

PETROBRAS ENERGIA PARTICIPACIONES SA

Form 20-F

June 30, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2008**

**Commission file number 001-14984**

**PETROBRAS ENERGÍA PARTICIPACIONES S.A.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

REPUBLIC OF ARGENTINA

(Jurisdiction of incorporation of organization)

Maipú 1, 22 S.S. Floor

(C1084ABA) Buenos Aires

Argentina

(Address of principal executive offices)

CT Corporation System

111 Eighth Avenue

New York, New York 10011

(212) 894-8800

(Name, telephone, e-mail and/or facsimile number and  
address of company contact person)

**Commission file number 333-155319**

**PETROBRAS ENERGÍA S.A.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

REPUBLIC OF ARGENTINA

(Jurisdiction of incorporation of organization)

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New York, New York 10011

(212) 894-8800

(Name, telephone, e-mail and/or facsimile number and  
address of company contact person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**Title of each Class**

**Name of Each Exchange  
On Which Registered**

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American Depositary Shares, each representing 10 Class B shares of Petrobras Energía Participaciones S.A.

New York Stock Exchange

Class B shares of Petrobras Energía Participaciones S.A.

New York Stock Exchange\*

American Depositary Shares, each representing 10 Class B shares of Petrobras Energía S.A.

Class B shares of Petrobras Energía S.A.

\* Not for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the NYSE.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2008 was:

Petrobras Energía Participaciones S.A. Class B ordinary shares, nominal value P\$1.00 per share	2,132,043,387
---	---------------

Petrobras Energía S.A. Class B ordinary shares, nominal value P\$1.00 per share	1,009,618,410
---	---------------

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.

Petrobras Energía Participaciones S.A.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
--	---

Petrobras Energía S.A.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
------------------------	---

Petrobras Energía S.A. is expected to qualify as a well-known seasoned issuer as a successor issuer to Petrobras Energía Participaciones, pursuant to Rule 12g-3 of the Securities Exchange Act

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of 1934.

If this report is an annual or transitional report, indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

Petrobras Energía Participaciones S.A. Yes  No

Petrobras Energía S.A. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Petrobras Energía Participaciones S.A. Yes  No

Petrobras Energía S.A. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.495 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Not applicable.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  IFRS  Other

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Petrobras Energía Participaciones S.A. Large accelerated filer  Accelerated filer  Non-accelerated filer

Petrobras Energía S.A. Large accelerated filer  Accelerated filer  Non-accelerated filer

Petrobras Energía S.A. is expected to qualify as a large accelerated filer as a successor issuer to Petrobras Energía Participaciones, pursuant to Rule 12g-3 of the Securities Exchange Act of 1934.

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Petrobras Energía Participaciones S.A. Yes o No

Petrobras Energía S.A. Yes o No

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**NOTE ON JOINT FILING**

This annual report on Form 20-F has been jointly filed by Petrobras Energía Participaciones S.A. and Petrobras Energía S.A. On January 30, 2009, separate shareholders' meetings of these two companies approved their merger, pursuant to which Petrobras Energía Participaciones would be merged and absorbed into Petrobras Energía, and Petrobras Energía would be the surviving company. The companies are currently in the process of completing the necessary formalities in Argentina to finalize this merger.

Once the requisite Argentine formalities have been completed, shareholders of Petrobras Energía Participaciones will receive shares of Petrobras Energía (in the United States, in the form of American Depositary Receipts), and the American Depositary Receipts of Petrobras Energía Participaciones will be removed from listing on the New York Stock Exchange (the "NYSE") and from registration with the U.S. Securities and Exchange Commission (the "SEC"). Immediately subsequent to this exchange of shares, American Depositary Receipts, each representing 10 Class B shares of Petrobras Energía, will be listed and begin trading on the NYSE. Petrobras Energía S.A. will be a successor issuer to Petrobras Energía Participaciones S.A., as contemplated by Rule 12g-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Petrobras Energía Participaciones S.A. is a holding company that was created for the purpose of owning shares of Petrobras Energía S.A., and operates exclusively through Petrobras Energía S.A. and its subsidiaries. Petrobras Energía Participaciones S.A. has no independent operations other than the ownership of shares of Petrobras Energía S.A., and all disclosure in this annual report refers to the operations of Petrobras Energía S.A., unless otherwise indicated.

