an Administrative Settlement Agreement and Order on Consent for Combined Sewer Overflow/Storm Water Outfall Investigation (CSO AOC), which became effective in September 2011. Besides providing for a study of combined sewer overflows in the Passaic River, the CSO AOC confirms that there will be no further obligations to be performed under the 1994 AOC. In the second half of 2014, TS submitted to the EPA its report (thus completing phase 1) and still expects the EPA s comments on the proposed work plan. TS estimates that the total cost to implement the CSO AOC is approximately US$ 5 million and will take approximately 2 years to be completed once EPA authorizes phase 2 (the work plan).

In 2003, the DEP issued Directive No. 1 to Occidental and Maxus and certain of their respective related entities as well as other third parties. Directive No. 1 seeks to address natural resource damages allegedly resulting from almost 200 years of historic industrial and commercial development along a portion of the Passaic River and a part of its watershed. Directive No. 1 asserts that the named entities are jointly and severally liable for the alleged natural resource damages without regard to fault. The DEP asserted jurisdiction in this matter even though all or part of the lower Passaic River is subject to the PRRP. Directive No. 1 calls for the following actions: interim compensatory restoration, injury identification, injury quantification and value determination. Maxus and TS responded to Directive No. 1 setting forth good faith defenses. Settlement discussions between the DEP and the named entities have been held; however, no agreement has been reached or is assured.

In 2004, the EPA and Occidental entered into an administrative order on consent (the 2004 AOC) pursuant to which TS (on behalf of Occidental) has agreed to conduct testing and studies to characterize contaminated sediment and biota and evaluate remedial alternatives in the Newark Bay and a portion of the Hackensack, the Arthur Kill and Kill van Kull rivers. The initial field work on this study, which includes testing in the Newark Bay, has been substantially completed. Discussions with the EPA regarding additional work that might be required are underway. EPA has issued General Notice Letters to a series of additional parties concerning the contamination of Newark Bay and the work being performed by TS under the 2004 AOC. TS proposed to the other parties that, for the third stage of the RI/FS undertaken in Newark Bay, the costs be allocated on a per capita basis. The parties have not agreed to TS s proposal. However, YPF Holdings lacks sufficient information to determine additional costs, if any, it might have with respect to this matter once the final scope of the third stage is approved, as well as the proposed distribution mentioned above.

In December 2005, the DEP issued a directive to TS, Maxus and Occidental directing said parties to pay the State of New Jersey s cost of developing a Source Control Dredge Plan focused on allegedly dioxin-contaminated sediment in the lower six-mile portion of the Passaic River. The development of this plan was estimated by the DEP to cost approximately US$ 2 million. The DEP has advised the recipients that (a) it is engaged in discussions with the EPA regarding the subject matter of the directive, and (b) they are not required to respond to the directive until otherwise notified.

In August 2007, the National Oceanic Atmospheric Administration (NOAA) sent a letter to a number of entities it alleged have a liability for natural resources damages, including TS and Occidental, requesting that the group enters into an agreement to conduct a cooperative assessment of natural resources damages in the Passaic River and Newark Bay. In November 2008, TS and Occidental entered into an agreement with the NOAA to fund a portion of the costs it has incurred and to conduct certain assessment activities during 2009. Approximately 20 other PRRP members have also entered into similar agreements. In November 2009, TS declined to extend this agreement.

Removal Action Next to Lister Avenue Site

During June 2008, the EPA, Occidental, and TS entered into an AOC (Removal AOC from 2008), pursuant to which TS (on behalf of Occidental) will undertake a removal action of sediment from the Passaic River in the vicinity of the former Diamond Alkali facility. This action results in the removal of approximately 200,000 cubic yards of sediment, which will be carried out in two different phases. The first phase, which commenced in July 2011, encompasses the removal of 40,000 cubic yards (30,600 cubic meters) of sediments and was substantially completed in the fourth quarter of 2012. The EPA conducted a site inspection in January 2013, and TS received written confirmation of completion in March 2013. The second phase involves the removal of approximately 160,000 cubic yards (122,400 cubic meters) of sediment. This second phase will start after according with EPA certain development s aspects related to it. Pursuant to the Removal AOC from 2008, the EPA has required the provision of financial assurance for the execution of the removal work which could increase or decrease over time if the anticipated cost of completing the removal work contemplated by the Removal AOC from 2008 changes. During the sediment removal action, contaminants which may have come from sources other than the former Diamond Alkali plant will necessarily be removed.

The 2014 FFS published on April 11, 2014 provides that phase two of the removal action contemplated by the Removal AOC shall be implemented in a manner consistent with the FFS. By letter of September 18, 2014, the EPA requested that TS submit a work plan to conduct additional sampling of the Phase II area. The sampling was completed in the first quarter of 2015 and TS is expected to present the validated results to the EPA during 2016.

2.2 Feasibility Study for the environmental remediation of the lower 8 miles of the Passaic River

First draft - Year 2007

On June 2007, EPA released a draft Focused Feasibility Study (the FFS 2007). The FFS 2007 outlines several alternatives for remedial action in the lower eight miles of the Passaic River. These alternatives range from no action, which would result in comparatively little cost, to extensive dredging and capping. TS, in conjunction with the other parties working under the CPG, submitted comments over legal and technical defects of the FFS 2007 to EPA. As a result of all the comments received, EPA withdrew FFS 2007 in order to modify it and give more consideration to comments. On November 14, 2013 at a Community Advisory Group (CAG) meeting, the EPA described the alternatives considered in the FFS 2007, that consisted of four alternatives: (i) no action; (ii) deep dredging of 9.7 million cubic yards during 12 years (cost: US$ 1.4 billion to US$ 3.5 billion, depending in part on whether the dredged sediment is disposed of in a contained aquatic disposal facility on the floor of Newark Bay (CAD) or at an off-site disposal facility); (iii) capping and dredging of 4.3 million cubic yards during 6 years (cost: US$ 1 billion to US$ 1.8 billion, depending in part on whether there is a CAD or off-site disposal; (iv) focused capping and dredging of 0.9 million cubic yards during 3 years (the alternative proposed by the CPG). The EPA indicated that it had discarded alternative (iv) and that it was currently in favor of alternative (iii).

Second draft - Year 2014

On April 11, 2014, the EPA published a new FFS draft (FFS 2014). The EPA submitted this draft for consideration for a period of public comments starting on April 21, 2014, after two extensions, the process ended on August 20, 2014.

The FFS 2014 contains the four remediation alternatives analysed by the EPA, as well as the estimation of the cost of each alternative which consist of: (i) no action, (ii) deep dredging of 9.7 million cubic yard capping (cost estimated by EPA: US$ 1.34 billion to US$ 3.24 billion, depending on the possibility of disposing dredged sediments in a contained subaquatic disposal facility on the floor of Newark Bay (CAD) or at an off-site disposal facility, or local decontamination and beneficial use); (iii) capping and dredging of 4.3 million cubic yards and placing of an engineering cap (a physical barrier mainly built with sand and stone) (cost estimated by EPA: US$ 1 billion to US$ 1.73 billion, depending on the existence of a CAD or an off-site disposal facility, or local decontamination and beneficial use); and (iv) focused dredging and filling of 1 millon cubic yard (cost estimated by the EPA: US$ 0.4 billion to US$ 0.6 billion, depending on the existence of a CAD or off-site disposal facility, or local decontamination and beneficial use). The alternative favored by EPA at the time of issuance of FFS 2014 was the third one, considering the disposal of removed material at an off-site disposal facility, with a current estimated value of US$ 1.73 billion (estimated at a 7% annual rate).

On August 20, 2014, Maxus and TS, on behalf of Occidental, submitted their comments on FFS 2014 to EPA. The main arguments offered by Maxus, TS and Occidental in the comments about the FFS were as follows:

- The FFS is not a legally authorized process to select the type and size of the remediation proposed by the EPA for the 8 miles of the lower Passaic River.
- The FFS is based on a flawed site design.
- The FFS overstates the issues of human health and ecological risk.
- The proposed plan is not executable and not economically reasonable in cost-benefit terms.
- Processes in Region 2 of the EPA present lack public transparency.
- The inclusion in the remediation plan of dredging for navigational purposes is not covered by the regulation.

In addition to the comments received from Maxus and TS, EPA also received comments from about 400 other companies, institutions, government agencies, non-governmental and private organizations, including the CPG, Amtrak (federal railway company), NJ Transit, United States Army Corps of Engineers, Passaic Valley Sewerage Commission, yacht clubs, public officials, and others.

In parallel to the revision of FFS 2014, Maxus and TS have been working on a preliminary project called In-ECO, an ecological and sustainable alternative of bioremediation as a substitute to the remediation chosen by EPA in its FFS 2014. Maxus and TS submitted In-ECO to EPA in May 2014, EPA provided comments in September and Maxus and TS submitted a revision in November 2014.

EPA provided additional comments to the In ECO Statement of Work in March 2015. Tierra developed responses to those comments and submitted them in the second semester. A meeting was held in September 2015 between Tierra, its experts, and the EPA. During this meeting the final issues were resolved and laboratory studies are anticipated to begin by early 2016.

In October 2015, the federal Government Accountability Office (GAO) informed Maxus, Tierra and OCC that it had initiated a study on a few select Superfund sediment sites across the United States, including the Lower Passaic River, at the request of the Senate Committee on Environmental and Public Works. GAO stated that it plans to speak to EPA leadership and project managers, as well as representatives from the community and PRP groups. At this time, it is unknown what effect, if any, the GAO s review will have on the timing or content of the Record of Decision for the FFS.

Currently, EPA is considering these comments and will issue a response before EPA makes its final decision on the remedial plan for the area, which will probably be published in a Record of Decision during 2016.

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Conclusion

Based on the information available to the Company at the time of issuance of these financial statements, and also considering the uncertainties related to the different remedial alternatives and those that may be incorporated in the final proposal and their associated costs, the outcome of the discoveries and/or evidence that may be produced, the amounts previously incurred by YPF Holdings Inc. in remedial activities in the area covered by FFS, the quantity and diversity of potential responsible parties involved, and consequently the uncertainties related to the potential allocation of the removal costs, the opinion of external legal advisors, and the limit over its liability that YPF could have as indirect controlling shareholder of Maxus, it is not possible to reasonably estimate a loss or range of a loss on the mentioned matters, and therefore the Company has not recorded a provision for these matters.

2.3 Environmental Administrative Issues concerning to the lower 17 miles of the Passaic River

Passaic River Mile 10.9 Removal Action

In February 2012, the EPA issued to the Cooperating Parties Group (CPG), of which TS then was a member, a draft Administrative Settlement Agreement and order on Consent (AOC RM 10.9) for Removal Action and Pilot Studies to address high levels of contamination of 2, 3, 7, 8 TCDD, PCBs, mercury and other contaminants of concern in the vicinity of the Passaic River s mile 10.9 (RM 10.9), comprised of a sediment formation (mud flat) of approximately 8.9 acres. This proposed AOC RM 10.9 ordered that approximately 16,000 cubic yards of sediments be removed and that pilot scale studies be conducted to evaluate ex situ decontamination beneficial reuse technologies, innovative capping technologies, and in situ stabilization technologies for consideration and potential selection as components of the remedial action to be evaluated in the 2007 AOC and the FFS and selected in one or more subsequent records of decision.

On June 18, 2012, the EPA announced that it had signed an AOC for RM 10.9 with 70 Settling Parties. Occidental, Maxus and TS refused to sign this AOC since they failed to agree with the other parts of the CPG regarding the way of assigning the estimated cost of the removal action. On June 25, 2012, EPA addressed to Occidental the order, pursuant to section 106 of CERCLA, to participate and cooperate with the CPG members who had signed the AOC RM 10.9. Occidental sent to the CPG and EPA its notice of intent to comply with such order on July 23, 2012 followed by its good faith offer on July 27, 2012 to provide the use of TS s dewatering facility. On August 10, 2012, the CPG rejected Occidental s good faith offer and, on September 7, 2012, the CPG stated that it has alternative plans for handling sediment to be excavated at RM 10.9 and, therefore, has no use for the existing dewatering facility. EPA, by letter of September 26, 2012, advised that it will be necessary for EPA and Occidental to discuss other options for Occidental to participate and cooperate in the RM 10.9 removal action, as required by its Unilateral Administrative Order.

On September 18, 2012, the EPA advised the Passaic River CAG that the bench scale studies of the treatment technologies did not sufficiently lower concentrations of the chemicals to justify the cost, so the RM 10.9 sediments will be removed offsite for disposal. Therefore, the EPA notified OCC, Maxus and TS that other options would be discussed in order to determine how to comply with the Unilateral Administrative Order, which ends in a petition to constitute a financial guarantee. TS, on behalf of Occidental, worked during the first four-month period in 2014 to prepare a proposal for the EPA in connection with RM 10.9. In March 2014, TS sent a work schedule to conduct certain studies, which were conditionally accepted by the EPA. The fieldwork for this research was undertaken in August and an additional field investigation was initiated in December 2014 and was completed in February 2015. TS presented to the EPA its report regarding the pipelines during March 2015. EPA extended the deadline for the fulfillment of the financial guarantee to March 2014 and then extended the deadline indefinitely.

Feasibility Study for the lower 17 miles of the Passaic River

Notwithstanding what is discussed above, the lower 17 mile section of the Passaic River, from the mouth at Newark Bay to the Dundee Dam, is the subject of the Remedial Investigation/Feasibility Study contemplated in AOC 2007, with completion was expected for 2015, after which EPA would choose a remediation action that will be made public in order to receive comments.

It is anticipated that the remediation and feasibility study will be completed during 2016 or thereafter.

The CPG submitted the Draft Remedial Investigation and Feasibility Study for the Lower 17 miles of the Passaic River during the first semester of 2015. Separate sections were submitted over a nine-month period from February to October 2015. The CGP draft offers potential alternatives to the EPA s FFS, which comprises the lower 8 miles of the Passaic River. The EPA may or may not consider this report as they continue to address comments to the FFS. As of the date of this annual report, the EPA has not submitted any comments.

2.4 Trial for the Passaic River

On the other hand, and in relation to the alleged contamination related to dioxin and other hazardous substances discharged from Chemicals former Newark plant and the contamination of the lower stretch of the Passaic River, Newark Bay, other nearby waterways and surrounding areas in December 2005 the DEP sued YPF Holdings, TS, Maxus and several companies, besides Occidental. The DEP sought remediation of natural resources damaged and punitive damages and other matters. The defendants made responsive pleadings and filings.

In March 2008, the Court denied motions to dismiss by Occidental, TS and Maxus. The DEP filed its Second Amended Complaint in April 2008. YPF filed a motion to dismiss for lack of personal jurisdiction. The motion mentioned previously was denied in August 2008, and the denial was confirmed by the Court of Appeal. Notwithstanding, the Court denied to plaintiffs motion to bar third party practice and allowed defendants to file third-party complaints. Third-party claims against approximately 300 companies and governmental entities (including certain municipalities) which could have responsibility in connection with the claim were filed in February 2009. DEP filed its Third Amended Complaint in August 2010, adding Maxus International Energy Company and YPF International S.A. as additional named defendants. Anticipating this considerable expansion of the number of parties in the litigation, the Court appointed a Special Master to assist the court in the administration of discovery.

In September 2010, Governmental entities of the State of New Jersey and a number of third-party defendants filed their dismissal motions and Maxus and TS filed their responses. In October 2010, a number of public third-party defendants filed a motion to sever and stay and the DEP joined their motion, which would allow the DEP to proceed against the direct defendants. However, the judge has ruled against this motion in November 2010. Third-party defendants have also brought motions to dismiss, which have been rejected by the assistant judge in January 2011. Some of the mentioned third-parties appealed the decision, but the judge denied such appeal in March 2011.

In May 2011, the judge issued Case Management Order No. XVII (CMO XVII), which contained the Trial Plan for the case. This Trial Plan divides the case into two phases, each with its own mini-trials (Tracks) which totalized nine Tracks considered as individual trials. In phase one would be determined liability and phase two will determine damages. Regarding the sub-stages: (a) sub-stages I to III (Tracks I to III) correspond to damage claimed by Occidental and the State of New Jersey; (b) sub-stages IV to VII (Tracks IV to VII) correspond to liability by alter ego and fraudulent conveyance with respect to YPF, Maxus and Repsol and to the liability of third parties to Maxus; (c) sub-stage VIII (Track VIII) corresponds to damages claimed by the State of New Jersey; (d) sub-stage IX (Track IX) is the percentage of liability that would correspond to Maxus for the cleanup and remediation costs.

Specifically, sub-stage III (Track III) will determine the extent of Maxus liability for the operation of the Lister Site; sub-stage IV (Track IV) will determine the possible scope of YPF and Repsol s liability for damages to the Lister Site (alter ego and fraudulent conveyance).

Following the issuance of CMO XVII, the State of New Jersey and Occidental filed motions for partial summary judgment. The State filed two motions: the first one against Occidental and Maxus on liability under the Spill Act, and against TS on liability under the Spill Act. In addition, Occidental filed a motion for partial summary judgment that Maxus owes a duty of contractual indemnity to Occidental for liabilities under the Spill Act. In July and August 2011, the judge ruled that, although the discharge of hazardous substances by Chemicals has been proved, liability allegation cannot be made if the nexus between any discharge and the alleged damage is not established. Additionally, the Court ruled that TS has Spill Act liability to the State based merely on its current ownership of the Lister Avenue site; and that Maxus has an obligation under the 1986 Stock Purchase Agreement to indemnify Occidental for any Spill Act liability arising from contaminants discharged on the Lister Avenue site. The Special Master called for and held a settlement conference in November 2011 between the State of New Jersey, on the one hand, and Repsol S.A., YPF and Maxus, on the other hand to discuss the parties respective positions, but no agreement was reached.

In February 2012, plaintiffs and Occidental filed motions for partial summary judgment, seeking summary adjudication that Maxus has liability under the Spill Act of New Jersey. In the first quarter of 2012 Maxus, Occidental and plaintiffs submitted their respective briefs. Oral arguments were heard on May 15 and 16, 2012. The Judge held that Maxus and TS have direct liability for the contamination generated into the Passaic River. However, volume, toxicity and cost of the contamination were not verified (these issues will be determined in a later phase of the trial). Maxus and TS have the right to appeal such decision.

On September 11, 2012 the Court issued the track VIII order. The track VIII order governs the process by which the Court would conduct the discovery and trial of the State s damages against Occidental, Maxus and TS (caused by the Diamond Alkali Lister Avenue plant). Under the order, the trial for the first phase of track VIII was scheduled to commence in July 2013. However, this schedule has been changed by the following occurrence.

On September 21, 2012, Judge Lombardi (trial judge) granted the State s application for an Order to Show Cause to Stay all proceedings against third party defendants who entered into a Memorandum of Understanding (MOU) with the State to discuss settlement of the claims against the third party defendants.

On September 27, 2012, Occidental filed its Amended Cross-Claims and the following day, the State filed its fourth Amended Complaint. The principal changes to the State s pleading concern the State s allegations against YPF and Repsol, all of which Occidental has adopted in its cross-claims. In particular, there were three new allegations against Repsol involving asset stripping from Maxus and also from YPF based on the Argentine Government s Mosconi Report. On October 25, 2012, the parties to the litigation agreed to a Consent Order, subject to approval by Judge Lombardi, which, in part, extended the deadline for YPF to respond to the State s and Occidental s new pleadings by December 31, 2012, extends fact deposition discovery until April 26, 2013, extends expert discovery until September 30, 2013, and sets trial on the merits for certain allegations for February 24, 2014, date on which it lost effectiveness as it was replaced by subsequent court orders.

During the fourth quarter of 2012 and the first quarter of 2013, YPF, YPF Holdings, Maxus and TS together with certain other direct defendants in the litigation, have engaged in on-going mediation and negotiation seeking the possibility of a settlement with the State of New Jersey. During this time, the Court has stayed the litigation. On March 26, 2013, the State advised the Court that a proposed settlement between the State and certain third party defendants had been approved by the requisite threshold number of private and public third party defendants. YPF, YPF Holdings, Maxus and TS approved in Boards of Directors the authorization to sign the settlement agreement (the Agreement) above mentioned. The proposal of the Agreement, which did not imply endorsement of facts or rights and that it is presented only with conciliatory purposes, was subject to an approval process, publication, comment period and court approval. According to the terms of the Agreement, the state of New Jersey would agree to solve certain claims related with environmental liabilities within a geographic area of the Passaic River, New Jersey, United States of America, initiated against YPF and certain subsidiaries, recognizing to YPF and other participants in the litigation, a limited liability of US$ 400 million, if they are found responsible. In return, Maxus would make cash payment of US$ 65 million at the time of approval of the Agreement.

In September 2013, Judge Lombardi published its Case Management order XVIII (CMO 18), which provides a schedule for approval of the settlement agreement. Pursuant to the CMO 18, the court heard oral arguments on December 12, 2013, after which, Judge Lombardi ruled the rejecting of Occidental s claims and approved the settlement agreement. On January 24, 2014, Occidental appealed the approval of the settlement agreement. Notwithstanding, on February 10, 2014, in compliance with the settlement agreement, Maxus made a deposit of US$ 65 million in an escrow account. Occidental appealed Judge Lombardi s decision approving the settlement agreement, which was dismissed. Later, on April 11, 2014 Occidental notified the parties that it would not seek an additional revision of Judge Lombardi s decision approving the settlement agreement.

Likewise, on June 23, 2014, lawyers of the State of New Jersey reported that Occidental and the State of New Jersey reached an understanding about the general terms and conditions for a settlement agreement that would end the Track VIII proceedings; and on August 20, 2014 they reported that an agreement had been reached on the text of such settlement agreement.

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On July 22, 2014, the Court issued the following:

(a) Case Management Order No. XXIII to conduct the proceedings, establishing a schedule for the first phase of Track IV (related to claims by Occidental alleging alter ego between Maxus and its shareholders, and the transfer of assets to YPF and Repsol).

(b) a court Order for the process of approval of the agreement between the State of New Jersey and Occidental, which established a schedule for the approval of the agreement between Occidental and the State of New Jersey.

On December 16, 2014, the Court approved the Settlement Agreement whereby the State of New Jersey agreed to settle all claims against Occidental related to the environmental liabilities within a specific geographical area of the Passaic River, New Jersey, United States of America, in consideration for the payment of US$ 190 million in three installments, the last payable on June 15, 2015; and a sum amounting up to US$ 400 million if the State of New Jersey had to pay its percentage for future remedial actions.

On January 5, 2015, Maxus Energy Corporation (Maxus), a subsidiary of YPF S.A., received a letter from Occidental requesting Maxus to indemnify Occidental for all the payments that Occidental agreed to pay to the State. Formerly, in 2011 the Court held that Maxus had the contractual obligation to indemnify and hold Occidental harmless from any liability under the New Jersey Spill Compensation and Control Act resulting from contaminants dumped in or from the Lister Avenue site owned by a company bought by Occidental, and with which it merged in 1986. Maxus holds that both the existence and the amount of such obligation to indemnify Occidental for the payments made to the State under the settlement agreement are pending issues that must wait for the Court decision on the Passaic River case.

In addition, on July 31, 2014 Occidental submitted its third amendment to the complaint, in replacement of the second amendment submitted in September 2012. YPF, Repsol and Maxus filed motions to limit Occidental s third amended complaint arguing that the claims incorporated in the third amendment were not included in the second. Occidental answered that the third amendment incorporates new facts, but not new claims. On October 28, 2014 Judge Lombardi rejected Occidental s arguments.

Also, Repsol S.A. countersued Occidental Petroleum Corporation (Occidental) alleging that the US$ 65 million paid by Repsol as per the agreement between Repsol, YPF, YPF Holdings, Maxus and Tierra Solutions with the State of New Jersey was paid for damages caused by (a) Diamond Shamrock Chemicals Company, for which Occidental is liable under the share purchase agreement of 1986 or (b) Occidental s individual conduct.

On March 26, 2015, a new presiding judge was appointed for the case (Hon. Gary Furnari).

On April 15, 2015, Occidental sent Maxus a letter claiming indemnity protection under the share purchase agreement with respect to the counterclaim filed by Repsol against Occidental. On 28 April 2015, Maxus replied contesting the claims reserving all arguments and defenses regarding the SPA s indemnification provisions.

On March 9, 2015 the Special Master issued the Case Management Order XXVI and the Case Management Order XXVII dated July 1, 2015 under which the new judge extended the deadline to complete all presentations until January 29, 2016, established a briefing schedule pursuant to which summary judgment will not be decided until late April or early May 2016, at the earliest, and included a provision that trial shall be scheduled in June 2016. Depositions of witnesses residing in the U.S. and abroad began in December 2014 in accordance with the Case Management Order XXV. Since that time about forty witnesses have been deposed, including the corporate representatives of all the parties. The issues being explored include Track IV (the alter-ego and fraudulent transfers of assets) and Track III (indemnity claims filed by OCC against Maxus). Depositions of witnesses were completed in mid-October 2015.

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Notwithstanding the above, the Special Master authorized the parties to file briefs specifying any issue in respect of which each party believed that the court should authorize early summary judgment motions. The motions filed by the parties and the non-binding opinions as issued by the special judge on January 14, 2016, are summarized below:

(a) YPF filed for early summary judgment against OCC on four issues: i) dismissal of the portion of OCC s claims for alter ego liability, based on the financing of YPF s acquisition of Maxus shares in 1995; ii) dismissal of the portion of OCC s claims for alter ego liability, based on the transfer of Maxus assets from 1995 through 1999; iii) dismissal of the portion of OCC s liability claims based on the alleged control by YPF of Maxus s Board of Directors decision, in 1996, to sell its subsidiaries in Bolivia and Venezuela to YPF International; and iv) dismissal of the portion of OCC s claims for alter ego liability, based on the transfer of Maxus environmental liabilities to Tierra in 1996.

The Special Master s Recommendation on YPF s motion recommended to deny the motion on the grounds that i) the statute of repose for fraudulent transfers is not applicable to the remedy of alter ego for breach of contract and ii) a finder of fact should be permitted to consider all portions of YPF actions when determining if there is alter ego liability so dismissal of portions of these claims is inappropriate.

(b) OCC filed for early summary judgment against Maxus in relation to OCC s claim to recover the amount of US$ 190 million (plus expenses) paid to the State of New Jersey under the settlement agreement.

The motion sought to establish that Maxus is liable for all conduct at the Lister Site, regardless of any actions taken by OCC (including the period of time that the OCC operated Lister Site). Therefore, the Special Master s Recommendation on OCC s motion against Maxus recommended to grant the motion on the grounds that (i) the language of the SPA was not ambiguous and required Maxus to indemnify OCC for its own conduct at the Lister Site and (ii) OCC was not estopped from seeking indemnity from Maxus for its own conduct at the Lister Site because it did not take inconsistent legal positions in prior litigations. Notwithstanding the foregoing, Occidental will have to prove the reasonableness of the US$190 million amount settled with the State of New Jersey, for which Maxus may eventually be liable.

In addition, OCC filed for early summary judgment dismissing the cross-claims of Repsol against OCC, which seek to recover from OCC the US$ 65 million payment made by Repsol to New Jersey State under the settlement agreement.

The Special Master s Recommendation on OCC s motion against Repsol recommended to deny the motion in part as to Repsol s contribution claim and to grant the motion in part as to Repsol s unjust enrichment claim, on the grounds that i) Repsol s contribution claims are permissible under the New Jersey Spill Act even if a settlement did not fully discharge liability to the State; ii) demonstrating Repsol s liability under the Spill Act is not a prerequisite for Repsol to receive contribution from OCC; iii) Repsol is not liable to OCC for indemnification as an alter ego of Maxus, and iv) OCC was not unjustly enriched when Repsol settled with the state.

(c) Repsol filed for early summary judgment against OCC to dismiss OCC s cross-claims: i) to extent that OCC s claims are based on prescribed claims for fraudulent transfers; ii) on the grounds that OCC cannot prove that it has suffered damages due to a failure to perform an agreement; iii) on the grounds that OCC cannot prove that Repsol has caused any damage even if a non-performance occurred, because OCC has alleged that Maxus became insolvent before Repsol acquired YPF in 1999; and iv) on the grounds that OCC has failed to pierce the corporate veil between YPF and Repsol.

The Special Master s Recommendation on Repsol s motion against OCC recommended to grant the motion on the grounds that OCC failed to set out any basis to pierce the corporate veil between YPF and Repsol, which the Special Master held OCC was required to do, and because OCC did not allege that YPF was insolvent.

(d) Maxus filed for early summary judgment against OCC to dismiss the claims for damages filed by OCC regarding costs not yet incurred by OCC (future remediation costs). YPF joined in this motion. The Special Master s Recommendation on Maxus s motion against OCC was to grant the motion on the grounds that OCC s request for declaratory judgment has no basis due to the uncertainty regarding future costs.

(e) Finally, related to the claims that OCC sought to add against YPF and Repsol for tortious interference with OCC s contractual rights under the Stock Purchase Agreement of 1986 (between Maxus and OCC), the Special Master s recommended to deny the motion on the grounds that OCC improperly delayed in seeking to supplement its claims despite having multiple earlier opportunities to do so.

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The parties appealed the Special Master s Recommendations by February 16, 2016. The recommendations will be submitted to the trial judge who may adopt them completely, partially or refuse them and issue a new judgment. Until the court rules on these recommendations, Repsol and OCC have requested an interruption of the expert witness phase. The judge partially accepted the suspension request regarding the evidence to be produced by Repsol. Accordingly, the court will have to issue a new Case Management Order, reviewing the deadlines for the remaining phases of the process.

Furthermore, on October 23, 2015, YPF received a copy of the six reports produced by OCC regarding expert witnesses. Three of the reports are intended to fully demonstrate claims set forth by OCC under Track III. The other three are intended to defend OCC s position in respect of Track IV. The remaining parties, including YPF, have submitted their reports regarding expert evidence and have begun with the testimony of these experts, which is expected be completed in the first quarter of 2016.

2.5. Conclusion

As at December 31, 2015, an accrual for all matters related to the Environmental Issues relating to Lister site and Passaic River was recorded for a total amount of 2,665 comprising the cost of studies, the most reasonable estimation of expenses that YPF Holdings Inc. may incur for remedial activities, taking into account the impossibility of reasonably estimating a loss or loss range related to the eventual aforementioned FFS costs, considering the studies performed by TS, and the estimated costs corresponding to the Removal Agreement from 2008, as well as other matters related to Passaic River and Newark Bay. This includes the aforementioned associated legal matters. However, other potentially works may be required, including remedial measures additional to or different from those taken into account. Additionally, the development of new information, the imposition of penalties or remedial actions, or the outcome of negotiations related to the mentioned matters differing from the scenarios assessed by YPF Holdings may result in a need by this company to incur in additional costs higher than the current allowance amount accrued.

Considering the information available to YPF Holdings Inc. as of the date of issuance of these financial statements; the results of studies and testing phase; as well as the potential liability of the other parties involved in this issue and the possible allocation of the removal costs; and considering the opinion of our internal and external legal advisors, the management of the Company has not accrued additional amounts than the mentioned above and that could emerge as a result of the conclusion of the aforementioned issues and consequently to be reasonably estimated.

3. Other Environmental Administrative Issues unrelated to Passaic River

Hudson County, New Jersey

Until 1972, Chemicals operated a chromite ore processing plant at Kearny, New Jersey (Kearny Plant). According to the DEP, wastes from these ore processing operations were used as fill material at a number of sites in and near Hudson County. DEP has identified over 200 sites in Hudson and Essex Counties alleged to contain chromite ore processing residue either from the Kearny Plant or from plants operated by two other chromium manufacturers.

The DEP, TS and Occidental, as successor to Chemicals, signed an administrative consent order with the DEP in 1990 for investigation and remediation work at 40 chromite ore sites in Hudson and Essex Counties alleged to be impacted by the Kearny Plant operations.

TS, on behalf of Occidental, is presently performing the work and funding Occidental s share of the cost of investigation and remediation of these sites. In addition, financial assurance has been provided in the amount of US$ 20 million for performance of the work. The ultimate cost of remediation is uncertain. TS submitted its remedial investigation reports to the DEP in 2001, and the DEP continues to review the report.

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Additionally, in May 2005, the DEP took two actions in connection with the chrome sites in Hudson and Essex Counties. First, the DEP issued a directive to Maxus, Occidental and two other chromium manufacturers directing them to arrange for the cleanup of chromite ore residue at three sites in New Jersey City and the conduct of a study by paying the DEP a total of US$ 20 million. While YPF Holdings Inc. believes that Maxus is improperly named and there is little or no evidence that Chemicals chromite ore residue was sent to any of these sites, the DEP claims these companies are jointly and severally liable without regard to fault. Second, the State of New Jersey filed a lawsuit against Occidental and two other entities seeking, among other things, cleanup of various sites where chromite ore processing residue is allegedly located, recovery of past costs incurred by the state at such sites (including in excess of US$ 2 million allegedly spent for investigations and studies) and, with respect to certain costs at 18 sites, treble damages. The DEP claims that the defendants are jointly and severally liable, without regard to fault, for much of the damages alleged. In February 2008, the parties reached an agreement in principle, for which TS, on behalf of Occidental, agreed to pay US$ 5 million and perform remediation works in three sites, with a total cost of approximately US$ 2 million, subject to the terms of a Consent Judgment between and among DEP, Occidental and two other parties, which was published in the New Jersey Register in June 2011, and became final and effective as of September 2011. Pursuant to the Consent Judgment, the US$ 5 million payment was made in October 2011 and a master schedule was delivered to DEP for the remediation during a ten-year period, of the three orphan sites plus the remaining chromite ore sites (approximately 26 sites) under the Kearny ACO. DEP indicated that it could not approve a ten-year term; consequently, Maxus submitted a revised eight-year schedule which was approved by DEP on March 24, 2013.

On behalf of Occidental, Maxus granted a financial guarantee in an amount of US$ 20 million for the performance of this work. Currently, TS is performing the work in accordance with the Master Plan, where the outstanding activities are the onset and completion of extensions work at six sites, the implementation of the planning phase of the remedial action for a minimum of eight sites, and the preparation and/or presentation of the remedial work plan intended to start them in about seven sites.

In November 2005, several environmental groups sent a notice of intent to sue the owners of the properties adjacent to the former Kearny Plant (the adjacent property), including among others TS, under the Resource Conservation and Recovery Act. The stated purpose of the lawsuit, if filed, would be to require the noticed parties to carry out measures to abate alleged endangerments to health and the environment emanating from the Adjacent Property. The parties have entered into an agreement that addresses the concerns of the environmental groups, and these groups have agreed, not to file suit. After the original agreement expired, the parties entered into a new Standstill Agreement, effective since March 7, 2013.

In March 2012, the PRG received a Notice of Deficiency (NOD) letter from DEP relating to the Hackensack River Study Area (HRSA) Supplemental Remedial Investigation Work Plan (SRIWP) that the PRG had submitted to the DEP in January 2009. In the NOD, DEP seeks to expand the scope of work that would be required in the Hackensack River under the SRIWP to add both additional sample locations/core segments and parameters.

While the PRG acknowledges that it is required to investigate and prevent chrome releases from certain upland sites into the river, the PRG contends that it is has no obligation under the governing ACOs and Consent Judgment to investigate chrome contamination in the river generally. PRG responded with these and other arguments to the NOD, by which asked for its cancellation. Negotiations between the PRG and the DEP are ongoing.

As of December 31, 2015, there are approximately 608 accrued in connection with the foregoing chrome-related matters. The study of the levels of chromium has not been finalized, and the DEP is still reviewing the proposed actions. The cost of addressing these chrome-related matters could increase depending upon the final soil actions, the DEP s response to TS s reports and other developments.

Standard Chlorine Chemical Company Superfund Site

In 2013, the Standard Chlorine Site Cooperating Parties Group (including Maxus on behalf of Occidental) entered into a CERCLA Administrative Order on Consent with EPA. This Consent Order required the Cooperating Parties Group to fund and perform a Site RI/FFS. The RI was completed during the fourth quarter of 2014 and EPA approved the RI Report in October 2015. The draft FFS was submitted to EPA during the third quarter of 2015. The Site Cooperating Parties Group received EPA s initial comments on the FFS on October 1, 2015. The revised FFS is due to EPA on March 11, 2016.

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As of December 31, 2015, Maxus had reserved 22 for known probable and reliably estimable Site related losses to allow continued response for this matter on Occidental s behalf.

Painesville, Ohio

In connection with the Chemical s operation until 1976 of one chromite ore processing plant (Chrome Plant), the Ohio Environmental Protection Agency (OEPA) ordered to conduct a RI/FS at the former Painesville s Plant area. OEPA has divided the Painesville Work Site into 20 operable units, including operable units related to groundwater. TS has agreed to participate in the RI/FS as required by the OEPA. TS submitted the remedial investigation report to the OEPA, which was finalized in 2003. TS will submit required feasibility reports separately. In addition, the OEPA has approved certain work, including the remediation of specific operable units within the former Painesville Works area and work associated with the development plans (the Remediation Work). The Remediation Work has begun. As the OEPA approves additional projects related to investigation, remediation, or operation and maintenance activities for each operable unit within the Site, additional amounts will need to be provisioned.

Over fifteen years ago, the former Painesville Works Site was proposed for listing on the national Priority List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA); however, the EPA has stated that the site will not be listed so long as it is satisfactorily addressed pursuant to the Director s Order and OEPA s programs. As of the date of issuance of these consolidated financial statements, the site has not been listed.

During the third quarter of 2015 the final remedies for Operable Units 2 and 6 were completed; Ohio EPA approved these remedy completions in July 2015 and terminated the applicable State Administrative Orders. Also in July 2015, OPEA issued its Preferred Remedial Plan for OU-5. As of December 31, 2015, the Painesville PRP Group (including Tierra and Maxus on behalf of Occidental) continues to move forward with the funding and performance of Feasibility Studies for each of the remaining Operable Units and the performance of individual Operable Unit remedies as they are selected by OPEA. Further, Maxus, on behalf of Occidental, continues to fund and perform groundwater extraction and treatment, and operation and maintenance activities, as required under the 1983 RCRA Administrative Consent Order.

As of December 31, 2015, the Company has reserved approximately 134 for known probable and reasonably estimable Painesville Site environmental liabilities.

The scope and nature of any further investigation or remediation that may be required cannot be determined at this time; however, as the RI/FS progresses, YPF Holdings will continuously assess the condition of the Painesville Works Site and make any required changes, including additions, to its provision as may be necessary.

Other sites - Greens Bayou

Pursuant to settlement agreements with the Port of Houston Authority and other parties, TS and Maxus are participating (on behalf of Chemicals) in the remediation of property required Chemicals former Greens Bayou facility where DDT and certain other chemicals were manufactured. Additionally, in 2007 the parties have reached an agreement with the Federal and State Natural Resources Trustees concerning natural resources damages. In 2008, the Final Damage Assessment and Restoration Plan/Environmental Assessment were approved, specifying the restoration projects to be implemented. During the first semester of 2011, TS negotiated, on behalf of Occidental, a draft Consent Decree with governmental agencies of the United States and Texas addressing natural resource damages at the Greens

Bayou Site. The Consent Decree was signed by the parties in January 2013 and notice of approval of the Proposed Consent Agreement was published in the Official Gazette on January 29, 2013. After the publication of the notice a period of 30 days is opened for comments. Under the agreement, it is agreed to reimburse certain costs incurred by the aforementioned governmental agencies and conducting two restoration projects for a total amount of US$ 0.8 million. Although the primary work was largely finished in 2009, some follow-up activities and operation and maintenance remain pending. As of December 31, 2015, YPF Holdings Inc. has accrued 50 for its estimated share of remediation activities associated with Greens Bayou facility.

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Milwaukee Solvay Site

In June 2005, the EPA designated Maxus as PRP (Potential Responsible Party) at the Milwaukee Solvay Coke & Gas site in Milwaukee, Wisconsin. The basis for this designation is Maxus alleged status as the successor to Pickands Mather & Co. and Milwaukee Solvay Coke Co., companies that the EPA has asserted are former owners or operators of such site.

In November 2006, five PRPs, including Maxus, signed a joint agreement of participation and defense that establishes the allocation of costs for making a RI/FS. Under the agreement Maxus is responsible for a significant part.

In 2007, Maxus signed with four other parties potentially involved, an AOC to conduct RI/FS about contamination in the soil, groundwater, as well as in the Kinnickinnic River sediments.

On April 25, 2012 EPA made a proposal concerning the scope of future investigations of sediments, which was rejected by the PRP group.

On June 6, 2012 the PPR Group submitted a proposed Field Sampling Plan (FSP) that included detailed plans for the remaining upland investigation and a phased approach to the sediment investigation. In July 2012, EPA responded to the FSP requiring expanded sediment sampling as part of the next phase of the investigation and additional evaluation for the possible presence of distinct coal and coke layers on parts of the upland portion of the Site. In December 2012, EPA approved the PRP Group s revised FSP, and the PRP Group commenced upland and sediment investigation activities. The estimated cost of implementing the field work associated with the FSP is approximately US$ 0.8 million.

In February 2014, the PRP Group submitted to EPA and the Wisconsin Department of Natural Resources (WDNR) a preliminary study of basic assessment of risk to human health, a preliminary study of ecological risk assessment of upland and an ecological risk assessment of aquatic life. Currently, they are conducting sediment research activities as approved in the FSP.

In June 2014, the PRP Group submitted to EPA and WDNR the draft Remedial Investigation (RI) Report and risk assessment documents (i.e., Baseline Human Health Risk Assessment, Screening Level Ecological Risk Assessment, and Aquatic Baseline Ecological Risk Assessment) and a Remedial Action Objectives Technical Memorandum. Comments to the draft RI Report were received in October 2014. In accordance with the timeline established by the Agencies, in November 2014 the PRP Group submitted written responses to the EPA/WDNR comments concerning the draft RI and risk assessment documents. The PRP Group received approval from EPA to defer preparation of responses to the comments on the draft RAOs until after the RI has been approved.

EPA commented on the RI Report in November 2015, and the PRP Group submitted a revised RI Report in December 2015.

YPF Holdings Inc. has accrued 4 as of December 31, 2015 for its estimated share of the costs of the RI/FS. The main outstanding issue lies in determining the extent of the studies of sediments in the river that may be required. YPF Holdings Inc. lacks sufficient information to determine additional costs, if any; it might have in respect of this site.

Other sites - Black Leaf Chemical Site

In September 2011, Occidental and Exxon Mobil received a liability notice from EPA under the ruling known as 104(e) for the site called Black Leaf Chemical located at Louisville, Kentucky. Occidental requested that Maxus undertake the defense of this matter by virtue of the indemnity established in the Stock Purchase Agreement of 1986. Maxus accepted the defense, reserving its rights with respect to the case and without acknowledging any responsibility, in November 2011. In March 2013, EPA requested Maxus on behalf of Occidental, and Exxon Mobil to perform specific remedial tasks and to reimburse EPA and the local regulatory authority certain past costs (estimated between US$ 3 and US$ 5 million).

In September 2014, the Environmental Protection Department of Kentucky (EPDK) initiated investigation procedures. In October 2015, the EPDK approved the site characterization report submitted by the cooperation group and required presentation of a remediation action plan. In January 2016, the cooperation group presented the required remediation action plan. As of December 31, 2015, the Company provisioned its contribution for the estimated site remediation costs.

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Tuscaloosa Site

YPF Holdings Inc. has completed the remediation activities at this site and has provisioned 52 for matters related to operation and maintenance activities as of December 31, 2015.

Malone Services Site

Maxus has agreed to defend Occidental, as successor to Chemicals, in respect of the Malone Services Company Superfund site in Galveston County, Texas. This site is a former waste disposal site where Chemicals is alleged to have sent waste products prior to September 1986. The potentially responsible parties, including Maxus on behalf of Occidental, formed a PRP Group to finance and perform an AOC RI/FS. The RI/FS has been completed and the EPA has selected a Final Remedy, the EPA Superfund Division Director signed the Record of Decision on September 20, 2009. The PRP Group signed a Consent Decree in the second quarter of 2012 which became effective in July, 2012. During 2012, 2013, 2014 and 2015 the PRP Group continued with the design, planning and remediation phase. As of December 31, 2015 YPF Holdings has accrued 5 in connection with its obligations for this matter.

Central Chemical Company Superfund Site (Hagerstown, Maryland)

The Central Chemical PRP Group has been responding to this federal Superfund Site since the early/mid 1990s. The PRP Group consists of parties who EPA alleges are former Central Chemical Company customers (or who are the legal successors thereof) which arranged for the disposal of certain CERCLA hazardous substances at the Site. Maxus participates in the PRP Group on behalf of Occidental. In 1998, the EPA entered into a CERCLA Administrative Order on Consent with certain PRPs to conduct an RI/FS. The PRP Group, including Maxus, on behalf of Occidental, funded and performed the RI/FS, which was completed in 2007. In 2009 the EPA issued its Record of Decision which selected the final Site remedy. In 2010, EPA divided the Site into two Operable Units: Operable Unit 1 (OU-1) Site soils, waste and shallow groundwater, and; Operable Unit 2 (OU-2) bedrock groundwater. In September 2012, the EPA issued CERCLA Special Notice Letters to the PRPs, including Occidental, requesting that they fund and perform the Site OU-1 remedy. In August 2013, the PRP Group members, including Occidental, entered into a CERCLA Administrative Order on Consent to fund and perform the Remedial Design for Operable Unit 1.

In early 2014, the PRP Group and the EPA began negotiations of a judicial Consent Decree for the funding and performance of the Remedial Action for Operable Unit No. 1. During the third quarter of 2015, the Central Chemical PRP Group members (including Maxus on behalf of Occidental) entered into a judicial Consent Decree for the funding and performance of the OU-1 Remedy (the OU-1 Consent Decree). The OU-1 Consent Decree was approved and entered with the court in October 2015. Performance of the Remedial Action for Operable Unit No. 1 is currently forecasted to occur between 2016 and 2021; and according to EPA, is estimated to cost approximately US$ 14.2 million. In addition, the EPA may also require the Central Chemical PRP Group to initiate a Remedial Design/Remedial Action for Operable Unit 2 in 2016 or 2017; which the PRP Group has estimated could cost at least US$ 3 million.

As of December 31, 2015, Maxus had reserved 17 for known probable and reliably estimable Site related losses to allow continued response for this matter on Occidental s behalf.

Other third party sites

Chemicals has also been designated as a PRP with respect to a number of third party sites where hazardous substances from Chemicals plant operations allegedly were disposed or have come to be located. At several of these, Chemicals has no known relationship. Although PRPs are typically jointly and severally liable for the cost of investigations, cleanups and other response costs, each has the right of contribution from other PRPs and, as a practical matter, cost sharing by PRPs is usually effected by agreement among them. As of December 31, 2015, YPF Holdings Inc. has accrued approximately 48 in connection with its estimated share of costs related to certain sites and the ultimate cost of other sites cannot be estimated at the present time.

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Black Lung Benefits Act Liabilities

The Black Lung Benefits Act provides monetary and medical benefits to miners disabled with a lung disease, and also provides benefits to the dependents of deceased miners if black lung disease caused or contributed to the miner s death. As a result of the operations of its coal-mining subsidiaries, YPF Holdings Inc. is required to provide insurance of this benefit to former employees and their dependents. As of December 31, 2015, YPF Holdings Inc. has accrued 35 in connection with its estimate of these obligations.

4. Other legal proceedings

Sale Taxes - Texas

In 2001, the Texas State Controller assessed Maxus approximately US$ 1 million in Texas state sales taxes for the period of September 1, 1995 through December 31, 1998, plus penalty and interest.

In August 2004, the administrative law judge issued a decision affirming approximately US$ 1 million of such assessment, plus penalty and interest. YPF Holdings Inc. believes the decision is erroneous, but has paid the revised tax assessment, penalty and interest (a total of approximately US$ 2 million) under protest. Maxus filed a suit in Texas state court in December 2004 challenging the administrative decision. The matter will be reviewed by a trial de novo in the court action, additionally, settlement negotiations are ongoing.

Occidental s claim for past events - Texas

In 2002, Occidental sued Maxus and TS in state court in Dallas, Texas seeking a declaration that Maxus and TS have the obligation under the agreement pursuant to which Maxus sold Chemicals to Occidental to defend and indemnify Occidental from and against certain historical obligations of Chemicals, notwithstanding the fact that said agreement contains a twelve-year cut-off for defense and indemnity obligations with respect to most litigation. TS was dismissed as a party, and the matter was tried in May 2006. The trial court decided that the twelve-year cut-off period did not apply and entered judgment against Maxus. This decision was affirmed by the Court of Appeals in February 2008. Maxus has petitioned the Supreme Court of Texas for review. This lawsuit was denied. Maxus anticipates that Occidental s costs in the future under the Dallas case will not exceed those incurred in the first semester of 2012. Most of the claims that had been rejected by Maxus based on the twelve-year cut-off period, were related to Agent Orange . With the exception of one Agent Orange claim filed in 2012 and dismissed in 2013. All pending Agent Orange litigation was dismissed in December 2009, and although it is possible that further claims may be filed by unknown parties in the future, no further significant liability is anticipated.

Turtle Bayou

In March 2005, Maxus agreed to defend Occidental, as successor to Chemicals, in respect of an action seeking the contribution of costs incurred in connection with the remediation of the Turtle Bayou waste disposal site in Liberty County, Texas. The plaintiffs alleged that certain wastes attributable to Chemicals found their way to the Turtle Bayou site. Trial for this matter was bifurcated, and in the liability phase Occidental and other parties were found severally, and not jointly, liable for waste products disposed of at this site. Trial in the allocation phase of this matter was completed in the second quarter of 2007, and following post judgment motions, the court entered a decision setting Occidental s liability at 15.96% of the past and future costs to be incurred by one of the plaintiffs. Maxus appealed this matter. In June 2010, the Court of Appeals ruled that the District Court had committed errors in the admission of certain documents, and remanded the case to the District Court for further proceedings. Maxus took the position that the exclusion of the evidence should reduce Occidental s allocation by as much as 50%. The District Court issued its Amended Findings of Fact and Conclusions of Law in January 2011, requiring Maxus to pay, on behalf of Occidental, 15.86% of the past and future costs to be incurred by one of the plaintiffs. On behalf of Occidental, Maxus presented an appeal in the first semester of 2011. The U.S. Court of Appeals for the Fifth Circuit affirmed the District Court s ruling in March 2012. Maxus paid to the plaintiff, on behalf of Occidental, US$ 2 million in June 2012 covering past costs and US$ 0.9 million in November 2012 to cover the costs incurred by El Paso in 2007-2011. The obligation to pay some future costs is still pending. As of December 31, 2015, YPF Holdings Inc. has accrued 5 in respect of this matter.