All references in this annual report to:

Petrobras Energía, PESA and the Company refer to Petrobras Energía S.A. and its subsidiaries, but excludes affiliates and companies under joint control. Prior to July 2003, Petrobras Energía's corporate name was Pecom Energía S.A. On March 27, 2009, the shareholders of Petrobras Energía approved the official change of the company's corporate name from Petrobras Energía S.A. to Petrobras Argentina, S.A. As of the date of this annual report, the Company is in the process of completing the necessary formalities to complete this name change. See Item 4. Information on the Company Our History and Development.

Petrobras Energía Participaciones, and PEPSA refer to Petrobras Energía Participaciones S.A., the parent company of Petrobras Energía. Prior to July 2003, the corporate name of Petrobras Energía Participaciones was Perez Compan S.A.

Unless otherwise noted, we, us, our, and similar terms refer to Petrobras Energía Participaciones and its subsidiaries including Petrobras Energía.

Petrobras refers to Petróleo Brasileiro S.A. PETROBRAS.

Argentine pesos, pesos or P\$ refer to the currency of the Republic of Argentina.

U.S. dollars, US\$ or U.S.\$ refer to the currency of the United States of America.

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**FORWARD LOOKING STATEMENTS**

Some of the information included in this annual report contains information that is forward looking, including statements regarding capital expenditures, competition and sales, oil and gas reserves and prospects and trends in the oil and gas, refining and distribution, petrochemicals and electricity industries.

Certain statements contained in this annual report are forward-looking statements and are not based on historical fact, such as statements containing the words believe, may, will, estimate, continue, anticipate, intend, expect, words. These forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in Item 3. Key Information Risk Factors and elsewhere in this annual report. Factors that could cause actual results to differ materially and adversely include, but are not limited to:

Changes in general economic, business, political or other conditions in Argentina or changes in general economic or business conditions in other Latin America countries;

The availability of financing at reasonable terms to Argentine companies, such as us;

The failure of governmental authorities to approve proposed measures or transactions described in this annual report;

Changes in the price of hydrocarbons and oil products;

Changes to our capital expenditure plans;

Changes in laws or regulations affecting our operations;

Increased costs; and

Other factors discussed under Risk Factors in Item 3 of this annual report.

Forward-looking statements speak only as of the date they were made. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. In light of these limitations, you should not place undue reliance on forward-looking statements contained in this annual report.

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**PART I**

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**Item 3. KEY INFORMATION**

**SELECTED FINANCIAL DATA**

The financial information set forth below may not contain all of the financial information that you should consider when making an investment decision. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Risk Factors included in this annual report. See Risk Factors . You should also carefully read our financial statements and Item 5. Operating and Financial Review and Prospects included in this annual report for additional financial information about us.

The consolidated financial statements for both Petrobras Energía Participaciones and Petrobras Energía are prepared in accordance with regulations of the Argentine National Securities Commission (*Comisión Nacional de Valores*) ( CNV ), and, except for the matters described in Note 3 to the consolidated financial statements of each of Petrobras Energía Participaciones and Petrobras Energía, with generally accepted accounting principles in Argentina (as approved by the Professional Council of Economic Sciences of the City of Buenos Aires, or its Spanish acronym CPCECABA ), or Argentine GAAP. Argentine GAAP differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 20 to each of Petrobras Energía Participaciones s and Petrobras Energía s financial statements provide a description of the principal differences between Argentine GAAP and U.S. GAAP, and Note 22 for each of Petrobras Energía Participaciones and Petrobras Energía, provides a reconciliation to U.S. GAAP of net income, shareholders equity and certain other selected financial data.