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Ruby Mhire:
In May 2008, Ruby Mhire and others (Mhire) brought suit against Maxus and other third parties, alleging that various parties including a predecessor of Maxus had contaminated certain property in Cameron Parish, Louisiana, during oil and gas activities on the property. Maxus predecessor operated on the property from 1969 to 1989. The Mhire plaintiffs have demanded remediation and other compensation from approximately US$ 159 million to US$ 210 million basing themselves on plaintiff s experts study. During June 2012, the parties in the case held a court-ordered mediation. Maxus filed appropriate answers to the complaints. On June 22, 2012, the parties to the case held a mediation requested by the Court to discuss a settlement. In this mediation, two of the five defendants reached an agreement with the plaintiffs. Plaintiffs did not attain a termination agreement with the three remaining defendants (Maxus, Chevron and El Paso). In the fourth quarter of 2012 both the discovery process and the depositions were intensified. In December 2012, Maxus filed an appeal with the intention to obtain a change of forum, alleging that its due process rights would be adversely affected if the case was heard in Cameron. The Court had contemplated a hearing in February 2013 and a trial in March 2013. However, the Court suspended litigation in order to allow for the negotiation of an out-of-court settlement agreement between the parties. On June 2013, Maxus signed an agreement with its plaintiffs, in which Maxus has to make installment payments over three years, and is required to remediate the site. On July 31, 2013, the Court of Judicial District No. 38 of Cameron, Louisiana State accepted the Resolution Agreement after receiving the notification of No Objection from the Department of Natural Resources, Office of Conservation on July 8, 2013. In August 2013, under the Settlement Agreement, Maxus made the initial payment of US$ 2 million and in December 2013, June 2014 and December 2014 Maxus made payments of US$ 3 million each time.

One last installment payment in the amount of US$ 1 million was made in June 2015. Maxus has no further payment obligation to plaintiffs under the Settlement Agreement; however, it must still undertake remediation of the site, which is expected to be completed in 2016.

The Bedivere Litigation (Bedivere Insurance Company et al. v Maxus Energy Corporation;
Is an Insurance Declaratory Judgment Action (Declaratory Action) which was filed against Maxus in Texas State District Court. The Plaintiffs are former insurers, or successors thereof, who issued insurance policies to Maxus and its predecessors covering certain risks associated with oil and gas exploration and production activities in the State of Louisiana (the Policies). The underlying subject matter of the Declaratory Action arises from the alleged claims, and ultimate settlement thereof, asserted against Maxus in the Ruby Mhire Litigation. The Ruby Mhire Litigation was a Louisiana Oil Field Legacy Liability Lawsuit which was filed in Cameron Parish, Louisiana in 2008 against numerous oil and gas companies, including Maxus. Maxus settled the Ruby Mhire Litigation during the summer of 2013. Prior to the filing of the Declaratory Action, Maxus had been engaged in substantive discussions with the claims administrator for the Plaintiff insurance companies in the Declaratory Action regarding a possible resolution of Maxus claims under the Policies. On June 18th, 2015, Resolute issued a Denial of Coverage, and without prior notice, filed the Declaratory Action the next day. Maxus is actively defending the case. As a first step, in October 2015, Maxus requested a change of venue to Harris County, which was granted by the court.

Environmental Contamination Claims in Louisiana:
Maxus is also defending two additional environmental contamination claims brought against it in Louisiana arising from legacy petroleum exploration and production activities.

The Jumonville Litigation: is a claim brought in 2012 in Port Coupee Parish, Louisiana against Murphy Oil, as Lessee, and Maxus as successor to Apexco/Natomas, the operator, for environmental contamination caused by the drilling of a deep well in 1976 that was a dry hole, and which was plugged and abandoned in 1978. The claim against Murphy Oil is a contract claim with a 10-year prescription period from date of discovery. The claim against Maxus is a tort claim with a 1-year prescription period from date of discovery. Murphy Oil asserts, without documentary evidence to date, that it probably farmed-out or assigned the lease to Maxus and that there would have been an indemnity provision in such documentation. Murphy Oil s position is that Maxus has an obligation to indemnify it as Maxus s predecessor was the operator of the well. However, it has produced not documentary evidence of this. In May 2014, the court severed the plaintiffs claims against Maxus and Murphy Oil from its claims against other defendants and set the trial date for August 2015. In July 2015, Maxus and Plaintiffs entered into a non-binding Settlement Memorandum of Understanding (MOU) as a first step towards a court-approved settlement of this litigation. Under the terms of the MOU, the litigation is stayed as to Maxus and Murphy Oil to allow for continued settlement discussions. The MOU contemplates a final settlement consisting of, among other things, two primary components: 1) a monetary payment(s) made by Maxus to the Plaintiffs, and 2) Maxus funding and performance of a defined limited site remediation project at the Plaintiffs property.

As of December 31, 2015, Maxus and the Plaintiffs continue to make progress towards concluding a final and definitive settlement agreement. Maxus expects that this matter will be resolved within the monetary amounts previously budgeted and reserved by the Company. The Company currently forecasts that the Plaintiff s claims against Maxus in this litigation will be resolved sometime during the second quarter of 2016. Maxus advices that absent a definitive settlement sharing agreement between Maxus and Murphy, it is possible that litigation of cross-claims could ensue between Maxus and Murphy Oil to resolve any settlement allocation dispute.

YPF Holdings Inc., including its subsidiaries, is a party to various other lawsuits and environmental situations, the outcomes of which are not expected to have a material adverse effect on YPF s financial condition or its future results of operations. YPF Holdings Inc. provisioned legal contingences and environmental situations that are probable and can be reasonably estimated.

11. CONTINGENT LIABILITIES, CONTINGENT ASSETS, CONTRACTUAL COMMITMENTS, MAIN REGULATIONS AND OTHERS

a) Contingent liabilities

The Company has the following contingencies and claims, individually significant, that the Company s management, in consultation with its external counsels, believes have possible outcome. Based on the information available to the Company, including the amount of time remaining before trial among others, the results of discovery and the judgment of internal and external counsel, the Company is unable to estimate the reasonably possible loss or range of loss on certain matters referred to below:

Asociación Superficiarios de la Patagonia (ASSUPA): In August 2003, ASSUPA sued 18 companies operating exploitation concessions and exploration permits in the Neuquén Basin, YPF being one of them, claiming the remediation of the general environmental damage purportedly caused in the execution of such activities, and subsidiary constitution of an environmental restoration fund and the implementation of measures to prevent environmental damages in the future. The plaintiff requested that the Argentine Government, the Federal Environmental Council (Consejo Federal de Medio Ambiente), the provinces of Buenos Aires, La Pampa, Neuquén, Río Negro and Mendoza and the Ombudsman of the Nation be summoned. It requested, as a preliminary injunction, that the defendants refrain from carrying out activities affecting the environment. Both the Ombudsman s summon as well as the requested preliminary injunction were rejected by the CSJN. YPF has answered the demand requesting its rejection, opposing failure of the plaintiff and requiring the summon of the Argentine Government, due to its obligation to indemnify YPF for events and claims previous to January 1, 1991, according to Law No. 24,145 and Decree No. 546/1993. The CSJN gave the plaintiffs a term to correct the defects of the complaint. On August 26, 2008, the CSJN decided that such defects had already been corrected and on February 23, 2009, ordered that certain provinces, the Argentine Government and the Federal Environmental Council be summoned. Therefore, pending issues were deferred until all third parties impleaded appear before the court. As of the date of issuance of these consolidated financial statements, the provinces of Río Negro, Buenos Aires, Neuquén, Mendoza, and the Argentine government have made their presentations, which are not available to the Company yet. The provinces of Neuquén and La Pampa have claimed lack of jurisdiction, which has been answered by the plaintiff, and the claim is pending resolution.

On December 13, 2011, the Supreme Court suspended the proceeding for 60 days and ordered YPF and the plaintiff to present a schedule of the meetings that would take place during such suspension, authorizing the participation of the remaining parties and third parties. ASSUPA reported the interruption of the negotiations in the claim and the CSJN declared finalize the 60 days period of suspension property ordered.

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On December 30, 2014 the Supreme Court issued two interlocutory judgments. By the first, it supported the claim of the Provinces of Neuquén and La Pampa, and declared that all environmental damages related to local and provincial situations were outside the scope of his original competence, and that only inter-jurisdictional situations (such as the Colorado River basin) would fall under his venue.

By the second judgment, the Court rejected the petition filed by ASSUPA to incorporate Repsol and the directors who served in YPF until April 2012 as a necessary third party. The Court also rejected precautionary measures and other proceedings related to such request.

In addition, it should be highlighted that the Company learned about other three court complaints filed by ASSUPA against:

(i) Concessionaire companies in the San Jorge Gulf basin areas: An attempt was made to give notice of the complaint to YPF, which was held null and void due to formal defects thereof. Currently, the court has ordered the suspension of procedural terms;

(ii) Concessionaire companies in the Austral basin areas: In this case, a highly summarized action has been ordered. In addition, an interim relief has been issued to notify several companies of the existence of the suit, and for the defendants to contribute certain information. This interim relief has been appealed against by YPF. On November 2, 2015 YPF was notified of the lawsuit. Following an YPF request, the court ordered on November 4, 2015 to suspend the procedural time-limits.

(iii) Concessionaire companies in the Northwest basin areas: The action has been submitted to ordinary proceedings. On December 1, 2014, the Company was notified about the complaint. Currently, the answering terms have been stayed as a result of a request submitted by the Company. In addition, Pan American Company has challenged the acting judge without cause, wherefore the file was remitted for the proceedings to be heard by Salta Federal Court No.2.

Petersen Energía Inversora, S.A.U and Petersen Energía, S.A.U. (collectively, Petersen): On April 8, 2015 Petersen Energía Inversora, S.A.U and Petersen Energía, S.A.U. (jointly, Petersen), a former shareholder of YPF, filed a complaint against the Argentine Republic and YPF with the U.S. District Court for the Southern District of New York. The litigation is being conducted by the bankruptcy trustee of the aforesaid companies by reason of a liquidation process pending in a Commercial Court in Spain. The complaint contains claims related to the expropriation of the controlling interest of Repsol in YPF by the Argentine Republic in 2012, asserting that the obligation by the Argentine Republic to make a purchase offer to the remaining shareholders would have been triggered. Claims seem to be mainly grounded on allegations that the expropriation breached contract obligations contained in the initial public offering and bylaws of YPF and seeks unspecified compensation. The Company filed a motion to dismiss on September 8, 2015, the date which was set as a result of the extension of the term provided for by the Court. On the other hand, Petersen filed an objection against YPF s motion to dismiss. Currently the parties await the decision of the Court.

As of the date of this annual report, there are no elements held by YPF to quantify the potential impact that this claim could have on the Company.

Petitions for bankruptcy filed by Pan American Sur S.A., Pan American Fueguina S.A. and Pan American Energy LLC Sucursal Argentina: On September 18, 2015, Metrogas S.A. was made aware of petitions for bankruptcy, filed by Pan American Sur S.A., Pan American Fueguina S.A. and Pan American Energy LLC Sucursal Argentina, which are being heard by Argentine First Instance Court No. 26 in Commercial Matters, Division No. 51 of Buenos Aires City. As of the date of these consolidated financial statements, Metrogas has not received any notice regarding said court files, despite of which it shall take all necessary action for an appropriate defense of its rights.

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Dock Sud environmental claims: A group of neighbours of Dock Sud, Province of Buenos Aires, have sued 44 companies, among which YPF is included, the Argentine Government, the Province of Buenos Aires, the City of Buenos Aires and 14 municipalities, before the CSJN, seeking the remediation and the indemnification of the environmental collective damage produced in the basin of the Matanza and Riachuelo rivers. Additionally, another group of neighbours of the Dock Sud area, have filed two other environmental lawsuits, one of them desisted in relation to YPF, claiming several companies located in that area, among which YPF is included, the Province of Buenos Aires and several municipalities, for the remediation and the indemnification of the environmental collective damage of the Dock Sud area and for the individual damage they claim to have suffered. At the moment, it is not possible to reasonably estimate the outcome of these claims, as long as, if applicable, the corresponding legal fees and expenses that might result. YPF has the right of indemnity by the Argentine Government for events and claims previous to January 1, 1991, according to Law No. 24,145 and Decree No. 546/1993.

By means of sentence dated July 8, 2008, the CSJN:

(i) Determined that the Basin Authority (Law No. 26,168) (ACUMAR) should be in charge of the execution of the program of environmental remediation of the basin, being the Argentine Government, the Province of Buenos Aires and the City of Buenos Aires responsible of its development; delegated in the Federal Court of First Instance of Quilmes the knowledge of all the matters concerning the execution of the remediation and reparation; declared that all the litigations related to the execution of the remediation plan will accumulate and will proceed before this court and established that this process produces that other collective actions that have for object the environmental remediation of the basin be dismissed (littispendentia). YPF has been notified of certain resolutions issued by ACUMAR, by virtue of which YPF has been requested to present an Industrial Reconversion Program, in connection with certain installations of YPF. The Program has been presented although the Resolutions had been appealed by the Company;

(ii) Decided that the proceedings related to the determination of the responsibilities derived from past behaviours for the reparation of the environmental damage will continue before the CSJN.

Environmental claims in La Plata: YPF is aware of an action that has not been served yet, in which the plaintiff requests the clean-up of the channel adjacent to the La Plata refinery, the Río Santiago, and other sectors near the coast line, and, if such remediation is not possible, an indemnification of 500 or an amount to be determined from the evidence produced in discovery. The claim partially overlaps with the requests made by a group of neighbours of La Plata refinery on June 29, 1999, described in Note 10 of La Plata and Quilmes environmental claims . Accordingly, YPF considers that if it is served in this proceeding or any other proceeding related to the same subject matters, the cases should be consolidated to the extent that the claims overlap. The issue has been archived and no notice has been served of the complaint filed against YPF in 2006. Therefore, this will not be reported in the future.

In addition to the information mentioned above, YPF has entered into an agreement with the OPDS in connection with the claims of the channels adjacent to the La Plata refinery. See Note 10 *La Plata and Quilmes environmental claims* .

Environmental claims in Quilmes: YPF has been notified of a complaint filed by neighbours of Quilmes city, province of Buenos Aires, claiming approximately 421 for compensation for personal damages. Considering the phase of the trial, the evidence available to the date, and the preliminary judgment of internal and external legal advisors, YPF is unable to reasonably estimate the possible loss or range of loss related to this complaint.

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National Antitrust Protection Board (CNDC): On November 17, 2003, Antitrust Board requested explanations, within the framework of an official investigation pursuant to Article 29 of Law No. 25,156 of Antitrust Protection, from a group of almost thirty natural gas production companies, YPF among them, with respect to the following items: (i) the inclusion of clauses purportedly restraining trade in natural gas purchase/sale contracts; and (ii) observations on gas imports from Bolivia, in particular (a) old expired contract signed by YPF, when it was state-owned, and YPFB (the Bolivian state-owned oil company), under which YPF allegedly sold Bolivian gas in Argentina at prices below the purchase price; and (b) the unsuccessful attempts in 2001 by Duke and Distribuidora de Gas del Centro to import gas into Argentina from Bolivia. On January 12, 2004, YPF submitted explanations in accordance with article 29 of the Antitrust Law, contending that no antitrust violations had been committed and that there had been no price discrimination between natural gas sales in the Argentine market and the export market. On January 20, 2006, YPF received a notification of resolution dated December 2, 2005, whereby the Antitrust Board (i) rejected the non bis in idem petition filed by YPF, on the grounds that ENARGAS was not empowered to resolve the issue when ENARGAS Resolution No. 1,289 was enacted; and (ii) ordered that the opening of the proceedings be undertaken pursuant to the provisions of Section 30 of the Antitrust Law. On January 15, 2007, the Antitrust Board charged YPF and eight other producers with violations of the Antitrust Law. YPF has contested the complaint on the basis that no violation of the law took place and that the charges are barred by the applicable statute of limitations and has presented evidence in support of its position. On June 22, 2007, YPF presented to the Antitrust Board, without acknowledging any conduct in violation of the Antitrust Law, a commitment consistent with article 36 of the Antitrust Law, requiring to the Antitrust Board to approve the commitment, to suspend the investigation and to file the proceedings. On December 14, 2007, the Antitrust Board decided to transfer the motion to the Court of Appeals as a consequence of the appeal presented by YPF against the rejection of the application of the statute of limitations.

In addition, on January 11, 2012, the Argentine Secretariat of Transportation filed with the CNDC a complaint against five oil companies (including YPF), for alleged abuse of a dominant position regarding bulk sales of diesel fuel to public bus transportation companies. The alleged conduct consists of selling bulk diesel fuel to public bus transportation companies at prices higher than the price charged in service stations. According to the provisions of Article 29 of the Antitrust Law, YPF has submitted appropriate explanations to the CNDC, questioning certain formal aspects of the complaint, and arguing that YPF has adjusted its behaviour at all times with current regulations and that it did not set any discrimination or abuse in determining prices.

In addition, YPF is subject to other claims before the Antitrust Board which are related to alleged price discrimination in sale of fuels. Upon the opinion of Management and its legal advisors, such claims have been considered as possible contingencies.

Additionally, the Company has received other labour, civil and commercial claims and several claims from the AFIP and from provincial and municipal fiscal authorities, not individually significant, which have not been accrued since Management, based on the evidence available as of the date of issuance of these consolidated financial statements, has assessed them to be possible contingencies.

b) Contingent assets

- *La Plata Refinery:*

On April 2, 2013, the facilities of YPF in the La Plata refinery were hit by a severe and unprecedented storm, which caused a fire and consequently affected the Coke A and Topping C units in the refinery. These incidents temporarily affected the crude processing capacity of the refinery, which had to be stopped entirely. Seven days after the event, the processing capacity was restored to about 100 mbbl/day through the commissioning of two distillation units (Topping IV and Topping D). Coke A unit is out of service permanently and Topping C unit was launched back in late May, after a technical and human effort of great relevance.

Based on the documentation provided to the insurance adjuster appointed by reinsurers, and after their analysis, in November 2013 YPF requested an advanced payment on account of the total compensation that will result from this process of US$ 300 million (US$ 227 million for material damage and US$ 73 million for consequential loss). This advance was accepted, recognized and paid by the reinsurers and, consequently, was recorded in YPF s statement of comprehensive income for the year ended on December, 31, 2013. For some subsequent periods, presentations to the insurers had been submitted. Consequently a second partial payment of US$ 130 million has been request, this payment was received during the third quarter of 2014. The loss of profit coverage period for this incident continued until January 16, 2015, and the entire compensation for loss of profits was finally payed in June 2015 upon a final payment of US$ 185 million.

The total amount received for this loss amounted to US$ 615 million, of which US$ 227 million were related to property damage and US$ 388 million to loss of profits.

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During the year ended December 31, 2015, the Company has concluded the claim settlement proceedings with the insurance company and has recorded an income of 523, which were included in the statement of Comprehensive income, under the captions revenues and Cost of sales , depending on the nature of the claimed concept.

Cerro Divisadero:

On March 21, 2014 a fire incident damaged the facilities of Crude Oil Treatment Plant of Cerro Divisadero in Mendoza, belonging to the North Mendoza business, located 59 kilometres south from Malargüe city. In the mentioned facilities crude oil production from the fixed assets located in North Malargüe and South Malargüe was treated. As a consequence of the incident the facilities were almost completely unusable with the corresponding production loss.

The incident was reported to the corresponding insurers and reinsurers and upon an analysis of the several technical options, the Company has selected the facilities reconstruction option and has requested an advance payment of US$ 60 million, which was received as of fiscal year end.

In November 2015, the claim settlement proceedings were concluded, with the final settlement amount agreed at US$ 122 million, of which US$ 45 million were related to property damage and US$ 77 million to production losses. This amount was accepted by reinsurers, while the remaining balance is pending payment as of the date of issuance of these consolidated financial statements.

During the year ended December 31, 2015, the Group has recorded a gain of 1,165 in the statement of comprehensive income under Other operating results, net and Cost of sales , based on the nature of the item claimed (property damage and loss of production respectively).

c) Contractual commitments

Agreements of extension of concessions

Neuquén: On December 28, 2000, through Decree No. 1,252/2000, the Argentine Federal Executive Branch (the Federal Executive) extended for an additional term of 10 years (until November 2027) the concession for the exploitation of Loma La Lata Sierra Barrosa area granted to YPF. The extension was granted under the terms and conditions of the Extension Agreement executed between the Argentine Government, the Province of Neuquén and YPF on December 5, 2000. Under this agreement, YPF paid US$ 300 million to the Argentine Government for the extension of the concession mentioned above, which were recorded in Fixed Assets on the balance sheet and committed, among other things, to define a disbursement and investment program of US$ 8,000 million in the Province of Neuquén from 2000 to 2017 and to pay to the Province of Neuquén 5% of the net cash flows arising out of the concession during each year of the extension term. The previously mentioned commitments have been affected by the changes in economic rules established by Public Emergency Law.

Additionally, in 2008 and 2009, YPF entered into a series of agreements with the Province of Neuquén, to extend for ten additional years the term of the production concessions on several areas located in that province, which, as result of the above mentioned agreement, will expire between 2026 and 2027. As a condition for the extension of these concessions YPF undertook the following commitments, among others, upon the execution of the agreements: i) to make to the Province total initial payments of US$ 204 million; ii) to pay in cash to the Province an Extraordinary Production Royalty of 3% of the production of the areas involved. In addition, the parties agreed to make adjustments of up to an additional 3% in the event of an extraordinary income according to the mechanisms and reference values established in each signed agreement and iii) to carry out exploration activities in the remaining exploration areas and make certain investments and expenditures in the production concessions that are the purpose of the agreements in a total amount of US$ 3,512 million until the expiring date of the concessions.

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On July 24, 2013, in order to make feasible the implementation of a non-conventional hydrocarbons project, YPF and the Province of Neuquén signed an Agreement under which the Province of Neuquén agreed to (i) separate from the Loma La Lata Sierra Barrosa exploitation concession a surface area of 327.5 km^2, (ii) incorporate such separated surface area into the surface area of the Loma Campana exploitation concession, forming a surface area of 395 km^2 and (iii) extend the Loma Campana exploitation concession for a term of 22 years starting from the date of its expiration (until November 11, 2048).

The commitments made by the Company are as follows: i) payment of US$ 20 million in consideration for the effect that the separation of surface from the Area Loma La Lata Loma Campana has on the conventional production, payable within 15 days of the legislative ratification of the Agreement; (ii) payment of US$ 45 million on the Corporate Social Responsibility concept, payable during the years 2013/2014/2015; (iii) payment of 5% on the investment project profits after taxes, applicable as from December 2027; (iv) 50% reduction, as from August 2012, of the subsidy applicable to the price of natural gas for the Methanol Plant according to the terms of the Commitment Act of 1998 signed between the Company and the Province of Neuquén; (v) the Company undertakes to make an investment of US$ 1 billion within a period of 18 months beginning on July 16, 2013; and vi) YPF commits to prioritize the recruitment of labor, suppliers and services based in Neuquén.

The Province of Neuquén also agrees: i) not to apply Extraordinary Income (Windfall Profits) or Extraordinary Production Taxes and to maintain a 12% rate for hydrocarbon royalties; (ii) to apply a Turnover Tax rate not higher than 3% to the revenue generated in the Loma Campana concession; and (iii) to set the total sum of US$ 1,240 million as the tax base for Stamps Tax purposes. The Agreement was approved by Decree No. 1,208/13 and Law No. 2,867.

Mendoza: In April 2011, YPF entered into an agreement with the province of Mendoza to extend for 10 years the term of certain exploitation concessions (among which is La Ventana), and the transportation concessions located in the province, from the expiration of the original terms of the grant.

By signing the memorandum of agreement, YPF assumed certain commitments within which includes: (i) to make initial payments to the province of Mendoza in an aggregate amount of approximately US$ 135 million, on the date specified in the agreement; (ii) to pay the province of Mendoza an Extraordinary Production Royalty of 3% of the production of the areas included in the agreement. In addition, the parties agreed to make additional adjustments in the event of extraordinary income due to lower export duties or a higher monthly average price of crude oil and/or natural gas according to a mechanism and reference values established in the Memorandum of Agreement; (iii) to carry out exploration activities and make certain investments and expenditures in a total amount of US$ 4,113 million until the expiration of the extended term, as stipulated in the agreement; and; (iv) to make payments equal to 0.3% of the annual amount paid as Extraordinary Production Royalty intended to the Fortalecimiento Institucional Fund, in order to purchase equipment and finance training activities, logistics and operational expenses in certain government agencies of the province of Mendoza specified in the agreement, among others.

Santa Cruz: During November, 2012, YPF entered into an agreement with the province of Santa Cruz to extend for 25 years the term of certain exploitation concessions, from the expiration of their original terms.

By signing the memorandum of agreement, YPF assumed certain commitments within which include: (i) to make initial payments to the province of Santa Cruz in an aggregate amount of approximately of US$ 200 million, on the date specified in the agreement; (ii) to pay the province of Santa Cruz a Production Royalty of 12% plus an additional of 3% over the production of conventional hydrocarbons; (iii) to pay the province of Santa Cruz a Production Royalty of 10% over the production of unconventional hydrocarbons; (iv) make certain investments on the exploitation concessions, as stipulated in the agreement; (v) carry out exploration activities in the remaining exploration areas; (vi) to contribute with social infrastructure investments within the province of Santa Cruz in an amount equivalent to 20% of the amount of the extension royalty; (vii) define and prioritize a remediation plan of environmental liabilities with reasonable technical criteria and the extent of remediation tasks within the term of the concessions.

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Salta: On October 23, 2012, YPF entered into an agreement with the province of Salta to extend for 10 years the original term of certain exploitation concessions from the expiration of their original terms. YPF and associated signatory companies (Tecpetrol S.A., Petrobras Argentina S.A., Compañía General de Combustibles S.A. and Ledesma SAAI) by signing the Memorandum of Agreement took, among others, the following commitments: (i) conducting in area Aguaragüe, on the dates indicated in the agreement and during the first two years, the following investments: a minimum amount in development plans, involving the drilling of development wells (at least 3) and expansion of production facilities and treatment of hydrocarbons of US$ 36 million, (ii) YPF and each of the associated signatory companies will recognize for the province a special extraordinary contribution equal to 25% of the amount corresponding to royalties of 12% referred to in art. 59 and 62 of Law 17,319, (iii) YPF and each of the associated signatory companies will recognize for the province an additional payment to the special extraordinary contribution, only when conditions of extraordinary income are verified in the marketing of oil crude production and natural gas from the concessions, under price increase obtained by each party, from the sum of US$ 90/bbl in the case of crude oil production and the sum equivalent to 70% of import gas prices, (iv) YPF and each of the associated signatory companies will pay to the province, and in the proportion that corresponds to each one, a one-time sum of US$ 5 million in the concept of bonus extension, (v) YPF and the associated signatory companies undertake to make investments for a minimum amount of US$ 30 million in additional exploration work to be implemented in the concessions.

Chubut Concessions El Tordillo La Tapera and Puesto Quiroga: On October 2, 2013, the Province of Chubut published the law for the approval of the Agreement to Extend the Exploitation Concessions El Tordillo, La Tapera and Puesto Quiroga, located in the Province of Chubut. YPF holds 12.196% of the concessions, while Petrobras Argentina S.A. holds 35.67% and Tecpetrol S.A. holds the remaining 52.133%. The Concessions were extended for a 30 year period counted as from the year 2017. The main terms and conditions agreed by the Province of Chubut comprise the commitment of the companies belonging to the joint operation to make the following payments and contributions: (i) paying US$ 18 million as Historical Remediation Bonus (ii) paying a Compensation Bonus amounting to a fixed 4% over the production of gas and oil since 2013 (this is calculated as an additional royalty); (iii) covering expenses and investments related to the protection and conservation of the environment; (iv) maintaining a minimum amount of equipment for drilling and work-overs in operation; (v) after the first ten years of extension, Petrominera will acquire a 10% interest in the exploitation Concessions.

Chubut - Restinga Alí, Sarmiento, Campamento Central Cañadón Perdido, Manantiales Behr and El Trébol Escalante: On December 26, 2013, YPF and the Province of Chubut signed an Agreement for the extension of the original term of the Concessions for the Exploitation of Restinga Alí, Sarmiento, Campamento Central Cañadón Perdido, Manantiales Behr and El Trébol. The Extension Agreement was ratified by the Legislature of the Province of Chubut on January 17, 2014, and by the Company´s Board on February 24, 2014; thus complying with the conditions precedent established in the Extension Agreement.

The following are the main terms and conditions agreed with the Province of Chubut: YPF holds 100% of the exploitation concessions, except for the concession Campamento Central Cañadón Perdido, where ENAP SIPETROL S.A. holds 50%. A 30-year extension was established for the terms of the exploitation concessions that expire in the years 2017 (Campamento Central Cañadón Perdido and El Trébol Escalante), 2015 (Restinga Alí) and 2016

(Manantiales Behr).

YPF undertook, among others, the following obligations: (i) to pay a Historical Compensation Bonus of US$ 30 million; (ii) to pay to the Province of Chubut the Hydrocarbons Compensation Bonus amounting to 3% of the oil and gas production (calculated as an additional royalty); (iii) to meet a minimum level of investment; (iv) to maintain a minimum amount of equipment for drilling and work-over under hire and in operation; and (v) to assign to Petrominera S.E. 41% of YPF´s interest in the exploitation concessions of El Tordillo, La Tapera and Puesto Quiroga (amounting to 5% of the total concessions) and in the related Joint operations.

Tierra del Fuego: the Company has negotiated with the Executive Office of the province of Tierra del Fuego the terms in order to extend their concessions in such province, having signed, on December 18, 2013, the Agreement of Extension of concessions of Tierra del Fuego (until November 14, 2027), Los Chorrillos (until April 18, 2026) and Lago Fuego (until November 6, 2027). On October 10, 2014, Act No. 998 and Act No. 997 approving the extension agreements were enacted.

Rio Negro: In December 2014, YPF, YSUR Energía Argentina S.R.L., YSUR Petrolera Argentina S.A. entered into a Renegotiation Agreement with the Province of Rio Negro to extending for 10 years the original term of the following exploitation concessions as from maturity of their original granting terms: (i) El Medanito , Barranca de los Loros , Señal Picada-Punta Barda , Bajo del Pich where YPF holds 100%, up to November 14, 2027; (ii) Los Caldenes where YPF holds 100%, up to September 19, 2036; (iii) Estación Fernandez Oro , where YSUR Energía Argentina SRL holds 100%, up to August 16, 2026; and (iv) El Santiagueño where YSUR Petrolera Argentina S.A. holds 100%, up to September 6, 2025.

The Renegotiation Agreement was confirmed by the legislature of the Province of Rio Negro by the issuance of Provincial Law No. 5027 dated December 30, 2014. The companies signing the Renegotiation Agreement assumed the following commitments, among others: (i) payment of US$ 46 million as Fixed Bonus, (ii) contributions to social development and institutional strengthening amounting US$ 9,2 million, (iii) supplementary contributions equivalent to 3% of the monthly oil production, and 3% of the monthly gas production, (iv) annual contributions for training, research and development, (v) compliance with a minimal development and investment plan, (vi) investment for the execution of environmental remediation plans.

Agreements of project investments

Agreements for the development of Loma La Lata Norte and Loma Campana areas:

On July 16, 2013, the Company and subsidiaries of Chevron Corporation (Chevron) signed an Investment Project Agreement (the Agreement) with the objective of the joint exploitation of unconventional hydrocarbons in the province of Neuquén. The Agreement contemplates an expenditure, subject to certain conditions, of US$ 1,240 million by Chevron for the first phase of work to develop about 20 km^2 (the pilot project) (4,942 acres) of the 395 km^2 (97,607 acres) corresponding to the area dedicated to the project, located in the aforementioned province and includes Loma La Lata Norte and Loma Campana areas. This first pilot project includes the drilling of more than 100 wells.

During September 2013, and upon the fulfillment of certain precedent conditions (among which is the granting of an extension of the Loma Campana concession maturity until 2048 and the unitization of that area with the sub-area Loma La Lata Norte), Chevron made the initial payment of US$ 300 million.

On December 10, 2013, the Company and some of its subsidiaries and subsidiaries of Chevron Corporation successfully completed the pending documents for the closing of the Investment Project Agreement, which enables the disbursement by Chevron of US$ 940 million, in addition to the US$ 300 million that such company has already disbursed.

For such purposes, the Company and Chevron made the necessary contracts for the assignment in favor of Compañía de Hidrocarburo No Convencional S.R.L. (CHNC) of 50% of the exploitation concession Loma Campana (LC), and supplementary agreements including the contract for the organization of the Joint Operation (JO) and the Joint Operating Agreement (JOA) for the operation of LC, where YPF shall participate as area operator.

The Company indirectly holds 100% of the capital stock of CHNC, but under the existing contractual arrangements, it does not make financial or operative decisions relevant to CHNC and does not fund its activities either. Therefore, the Company is not exposed to any risk or rewards due to its interest in CHNC. Thus, as required by IFRS, the Company has valued its interest in CHNC at cost, which is not significant, and has not recorded any profit or loss for such interest for the year ended December 31, 2015.

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During the years 2015, 2014 and 2013, YPF and CHNC have made transactions, among which it is possible to highlight the purchases of gas and crude oil by YPF for 3,556, 2,311 and 50, respectively. These transactions will be completed under the general and regulatory market conditions. The net balance as of December 31, 2015 and 2014, is a liability in favor of CHNC of 533 and 837, respectively, while the net balance as of December 31, 2013, was a receivable in favor of YPF of 1,616.

Considering the rights that Chevron could exercise in the future over CHNC -to access to the 50% of the concession and supplementary rights- and as a guarantee for such rights and other obligations under the Investment Project Agreement, a pledge over the shares of a YPF s affiliate, which is an indirect holder of YPF s interest in CHNC, has been made in favor of Chevron.

In this context, and considering that YPF is the LC area operator, the parties have made a Project Obligations, Indemnities and Guarantee Agreement, by virtue of which the Company makes certain representations and guarantees in relation to the Investment Project Agreement. This guarantee on the operation and management of the Project does not include the project s performance or return on investment, both at the exclusive risk of Chevron.

Finally, other supplementary agreements and documents related to the Investment Project Agreement have been signed, including: (a) the agreement for the allocation of certain benefits deriving from Executive Order No. 929/2013 from YPF to CHNC; (b) terms and conditions for YPF s acquisition of natural gas and crude oil pertaining to CHNC for 50% of the interest in the LC area; and (c) certain agreements for the technical assistance of Chevron to YPF.

During April 2014, YPF and certain of its subsidiaries and subsidiaries of Chevron, have successfully completed the second phase of the Project Investment Agreement and Chevron has confirmed its decision to continue with the investment project in unconventional hydrocarbons in the Loma Campana area, thereby commencing the third phase of such project. The duration of this third phase will encompass the life of the project, until the expiration of the Loma Campana concession. At the present time, there are 6 drilling equipments operating in the above mentioned area and more than 18.97 thousand daily barrels of oil equivalent to the percentage of participation extracted.

Agreements for the development of the Chihuído de la Sierra Negra Sudeste Narambuena area:

During April 2014, YPF and Chevron have signed a new Project Investment Agreement with the objective of the joint exploration of unconventional hydrocarbons in the Province of Neuquén, within the area Chihuido de la Sierra Negra Sudeste Narambuena. The investment will be undertaken exclusively by, and at the sole risk of, Chevron. The investment will be disbursed in two stages.

To this end, the Company and Chevron entered into the necessary agreements to implement the assignment to Compañía de Desarrollo No Convencional S.R.L (CDNC) of a) a 50% interest in the Narambuena Exploration Project Area and b) a 7% legal interest in the Exploitation Concession of Chihuído de la Sierra Negra in Neuquén and Mendoza. However, contractual rights of Chevron are limited to Narambuena Area, as YPF will hold 100% ownership of the conventional production and reserves outside the Project Area and Desfiladero Bayo field. On May 29, 2015, the first phase of the Agreement was closed with the perfection of the relevant assignments. At present, 2 wells have been drilled and completed and 1 is being drilled.

Depending on the results of the exploration activities, both companies foresee to continue with the execution of a pilot project and the subsequent comprehensive development of the above mentioned area, sharing investments at 50% each.

The Company indirectly holds a 100% interest in the capital stock of CDNC; however as pursuant to effective contractual agreements, the Company neither exercises CDNC s relevant financial and operating decision-making rights nor funds its activities, the Company is not exposed to risks and benefits for its interest in CDNC. Therefore, according to IFRS, the Company has valued its interest in CDNC at cost, which is not significant, and has not recorded any income (loss) for the said interest during the period ended December 31, 2015.

Agreements for the development of El Orejano area:

On September 23, 2013, the Company, Dow Europe Holding B.V. and PBB Polisur S.A., (hereinafter, collectively, Dow) signed an agreement (the Agreement), which contemplates an expenditure by both parties of up to US$ 188 million which will be directed towards the joint exploitation of an unconventional gas pilot project in the Province of Neuquén, in the area of El Orejano of which Dow provided US$ 120 million by means of a financing agreement convertible into a participation in the project, which contemplates a first phase of work during which 16 wells will be drilled.

On October 22, 2015, both parties agreed to an Addenda which provides, among other things, for: (i) an increase in the amount to be disbursed by Dow, by US$ 60 million, totaling US$ 180 million, through a convertible financing in an interest in the project, for the same purposes and effects than those of the previous disbursements, and (ii) an extension of the time period during which Dow may exercise the conversion option, up to December 18, 2015. On October 30, 2015, the Company received the additional amounts committed.

On December 15, 2015, PBB Polisur S.A. exercised the option provided for in the Agreement, whereby YPF has assigned 50% of its interest in the exploitation concession of El Orejano area, which amounts to a total area of 45km2, in the Province of Neuquén.

As of December 31, 2015, 27 wells are drilled, out of which 18 have been completed.

In addition, the parties have formed a joint operation for the exploration, evaluation, exploitation and development of hydrocarbons in El Orejano area, which will become effective on January 1, 2016 and in which Dow and YPF have a 50% interest each.

Agreements for the development of Rincón del Mangrullo area:

On November 6, 2013, the Company and Petrolera Pampa S.A. (hereinafter Petrolera Pampa) signed an investment agreement under which Petrolera Pampa undertakes to invest US$ 151.5 million in exchange for 50% of the interest in the production of hydrocarbons in the area of Rincón del Mangrullo in the Province of Neuquén, pertaining to the formation Formación Mulichinco (hereinafter the Area), where YPF shall be area operator.

During this first stage, Petrolera Pampa has undertaken to invest US$ 81.5 million for the drilling of 17 wells and the acquisition and analysis of about 40 km2 of 3D seismic data.

The second phase investment contemplates an investment of US$ 70 million to drill 15 wells.

As of December 31, 2015, the two stages were completed.

On May 26, 2015 a supplementary agreement (the Amendment) to the investment agreement dated November 6, 2013 was signed.

The Amendment establishes an interest of 50% of each of the parties in the entire production, costs and investments for the development of the Area with retroactive effect from January 1, 2015, excluding from the agreement only the formations of Vaca Muerta and Quintuco. It should be noted that on July 14, 2015, the necessary requirements for the effectiveness of the said Amendment were met.

Such investments include surface facilities in the area of US$ 150 million, which include the first expansion stage of the treatment facilities, bringing the current capacity of 2 to 4 million cubic meters per day to allow the conditioning and evacuation of future production from the block.

The Amendment also includes the expansion of the investment commitment of Petrolera Pampa in a third investment phase of US$ 22.5 million, for the drilling of additional wells targeting the Mulichinco Formation.

In addition, the Amendment includes an exploratory program for the Lajas Formation, under which Petrolera Pampa is committed to an investment of up to US$ 34 million and YPF up to US$ 6 million for the period 2015-2016. Subject to the results obtained in this period, Petrolera Pampa may choose to continue with a second investment phase in 2017 also for the Lajas Formation, with an additional investment commitment of US$ 34 million.

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Agreements for the development of La Amarga Chica area:

On August 28, 2014, the Company has signed an Agreement with Petronas (E&P) Overseas Ventures Sdn. Bhd, (hereinafter, Petronas) whereby YPF and Petronas agreed on the main terms and conditions to jointly develop a shale oil pilot project in three annual phases involving a jointly investment of up to US$ 550 million plus VAT in the La Amarga Chica area, province of Neuquén. Petronas will invest US$ 475 million and YPF will invest US$ 75 million.

YPF will be the operator of the area and will assign a 50% interest in the concession to Petronas E&P Argentina S.A. (hereinafter PEPASA).

Dated December 10, 2014 the Company and PEPASA, a Petronas affiliate, entered into an Investment Project Agreement for the joint exploitation of unconventional hydrocarbons in La Amarga Chica area in the Province of Neuquén. It should be noted that on May 10, 2015, the conditions required for the entry into force of that Pilot Plan in 2015 were complied with. The Agreement also provides that both companies will assess the expansion of the strategic association to other exploration areas with potential for unconventional resources.

Likewise, the Parties signed the following supplementary agreements to the Investment Agreement: (a) Assignment Agreement for the assignment of 50% of the concession on the La Amarga Chica area; (b) Joint Operation formation contract; (c) Joint Operating Agreement; (d) Assignment Guarantee Agreement; (e) First Option Agreement for trading crude oil; and (f) Assignment of Rights on Hydrocarbon Export Agreement.

Additionally, Petronas has granted a payment guarantee for certain financial obligations assumed by PEPASA under the Investment Agreement.

Once contributions of each annual phase are made, PEPASA would be entitled to opt-out of the joint development agreement upon surrender of its participation in the concession and the settlement of liabilities as of the date of opt-out (without access to the 50% of the net production value of drilled wells until exercise of the opt-out options).

Upon full compliance with the parties commitments, each party will contribute 50% to the work schedule and cost budget based on the investment agreement.

The Investment Agreement provides that during the three phases of the Pilot Plan a 3D seismic acquisition and processing program will be completed, covering the whole concession area, 35 wells will be drilled with the Vaca Muerta formation as objective (including vertical and horizontal wells), and a series of surface installations will be built with the purpose of evacuating the area production.

As of December 31, 2015, 4 wells of the Pilot Plan have been drilled: 1 vertical and 3 horizontal. Microseismic studies will be carried out for these 4 wells during the first months of 2016. Therefore, there are no new wells under production at 2015 year end.

Subdivision of Bandurria Block - Neuquén:

On July 16, 2015, the Province of Neuquén, pursuant to executive orders 1536/15 and 1541/15, approved the subdivision of the Bandurria block (465.5 km2) and awarded 100% of the area known as Bandurria Norte (107 km2) to Wintershall Energía S.A., 100% of the area known as Bandurria Centro (130 km2) to Pan American Energy LLC (Sucursal Argentina) and 100% of the area known as Bandurria Sur (228.5 km2) to YPF, awarding to YPF an Unconventional Hydrocarbons Exploitation Concession in Bandurria Sur area, for a 35-year term, with a commitment to develop a pilot plan to be completed in 3 years with a related investment of US$ 360 million.

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Granting of exploitation concession for Lindero Atravesado block Neuquén:
On July 10, 2015, the Province of Neuquén agreed to award to both partners, Pan American Energy LLC (Sucursal Argentina) and YPF, pro rata their interests (62.5% and 37.5%, respectively) in the Lindero Atravesado joint venture, the right to an Unconventional Hydrocarbons Exploitation Concession for a 35-year term, pursuant to the provisions of sections 27 bis, 35(b) and related sections of Act 17.319, as amended by Act 27.007. As a condition to the award of the above mentioned concession rights, concession holders have agreed to carry out an Unconventional Tight Gas Pilot program within 4 years, beginning on January 1, 2015, with an investment of US$ 590 million. On July 16, 2015, an agreement in this respect was approved by Executive Order 1540/15 of the Neuquén Province.

Extension of the Joint Operation Agreement for the Magallanes Area:
On November 17, 2014, ENAP SIPETROL ARGENTINA S.A. (ENAP) made to YPF, and YPF accepted, an offer whereby ENAP s rights and obligations under the Magallanes area Joint Operation Agreement were extended until the concession termination, with ENAP keeping 50% interest and continuing as Operator. The area concession includes three jurisdictions: Santa Cruz, Estado Nacional and Tierra del Fuego (as of the date of these financial statements, the concessions of the two first-named have been extended). In consideration for such extension, ENAP agreed to pay to YPF, or invest in the Joint Venture on behalf and on account of YPF, US$ 100 million, subject to certain conditions. The Agreement further provides for the obligation to agree on a so-called Incremental Project by September 15, 2015. The Incremental Project was approved by an operating committee on September 10, 2015, and its approval was ratified by YPF on October 20, 2015. Notwithstanding the foregoing, ENAP is entitled to withdraw at any time from the Incremental Project, without right to compensation or reimbursement therefor, including the Consideration and any royalties as may have been paid until termination.

Contractual commitments: The Group has signed contracts by means of which it has committed to buy certain products and services, and to sell natural gas, liquefied petroleum gas and other products. Some of the mentioned contracts include penalty clauses that stipulate compensations for a breach of the obligation to receive, deliver or transport the product object of the contract. The anticipated estimated losses for contracts in progress, if any, considering the compensations mentioned above, have been charged to the income of the year in which they were identified.

In this order, the Group has renegotiated certain natural gas export contracts, and has agreed, between others, to limit compensations only in case of interruptions and/or suspension of deliveries from any cause, except physical force majeure. Also, the Group has agreed to make investments and export gas to temporarily import certain final products. As of the date of issuance of these financial statements, the Group is fulfilling the agreed commitments mentioned above. To the extent that the Group does not comply with such agreements, we could be subject to significant claims, subject to the defences that the Group might have.

The Group under certain trade agreements has undertaken the obligation with third parties to buy goods and services (such as liquefied petroleum gas, electricity, gas, oil and steam) that as of December 31, 2015 amounted to about 37,116. In addition, it has exploratory, investment and expense commitments until the termination of some of its concessions for 287,238 as of December 31, 2015, including commitments for the extension of concessions mentioned in previous paragraphs.

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d) Main regulations and other:

New Hydrocarbon Law:
Dated October 31, 2014 the Argentine Republic Official Gazette published the text of Law No. 27,007, amending the Hydrocarbon Law No. 17,319. The most relevant aspects of the new law are as follows:

As regards exploration permits, it distinguishes between those with conventional and unconventional objectives, and between explorations in the continental shelf and in territorial waters, establishing the respective terms for each type.

As regards concessions, three types of concessions are provided, namely, conventional exploitation, unconventional exploitation, and exploitation in the continental shelf and territorial waters, establishing the respective terms for each type.

The terms for hydrocarbon transportation concessions were adjusted in order to comply with the exploitation concessions terms.

As regards royalties, a maximum of 12% is established, which may reach 18% in the case of granted extensions, where the law also establishes the payment of an extension bond for a maximum amount equal to the amount resulting from multiplying the remaining proven reserves at the end of effective term of the concession by 2% of the average basin price applicable to the respective hydrocarbons over the 2 years preceding the time on which the extension was granted.

The extension of the Investment Promotion Regime for the Exploitation of Hydrocarbons (Decree No. 929/2013) is established for projects representing a direct investment in foreign currency of at least 250 million dollars, increasing the benefits for other type of projects.

Reversion and transfer of hydrocarbon exploitation permits and concessions in national offshore areas is established when no association contracts subscribed with ENARSA to the National Secretariat of Energy exist.

Natural gas regulatory requirements:
In addition to the regulations that affect the natural gas market mentioned in Natural gas market (Note 10), on June 14, 2007, Resolution No. 599/2007 of the Secretariat of Energy was published in the Official Gazette (the Resolution). This Resolution approved an agreement with natural gas producers regarding the natural gas supply to the domestic market during the period 2007 through 2011 (the Agreement 2007-2011). The purpose of this Agreement 2007-2011 is to guarantee the normal supply of the natural gas domestic market during the period 2007 through 2011, considering the domestic market demand registered during 2006 plus the growth of residential and small commercial customer s

consumption (the Priority Demand). According to the Resolution, the producers that have signed the Agreement 2007-2011 commit to supply a part of the Priority Demand according to certain percentage determined for each producer based upon its share of production for the 36 months period prior to April 2004. In case of shortage to supply Priority Demand, natural gas exports of producers that did not sign the Agreement 2007-2011 will be the first to be called upon in order to satisfy such mentioned shortage. The Agreement 2007-2011 also establishes terms of effectiveness and pricing provisions for the Priority Demand consumption. Considering that the Resolution anticipates the continuity of the regulatory mechanisms that affect the exports, YPF has appealed the Resolution and has expressly stated that the execution of the Agreement 2007-2011 does not mean any recognition by YPF of the validity of that Resolution. On June 22, 2007, the National Direction of Hydrocarbons notified that the Agreement 2007-2011 reached the sufficient level of subscription. On January 5, 2012, the Official Gazette published Resolution of the Secretariat of Energy No. 172 which temporarily extends the rules and criteria established by Resolution No. 599/07, until new legislation replaces the Resolution previously mentioned. This Resolution was appealed on February 17, 2012 by filing a motion for reconsideration with the Secretariat of Energy.

Additionally, on October 4, 2010, the Official Gazette published ENARGAS Resolution No. 1410/2010 that approves the procedure which sets new rules for natural gas dispatch applicable to all participants in the natural gas industry, imposing new and more severe regulations to the producers availability of natural gas (Procedimiento para Solicitudes, Confirmaciones y Control de Gas). By virtue of these procedures, distributors remain able to request all the natural gas necessary to cover the Priority Demand even in the case of natural gas volumes that exceed those that the Secretariat of Energy would have allocated by virtue of the Agreement ratified by the Resolution No. 599/07. Producers are obligated to confirm all the natural gas requested by distributors to supply the Priority Demand. The producers shares in such volumes follow the allocation criterion established by the Agreement 2007-2011. It is not possible to predict the estimated demand of the Argentine market that must be satisfied by the producers, whether or not the producer signed the Agreement 2007-2011. Once the Priority Demand has been supplied, the volumes requested by the rest of the segments must be confirmed, leaving the exports last in order of priority. In case the programming do not yield sustainable results, with respect to the objective of maintaining the equilibrium and preserving the operation of the transportation and distribution systems, the necessary reprogramming and redirections will take place. In case the producer s confirmations are of a lower volume than requested, the transporters will be in charge of making confirmations adequate by redirecting natural gas until the volume required by distributors according to Priority Demand is completed. This greater volume will have to be withdrawn from the confirmations made by that producer to other clients. If the producer would not have confirmed natural gas to other clients from the same basin, the lacking volume will be requested to the rest of the natural gas producers. Therefore, this procedure imposes a supply obligation that is jointly liable for all producers in case any producer supplies natural gas in a deficient way. YPF has challenged the validity of Resolution No. 1,410/2010.