In compliance with Rule 3-09 of Regulation S-X, this annual report contains the audited financial statements of our equity investee, Petroritupano S.A., as of and for the years ended December 31, 2008 and 2007. The independent registered public auditors of Petroritupano S.A. have indicated in their report that Petroritupano has not complied with various formal tax duties, which, pursuant to current tax regulations, may give rise to the payment of sanctions and interest amounting to approximately US\$24 million. The independent registered public auditors have noted that the accruals and other liabilities caption of the balance sheet as of December 31, 2008 and net income for the year then ended are understated and overstated by such amount, respectively. We do not believe that this fact has had or will have a material impact on the financial results of either Petrobras Energía Participaciones or Petrobras Energía.

*Proportional consolidation of companies under which we exercise joint control*

In accordance with the procedure set forth in Technical Resolution No. 21 of the Argentine Federation of Professional Councils in Economic Science (or its Spanish acronym FACPCE ), we have consolidated both of our financial statements line by line on a proportional basis with the companies in which we exercise joint control (other than Compañía Inversora en Transmisión Eléctrica Citelec S.A., or Citelec ). See Item 5. Operating and Financial Review and Prospects Proportional Consolidation and Presentation of Discussion . In the consolidation of companies over which we exercise joint control, the amount of the investment in the companies under joint control and the interest in their income (loss) and cash flows are replaced by our proportional interest in the subsidiaries assets, liabilities and income (loss) and cash flows. In addition, related party receivables, payables and transactions within the consolidated group and companies under joint control are eliminated on a pro rata basis pursuant to our ownership share in that company.

**Table of Contents***Changes in professional accounting standards*

On August 10, 2005, the Board of the CPCECABA approved Resolution CD No. 93/2005, which introduced a series of changes to professional accounting standards, effective for fiscal years beginning on or after January 1, 2006. Through General Resolution Nos. 485 and 487, dated December 29, 2005, and January 26, 2006, respectively, the CNV approved the aforementioned changes, which were effective for years beginning as from January 1, 2006.

Figures for the years 2005 and 2004 have been restated to give effect to the aforementioned changes in the professional accounting standards.

The effects of these changes on Petrobras Energía's income statement and shareholders' equity as of December 31, 2005 and 2004 are described below:

	Gain (loss) Income for		Increase (decrease) Shareholders' equity as of December 31,	
	2005	2004	2005	2004
	(in millions of pesos)			
Comparison with recoverable values (i)	(120)	10	(190)	(70)
Deferred tax (ii)	272	118	(1,060)	(1,332)
Total effect on unappropriated retained earnings			(1,250)	(1,402)
Deferred loss (iii)			(14)	(49)
Total effect on Shareholders' equity	152	128	(1,264)	(1,451)

For explanation of footnotes, please see the table below.

The effects of these changes on Petrobras Energía Participaciones's income statement and shareholders' equity as of December 31, 2005 and 2004 are described below:

	Gain (loss) Income for		Increase (decrease) Shareholders' equity as of December 31,	
	2005	2004	2005	2004
	(in millions of pesos)			
Comparison with recoverable values (i)	(120)	10	(190)	(70)
Deferred tax (ii)	272	118	(1,060)	(1,332)
Minority interest	(36)	(31)	303	339
Total effect on unappropriated retained earnings			(947)	(1,063)
Deferred loss (iii)			(22)	(49)
Total effect on Shareholders' equity	116	97	(969)	(1,112)

- (i) In calculating the recoverability of Property, plant and equipment

and certain intangible assets, the recoverable value is considered to be the higher of the net realizable value and the discounted value of the expected cash flows. Before the changes in the standards, the book value was adjusted to its recoverable value if its carrying amount exceeded the undiscounted value in use. This first comparison has now been eliminated.

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- (ii) The difference between the inflation-adjusted book value of Property, plant and equipment and other non-monetary assets and their tax basis is considered to be a temporary difference that gives rise to the recognition of a deferred liability, which as provided by CNV General Resolution No. 487 can either be booked or disclosed in notes to financial statements. The Company's Management opted to book this effect.
  
- (iii) The effects of the translation of foreign operations net of the foreign-exchange differences generated by the debt denominated in foreign currency designated as hedge of net investment abroad no longer classified between liabilities and shareholders equity, and

instead, are  
classified in  
shareholders  
equity.