On November 27, 2008 through Executive Decree No. 2067/08, a trust fund was created to finance imports of natural gas for its injection in the national gas pipeline system when necessary to satisfy the domestic demand. The trust fund is financed through the following mechanisms: (i) diverse tariff charges paid by users of transportation services and regularly distributed, gas consumers receiving gas directly from producers, and companies processing natural gas; (ii) special credit programs that may be agreed upon with national or international organizations; and (iii) specific contributions assessed by the Secretariat of Energy on the participants in the natural gas industry. This Decree has been object of diverse judiciary claims, and judges from all over the country have issued precautionary measures for suspension of its effects, grounded on the violation of the principle of legality on tax matters. On November 8, 2009, ENARGAS published Resolution No. 1982/11 that adjusted the tariff charges established by Executive Decree No. 2067/08 to be paid by users as from December 1, 2011.

On November 24, 2011, ENARGAS passed Resolution No. 1991/11, enlarging the number of users obliged to pay tariff charges, including residential services, natural gas processing, industrial premises and electric power plants, among others; this has affected the operations of the Company, and has had a significant impact on our joint subsidiary companies, all of which have filed appeals against the mentioned resolution. For its part, YPF has challenged these Resolutions and rejected the charge invoice made by Nación Fideicomiso. On April 13, 2012, YPF obtained a precautionary measure related to El Portón processing plant, suspending the effects of these resolutions in relation to that plant until a decision on the administrative appeals filed by YPF had been reached.

In November 2012, Law 26,784 was passed which granted legal hierarchy, since such date, to the decisions enacted by the Executive Power and ENARGAS, in relation to the charge. Dated December 11, 2014 the National Supreme Court of Justice pronounced the Alliance judgment, deciding that the charge created by decree 2067/2008 is a tariff charge and not a tax, and thus is not subjected to the principle of tax legality. However, the Court left open the possibility of eventual claims or defenses in cases different from the claims raised in the Alliance judgment.

In particular, the application of the above mentioned tariff charge produces an impact so significant in Mega operations that, if not favorably resolved, Mega could have in the future serious difficulties to continue business. On

October 27, 2015, the Supreme Court of Justice issued a resolution on the motion for protection of constitutional rights filed by Mega S.A. (period until the enactment of the 2013 Budget Enactment Law No. 26.784) providing that the charge under Executive Order 2067/08 was unconstitutional and was not applicable to Mega S.A.

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On April 7, 2014 the Secretariat of Energy published Resolution No. 226/2014, fixing new wellhead prices per basin for the sale of gas to the Residential and Commercial full service segment and Natural Gas Stations that in a period of two months/one month: (i) shows a higher than 20% saving compared to the same period of two months/one month from previous year; and (ii) shows a saving between 5% and 20% compared to the same period of two months/one month from previous year. Likewise, new prices per basin are fixed for full service users in the Camuzzi Gas del Sur geographic area, in view of the climate conditions prevailing in the Southern geographic area of our country.

Natural Gas Additional Injection Stimulus Programs:

On December 2012, YPF and other gas producing companies of Argentina agreed with the Planning and Strategic Coordination Commission of the National Plan of Hydrocarbon Investments (the Commission) to establish an incentive scheme for the Additional Injection (all gas injected by the companies above certain threshold) of natural gas. On February 14, 2013 Resolution No. 1/2013 of the Commission was published in the Official Gazette. This Resolution formally creates the Natural Gas Additional Injection Stimulus Program .

Under this regulation, gas producing companies were invited to file Projects for increasing Total Natural Gas Injection (the projects) to the Commission, in order to receive an Increased Price of 7.5 US$/MBTU for all gas injected above certain threshold (Additional Injection). The Projects shall comply with minimum requirements established in Resolution No. 1/2013, and will be subject to approval consideration by the Commission. The Projects have a maximum term of five (5) years, renewable at the request of the beneficiary, and subject to the decision of the Commission. If the beneficiary company, for certain month, does not reach the compromised production increase of its project, approved by the Commission, it will have to compensate its failure to achieve the minimum total injection committed in such Project. Resolution No. 60/2013, regulated by Resolution No. 83/2013, established a similar program for the companies that failed to comply with the requirements of Resolution No. 1/2013 and those that had failed to register in time under such Resolution. The price to be paid under the program established in Resolution No. 60/2013 varies between 4 US$/MBtu and 7.5 US$/MBtu, according to the highest production curve reached by the beneficiary company under the program. Resolution No. 123/2015 was published in the Official Gazette on July 15, 2015 which approved the Regulations governing procurement, sales and transfers of areas, assignments of rights and interest under the approved programs.

On September 29, 2015, Resolution 185/2015 was published in the Official Gazette regulating an incentive program for natural gas injection for the benefit of corporate producers which do not have a previous record of natural gas injection. The beneficiary companies will receive a compensation resulting from the difference between 7.50 US$/MMBtu and the price received for the sale of the natural gas in the market. Such compensation shall be received only for natural gas originating in areas whose production rights shall have been acquired from companies registered with any of the two previous programs and provided that during the period in which the transferor shall have calculated its base injection , according to its programme, the injection of the area operated by the current beneficiary transferee shall have been null.

Liquid hydrocarbons regulatory requirements:

Resolution No. 1,679/04 of the Secretariat of Energy reinstalled the registry of diesel and crude oil export transactions created by Executive Decree No. 645/02, and mandated that producers, sellers, refining companies and any other market agent that wishes to export diesel or crude oil to register such transaction and to demonstrate that domestic demand has been satisfied and that they have offered the product to be exported to the domestic market. In addition, Resolution No. 1,338/06 of the Secretariat of Energy added other petroleum products to the registration regime created by Executive Decree No. 645/02, including gasoline, fuel oil and its derivatives, diesel, aviation fuel, asphalts, certain petrochemicals, certain lubricants, coke and petrochemical derivatives. Resolution No. 715/07 of the Secretariat of Energy empowered the National Refining and Marketing Director to determine the amounts of diesel to be imported by each company, in specific periods of the year, to compensate exports of products included under the regime of Resolution No. 1,679/04; the fulfilment of this obligation to import diesel is necessary to obtain authorization to export the products included under Decree No. 645/02. In addition, certain regulations establish that exports are subordinated to the supply of the domestic market. In this way, Resolution No. 25/2006 of the Secretariat of Domestic Commerce, issued on October 11, 2006, imposes on each Argentine refining and/or retail company the obligation to supply all reasonable diesel fuel demand, by supplying certain minimum volumes (which at least should be volumes supplied the year before plus the positive correlation between diesel demand and GDP accumulated from the month reference). The mentioned commercialization should be done without altering or affecting the normal operation of the diesel market.

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Additionally, Rule No.168/04 requires companies intending to export LPG to first obtain an authorization from the Secretariat of Energy, by demonstrating that local demand was satisfied or that an offer to sell LPG to local demand has been made and rejected.

In January 2008, the Secretariat of Domestic Commerce issued Resolution No.14/2008, whereby the refining companies were instructed to optimize their production in order to obtain maximum volumes according to their capacity.

On January 26, 2012, the Secretariat of Domestic Commerce issued Resolution No. 6/2012 whereby (i) YPF and other four oil companies were required to sell diesel oil to public bus transportation companies at a price not higher than the retail price charged on its service station located, in general terms, nearest to the place of delivery of diesel fuel to each such transportation company, while maintaining both historic volumes and delivery conditions; and (ii) it created a price monitoring scheme of both the retail and the bulk markets to be implemented by the CNDC. YPF has appealed that resolution. On February 16, 2012, YPF filed with the CNDC an appeal against Resolution No. 6/2012, for submission to the Civil and Commercial Federal Court of Appeals of Buenos Aires city. Meanwhile, on March 2, 2012, YPF has challenged this Resolution and requested a preliminary injunction against its validity. YPF s preliminary injunction has been granted and the effects of the Resolution No. 6/2012 have been temporarily suspended, until the appeal is judicially solved. Against that preliminary injection, the Argentinian Federal Government presented an extraordinary federal appeal, which has not yet been served to YPF.

On March 13, 2012, YPF was notified of Resolution No. 17/2012, issued by the Argentine Secretariat of Domestic Commerce, pursuant to which YPF, Shell Compañía Argentina de Petróleo, S.A. and ESSO Petrolera Argentina S.R.L were ordered to supply jet fuel for domestic and international air transport at a price net of taxes not to exceed 2.7% of the price net of taxes of medium octane gasoline (not premium) offered at its closest service station to the relevant airport, while maintaining its existing supply logistics and its usual supply quantities. The abovementioned resolution benefits companies owning aircraft that operate in the field of commercial passenger or commercial passenger and cargo aviation which are registered under the Argentine National Aircraft Registry. According to a later clarification from the Secretary of Domestic Commerce, the beneficiaries of the measure adopted by this resolution are the following companies: Aerolíneas Argentinas, Andes Líneas Aéreas S.A., Austral Cielos del Sur, LAN Argentina S.A. and Sol S.A. Líneas Aéreas. In addition, in said resolution, the Argentine Secretariat of Domestic Commerce indicated that it considered convenient to implement a price surveillance system to be implemented by the CNDC. YPF has challenged such resolution, which will be reviewed by a court. The Civil and Commercial Federal Court granted the appeal filed by YPF with suspensive effect, consequently the effects of Resolution No. 17/2012 were suspended until the legality or illegality of the Resolution is solved. Subsequently, the Argentinian Federal Government filed a federal extraordinary appeal, and YPF answered it. To date, the court granted the extraordinary appeal but has not yet been submitted to the Supreme Court.

On August 31, 2012, YPF was notified of the judgment of the mentioned Court, which declared the nullity of Resolution No. 17/2012, based on the lack of jurisdiction of the Argentine Secretariat of Domestic Commerce to issue a measure of that nature.

Decree No. 1,189/2012 of the National Executive Power, dated July 17, 2012, established that the jurisdictions and entities of the National public Sector included in section 8, subsection a) of Law No. 24,156 (National Administration, formed by the central administration and the decentralized agencies including the social insurance institutions) must contract with YPF the provision of fuels and lubricants for the fleet of official cars, boats and aircrafts, except in those cases which have the prior authorization of the Chief of the Cabinet of Ministers.

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Dated February 3, 2015, the Argentine Republic Official Gazette published the text of Resolution No. 14/2015 passed by the Commission for Planning and Coordination of the Strategy for the National Plan of Investment in Hydrocarbons that created the Crude Oil Production Promotion Program for 2015 under which beneficiary companies are awarded an economic compensation, payable in pesos, for an amount equivalent to up to three U.S. dollars per barrel for the total production of each beneficiary company, provided that its quarterly production of crude oil is higher or equal to the production taken as basis for such program. Basis production is defined as the total production of crude oil by beneficiary companies corresponding to the fourth quarter of 2014, expressed in barrels per day. The beneficiary companies that have met the demands of all refineries authorized to operate in the country and direct part of their production to the foreign market may receive an additional economic compensation of two or three U.S. dollars for each barrel of exported crude oil, depending on the level of exported volume achieved.

Refining and Petroleum Plus Programs:

Decree No. 2,014/2008 of the Department of Federal Planning, Public Investment and Services of November 25, 2008, created the Refining Plus and the Petroleum Plus programs to encourage (a) the production of diesel fuel and gasoline and (b) the production of crude oil and the increase of reserves through new investments in exploration and production. The programs entitle refining companies that undertake the construction of a new refinery or the expansion of their refining and/or conversion capacity and production companies that increase their production and reserves within the scope of the program to receive export duty credits to be applied to exports withholdings. In order to be eligible for the benefits of both programs, companies plans must be approved by the Argentine Secretariat of Energy.

During February 2012, by Note No. 707/2012, supplemented by Note No. 800/2012, both issued by the Secretariat of Energy, YPF was notified that the benefits granted under the Refining and Petroleum Plus programs had been temporarily suspended. The effects of the suspension also apply to benefits accrued and not yet redeemed by YPF at the time of the issuance of the Notes. The reasons alleged for such suspension are that the programs had been created in a context where domestic prices were lower than prevailing prices and that the objectives of those programs had already been achieved. On March 16, 2012, YPF has challenged this temporary suspension.

Pursuant to Executive Order No. 1330/15 of July 6, 2015, the Government resolved to render ineffective the Petróleo Plus program, which had been created by Executive Order No. 2,014 of November 25, 2008.

Regulatory requirements established by Decree No. 1,277/2012:

On July 25, 2012, the executive decree of Law No. 26,741, Decree No. 1,277/2012, was published, creating the Regulation of the Hydrocarbons Sovereignty Regime in the Argentine Republic . Among other matters, the mentioned decree establishes: the creation of the National Plan of Investment in Hydrocarbons; the creation of the Commission for Planning and Coordination of the Strategy for the National Plan of Investment in Hydrocarbons (the Commission), which will elaborate on an annual basis, within the framework of the National Hydrocarbon Policy, the National Plan of Investment in Hydrocarbons; the National Registry of Investments in Hydrocarbons in which the companies undertaking activities of exploration, exploitation, refining, transport and commercialization of hydrocarbons and fuels will have to register; and the obligation for the registered companies to provide their Plan of Investments every year before September 30, including a detail of quantitative information in relation to the activities of exploration, exploitation, refining, transport and commercialization of hydrocarbons and fuels according to each company.

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Additionally, the mentioned companies will have to provide their plans in relation to the maintenance and increase of hydrocarbons reserves, including: a) an investment in exploration plan; b) an investment plan in primary hydrocarbons reserves recovery techniques; and c) an investment plan in secondary hydrocarbons reserves recovery techniques, which will be analyzed by the Commission; the Commission will adopt the promotion and coordination measures that may consider necessary for the development of new refineries in the National Territory, that may allow the growth in the local processing capacity in accordance with the aims and requirements of the National Plan of Investment in Hydrocarbons; in relation to prices, and accordingly to the Decree, for the purpose of granting reasonable commercial prices, the Commission will determine the criteria that shall govern the operations in the domestic market. In addition, the Commission will publish reference prices of each of the components of the costs and the reference prices for the sale of hydrocarbons and fuels, which will allow to cover the production costs attributable to the activity and to reach a reasonable margin of profit.

Not complying with the dispositions included in the Decree and supplementary rules may result in the following penalties: fine, admonition, suspension or deregistration from the registry included in section 50 of Law No. 17,319; the nullity or expiration of the concessions or permits. Moreover, the mentioned Decree abrogates the dispositions of the Decrees No. 1,055/89, 1,212/89 and 1,589/89 (the Deregulation Decrees) which set, among other matters, the right to the free disposition of hydrocarbon production. On December 29, 2015, the Executive Branch issued order No. 272/15 resolving the dissolution of the Commission and its Regulations, and also providing that the powers vested on the Commission were to be exercised by the Ministry of Energy and Mining.

Principal rules applicable to Natural Gas distribution:

The Group participates in natural gas distribution through Metrogas, an indirectly controlled company.

The natural gas distribution system is regulated by Law No. 24,076 (the Gas Act) that, together with Decree No. 1.738/92, issued by the Executive Power, others regulatory decrees, the specific bidding rules (Pliego), the Transfer Agreement and the License, establishes the Regulatory Framework for Metrogas business. The License, the Transfer Agreement and the regulations issued pursuant to the Gas Act establish requirements regarding the quality of service, capital investment, restrictions on transfer and encumbrance on assets, cross-ownership restrictions among producers, transporters and distributors, and Metrogas stock transfer.

The Gas Act and the License created ENARGAS as regulatory entity to administer and enforce the Gas Act and the applicable regulations. In this order, the tariffs for the gas distribution service were established by the License and are regulated by ENARGAS. ENARGAS jurisdiction extends to gas transportation, sale, storage and distribution. Its mandate under the Gas Law includes consumers protection, competition protection in gas offer and demand, and the promotion of long-term investments in the gas industry.

Gas distribution tariffs have been established in the License and are regulated by ENARGAS.

The Distribution License has authorized Metrogas to provide the gas distribution public service for a 35-year term (for which Metrogas may request al 10-year period extension at the end thereof subject to approval by ENARGAS) in its service area.

At the end of the 35 or 45-year period, as the case may be, the Gas Law requires a new competitive bidding to grant the license, for which, if it has performed its obligations, Metrogas will have the option to equal the best bid made to the Government by a third party. As a general rule, upon the termination of a License due to completion of its time-period, Metrogas will be entitled to a consideration equal to the value of the designated assets or to the amount paid by the winner bidder under a new call for bids, whichever is lower.

On March 26, 2014, within the framework of the process for renegotiating public services contracts provided by Law No. 25,561 and supplementary regulations, Metrogas signed a Letter of Understanding with the Public Services Contracts Renegotiation and Analysis Unit (the UNIREN) whereby a provisional tariff regime is established for the collection of higher revenues than those collected under ENARGAS Resolution No. I/2407 issued on November 27, 2012 which, in turn, had implemented a fixed amount per bill, differentiated by type of customer; such revenues had to be deposited in a trust created for the performance of the works.

The new Temporary Agreement, ratified by National Executive Order No. 445/2014 establishes an interim tariff regime effective as from April 1, 2014, consisting in the readjustment of tariffs and prices and with due regard to the necessary guidelines for service continuity and common criteria with the other distribution licensees, and to the tariff regulations, including changes in the gas price at the transportation entry point.

The Temporary Agreement further provides that it will include any transfer resulting from in tax (excluding income tax) regulations changes, as may be pending resolution, and also includes, among its provisions, a cost monitoring mechanism based on an exploitation cost and investment structure, as well as price indexes reflecting such costs which, under given premises, triggers a revision procedure whereby ENARGAS will evaluate the actual extent of variation in the Licensee s exploitation costs and investments, and decide if the distribution tariff needs to be adjusted.

As of December 31, 2015, Metrogas has submitted to ENARGAS three requests to increase its tariffs through the application of the Cost Monitoring Mechanism set forth in the Temporary Agreement. None of these requests has resulted in the adjustments of Distribution tariffs to allow for the increased costs afforded by Metrogas. Instead, a Temporary Financial Assistance has been approved by Energy Secretariat Resolution No. 263/2015.

The Temporary Agreement further provides that between its execution date and December 31, 2015 (expiration date of the Emergency Act) the National Government, through UNIREN, and the Licenses were required to reach an agreement related to the modalities, time periods and timing of the execution of the Memorandum of Agreement for Comprehensive Contractual Renegotiations. On November 3, 2015 an extension of the Emergency Act was approved until December 31, 2017.

On June 8, 2015 Energy Secretariat Resolution No. 263/2015 was published in the Argentine Official Gazette stating that the Energy Secretariat had approved a disbursement, as temporary financial assistance payable in ten subsequent installments, to Metrogas and the rest of natural gas distributors, effective on March 2015, with the purpose of funding expenses and investments associated with the normal operation of the natural gas distribution public service through networks and on account of the Comprehensive Tariff Review to be held in due time.

This Resolution provides that its beneficiaries shall use part of the funds received under each monthly installment to cancel debts due and payable until December 31, 2014 to natural gas producers and, further, that distributors may not accrue additional debt for natural gas purchases made as of the effective date of the Resolution.

In the case of Metrogas, ENARGAS has provided for an exceptional need of funds for 2015, which is disbursable on a monthly basis according to a specified schedule between March and December. In addition it has ordered that Metrogas shall use part of the temporary financial aid to cancel debts to producers payable as of December 31, 2014 in 36 equal and successive monthly installments, plus interest as from January 2015, using the current Banco Nación Average Active Interest Rate for Commercial Discount Transactions (Tasa Activa Promedio del Banco Nación para Operaciones de Descuentos Comercial) (2.05% monthly), with the installments to be payable from March 2015.

In addition, ENARGAS stated that distributors shall cancel invoices for gas purchases whose maturity occurs in 2015, providing for cancellation thereof at 30, 60 and 90 days in line with the collection of invoice payments from their clients.

As of the date of these consolidated financial statements, Metrogas has received seven of the ten installments on account of temporary economic assistance. In addition, it has executed payment agreements with most producers under Energy Secretariat Resolution No. 263/2015, subject to the availability of the amounts committed.

The real impact on Metrogas revenue levels and on costs will depend on a variable beyond its control: how users will reduce gas consumption, which will not only depend on the individual actions taken to achieve such reduction but also due to climate variables effects between the compared periods.

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Metrogas expects that during next year the financial condition will gradually recover with the implementation of the Temporary Agreement executed on March 26, 2014 with UNIREN or with a new Complementary Temporary Agreement. Additionally, a consensus with the National Government is intended to be reached through UNIREN in reference to the modalities, terms and opportunity of the execution of the Letter of Understanding for the Integral Contractual Renegotiation, in order to reestablish the economical-financial situation of Metrogas.

Notwithstanding the foregoing, the company may not guarantee that the above mentioned estimates will actually be implemented or that they will be implemented under the expected terms.

Additionally, if the conditions prevailing as of the date of these financial statements are maintained, the situation will continue deteriorating; therefore, Metrogas is analysing a series of measures to mitigate the impact of the financial situation, including, among others: to submit the claims referring to tariff increases (including transfer to municipal charge tariffs) to the Argentine authorities; to try to keep a strict cash management and expense control; to request additional capital contributions from shareholders; to modify payment conditions with the main suppliers and to obtain funding from third parties.

Regulatory Framework of the Electric Power Industry in the Argentine Republic:

Legal Framework: Law No. 24,065, passed in 1992 and governed by Executive Order No. 1,398/92, has established the current basic regulatory framework for the electricity sector (the Regulatory Framework). This Regulatory Framework is supplemented by the regulations of the National Secretariat of Energy (SE) for the generation and marketing of electric power, including the Resolution of the former Secretariat of Electric Energy No. 61/92, Procedures for the Scheduling of Operations, Load Dispatch and Price Calculation , with its supplementary and amending regulations.

The National Electricity Regulation Agency (Ente Nacional Regulador de la Electricidad , ENRE) is the agency that regulates, oversees and controls the electric power industry and, in such capacity, it is responsible for the enforcement of Law No. 24,065.

The technical dispatch, operation and economic organization of the Argentine Interconnection System (Sistema Argentino de Interconexion , SADI) and the Wholesale Electricity Market (Mercado Eléctrico Mayorista , MEM) is under the responsibility of CAMMESA. CAMMESA also acts as a collection agency for all MEM agents.

It is possible to underscore the following main supplementary and amending resolutions of the sector, taking into consideration the power generation business of YPF Energía Eléctrica S.A.:

- SE Resolution No. 146/2003: this resolution established the framework within which generators may request funding for major or extraordinary maintenance works with the goal of maintaining their units available. This funding may be repaid with the future profits of the generation business, and it may also be repaid in advance. Against this backdrop, YPF Energía Eléctrica, as the successor of the operations of the Power Plants of Tucumán and San Miguel de Tucumán, has requested funding for its plan for the maintenance and availability improvement of the plants in Tucumán, and has offered its Sale Settlements with No Expiration Date to Define (Liquidaciones de Venta sin Fecha de Vencimiento a Definir , LVFVD) for the advanced repayment of the funded amounts.

SE Resolution No. 406/2003: this resolution established the mechanism to set collection priorities among various remunerative items of the power generation plants. This set priorities for the collection of items related to variable costs and the collection of the power made available to the system, and finally, of amounts related to generation margins for the sales made in the Spot market as per the curve of contracts with Large Users registered between May and August 2004. LVFVDs were issued for the last ones and for such cases in which CAMMESA did not have a certain repayment date.

2008-2011 Generators Agreement: On November 25, 2010, the SE and the main electricity generator companies signed the Agreement for the Management and Operation of Projects, Increase of Power Generation Availability and Adjustment of Remuneration for 2008-2011 Generation (hereinafter, the Generators Agreement). This Generators Agreement was aimed at establishing the framework, conditions and undertakings that the parties should make to continue with the MEM adjustment process, to enable the entry of new generation to cover the increase in the demand for energy and power in such market, to determine a mechanism for the repayment of the consolidated debts of generators incurred between January 1, 2008, and December 31, 2011, and the acknowledgment of global remuneration for MEM Generator Agents adhering to the Generators Agreement. The Generators Agreement envisaged an increase in the remuneration for the Power Made Available by the adhering power generators and in the maximum values recognized for variable maintenance costs and other costs other than fuels. As per this agreement, YPF Energía Eléctrica, as the successor company in the operation of the plants in Complejo de Generación El Bracho , has credits with CAMMESA.

SE Resolution No. 95/2013: this resolution establishes a new remuneration scheme based on the items described below and classified in terms of size and type of generation technology used. The defined remunerative items pertain to: a) remuneration for fixed costs; b) remuneration for variable costs other than fuel; c) direct additional remuneration; and d) indirect additional remuneration, which shall be allocated to a trust for the development of electric power infrastructure works. It is necessary to accept the terms and conditions of the resolution to access such remunerations. YPF Energía Eléctrica has adhered to this system in August 9, 2013, back-dated to February 1, 2013. Among other matters governed by this resolution, it shall be stressed that it established that until the SE decides otherwise, generators and large users shall refrain from making new contracts and/or renewing existing contracts (except for contracts under the framework of SE Resolution No. 1,281/2006 Energy Plus and SE Resolution No. 220/2007, among others) as of the entry into force of the resolution. Furthermore, it establishes that as from the date of termination of existing contracts, large users shall begin to make their power purchases through the agency in charge of dispatch (CAMMESA). Similarly, it establishes that fuel supply contracts shall only be acknowledged as long as they are in force, and no new contracts may be made and existing contracts may not be renewed as from their termination dates.

SE Resolution No. 529/2014: this resolution replaces the remuneration scheme established by SE Resolution No. 95/2013, increasing the tariff schedule of the 4 remunerative concepts included by that resolution. In relation to the Fixed Costs establishes an increase related to the availability of each Generator Agent. Also incorporates a new remuneration scheme of the Non Recurrent Maintenance, which aims to the funding of mayor maintenance subject to the SE approval. This resolution will be applicable to economic transactions from February 2014 for generators that had adhered to SE Resolution No. 95/2013.

SE Resolution No. 482/2015: this resolution provides adjustments to the compensation scheme set forth in SE Resolution No. 529/2014, by increasing the tariff schedule of the five concepts provided for therein. In addition, it introduces a new specific contribution scheme known as Resources for 2015-2018 FONINVEMEM Investments (Recursos para Inversiones del FONINVEMEM 2015-2018) to be allocated to generators participating in the investment projects approved or to be approved by the Energy Secretariat, and a new incentive scheme for the Production of Energy and Operating Efficiency for the relevant generator agents therein included. The provisions of this resolution are retroactively applied to financial transactions made as of February 2015 for those generators who have adhered to SE Resolution No. 95/2013.

Executive Order No. 134/2015: in the light of the current electrical system condition, the National Executive has declared a Federal Electric Sector Emergency until December 31, 2017. This executive order instructs the Ministry of Energy and Mining to prepare and implement an action plan relative to the electric energy generation, transportation and distribution segments in order to adjust the quality and safety of energy supply and warrant the provision of the electricity in appropriate technical and economic conditions.

Other regulatory requirements:

Investment Promotion Regime for the Exploitation of Hydrocarbons - Decree No. 929/2013:
Decree No. 929/2013 provides the creation of an Investment Promotion Regime for the Exploitation of Hydrocarbons (the Promotional Regime), both conventional and unconventional, which will apply throughout the territory of the Republic of Argentina. Inclusion in the Promotional Regime may be applied for by subjects registered with the Hydrocarbon Investments National Register and holding hydrocarbon exploration permits and/or exploitation concessions and/or any third party associated and together with, such holders, provided they file with the Strategic Planning and Coordination Commission of the Hydrocarbon Investments Nation Plan created by Executive Order No.1.277/12 a Hydrocarbon Exploitation Investment Project (Proyecto de Inversión para la Explotación de Hidrocarburos) entailing a direct investment in foreign currency of at least US$ 1.000 million, computed as of the filing of the Hydrocarbon Exploitation Investment Project to be invested during the first five years of the Project (this amount was amended by the subsequent Law No. 27,007).

Among the benefits to subjects comprised by the Promotional Regime, the following are highlighted: i) they will be entitled, subject to the terms of Law No. 17.319 and as from the fifth successive year of actual execution of their respective Hydrocarbon Exploitation Investment Projects , to freely sell to foreign markets 20% of their production of liquid and gaseous hydrocarbons produced under the said Projects, with a 0% rate for export duties, should these be otherwise applicable; ii) they will be entitled to free availability of 100% of any foreign currency obtained from export of the hydrocarbons mentioned in the preceding item, provided that the approved Hydrocarbon Exploitation Investment Project implies the entry of foreign currency to the Argentine market of at least US$ 1,000 million and as mentioned hereinabove; iii) it is provided that, during periods where national production is not enough to meet domestic supply needs under the terms of section 6 of Law No. 17.319, subjects included In the Promotional Regime shall be entitled, as from the fifth year from approval and execution of their respective Hydrocarbon Exploitation Investment Projects , to obtain, in compensation for the percentage of liquid and gaseous hydrocarbons produced under such Projects available for export as mentioned herein above, an export price of not less than the reference export price, for whose determination the incidence of export duties otherwise applicable will not be computed.

In addition, the Executive Order creates the institute of Unconventional Hydrocarbon Exploitation , consisting in the extraction of liquid and/or gaseous hydrocarbons through unconventional stimulation techniques applied in fields located in shale gas or shale oil, tight sands, tight gas and tight oil, and coal bed methane geological rock formations and/or characterized, generally, by the presence of low- permeability rocks. In connection therewith, it has been provided that subjects holding hydrocarbon exploration permits and/or exploitation concessions included in the Promotional Regime will be entitled to apply for an Uncoventional Hydrocarbon Exploitation Concession . In addition, holders of Unconventional Hydrocarbon Exploitation Concessions who in turn are holders of an adjacent pre-existing exploitation concession, may apply for the merging of both areas into a sole unconventional area, provided that due evidence is given of the geological continuity of the relevant areas.

Repatriation of foreign exchange:
During October, 2011, Decree No. 1,722/2011 was published and became effective as from such date. The mentioned decree provides that total export collections from operations by producers of crude oil or its derivatives, natural gas and liquefied gas, and companies which aim to develop mining projects, must be liquidated in the single and free-exchange market in accordance with the provisions of Article No. 1 of Decree No. 2,581 of April 10, 1964 (see Decree No. 929/2013 above).

Price Information Regime

By Resolution No. 29/2014, the Secretariat of Commerce approved a Price Information Regime whereby all companies producing supplies and final goods with total annual sales in the domestic market exceeding the amount of 183 during 2013 must submit to the Secretariat a monthly report of current prices of all their products.

The same obligation falls upon all companies distributing and/or marketing supplies and final goods with total annual sales in the domestic market exceeding the amount of 250 in the same year.

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Likewise, Provision No. 6/2014 of the Under-Secretariat of Domestic Commerce created the Price Information Regime Information System (SIRIP) that will be available at the web site http://www.mecon.gov.ar/comercio interior.

New CNV Regulatory Framework

Through Resolution No. 622/2013 dated September 5, 2013, the Argentine Securities Commission (*Comisión Nacional de Valores* CNV) approved the Regulations (N.T. 2013) applicable to companies subject to this agency control, as provided for by the Capital Market Act No. 26,831, and Regulatory Decree No. 1,023 dated August 1, 2013. This Resolution superseded the former CNV Regulations (N.T. 2001 as amended) and the General Resolutions No. 615/2013 and No. 621/2013, as from the effective date of the Regulations (N.T. 2013).

New Argentine Civil and Commercial Code:

On August 1, 2015, the new Federal Civil and Commercial Code became effective. These new regulations, in addition to merging the Civil and Commercial Codes introduce details several news and amendments relative to Capacity, Obligations, Contracts, Contractual and Precontractual Civil Liability, Ownership, Co-ownership, Business Companies and Lapsing, among other legal institutes.

Transactions in the Forward Rosario Market (ROFEX):

As mentioned in Note 15.a) ii, YPF is licensed to operate as own settlement and clearance agent at the ROFEX. In this sense, during October 2015 YPF has acquired in ROFEX forward agreements whose underlying asset is the U.S. Dollar, with maturities occurring between February and May 2016.

12. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Group enters into operations and transactions with related parties according to general market conditions, which are part of the normal operation of the Group with respect to their purpose and conditions.

The information detailed in the tables below shows the balances with joint ventures and affiliated companies as of December 31, 2015, 2014 and 2013 and transactions with the mentioned parties for the fiscal years ended December 31, 2015, 2014 and 2013.

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	As of December 31, 2015			As of December 31, 2014			As of December 31, 2013			
	Other receivables	Trade receivables	Accounts payable	Other receivables	Trade receivables	Accounts payable	Other receivables		Trade receivables	Accounts payable
	Current	Current	Current	Current	Current	Current	Non current	Current	Current	Current
Joint ventures:										
Profertil S.A.	110	209	35	3	56	16		2	23	34
Compañía Mega S.A. (Mega)	12	481	381	7	528	40		7	489	28
Refinería del Norte S.A. (Refinor)		125	11		145	11		15	79	4
Bizoy S.A.	4				4			12		
	126	815	427	10	733	67		36	591	66
Affiliated companies:										
Central Dock Sud S.A.		194			89		484	5	109	2
YPF Gas S.A.(1)	33	98	44							
Oleoductos del Valle S.A.			56			33				8
Terminales Marítimas Patagónicas S.A.			44			28				19
Oleoducto Trasandino (Argentina) S.A.			2			2				1
Oleoducto Trasandino (Chile) S.A.	1									
Gasoducto del Pacífico (Argentina) S.A.	4		27	6		7				13
Oiltanking Ebytem S.A.			45			25				20
	38	292	218	6	89	95	484	5	109	63
	164	1,107	645	16	822	162	484	41	700	129

	2015			2014			2013		
	Revenues	Purchases and services	Interest income (loss), net	Revenues	Purchases and services	Interest income (loss), net	Revenues	Purchases and services	Interest income (loss), net
Joint ventures:									
Profertil S.A.	823	305		304	409		132	277	
	1,396	470		2,485	178		1,786	325	

Compañía Mega S.A. (Mega)									
Refinería del Norte S.A. (Refinor)	824	195		859	62		561	76	
Bizoy S.A.				13			24		
	3,043	970		3,661	649		2,503	678	
Affiliated companies:									
Central Dock Sud S.A.	322		8	222		7	179	70	17
YPF Gas S.A.[(1)]	231	35							
Pluspetrol Energy S.A.[(3)]							142	54	
Metrogas S.A.[(2)]							17		
Oleoductos del Valle S.A.		220			181			61	
Terminales Marítimas Patagónicas S.A.		215		1	190		1	139	
Oleoducto Trasandino (Argentina) S.A.		20			17			12	
Gasoducto del Pacífico (Argentina) S.A.		113			85			60	
Oiltanking Ebytem S.A.		200			147			102	
	553	803	8	223	620	7	339	498	17
Others								1	
								1	
	3,596	1,773	8	3,884	1,269	7	2,842	1,177	17

(1) Disclosed balances and transactions since the date of the acquisition of associates (see Note 2).
(2) Disclosed balances and transactions until take over date (see Note 2).
(3) Disclosed balances and transactions until spin-off date (see Note 2).

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Additionally, in the normal course of business, and taking into consideration that YPF is the main oil and gas company in Argentina, the Group´s client/suppliers portfolio encompasses both private sector entities as well as national, provincial and municipal public sector entities. As required by IAS 24 Related party disclosures , among the major transactions above mentioned the most important are:

CAMMESA: the provision of fuel oil, which is destined to thermal power plants, and selling and purchases of energy (the operations of sale and purchase for fiscal year ended on December 31, 2015 amounted to 12,079 and 1,460, respectively, and on December 31, 2014 amounted to 7,816 and 1,121, respectively, while the net balance as of December 31, 2015, 2014 and 2013 was credit 1,960, 1,010 and 455 respectively);

ENARSA: rendering of regasification service in the regasification projects of liquified natural gas in Escobar and Bahía Blanca and the purchase of natural gas, imported by ENARSA from the Republic of Bolivia and crude oil (the operations for the fiscal year ended December 31, 2015, amounted to 1,635 and 1,141, respectively, and on December 31, 2014 amounted to 1,507 and 476, respectively, and on December 31, 2013 amounted to 1,015 and 1,107, respectively; while the net balance as of December 31, 2015 was debt 135, and December 31, 2014 and 2013 was a credit of 192 and 430, respectively);

Aerolíneas Argentinas S.A. and Austral Líneas Aéreas Cielos del Sur S.A.: the provision of jet fuel (the operations for the fiscal year ended on December 31, 2015, 2014 and 2013, amounted to 2,178, 2,676 and 1,495, respectively, while the net balance as of December 31, 2015, 2014 and 2013 was credit of 255, 183 and 104, respectively);

Ministry of Energy and Mining: the benefits of the incentive scheme for the Additional Injection of natural gas (the operations for the for the fiscal year ended on December 31, 2015, 2014 and 2013, amounted to 12,345, 7,762 and 4,289 respectively, while the net balance as of December 31, 2015, 2014 and 2013 was credit 9,859, 3,390 and 1,787, respectively) and for the crude oil production incentive program (the operations for the fiscal year ended on December 31, 2015 amounted to 1,988, all of them outstanding as of the closing date of this period);

Argentine Secretariat of Domestic Commerce: the compensation for providing gas oil to public transport of passengers at a differential price (operations for the fiscal year ended on December 31, 2015, 2014 and 2013, amounted to 3,746, 3,763 and 2,208, respectively, while the net balance for the fiscal year ended on December 31, 2015, 2014 and 2013 was credit 412, 244 and 116, respectively);

Energy Secretariat: temporary economic assistance to Metrogas (the operations for the fiscal year ended on December 31, 2015 amounted to 711, while the net balance as of December 31, 2015 was credit 149);

Industry Secretariat: incentive for domestic manufacturing of capital goods, for the benefit of A-Evangelista S.A. (the operations for the fiscal year ended on December 31, 2015, 2014 and 2013, amounted to 621, 233 and 169 respectively, while the net balance as of December 31, 2015, 2014 and 2013 was credit 27, 15 and

11, respectively).

Such transactions are generally based on medium-term agreements and are provided according to general market or regulatory conditions, as applicable.

Additionally, the Group has entered into certain financing and insurance transactions with entities related to the national public sector, as defined in IAS 24. Such transactions consist of certain financial transactions that are described in Note 6.j) of these financial statements, and transactions with Nación Seguros S.A. related to certain insurance policies contracts, and in connection therewith, to the reimbursement from the insurance coverage for the incident mentioned in Note 11.b.

Furthermore, in relation to the investment agreement signed between YPF and Chevron subsidiaries, YPF has an indirect non-controlling interest in CHNC with which YPF carries out transactions in connection with the above mentioned investment agreement (see Note 11.c).

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The table below discloses the compensation for the Company s key management personnel, including members of the Board of Directors and vice presidents (managers with executive functions appointed by the Board of Directors), for the fiscal year ended December 31, 2015, 2014 and 2013:

	2015 [1]	**2014** [1]	**2013** [1]
Short-term employee benefits [2]	158	112	67
Share-based benefits	40	48	29
Post-retirement benefits	6	4	3
Termination benefits	5		
	209	164	99

(1) Includes the compensation for YPF s key management personnel which developed their functions during the mentioned periods.
(2) Does not include Social Security contributions for 55, 57 and 29.

13. EMPLOYEE BENEFIT PLANS AND SHARE-BASED PAYMENTS

Note 1.b.10 describes the main characteristics and accounting treatment for benefit plans implemented by the Group. The charges recognized during the fiscal year ended on December 31, 2015, 2014 and 2013 are as follows.

i. Retirement plan:

The total charges recognized under the Retirement Plan amounted to approximately 60, 49 and 42 for the years ended December 31, 2015, 2014 and 2013, respectively.

ii. Performance Bonus Programs and Performance evaluation:

The amount charged to expense related to the Performance Bonus Programs was 1,020, 781 and 466 for the years ended December 31, 2015, 2014 and 2013, respectively.

iii. Share-based benefit plan :

During the fiscal year ended December 31, 2015, 2014 and 2013, the Company has repurchased 382,985, 634,204 and 1,232,362 treasury shares for an amount of 120, 200 and 120, respectively, in order to comply with the share-based plans. The cost of such repurchases is reflected in the shareholders equity under the name of Treasury shares acquisition cost , while the face value and the adjustment resulting from the monetary restatement carried out in accordance with the Previous Accounting Principles have been reclassified from the accounts Subscribed Capital and Capital Adjustment to the accounts Treasury shares and Treasury shares comprehensive adjustment respectively.

The amount charged to expense in relation with the share-based plans, which are disclosed according to their nature, amounted to 124, 80 and 43 for the fiscal years ended December 31 2015, 2014 and 2013, respectively.

Information related to the evolution of the quantity of shares, of the plans at the end of the years ended on December 31, 2015, 2014 and 2013 is as follows:

Plan 2013-2015

	2015	2014	2013
Amount at the beginning of the year	695,015	1,289,841	
- Granted			1,769,015
- Settled	(503,535)	(563,754)	(479,174)
- Expired	(2,987)	(31,072)	
Amount at end of year[(1)]	188,493	695,015	1,289,841
Expense recognized during the year	34	53	43
Fair value of shares on grant date (in dollars)	14.75	14.75	14.75

(1) The average remaining life of the plan is 7 months as of December 31, 2015, between 10 and 22 months as of December 31, 2014 and between 10 and 34 months as of December 31, 2013.

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Plan 2014-2016

	2015	2014
Amount at the beginning of the year	356,054	
- Granted		356,054
- Settled	(118,927)	
- Expired	(2,997)	
Amount at end of year (1)	234,130	356,054
Expense recognized during the year	53	27
Fair value of shares on grant date (in dollars)	33.41	33.41

(1) The average remaining life of the plan is between 10 and 22 months as of December 31, 2015 and between 10 and 30 months as of December 31, 2014.

Plan 2015-2017

	2015
Amount at the beginning of the year	
- Granted	619,060
- Settled	(888)
- Expired	(16,093)
Amount at end of year (1)	602,079
Expense recognized during the year	37
Fair value of shares on grant date (in dollars)	19.31

(1) The average remaining life of the plan is between 7 and 31 months as of December 31, 2015.

iv. Pension Plans and other Post-retirement and Post-employment benefits of YPF Holdings Inc.:

Following is disclosed the information about pension plans and other obligations of YPF Holdings Inc. The last actuarial evaluation for the plans mentioned above was made as of December 31, 2015.

Defined-benefit obligations

	2015	2014	2013
Present value of obligations	279	221	190
Fair value of assets			
Deferred actuarial losses			

Recognized net liabilities	279	221	190

Changes in the fair value of the defined-benefit obligations

	2015	2014	2013
Liabilities at the beginning of the year	221	190	152
Translation differences	73	81	57
Service costs			
Interest costs	10	5	3
Actuarial gains	(6)	(25)	(6)
Benefits paid, settlements and amendments	(19)	(30)	(16)
Liabilities at the end of the year	279	221	190

Changes in the fair value of the plan assets

	2015	2014	2013
Fair value of assets at the beginning of the year			
Employer and employees contributions	19	30	16
Benefits paid and settlements	(19)	(30)	(16)
Total recognized as expense of the year			

Amounts recognized in the Statement of Comprehensive Income

	(Loss) Income		
	2015	2014	2013
Service costs			
Interest costs	(10)	(5)	(3)
Gains (Losses) on settlements and amendments			
Total recognized as expense of the year	(10)	(5)	(3)

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Amounts recognized in Other Comprehensive Income

	(Loss) Income		
	2015	2014	2013
Actuarial gains, net	6	25	6
Total recognized in Other Comprehensive Income	6	25	6

Actuarial assumptions

	2015	2014	2013
Discount rate	5%	5%	3.25 3.9%
Expected return on assets	N/A	N/A	N/A
Expected increase on salaries	N/A	N/A	N/A

Expected employer s contributions and estimated future benefit payments for the outstanding plans are as follows:

Expected employer s contributions during 2016	27
Estimated future benefit payments are as follows:	
-2017	26
-2018	25
-2019	24
-2020	22
-2021 2025	90

The weighted average duration used in the estimation of future payments was between 6.8 and 7.4.

YPF Holdings Inc. has performed a sensitivity analysis related to variations of 1% in the discount rate and in the trend of medical costs for the mentioned plans, without having, such changes, a significant effect in the liability recognized or net income for the fiscal year.

For additional information about other existing benefit plans, see Note 1.b.10.

14. OPERATING LEASES

As of December 31, 2015 the main agreements in which the Group is a lessee are:

Lease of facilities equipment and production equipment in fields, and natural gas compression equipment units under agreements with an average three-year effective term with a renewal option of one additional year, for which contingent installments are computed based on a unit of use rate (pesos per hour/day of use).

Lease of vessels and barges for hydrocarbon transportation under agreements with an average effective term of 5 years for which contingent installments are computed based on a unit of use rate (pesos per hour/day of use).

Leases of lands for the installation and operation of service stations under agreements with an average term of approximately 10 years, for which contingent installments are computed on the basis of a rate by unit of estimate fuel sales.

Charges for the above mentioned agreements for fiscal years ended December 31, 2015, 2014 and 2013 amounted to approximately 7,364, 5,438 and 3,520, respectively, with 746, 1,737 and 1,493 corresponding to minimum payments, and 6,618, 3,701 and 3,027 to contingent installments They have been allocated to Lease of property and equipment and Contract for works and services .

As of December 31, 2015, future estimate payments related to these agreements are as shown below

	Up to 1 year	From 1 to 5 years	Following the sixth year
Future estimate payments	7,929	14,120	332

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15. INFORMATION REQUIRED BY REGULATORY AUTHORITIES

a) CNV General Resolution No. 622

I. Pursuant to section 1, Chapter III, Title IV of such resolution, there follows a detail of the notes to the consolidated financial statements containing information required under the Resolution in the form of exhibits.

Exhibit A	Fixed Assets	Note 6.b) Fixed Assets
Exhibit B	Intangible assets	Note 6.a) Intangible assets
Exhibit C	Investments in companies	Note 16 Investments in companies
Exhibit D	Other investments	Note 5 Financial instrument by category
Exhibit E	Provisions	Note 6.f) Trade receivables
		Note 6.e) Other receivables
		Note 6.c) Investments in companies
		Note 6.b) Fixed Assets
		Note 6.h) Provisions
Exhibit F	Cost of goods sold and services rendered	Note 6.m) Cost of sales
Exhibit G	Assets and liabilities in foreign currency	Note 18 Assets and liabilities in currencies other than the Argentine peso

II. On March 18, 2015, the Company was registered with the CNV under the category Settlement and Clearing Agent and Trading Agent Own account , record No. 549. Considering the Company s business, and the CNV Rules and its Interpretative Criterion No. 55, the Company shall not, under any circumstance, offer brokerage services to third parties for transactions in markets under the jurisdiction of the CNV and also it shall not open operating accounts to third parties to issue orders and trade in markets under the jurisdiction of the CNV.

Besides, in accordance with the provisions of Section VI, Chapter II, Title VII of the CNV Rules and its Interpretative Criterion No. 55, the Company s equity exceeds the minimum required equity under such rules, which is 15, while the minimum required counterparty capital, which is 3, is comprised of 11,618,762 units of the mutual fund known as

Fondo Común de Inversión Compass Ahorro Clase B, with settlement upon redemption in 24 hours; the Company s units total value as of December 31, 2015 amounted to 19.

b) Required Information by General Resolution No. 629

Due to General Resolution No. 629 of the CNV, the Company informs that supporting documentation of Company s operations, which is not in Company s headquarters, is stored in the following companies:

Adea S.A. located in Barn 3 Route 36, Km. 31.5 Florencio Varela Province of Buenos Aires.

File S.R.L., located in Panamericana and R.S. Peña Blanco Escalada Luján de Cuyo Province of Mendoza.

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16. INVESTMENTS IN COMPANIES

	Information of the issuer									
	Description of the Securities					Last Financial Statements Available				
l Issuer	Class	Face Value	Amount	Main Business	Registered Address	Date	Capital stock	Results	Equity	Ho
d companies:										
national S.A.[7]	Common	Bs. 100	66,897	Investment	La Plata 19, Santa Cruz de la Sierra, República de Bolivia	12-31-15	13	1	20	
ings Inc.[7]	Common	US$ 0.01	810,614	Investment and finance	10333 Richmond Avenue I, Suite 1050, TX, U.S.A.	12-31-15	10,529	(571)	(3,482)	
de Estaciones S.A.	Common	$ 1	163,701,747	Commercial management of YPF s gas stations	Macacha Güemes 515, Buenos Aires, Argentina	12-31-15	164	399	596	
lista S.A.	Common	$ 1	307,095,088	Engineering and construction services	Macacha Güemes 515, Buenos Aires, Argentina	12-31-15	307	263	789	
cios Petroleros	Common	$ 1	50,000	Wells perforation and/or reparation services	Macacha Güemes 515, Buenos Aires, Argentina	12-31-15	[8]	65	77	
rsora Energética	Common	$ 1	97,239,000	Investment	Macacha Güemes 515, Buenos Aires, Argentina	12-31-15	97	(583)	(1,153)	
gía Eléctrica	Common	$ 1	30,006,540	Exploration, development, industrialization and marketing of hydrocarbons, and generation,	Macacha Güemes 515, Buenos Aires, Argentina	12-31-15	30	623	623	

					transportation and marketing of electric power					
e S.A.[9]	Common			50,968,649	Lubricants and aviation fuels trading and hydrocarbons research and exploration	Villarica 322; Módulo B1, Qilicura, Santiago	12-31-15	593	(102)	1,042
ología S.A.	Common	$	1	234,291,000	Investigation, development, production and commercialization of technologies, knowledge, goods and services	Macacha Güemes 515, Buenos Aires, Argentina	12-31-15	459	65	604
pe B.V.[7]	Common	US$	0.01	15,660,437,309	Investment and finance	Prins Bernardplein 200, 1097 JB, Amsterdam, Holanda	12-31-15	2,034	88	2,288
gentina t S.à r.l.[7]	Common	US$	1	20,001	Investment	13-15, Avenue de la Lierté, L-1931, Luxemburgo	09-30-15	[8]	[8]	3,204
gentina on[7]	Common	US$	1	10,000,001	Investment	Boundary Hall, Cricket Square P.O. Box 1111 George Town, Grand Cayman, Cayman Islands KY1-1102	09-30-15	94	[8]	278
rolera S.A.[7]	Common	$	1	634,284,566	Exploration, extraction, exploitation, storage, transportation, industrialization and marketing of hydrocarbons, as well as other operations related	Tucumán 1, P. 12, Buenos Aires, Argentina	12-31-15	634	99	464

thereto.