*U.S. GAAP Information*

Neither the effects of inflation accounting nor the proportional consolidation of Distrilec Inversora S.A. ( Distrilec ) (for all years presented) or Petrobras de Valores Internacional de España S.L. ( PVIE ) (for the years ended December 31, 2007 and 2008), jointly controlled companies under Argentine GAAP, have been reversed in the reconciliations to U.S. GAAP.

The proportional consolidation of Compañía de Inversiones de Energía S.A. ( CIESA ), another company under joint control in 2008, 2007, 2006, 2005 and 2004 under Argentine GAAP, has been reversed in the U.S. GAAP information. This reversal was a result of (1) CIESA having negative shareholders equity for each of those five years for purposes of U.S. GAAP, and (2) our not having assumed commitments to make capital contributions or to provide financial assistance to CIESA, which caused our interests in CIESA to be valued at zero.

The following tables set forth selected financial data for Petrobras Energía, including data for joint control companies consolidated under the proportional consolidation method, as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004:



**Table of Contents****Petrobras Energía Income Statement Data**

	<b>Year Ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)</b>				
<b>Argentine GAAP:</b>					
Net sales	15,175	13,458	11,745	10,655	8,763
Cost of sales	(11,000)	(10,111)	(8,062)	(6,848)	(5,657)
Gross profit	4,175	3,347	3,683	3,807	3,106
Administrative and selling expenses	(1,756)	(1,463)	(1,281)	(1,136)	(969)
Exploration expenses	(238)	(172)	(117)	(34)	(133)
Other operating expenses, net	(229)	(176)	(135)	(329)	(324)
Operating income	1,952	1,536	2,150	2,308	1,680
Equity in earnings of affiliates	305	176	219	281	102
Financial expenses and holding losses, net	(786)	(495)	(504)	(897)	(1,264)
Other income (expenses), net	(93)	131	99	(456)	(36)
Income before income tax and minority interest in subsidiaries	1,378	1,348	1,964	1,236	482
Income tax	(529)	(494)	(465)	(211)	317
Minority interest in subsidiaries	(73)	(92)	(83)	(54)	26
Net income	776	762	1,416	971	825
Basic/diluted Earning per share	0.769	0.755	1.403	0.962	1.058
Number of shares outstanding (in millions):					
Class B	1,010	1,010	1,010	1,010	779
<b>U.S. GAAP:</b>					
Net sales	14,385	12,712	11,085	10,129	8,351
Operating income	1,295	681	1,942	619	1,350
Net income (loss)	434	(24)	1,295	(91)	781
Basic/diluted net income (loss) per share	0.430	(0.024)	1.282	(0.090)	1.003

**Table of Contents****Petrobras Energía Balance Sheet Data**

	<b>Year Ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)</b>				
<b>Argentine GAAP:</b>					
<b>Consolidated Balance Sheet</b>					
<b>Assets</b>					
<b>Current assets</b>					
Cash	492	98	86	104	139
Investments	1,030	1,132	1,512	881	946
Trade receivables	1,635	1,605	1,438	1,626	1,181
Other receivables	1,593	2,658	1,226	663	759
Inventories	1,536	996	843	746	624
Other assets	5		1		1
<b>Total current assets</b>	<b>6,291</b>	<b>6,489</b>	<b>5,106</b>	<b>4,020</b>	<b>3,650</b>
<b>Non-current assets</b>					
Trade receivables	154	228	124	78	47
Other receivables	522	657	691	672	943
Inventories	95	100	81	79	71
Investments	3,477	3,270	3,630	1,072	1,107
Property, plant and equipment	12,556	10,609	10,838	12,657	12,277
Other assets	35	41	41	47	65
<b>Total non-current assets</b>	<b>16,839</b>	<b>14,905</b>	<b>15,405</b>	<b>14,605</b>	<b>14,510</b>
<b>Total assets</b>	<b>23,130</b>	<b>21,394</b>	<b>20,511</b>	<b>18,625</b>	<b>18,160</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	1,873	1,728	1,475	1,363	1,071
Short-term debt	2,445	1,922	2,646	1,805	1,709
Payroll and social security taxes	351	261	276	177	98
Taxes payable	454	274	360	255	233
Reserves	125	124	95	48	31
Other current liabilities	530	305	214	198	657
<b>Total current liabilities</b>	<b>5,778</b>	<b>4,614</b>	<b>5,066</b>	<b>3,846</b>	<b>3,799</b>
<b>Non-current liabilities</b>					
Accounts payable	136	179	143	103	109
Long-term debt	5,152	5,430	4,716	5,708	6,248
Other liabilities	560	367	402	356	190
Taxes payable	1,508	1,428	1,492	1,404	1,692
Reserves	119	86	85	103	76
<b>Total non-current liabilities</b>	<b>7,475</b>	<b>7,490</b>	<b>6,838</b>	<b>7,674</b>	<b>8,315</b>