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	12-31-2015											
	Description of the Securities						Information of the issuer					
								Last Financial Statements Ava				
	Class	Face Value	Amount	Book value(3)	Cost(2)	Main Business	Registered Address	Date	Capital stock	Results	Equit
	Common	$ 1	244,246,140	1,277		Separation, fractionation and transportation of natural gas liquids	San Martín 344, P. 10º, Buenos Aires, Argentina	09-30-15	643	551	1,61
	Common	$ 1	391,291,320	1,452		Production and marketing of fertilizers	Alicia Moreau de Justo 740, P. 3, Buenos Aires, Argentina	09-30-15	783	(147)	81
	Common	$ 1	45,803,655	405		Refining	Maipú 1, P. 2º, Buenos Aires, Argentina	09-30-15	92	(75)	79
				3,134							
	Common	$ 10	4,072,749	126(1)		Oil transportation by pipeline	Florida 1, P. 10º, Buenos Aires, Argentina	12-31-15	110	51	34
A.	Common	$ 10	476,034	70		Oil storage and shipment	Av. Leandro N. Alem 1180, P. 11º, Buenos	09-30-15	14	5	21

								Aires, Argentina				
	Common	$ 10	351,167	150		Hydrocarbon transportation and storage		Terminal Marítima Puerto Rosales Provincia de Buenos Aires, Argentina.	12-31-15	12	99	13
rgentina) S.A.												
	Preferred	$ 1	15,579,578	23		Gas transportation by pipeline		San Martín 323, P.13°, Buenos Aires, Argentina	12-31-15	156	54	22
	Common	$ 0.01	11,869,095,145	152	136	Electric power generation and bulk marketing		Pasaje Ingeniero Butty 220, P.16°, Buenos Aires, Argentina	09-30-15	1,231	(78)	1,06
	Common	$ 1	355,270,303	484	445	Investment and finance		Pasaje Ingeniero Butty 220, P.16°, Buenos Aires, Argentina	09-30-15	829	(54)	78
gentina) S.A.												
	Preferred	$ 1	12,135,167	25		Oil transportation by pipeline		Macacha Güemes 515, P.3º, Buenos Aires, Argentina	09-30-15	34	6	6
				220	135							
				1,250	716							
				4,384	716							

(1) Holding in shareholder´s equity, net of intercompany profits
(2) Cost net of cash dividends and stock redemption
(3) Holding in shareholders equity plus adjustments to conform to YPF accounting methods
(4) Includes Compañía Minera de Argentina S.A., Gasoducto del Pacífico (Cayman) Ltd., A&C Pipeline Holding Company, Poligás Luján S.A.C.I.,Oleoducto Transandino (Chile) S.A., YPF Services USA Corp., Bizoy S.A., Civeny S.A., Bioceres S.A., YPF Perú S.A.C., YPF Brasil Comercio Derivado de Petróleo Ltda, Wokler Investment S.A., YPF Colombia S.A.S., Miwen S.A., Eleran Inversiones 2011 S.A.U., Lestery S.A., YSUR Argentina Holdings S.à r.l., Compañía de Inversiones Mineras S.A., YPF Gas S.A. and Energía Andina S.A.
(5) Additionally, the Company has a 29.99% indirect holding in capital stock through Inversora Dock Sud S.A.
(6) As stipulated by shareholders agreement, joint control is held in this company by shareholders.
(7) The U.S. dollar has been defined as the functional currency of this company.
(8) No value is disclosed as the carrying value is less than 1.
(9) The Chilean peso has been defined as functional currency for this company.

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17. JOINT OPERATION AND OTHER EXPLORATION AND PRODUCTION AGREEMENTS

As of December 31, 2015, the main exploration and production joint operations and other agreements in which the Group participates are the following:

Name and Location	Ownership Interest	Operator
Acambuco *Salta*	22.50%	Pan American Energy LLC
Aguada Pichana *Neuquén*	27.27%	Total Austral S.A.
Aguaragüe *Salta*	53.00%	Tecpetrol S.A.
CAM-2/A SUR *Tierra del Fuego*	50.00%	Enap Sipetrol Argentina S.A.
Campamento Central / Cañadón Perdido *Chubut*	50.00%	YPF S.A.
Consorcio CNQ 7/A *La Pampa y Mendoza*	50.00%	Pluspetrol Energy S.A.
El Tordillo *Chubut*	12.20%	Tecpetrol S.A.
La Tapera y Puesto Quiroga *Chubut*	12.20%	Tecpetrol S.A.
Lindero Atravesado *Neuquén*	37.50%	Pan American Energy LLC
Llancanelo *Mendoza*	51.00%	YPF S.A.
Magallanes *Santa Cruz, Tierra del Fuego y Plataforma Continental Nacional*	50.00%	Enap Sipetrol Argentina S.A.
Palmar Largo *Formosa y Salta*	30.00%	Pluspetrol S.A.
Loma Campana *Neuquén y Mendoza*	50.00%	YPF S.A.

Ramos *Salta*		42.00%	Pluspetrol Energy S.A.
Rincón del Mangrullo *Neuquén*		50.00%	YPF S.A.
San Roque *Neuquén*		34.11%	Total Austral S.A.
Tierra del Fuego *Tierra del Fuego*		100.00%	Petrolera L.F. Company S.R.L.
Yacimiento La Ventana *Mendoza*	Río Tunuyán	70.00%	YPF S.A.
Zampal Oeste *Mendoza*		70.00%	YPF S.A.
Narambuena *Neuquén*		50.00%	YPF S.A.
La Amarga Chica *Neuquén*		50.00%	YPF S.A.
Neptuno *U.S.A.*		15.00%	BHPB Pet (Deepwater) Inc.

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18. ASSETS AND LIABILITIES IN CURRENCIES OTHER THAN THE ARGENTINE PESO

	2015			2014			2013		
	Amount in currencies other than the Argentine peso	Exchange rate (1)	Total	Amount in currencies other than the Argentine peso	Exchange rate (1)	Total	Amount in currencies other than the Argentine peso	Exchange rate (1)	Total
Noncurrent Assets									
Other receivables									
US Dollar	46	12.94	595	73	8.45	617	319	6.48	2,067
Real	10	3.31	33	6	3.2	19	4	2.77	11
Trade receivables									
Real				5	3.2	16			
Total noncurrent assets			628			652			2,078
Current Assets									
Trade receivables									
US Dollar	307	12.94	3,973	341	8.45	2,881	263	6.48	1,704
Chilean peso	16,971	0.02	339	11,043	0.01	110	8,688	0.01	87
Real	15	3.31	50	24	3.2	77	21	2.77	58
Other receivables									
US Dollar	407	12.94	5,267	473	8.45	3,997	502	6.48	3,253
Euro	6	14.07	84	3	10.26	31	3	8.96	27
Real	7	3.31	23	3	3.2	10			
Chilean peso	27	0.02	1	4,344	0.01	43	1,087	0.01	11
Yens	119	0.11	13						
Uruguayan pesos							34	0.31	11
Cash and cash equivalents									
US Dollar	1,009	12.94	13,056	647	8.45	5,467	649	6.48	4,205
Chilean peso	502	0.02	10				189	0.01	2
Uruguayan pesos							6	0.31	2
Real	4	3.31	13				4	2.77	11
Total current assets			22,829			12,616			9,371
Total assets			23,457			13,268			11,449
Noncurrent Liabilities									

Provisions									
US Dollar	2,774	13.04	36,173	2,785	8.55	23,812	2,095	6.52	13,660
Taxes payable									
US Dollar							16	6.52	104
Loans									
US Dollar	4,403	13.04	57,417	2,845	8.55	24,325	1,980	6.52	12,910
Real	4	3.35	13						
Salaries and social security									
US Dollar							1	6.52	7
Accounts payable									
US Dollar	37	13.04	482	55	8.55	470	60	6.52	391
Uruguayan pesos							8	0.35	3
Total noncurrent liabilities			94,085			48,607			27,075
Current Liabilities									
Provisions									
US Dollar	80	13.04	1,043	177	8.55	1,513	123	6.52	802
Taxes payable									
Real	6	3.31	20						
Chilean peso	1,077	0.02	22						
Loans									
US Dollar	1,543	13.04	20,121	919	8.55	7,860	985	6.52	6,421
Real	35	3.35	117	16	3.2	51	13	2.79	36
Salaries and social security									
US Dollar	7	13.04	91	3	8.55	26	2	6.52	13
Real	2	3.35	7	2	3.2	6	2	2.79	6
Chilean peso	423	0.02	8						
Uruguayan pesos							10	0.35	4
Accounts payable									
US Dollar	1,877	13.04	24,476	2,015	8.55	17,228	1,776	6.52	11,580
Euro	26	14.21	369	24	10.41	248	186	9	1,674
Chilean peso	1,283	0.02	26	6,387	0.01	64	6,629	0.01	66
Real	14	3.35	47	11	3.2	35	6	2.79	17
Yens	29	0.11	3						
Uruguayan pesos							27	0.35	9
Bolivian pesos							23	0.96	22
Total current liabilities			46,350			27,031			20,650
Total liabilities			140,435			75,638			47,725

(1) Exchange rates in pesos as of December 31 2015, 2014 and 2013 according to Banco Nación Argentina.

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19. SUBSEQUENT EVENTS

Pursuant to Administrative Decision No. 1/2016, published on January 8, 2016 in the Argentine Official Gazette, the Executive Branch granted a 10-year concession extension for hydrocarbon exploitation in the Magallanes area, held by YPF and belonging to Marina Austral Basin, as from November 14, 2017. The extension was granted for the portion under the National Government s concession jurisdiction, according to Section 35 of Hydrocarbons Law No. 17,139.

On January 14, 2016 YPF entered into two Agreements (the Agreements) with American Energy Acquisitions LLC (AEAQ), an affiliate of American Energy Partners (AELP) whereby YPF and AEAQ agreed on the main terms and conditions for (i) the joint development of a shale oil and gas pilot in Bajada de Añelo area and (ii) the exploratory delineation in the southern region of Cerro Arena area, both located in the Province of Neuquén.

The Agreements provide for an exclusivity period for the negotiation and execution of several final agreements, whose effectiveness shall be subject to the fulfillment of precedent conditions.

As of the date of the issuance of these consolidated financial statements, there are no other significant subsequent events that require adjustments or disclosure in the financial statements of the Group as of December 31, 2015 which were not already considered in such consolidated financial statements according to IFRS.

These financial statements were approved by the Board of Directors meeting and authorized to be issued on March 3, 2016 and will be considered by the next annual Shareholders meeting. In addition for purpose of its presentation to the Securities and Exchange Commission of the United States of America, the Note 20 Supplemental information on Oil and Gas producing activities (unaudited) has been included.

20. SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

The following information is presented in accordance with ASC No. 932 Extractive Activities Oil and Gas , as amended by ASU 2010 03 Oil and Gas Reserves. Estimation and Disclosures , issued by FASB in January 2010.

Oil and gas reserves

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible (from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations) prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within reasonable time. In some cases, substantial investments in new wells and related facilities may be required to recover proved reserves.

Information on net proved reserves as of December 31, 2015, 2014 and 2013 was calculated in accordance with the SEC rules and Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 932, as amended. Accordingly, crude oil prices used to determine reserves were calculated for each month, for crude oils of different quality produced by the Company. Consequently, for calculation of our net proved reserves as of

December 31, 2015 the Company considered the realized prices for crude oil in the domestic market (which are higher than those that had prevailed in the international market), taking into account the unweighted average price for each month within the twelve-month period ended December 31, 2015. Additionally, since there are no benchmark market natural gas prices available in Argentina, the Company used average realized gas prices during the year to determine its gas reserves.

Notwithstanding the foregoing, commodity prices declined significantly since 2014. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Our oil and natural gas reserves are estimates, and Risks Relating to the Argentine Oil and Gas Business and Our Business Our reserves and production are likely to decline.

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Net reserves are defined as that portion of the gross reserves attributable to the interest of YPF after deducting interests owned by third parties. In determining net reserves, the Company excludes from its reported reserves royalties due to others, whether payable in cash or in kind, where the royalty owner has a direct interest in the underlying production and is able to make lifting and sales arrangements independently. By contrast, to the extent that royalty payments required to be made to a third party, whether payable in cash or in kind, are a financial obligation, or are substantially equivalent to a production or severance tax, the related reserves are not excluded from the reported reserves despite the fact that such payments are referred to as royalties under local rules. The same methodology is followed in reporting our production amounts.

Gas reserves exclude the gaseous equivalent of liquids expected to be removed from the gas on concessions and leases, at field facilities and at gas processing plants. These liquids are included in net proved reserves of natural gas liquids.

Technology used in establishing proved reserves additions in 2015

Company s estimated proved reserves are based on estimates generated through the integration of available and appropriate data, utilizing well-established technologies that have been demonstrated in the field to yield repeatable and consistent results. Data used in these integrated assessments include information obtained directly from the subsurface via wellbore, such as well logs, reservoir core samples, fluid samples, static and dynamic pressure information, production test data, and surveillance and performance information. The data utilized also include subsurface information obtained through indirect measurements, including high quality 2-D and 3-D-seismic data, calibrated with available well control. Where applicable, geological outcrops information was also utilized. The tools used to interpret and integrate all these data included both proprietary and commercial software for reservoir modeling, simulation and data analysis. In some circumstances, where appropriate analog reservoir models are available, reservoir parameters from these analog models were used to increase the reliability of our reserves estimates.

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Changes in Company s Estimated Net Proved Reserves

The table below sets forth information regarding changes in Company s net proved reserves during 2015, 2014 and 2013, by hydrocarbon product.

Oil and Condensate	2015 Worldwide	2015 Argentina	2015 Other foreign	2014 Worldwide	2014 Argentina	2014 Other foreign	2013 Worldwide	2013 Argentina	2013 Other foreign
				(Millions of barrels)					
Consolidated entities									
At January 1,	**601**	**600**	**1**	**552**	**551**	**1**	**521**	**520**	**1**
Developed	447	446	1	422	421	1	397	397	*
Undeveloped	154	154		130	130		124	123	*
Revisions of previous estimates (1)	31	31	*	74	73	1	83	83	*
Extensions and discoveries	44	44		40	40		26	26	
Improved recovery	23	23		16	16		11	11	
Purchase of minerals in place				17	17		1	1	
Sale of minerals in place	(*)	(*)		(9)	(9)		(5)	(5)	
Production for the year (2)	(91)	(91)	(*)	(89)	(89)	(*)	(84)	(84)	(*)
At December 31, (3)	**608**	**607**	**1**	**601**	**600**	**1**	**552**	**551**	**1**
Developed	440	439	1	447	446	1	422	421	1
Undeveloped	168	168		154	154		130	130	
Equity-accounted entities									
At January 1,							*	*	
Developed							*	*	
Undeveloped									
Revisions of previous estimates (1)									
Extensions and discoveries									
Improved recovery									
Purchase of minerals in place									
Sale of minerals in place							(*)	(*)	
Production for the year (2)							(*)	(*)	
At December 31, (3)									
Developed									
Undeveloped									

	2015	2014	2013

Oil and Condensate	Worldwide	Argentina	Other foreign	Worldwide	Argentina	Other foreign	Worldwide	Argentina	Other foreign
				(Millions of barrels)					
Consolidated and Equity-accounted entities									
At January 1,									
Developed	447	446	1	422	421	1	397	397	*
Undeveloped	154	154		130	130		124	123	*
Total	**601**	**600**	**1**	**552**	**551**	**1**	**521**	**520**	**1**
At December 31,									
Developed	440	439	1	447	446	1	422	421	1
Undeveloped	168	168		154	154		130	130	
Total	**608**	**607**	**1**	**601**	**600**	**1**	**552**	**551**	**1**

* Not material (less than 1)

(1) Revisions in estimates of reserves are performed at least once a year. Revision of oil and gas reserves is considered prospectively in the calculation of depreciation.

(2) Crude oil production for the years 2015, 2014 and 2013 includes an estimated approximately 13, 13 and 12 mmbbl, respectively, in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax. Equity-accounted entities production of crude oil in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, is not material.

(3) Proved crude oil reserves of consolidated entities as of December 31, 2015, 2014 and 2013 include an estimated approximately 88, 91 and 82 mmbbl, respectively, in respect of royalty payments which, as described above, are a financial obligation, or are substantially equivalent to a production or similar tax. Proved crude oil reserves of equity accounted entities in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, are not material.

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Natural Gas Liquids	2015 Worldwide	2015 Argentina	2015 Other foreign	2014 Worldwide	2014 Argentina	2014 Other foreign	2013 Worldwide	2013 Argentina	2013 Other foreign
				(Millions of barrels)					
Consolidated entities									
At January 1,	**73**	**73**		**76**	**76**		**69**	**69**	
Developed	53	53		55	55		56	56	
Undeveloped	20	20		21	21		13	13	
Revisions of previous estimates (1)	9	9		2	2		22	22	
Extensions and discoveries	10	10		13	13		3	3	
Improved recovery							*	*	
Purchase of minerals in place				*	*		1	1	
Sale of minerals in place	(3)	(3)		(*)	(*)		(2)	(2)	
Production for the year (2)	(18)	(18)		(18)	(18)		(18)	(18)	
At December 31, (3)	**71**	**71**		**73**	**73**		**76**	**76**	
Developed	56	56		53	53		55	55	
Undeveloped	15	15		20	20		21	21	
Equity-accounted entities									
At January 1,							1	1	
Developed							1	1	
Undeveloped									
Revisions of previous estimates (1)									
Extensions and discoveries									
Improved recovery									
Purchase of minerals in place									
Sale of minerals in place (4)							(1)	(1)	
Production for the year (2)							(*)	(*)	
At December 31, (3)									
Developed									
Undeveloped									

Natural Gas Liquids	2015 Worldwide	2015 Argentina	2015 Other foreign	2014 Worldwide	2014 Argentina	2014 Other foreign	2013 Worldwide	2013 Argentina	2013 Other foreign
				(Millions of barrels)					
Consolidated and Equity-accounted entities									
At January 1,									
Developed	53	53		55	55		57	57	

Undeveloped	20	20	21	21	13	13
Total	**73**	**73**	**76**	**76**	**70**	**70**
At December 31,						
Developed	56	56	53	53	55	55
Undeveloped	15	15	20	20	21	21
Total	**71**	**71**	**73**	**73**	**76**	**76**

* Not material (less than 1)

(1) Revisions in estimates of reserves are performed at least once a year. Revision of oil and gas reserves is considered prospectively in the calculation of depreciation.

(2) Natural gas liquids production for the years 2015, 2014 and 2013 includes an estimated approximately 2, 2 and 3 mmbbl, respectively in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax. Equity-accounted entities production of natural gas liquids in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, is not material.

(3) Proved natural gas liquids reserves of consolidated entities as of December 31, 2015, 2014 and 2013 include an estimated approximately 14, 11 and 11 mmbbl, respectively, in respect of royalty payments which, as described above, are a financial obligation, or are substantially equivalent to a production or similar tax. Proved natural gas liquids reserves of equity accounted entities in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, are not material.

(4) In 2013, approximately 1 mmbbl was transferred to Consolidated Entities as a result of YPF Energía Eléctrica working interest on Ramos Field. These rights were previously owned by former Pluspetrol Energy and thus disclosed under Equity-accounted Entities reserves.

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Natural gas	2015 Worldwide	2015 Argentina	2015 Other foreign	2014 Worldwide	2014 Argentina	2014 Other foreign	2013 Worldwide	2013 Argentina	2013 Other foreign
	(Billions of standard cubic feet)								
Consolidated entities									
At January 1,	**3,016**	**3,011**	**5**	**2,558**	**2,555**	**3**	**2,186**	**2,183**	**3**
Developed	2,267	2,262	5	1,938	1,935	3	1,810	1,807	3
Undeveloped	749	749		620	620		376	376	
Revisions of previous estimates (1)	174	174	*	444	441	3	565	564	1
Extensions and discoveries	520	520		421	421		179	179	
Improved recovery	1	1		1	1		2	2	
Purchase of minerals in place				315	315		73	73	
Sale of minerals in place	(70)	(70)		(176)	(176)		(10)	(10)	
Production for the year (2)	(569)	(569)	(*)	(547)	(546)	(1)	(437)	(436)	(1)
At December 31, (3) (4)	**3,072**	**3,067**	**5**	**3,016**	**3,011**	**5**	**2,558**	**2,555**	**3**
Developed	2,210	2,205	5	2,267	2,262	5	1,938	1,935	3
Undeveloped	862	862		749	749		620	620	
Equity-accounted entities									
At January 1,							**36**	**36**	
Developed							36	36	
Undeveloped									
Revisions of previous estimates (1)									
Extensions and discoveries									
Improved recovery									
Purchase of minerals in place									
Sale of minerals in place (5)							(31)	(31)	
Production for the year (2)							(5)	(5)	
At December 31, (3)									
Developed									
Undeveloped									

Natural gas	2015 Worldwide	2015 Argentina	2015 Other foreign	2014 Worldwide	2014 Argentina	2014 Other foreign	2013 Worldwide	2013 Argentina	2013 Other foreign
	(Billions of standard cubic feet)								
Consolidated and Equity-accounted entities									
At January 1,									
Developed	2,267	2,262	5	1,938	1,935	3	1,846	1,844	2
Undeveloped	749	749		620	620		376	376	

Total	**3,016**	**3,011**	**5**	**2,558**	**2,555**	**3**	**2,222**	**2,220**	**2**
At December 31,									
Developed	2,210	2,205	5	2,267	2,262	5	1,938	1,935	3
Undeveloped	862	862		749	749		620	620	
Total	**3,072**	**3,067**	**5**	**3,016**	**3,011**	**5**	**2,558**	**2,555**	**3**

* Not material (less than 1)

(1) Revisions in estimates of reserves are performed at least once a year. Revision of natural gas reserves is considered prospectively in the calculation of depreciation.

(2) Natural gas production for the years 2015, 2014 and 2013 includes an estimated approximately 58, 60 and 47 bcf, respectively, in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax. Equity-accounted entities production of natural gas in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, is not material.

(3) Proved natural gas reserves of consolidated entities as of December 31, 2015, 2014 and 2013 include an estimated approximately 329, 324, and 285 bcf respectively, in respect of royalty payments which, as described above, are a financial obligation, or are substantially equivalent to a production or similar tax. Proved natural gas reserves of equity-accounted entities in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, are not material.

(4) Proved natural gas reserves of consolidated entities and Equity accounted entities as of December 31, 2015, 2014 and 2013 include an estimated of approximately 635, 554 and 376 bcf respectively, which is consumed as fuel at the field.

(5) In 2013, approximately 31 bcf were transferred to Consolidated Entities as a result of YPF Energía Eléctrica working interest on Ramos Field. These rights were previously owned by former Pluspetrol Energy and thus disclosed under Equity-accounted Entities reserves.

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Oil equivalent [1]	2015 Worldwide	2015 Argentina	2015 Other foreign	2014 Worldwide	2014 Argentina	2014 Other foreign	2013 Worldwide	2013 Argentina	2013 Other foreign
	(Millions of barrels of oil equivalent)								
Consolidated entities									
At January 1,	**1,212**	**1,210**	**2**	**1,083**	**1,082**	**1**	**979**	**978**	**1**
Developed	905	903	2	822	821	1	776	775	1
Undeveloped	307	307		261	261		203	203	
Revisions of previous estimates [2]	71	70	1	155	154	2	206	205	1
Extensions and discoveries	147	147		129	129		61	61	
Improved recovery	23	23		17	17		11	11	
Purchase of minerals in place				74	74		15	15	
Sale of minerals in place	(16)	(16)		(42)	(42)		(9)	(9)	
Production for the year [3]	(211)	(210)	(1)	(204)	(204)	(*)	(180)	(179)	(*)
At December 31, [4]	**1,226**	**1,224**	**2**	**1,212**	**1,210**	**2**	**1,083**	**1,082**	**1**
Developed	889	887	2	905	903	2	822	821	1
Undeveloped	337	337		307	307		261	261	
Equity-accounted entities									
At January 1,							**8**	**8**	
Developed							8	8	
Undeveloped									
Revisions of previous estimates [2]									
Extensions and discoveries									
Improved recovery									
Purchase of minerals in place									
Sale of minerals in place [5]							(7)	(7)	
Production for the year [3]							(1)	(1)	
At December 31, [4]									
Developed									
Undeveloped									

Oil equivalent [1]	2015 Worldwide	2015 Argentina	2015 Other foreign	2014 Worldwide	2014 Argentina	2014 Other foreign	2013 Worldwide	2013 Argentina	2013 Other foreign
	(Millions of barrels of oil equivalent)								
Consolidated and Equity-accounted entities									
At January 1,									
Developed	905	903	2	822	821	1	783	782	1

Undeveloped	307	307		261	261		203	203	
Total	**1,212**	**1,210**	**2**	**1,083**	**1,082**	**1**	**987**	**986**	**1**
At December 31,									
Developed	889	887	2	905	903	2	822	821	1
Undeveloped	337	337		307	307		261	261	
Total	**1,226**	**1,224**	**2**	**1,212**	**1,210**	**2**	**1,083**	**1,082**	**1**

* Not material (less than 1)

(1) Volumes of natural gas have been converted to barrels of oil equivalent at 5,615 cubic feet per barrel.

(2) Revisions in estimates of reserves are performed at least once a year. Revision of crude oil, natural gas liquids and natural gas reserves are considered prospectively in the calculation of depreciation.

(3) Barrel of oil equivalent production of consolidated entities for the years 2015, 2014 and 2013 includes an estimated approximately 26, 27 and 23 mmboe, respectively, in respect of royalty payments which, as described above, are a financial obligation, or are substantially equivalent to a production or similar tax. Barrel of oil equivalent production of equity-accounted entities in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, are not material.

(4) Proved oil equivalent reserves of consolidated entities as of December 31, 2015, 2014 and 2013 include an estimated approximately 176, 160 and 144 mmboe, respectively, in respect of royalty payments which, as described above, are a financial obligation, or are substantially equivalent to a production or similar tax. Proved oil equivalent reserves of equity-accounted entities in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax, are not material.

(5) In 2013, approximately 6.5 mmboe were transferred to Consolidated Entities as a result of YPF Energía Eléctrica working interest on Ramos Field. These rights were previously owned by former Pluspetrol Energy and thus disclosed under Equity-accounted Entities reserves.

The paragraphs below explain in further detail the most significant changes in our proved reserves during 2015, 2014 and 2013.

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Changes in our estimated proved reserves during 2015

a) Revisions of previous estimates

During 2015, the Company s proved reserves were revised upwards by 31 mmbbl of crude oil, 9 mmbbl of NGL and 174 bcf of natural gas.

The main revisions to proved reserves were due to the following:

Total liquids and gas production performance was better than expected, resulting in a 56 mmboe (29.3 mmbbl of crude oil, 5.7 mmbbl of NGL and 117 bcf of natural gas) addition to proved developed reserves. The most significant additions were for the Lindero Atravesado, CNQ 7A, Loma La Lata Central, Chihuido La Salina, Manantiales Behr, San Roque, Aguada Pichana, Barranca Baya and Loma La Lata Norte fields. Main fields which performed below expectations were Al Norte de La Dorsal and Tierra del Fuego Fracción B, resulting in these cases in a proved reserves reduction.

In the Loma La Lata field, scheduled compression projects and its production forecasts were reviewed according to the reservoir s current performance and the available compression technology. This revision resulted in a 21 mmboe (4.3 mmbbl of crude oil, 3.5 mmbbl of NGL and 72 bcf of natural gas) addition to proved reserves for the Sierras Blancas gas formation.

Mainly as a result of the impact of lower average oil prices in 2015 on economics, 21 mmboe (9.4 mmbbl of crude oil and 64.6 bcf of natural gas) of proved reserves were removed. This price reduction primarily affected reserves in the Magallanes, Restinga Alí, Barrancas, El Portón, El Tordillo, Aguada Pichana, Loma Campana and Cañadón Perdido fields.

17 mmboe (8.8 mmbbl of crude oil and 47.4 bcf of natural gas) of proved reserve were added as a result of feasibility studies performed to include new projects pursuant to field development plans, mainly in the Tierra del Fuego Fracción B, Barranca Baya, Escalante, Volcán Auca Mahuida, and Seco León fields.

Net production results and forecasts from certain new wells were lower than expected, resulting in a 10 mmboe (2 mmbbl of crude oil, 1.8 mmbbl of NGL and 36.1 bcf of natural gas) reduction in proved reserves. The reductions were in the Loma La Lata Norte, Loma La Lata Central, Aguada Toledo Sierra Barrosa, Manantiales Behr, Rincón del Mangrullo and Acambuco fields.

b) Extensions and discoveries

Wells drilled in unproved reserves and resource areas added 147 mmboe of proved reserves, 44 mmbbl of crude oil, 10 mmbbl of NGL and 520 bcf of natural gas.

In the Lindero Atravesado field, 33 mmboe (0.1 mmbbl of crude oil and 182.1 bcf of natural gas), made up of 12 mmboe of proved developed reserves and 21 mmboe of proved undeveloped reserves, were added as a result of gas wells drilled and due to the development plan for the Lajas tight gas formation in the area.

Drilling activities and development plans in the Aguada Toledo-Sierra Barrosa field resulted in a 22 mmboe (123 bcf of natural gas) addition of proved reserves, of which 8 mmboe were from proved developed and 14 mmboe were from proved undeveloped reserves. The main contributions came from the Lajas tight gas formation.

The results of new gas wells in the Estación Fernandez Oro field as well as new scheduled wells resulted in an addition of 17 mmboe (5.3 mmbbl of crude oil, 2.2 mmbbl of NGL and 53.2 bcf of natural gas) of proved reserves, most of which, 16 mmboe, were in accordance with the new field development plan.

14 mmboe (0.6 mmbbl of crude oil, 2.8 mmbbl of NGL and 61.5 bcf of natural gas) of proved reserves were added as a result of wells drilled and scheduled to be drilled in the Rincón del Mangrullo area. Reserves contributions came from the Mulichinco tight gas formation.

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During 2015, drilling activities continued in Loma Campana and Loma La Lata Norte fields for the Vaca Muerta formation development, adding 12 mmboe (10.1 mmbbl of crude oil, 0.9 mmbbl of NGL and 4.9 bcf of natural gas) and 11 mmboe (5.8 mmbbl of crude oil, 2.5 mmbbl of NGL and 12.6 bcf of natural gas) of proved reserves, respectively. From these total, drilled wells contributed with proved reserve volumes of 4 mmboe in the Loma Campana field and 4 mmboe in the Loma La Lata Norte field, and new scheduled wells added 8 mmboe and 7 mmboe of proved undeveloped reserves, respectively.

In the Golfo San Jorge basin, 12 mmboe of proved reserves, of which 8.4 mmbbl were crude oil and 18 bcf were gas, were added as a result of new extension wells drilled and new locations added to the development plan. The main contributions came from the Seco León, Manantiales Behr, Barranca Baya and Los Perales fields.

c) Improved recovery

23 mmbbl of proved reserves of crude oil were added mainly due to new projects and positive production response, including:

In the Golfo San Jorge basin, 12.9 mmbbl of secondary recovery reserves of crude oil were added as a result of new projects and better than expected production response from existing projects. The primary additions were from the Los Perales, Manantiales Behr, Seco León, El Trébol and Las Heras fields.

In the Neuquina basin, 6.2 mmbbl of proved reserves of crude oil were added, of which 3.2 mmbbl were proved developed and 3.0 mmbbl were proved undeveloped, as a result of ongoing secondary recovery projects development and the addition of new projects. The main undeveloped reserve contributions were from the CNQ 7A, Punta Barda and Puesto Hernandez fields, whereas the Señal Picada and Chihuido de la Sierra Negra fields provided the main contributions of proved developed reserves.

Also in the Neuquina basin, a total of 1.7 mmbbl of proved undeveloped reserves of crude oil were deducted as a result of changes in secondary recovery project development plan.

d) Sales and acquisitions

As a result of sales and acquisitions, proved reserves declined by 16.3 mmboe (0.6 mmbbl of crude oil, 3.3 mmbbl of NGL and 69.9 bcf of natural gas), of which 8.2 mmboe was proved developed and 8.1 mmboe was proved undeveloped. This reduction in reserves was mainly related to a modification in the joint venture agreement in the Rincón del Mangrullo field, which resulted in a reduction of 7 mmboe of proved developed reserves and 8 mmboe of proved undeveloped reserves. Additionally, in the El Orejano field, a new joint venture resulted in a reduction of 1.5 mmboe of proved developed reserves.

Changes in our estimated proved reserves during 2014

a) Revisions of previous estimates

During 2014, the Company s proved reserves were revised upwards by 74 million barrels (mmbbl) of crude oil, 2 million barrels (mmbbl) of natural gas liquids, and 444 billion cubic feet (bcf) of natural gas.

The main revisions to proved reserves have been due to the following:

The term of concession contracts was extended for several operated and non-operated fields located in Rio Negro and Tierra del Fuego provinces. As a result, approximately 75 mmboe of proved reserves (25.3 mmbbl of crude oil, 1.8 mmbbl of NGL and 268.7 bcf of natural gas) were added. Fields included in this contract are: Tierra del Fuego, Los Chorrillos, Lago Fuego, Estación Fernandez Oro, Señal Picada, El Medanito, Punta Barda, Bajo del Piche and El Santiagueño.

Existing development plans were revised and new development plans were finalized for recently acquired fields through the acquisition of the Apache Group assets in the Neuquina and Austral Basins. As a result, a total of 29 mmboe of proved undeveloped reserves (5.2 mmbbl of crude oil, 1.1 mmbbl of NGL and 126.4 bcf of natural gas) were added mainly in the Estación Fernández Oro gas field.

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In the Golfo San Jorge Basin, a net volume of 7.0 mmboe of proved developed reserves (7.9 mmbbl of crude oil and a decrease of 4.6 bcf of natural gas) was added as a result of better than expected production and revised production forecasts. The main contributors to this increase were the Los Perales (6.4 mmboe), Barranca Baya (3.7 mmboe) and Zona Central-Bella Vista Este (1.8 mmboe) fields, while the Seco Leon (a decrease of 2.3 mmboe) and Cañadón Yatel (a decrease of 1.0 mmboe) fields performed lower than expected.

In the Neuquina Basin, 23.8 mmboe of proved reserves (10.9 mmbbl of crude oil and 73 bcf of natural gas) were added as a result of fields performing above forecast. The contributors to the increase were the Chihuido La Salina (4.1 mmboe), Puesto Hernandez (3.9 mmboe), Chihuido Sierra Negra (3.0 mmboe), Lindero Atravesado (2.8 mmboe), Aguada Pichana (2.5 mmboe), and Loma La Lata Central (2.1 mmboe). The decrease was from the Loma La Lata Norte (a decrease of 1.9 mmboe).

A total of 9.2 mmboe of proved reserves (6.1 mmbbl of crude oil and 17.7 bcf of natural gas) was added due to feasibility studies performed to include new projects to the field development plans, mainly in the Volcan Auca Mahuida (1.9 mmboe), Aguada Toledo-Sierra Barrosa (1.9 mmboe), Seco León (1.7 mmboe) and Los Perales (1.5 mmboe) fields.

Net results from certain new wells were lower than expected, resulting in a 6.0 mmboe reduction of proved reserves (reductions of 2.2 mmbbl of crude oil, 2.0 mmbbl of NGL and 10.1 bcf of natural gas). The main reductions were in the Rincón del Mangrullo, Loma La Lata Central, Manantiales Behr, Vizcacheras and Cañadón Yatel fields.

b) Extensions and discoveries

Wells drilled in unproved reserve areas added approximately 129 mmboe of proved reserves (40 mmbbl of crude oil, 13 mmbbl of NGL and 421 bcf of natural gas).

A total of approximately 32.3 mmboe of proved reserves (1.2 mmbbl of crude oil, 6.9 mmbbl of NGL and 135.7 bcf of natural gas) were added as a result of wells drilled and scheduled to be drilled in the Rincón del Mangrullo area, Mulichinco Tight Gas formation.

Drilling activities and development plans in the Aguada Toledo-Sierra Barrosa field resulted in a total addition of approximately 27.9 mmboe of proved reserves (1.2 mmbbl of crude oil and 149.9 bcf of natural gas). Main contributions came from the Lajas Tight Gas formation (22.8 mmboe) and the Lotena formation (2.8 mmboe).

A total of 23.4 mmboe (11.8 mmbbl of crude oil, 5.6 mmbbl of NGL and 33.3 bcf of natural gas) of unconventional proved reserves were added as a result of wells drilled in areas with unproved reserves and additional well locations scheduled to be drilled in Loma La Lata Norte (Loma La Lata fields in the Vaca Muerta formation).

In the Golfo San Jorge Basin, 17.9 mmboe of proved reserves (13.3 mmboe of crude oil and 26.2 bcf of natural gas) were added as a result of new extension wells drilled and new locations added to the development plan. The main contributors were the Manantiales Behr, Barranca Baya, Cañadón Yatel and Restinga Ali fields.

c) Improved recovery

A total of approximately 17 mmboe of proved reserves were added mainly due to new projects and positive production response, including:

In the San Jorge Basin, 15.7 mmbbl of secondary recovery reserves of crude oil were added as a result of new projects and improved production response of existing projects. The main additions were from the Manantiales Behr, El Trebol, Escalante, Barranca Baya and Los Perales fields.

In the Neuquina Basin, in the Puesto Hernandez field, proved undeveloped secondary recovery reserves were reduced by 4.5 mmbbl of crude oil, due to changes in workover and drilling scheduled activities in accordance with a new project strategy.

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This was partially offset by a total of 3.3 mmbbl of proved reserves of crude oil added as a result of production response in the CNQ7 and CNQ7A secondary recovery projects.

d) Sales and acquisitions

During 2014, additional gas and oil fields were acquired in the Neuquina Basin (13 fields) and the Austral Basin (2 fields). See Note 2 to the Audited Consolidated Financial Statements. As a result, 69.3 mmboe of proved reserves were added (13.8 mmbbl of crude oil, 0.6 mmbbl of NGL and 308 bcf of natural gas), most of which are from operated fields.

On November 17, 2014, we entered into an agreement to extend the joint venture contract with ENAP Sipetrol Argentina S.A. in the Magallanes area, until the concession contract expires which was previously extended (portion located in Santa Cruz) exclusively by us during 2012. This resulted in a 28.9 mmboe reduction (reductions of 3.9 mmbbl of crude oil and 140.0 bcf of natural gas) of proved reserves in this area because YPF s working interest in these fields was reduced.

Changes in our estimated proved reserves during 2013

a) Revisions of previous estimates

During 2013, the Company s proved reserves were revised upwards by 106 mmbbl of crude oil, condensate, and NGL, and 564 bcf of natural gas.

The main revisions to proved reserves have been due to the following:

The term of concession contracts was extended for several operated and non-operated fields located in Chubut Province. Because of this, approximately 43 mmbbl of proved crude oil reserves and 15 bcf of proved natural gas reserves were added in the Manantiales Behr, El Trebol, Escalante, Zona Central Bella Vista, Cañadón Perdido, El Tordillo, La Tapera and Sarmiento fields.

In the Magallanes field, approximately 36 mmboe (9 mmbbl of crude oil and 150 bcf of natural gas) of proved developed reserves were added as a result of better than expected production and revised expected production until the expiration of the concession contract.

A total of 8 mmbbl of liquids and 84 bcf of natural gas proved developed reserves were added in Loma La Lata Central (southern part of Loma La Lata field), mainly because of new projects, revision of existing projects, and a higher than forecasted production performance.

In the Golfo San Jorge Basin, Los Perales and Seco León fields, 12 mmboe of proved developed reserves (10.6 mmbbl of crude oil and 8.2 bcf of natural gas) were added because of an improved production performance.

A total of 9 mmbbl of liquids and 122 bcf of gas proved reserves were added in the El Porton, Chihuido de la Salina, Chihuido de la Salina Sur and Filo Morado fields in relation with production response, workovers activity and project revision in accordance with updated field response.

In the Rincón del Mangrullo field approximately 6 mmbbl of liquids proved reserves, and 74 bcf of mainly proved undeveloped natural gas reserves were added because of additional drilling activity planned for 2014.

The Chihuido de la Sierra Negra field added approximately 7 mmbbl of crude oil and 3 bcf of natural gas proved developed reserves due to better than expected production performance.

Production rates did not behave as expected in the Aguada Pichana, Puesto Hernández, Aguada Toledo Sierra Barrosa and Barrancas fields. Proved developed reserves were reduced by 8.8 mmboe based on this new information.

New wells drilled during 2013 in several operated areas did not perform as expected. Because of this, proved reserves were reduced by 6 mmbbl of NGL and 4 bcf of natural gas mainly in the Barranca Baya, Loma La Lata Norte, Loma Campana, Cerro Fortunoso, and Vizcacheras fields.

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b) Extensions and discoveries

Wells drilled in unproved reserve areas added approximately 61 mmboe of proved reserves (179 bcf of natural gas and 29 mmbbl of crude oil).

A total of approximately 27.5 mmboe of proved reserves were added as a result of wells drilled and scheduled to be drilled during 2014 in the Aguada Toledo Sierra Barrosa field. The main contributions came from the Lajas Tight Gas formation (15.9 mmboe) and the Lotena formation (7.9 mmboe).

Unconventional proved developed oil reserves for a total of 10.6 mmboe were added as a consequence of 57 new wells drilled in unproved reserve and resource areas of the Loma La Lata Norte (Loma La Lata fields) in the Vaca Muerta formation.

In the Loma Campana field, unconventional proved developed oil reserves for a total of 4.0 mmboe were added related to 22 new wells drilled in unproved reserves and resources areas.

In the Golfo San Jorge Basin, extensions drilled in the Seco León field (25 new wells) allowed the addition of approximately 2.8 mmboe of proved reserves, mainly crude oil.

Also in the Golfo San Jorge Basin, 37 new extension wells drilled in the Barranca Baya field added 2.6 mmboe of mainly crude oil reserves.

c) Improved recovery

A total of approximately 11.5 mmboe of proved oil reserves have been added due to positive production response, new production and injection wells, and from workovers, performed as part of the improved recovery projects, including:

In the Neuquina Basin, Aguada Toledo Sierra Barrosa field, approximately 6.3 mmboe of oil reserves were added as a result of new scheduled secondary recovery projects, extension projects, and new wells drilled in the area.

In the San Jorge Basin, Manantiales Behr and El Trebol fields, 3.4 mmboe of secondary recovery reserves were added as a result of recovery factor improvements based on new drilling and project optimization.

In the Neuquina Basin in Cerro Fortunoso field, proved undeveloped reserves were reduced by approximately 3.7 mmboe because of observed changes in the behavior of a secondary recovery pilot project.

d) Sales and acquisitions

The acquisition of a 23% working interest in the Aguarague and San Antonio Sur fields of the Noroeste Basin resulted in the addition of approximately 8.9 mmboe of proved reserves. YPF s working interest in this field is currently 53%.

The execution of a contract for a joint venture project for the development and operation of the Loma Campana and Loma La Lata Norte (North of Loma La Lata) fields resulted in an 8.8 mmboe reduction in proved reserves of Vaca Muerta and Quintuco formations. As part of this agreement, YPF s working interest in these fields changed from 100% to 50%.

Approximately 6.5 mmboe were transferred to Consolidated Entities as a result of YPF Energía Eléctrica s working interest in the Ramos field. These rights were previously owned by Pluspetrol Energy and are thus disclosed under Equity-Accounted Entities reserves.

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Capitalized costs

The following tables set forth capitalized costs, along with the related accumulated depreciation and allowances as of December 31, 2015, 2014 and 2013:

	2015			2014			2013		
		Other			Other			Other	
onsolidated capitalized costs	**Argentina**	**foreign**	**Worldwide**	**Argentina**	**foreign**	**Worldwide**	**Argentina**	**foreign**	**Worldwid**
roved oil and gas properties									
lineral property, wells and lated equipment	451,900	4,312	456,212	260,759	2,763	263,522	177,058	1,869	178,927
upport equipment and facilities	16,920		16,920	11,037		11,037	7,601		7,601
rilling and work in progress	45,715		45,715	26,903		26,903	8,998		8,998
nproved oil and gas properties	6,473	451	6,924	3,587	84	3,671	4,577	83	4,660
otal capitalized costs	521,008	4,763	525,771	302,286	2,847	305,133	198,234	1,952	200,186
ccumulated depreciation and aluation allowances	(327,579)	(3,811)	(331,390)	(192,010)	(2,308)	(194,318)	(133,558)	(1,676)	(135,234
et capitalized costs	193,429	952	194,381	110,276	539	110,815	64,676	276	64,952

There is no Company s share in equity method investees capitalized costs during the years ended December 31, 2015, 2014 and 2013.

Costs incurred

The following tables set forth the costs incurred for oil and gas producing activities during the years ended December 31, 2015, 2014 and 2013:

	2015			2014			2013		
		Other			Other			Other	
Consolidated costs incurred	**Argentina**	**foreign**	**Worldwide**	**Argentina**	**foreign**	**Worldwide**	**Argentina**	**foreign**	**Worldwide**
Acquisition of unproved properties				2,784		2,784			
Acquisition of proved properties				5,719		5,719	78		78
Exploration costs	4,029	440	4,469	3,170	189	3,359	1,626	57	1,683
Development costs	44,753	84	44,837	37,615	182	37,797	26,160	15	26,175
Total costs incurred	48,782	524	49,306	49,288	371	49,659	27,864	72	27,936

There is no Company s share in equity method investees costs incurred during the years ended December 31, 2015, 2014 and 2013.

Results of operations from oil and gas producing activities

The following tables include only the revenues and expenses directly associated with oil and gas producing activities. It does not include any allocation of the interest costs or corporate overhead and, therefore, is not necessarily indicative of the contribution to net earnings of the oil and gas operations.

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Differences between these tables and the amounts shown in Note 4, Segment Information , for the exploration and production business unit, relate to additional operations that do not arise from those properties held by the Company.

Consolidated results of operations	2015 Argentina	2015 Other foreign	2015 Worldwide	2014 Argentina	2014 Other foreign	2014 Worldwide	2013 Argentina	2013 Other foreign	2013 Worldwide
Net sales to unaffiliated parties	13,812	197	14,009	6,823	361	7,184	2,751	276	3,027
Net intersegment sales	64,191		64,191	62,093		62,093	38,908		38,908
Total net revenues	78,003	197	78,200	68,916	361	69,277	41,659	276	41,935
Production costs	(43,955)	(89)	(44,044)	(37,193)	(81)	(37,274)	(24,938)	(55)	(24,993)
Exploration expenses	(2,342)	(127)	(2,469)	(1,712)	(173)	(1,885)	(770)	(59)	(829)
Depreciation and expense for valuation allowances	(25,222)	(322)	(25,544)	(17,067)	(113)	(17,180)	(9,464)	(135)	(9,599)
Other	(401)	(56)	(457)	(1,296)	48	(1,248)	(715)		(715)
Pre-tax income from producing activities	6,083	(397)	5,686	11,648	42	11,690	5,772	27	5,799
Income tax expense	(2,114)	79	(2,035)	(3,777)	(38)	(3,815)	(1,997)	(22)	(2,019)
Results of oil and gas producing activities	3,969	(318)	3,651	7,871	4	7,875	3,775	5	3,780

There is no Company s share in equity method investees results of operations during the years ended December 31, 2015, 2014 and 2013.

Standardized measure of discounted future net cash flows

The standardized measure is calculated as the excess of future cash inflows from proved reserves less future costs of producing and developing the reserves, future income taxes and a discount factor. Future cash inflows represent the revenues that would be received from production of year-end proved reserve quantities assuming the future production would be sold at the prices used for reserves estimates as of year-end (the average price). Accordingly, crude oil prices used to determine reserves were calculated each month, for crude oils of different quality produced by the Company.

For the year ended December 31, 2015, the Company considered the realized prices for crude oil in the domestic market (which are higher than those that had prevailed in the international market), taking into account the unweighted average price for each month within the twelve-month period ended December 31, 2015.

Additionally, since there are no benchmark market natural gas prices available in Argentina, the Company used average realized gas prices during the year ended December 31, 2015.

Future production costs include the estimated expenditures related to production of the proved reserves plus any production taxes without consideration of future inflation. Future development costs include the estimated costs of drilling development wells and installation of production facilities, plus the net costs associated with dismantling and abandonment of wells, assuming year-end costs continue without consideration of future inflation. Future income taxes were determined by applying statutory rates to future cash inflows less future production costs and less tax depreciation of the properties involved. The present value was determined by applying a discount rate of 10% per year to the annual future net cash flows.

The future cash inflows and outflows in foreign currency have been remeasured at the selling exchange rate of Argentine pesos 13.01 as of December 31, 2015.

The standardized measure does not purport to be an estimate of the fair market value of the Company s proved reserves. An estimate of fair value would also take into account, among other things, the expected recovery of reserves in excess of proved reserves, anticipated changes in future prices and costs and a discount factor representative of the time value of money and the risks inherent in producing oil and gas.

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onsolidated standardized measure f discounted future net cash flows	2015 Argentina	2015 Other foreign	2015 Worldwide	2014 Argentina	2014 Other foreign	2014 Worldwide	2013 Argentina	2013 Other foreign	2013 Worldwid
uture cash inflows [1]	670,085	589	670,674	513,786	644	514,430	357,749	641	358,390
uture production costs [1]	(395,119)	(331)	(395,450)	(252,073)	(228)	(252,301)	(185,727)	(151)	(185,879
uture development costs	(116,524)	(10)	(116,534)	(71,617)	(74)	(71,691)	(49,164)	(180)	(49,344
uture income tax expenses	(30,724)	(70)	(30,794)	(37,454)	(116)	(37,570)	(25,403)	(150)	(25,553
0% annual discount for estimated ming of cash flows	(30,075)	(56)	(30,131)	(53,403)	(82)	(53,485)	(35,935)	(54)	(35,989
andardized measure of discounted ture net cash flows	97,643	122	97,765	99,239	144	99,383	61,520	106	61,626

(1) Does not include amounts corresponding to volumes consumed or flared in operation.

There is no Company s share in equity method investees standardized measure of discounted future net cash flows during the years ended December 31, 2015, 2014 and 2013.

Changes in the standardized measure of discounted future net cash flows

The following table reflects the changes in standardized measure of discounted future net cash flows for the years ended December 31, 2015, 2014 and 2013:

	2015 Consolidated	2015 Company s share in equity method investees	2014 Consolidated	2014 Company s share in equity method investees	2013 Consolidated	2013 Company s share in equity method investees
Beginning of year	99,382		61,626		40,562	194
Sales and transfers, net of production costs	(52,321)		(29,426)		(20,402)	
Net change in sales and transfer prices, net of future production costs	(80,809)		(651)		3,174	
Changes in reserves and production rates (timing)	3,748		14,588		21,996	
Net changes for extensions, discoveries and improved recovery	30,956		18,423		6,963	
Net change due to purchases and sales of minerals in place			7,294			
Changes in estimated future development and abandonment costs	(28,225)		(13,134)		(11,012)	
Development costs incurred during the year that reduced future development						

costs	24,475	12,128	7,544	
Accretion of discount	13,646	7,069	4,592	
Net change in income taxes	35,409	2,567	(5,284)	
Others(2)	51,504	18,899	13,493	(194)(1)
End of year	97,765	99,383	61,626	—

(1) In 2013, approximately 194 were transferred to Consolidated Entities as a result of YPF EnergÍa Eléctrica s working interest on Ramos Field. These discounted future net cash flows were previously owned by former Pluspetrol Energy and thus disclosed under Company s share in equity method investees.

(2) It corresponds mainly to changes in exchange rates during each year presented.

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