Total liabilities	13,253	12,104	11,904	11,520	12,114
<b>Minority interest in subsidiaries</b>	930	860	771	688	1,869
<b>Total Shareholders Equity</b>	8,947	8,430	7,836	6,417	4,177
Total liabilities and shareholders equity	23,130	21,394	20,511	18,625	18,160
Capital Stock	1,010	1,010	1,010	1,010	779
<b>U.S. GAAP:</b>					
Total assets	20,540	19,343	18,049	16,181	16,763
Shareholders equity	8,886	8,689	7,786	6,502	6,549

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The following tables set forth selected financial data for Petrobras Energía Participaciones, including data for joint control companies consolidated under the proportional consolidation method, as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004:

**Petrobras Energía Participaciones Income Statement Data**

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)				
<b>Argentine GAAP:</b>					
Net sales	15,175	13,458	11,745	10,655	8,763
Cost of sales	(11,000)	(10,111)	(8,062)	(6,848)	(5,657)
Gross profit	4,175	3,347	3,683	3,807	3,106
Administrative and selling expenses	(1,758)	(1,465)	(1,283)	(1,139)	(971)
Exploration expenses	(238)	(172)	(117)	(34)	(133)
Other operating expense, net	(231)	(177)	(135)	(329)	(324)
Operating income	1,948	1,533	2,148	2,305	1,678
Equity in earnings of affiliates	305	176	219	281	102
Financial expenses and holding losses, net	(782)	(495)	(506)	(899)	(1,265)
Other income (expenses), net	(96)	130	93	(459)	(40)
Income before income tax and minority interest in subsidiaries	1,375	1,344	1,954	1,228	475
Income tax	(529)	(494)	(465)	(211)	317
Minority interest in subsidiaries	(261)	(277)	(425)	(288)	(17)
Net income	585	573	1,064	729	775
Basic/diluted Earning per share	0.276	0.270	0.501	0.343	0.365
Number of shares outstanding (in millions):					
Class B	2,132	2,132	2,132	2,132	2,132
<b>U.S. GAAP:</b>					
Net sales	14,385	12,712	11,085	10,129	8,232
Operating income	1,288	677	1,934	613	1,348
Net income (loss)	326	(23)	972	(77)	760
Basic/diluted net income (loss) per share	0.154	(0.011)	0.458	(0.036)	0.356

**Table of Contents****Petrobras Energía Participaciones Balance Sheet Data**

	<b>Year Ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)</b>				
<b>Argentine GAAP:</b>					
<b>Consolidated Balance Sheet</b>					
<b>Assets</b>					
<b>Current assets</b>					
Cash	492	98	86	104	139
Investments	989	1,094	1,479	857	934
Trade receivables	1,635	1,605	1,438	1,626	1,181
Other receivables	1,595	2,659	1,227	663	759
Inventories	1,536	996	843	746	624
Other assets	5		1		1
<b>Total current assets</b>	<b>6,252</b>	<b>6,452</b>	<b>5,074</b>	<b>3,996</b>	<b>3,638</b>
<b>Non-current assets</b>					
Trade receivables	154	228	124	78	47
Other receivables	522	657	691	672	943
Inventories	95	100	81	79	71
Investments	3,477	3,270	3,630	1,072	1,107
Property, plant and equipment	12,556	10,609	10,838	12,657	12,277
Other assets	35	41	41	47	65
<b>Total non-current assets</b>	<b>16,839</b>	<b>14,905</b>	<b>15,405</b>	<b>14,605</b>	<b>14,510</b>
<b>Total assets</b>	<b>23,091</b>	<b>21,357</b>	<b>20,479</b>	<b>18,601</b>	<b>18,148</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	1,873	1,728	1,475	1,363	1,072
Short-term debt	2,445	1,922	2,646	1,805	1,709
Payroll and social security taxes	351	261	276	177	98
Taxes payable	463	280	365	259	241
Reserves	125	124	95	48	31
Other current liabilities	530	305	214	198	657
<b>Total current liabilities</b>	<b>5,787</b>	<b>4,620</b>	<b>5,071</b>	<b>3,850</b>	<b>3,808</b>
<b>Non-current liabilities</b>					
Accounts payable	136	179	143	103	109
Long-term debt	5,152	5,430	4,716	5,708	6,248
Other liabilities	560	367	402	356	190
Taxes payable	1,508	1,428	1,492	1,404	1,692
Reserves	119	86	85	103	76
<b>Total non-current liabilities</b>	<b>7,475</b>	<b>7,490</b>	<b>6,838</b>	<b>7,674</b>	<b>8,315</b>

Total liabilities	13,262	12,110	11,909	11,524	12,123
<b>Minority interest in subsidiaries</b>	2,777	2,583	2,350	1,922	1,626
<b>Total Shareholders Equity</b>	7,052	6,664	6,220	5,155	4,399
Total liabilities and shareholders equity	23,091	21,357	20,479	18,601	18,148
Capital Stock	2,132	2,132	2,132	2,132	2,132
<b>U.S. GAAP:</b>					
Total assets	20,501	19,306	18,017	16,158	16,751
Shareholders equity	7,020	6,874	6,195	5,233	5,286

**Table of Contents****EXCHANGE RATES**

From April 1, 1991 until the end of 2001, the Convertibility Law No. 23,928 and Regulatory Decree No. 529/91 (together, the Convertibility Law ) established a fixed exchange rate under which the Central Bank of Argentina (the Central Bank ) was obliged to sell U.S. dollars at a fixed rate of one peso per U.S. dollar. On January 6, 2002, the Argentine Congress enacted the Public Emergency and Foreign Exchange System Reform Law No. 25,562 (the Public Emergency Law ), which suspended certain provisions of the Convertibility Law, including the fixed exchange rate of P\$1 to U.S.\$1, and granted the executive branch of the Argentine government the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market. Following a brief period during which the Argentine government established a temporary dual exchange rate system, pursuant to the Public Emergency Law, the peso has been allowed to float freely against other currencies since February 2002. The following table sets forth the annual high, low, average and period-end exchange rates for the periods indicated, expressed in Argentine pesos per U.S. dollar and not adjusted for inflation. There can be no assurance that the Argentine peso will not depreciate or appreciate again in the future. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

	Argentine peso per U.S. dollar			
	High	Low	Average	Period-end
<b>2009</b>				
June <sup>(1)</sup>	3.77	3.74	3.76	3.77
May	3.75	3.70	3.73	3.75
April	3.72	3.67	3.69	3.72
March	3.72	3.57	3.65	3.72
February	3.57	3.48	3.51	3.57
January	3.49	3.45	3.46	3.49
<b>2008</b>				
December	3.37	3.47	3.42	3.45
<b>For the year ended December 31,</b>				
2008	3.47	3.37	3.42	3.45
2007	3.16	3.08	3.12	3.15
2006	3.08	3.05	3.06	3.07
2005	3.03	2.86	2.92	3.03
2004	2.99	2.94	2.97	2.98

(1) From June 1, 2009 through June 19, 2009.

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***Exchange Controls***

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. From December 1989 until April 1991, Argentina had a freely floating exchange rate for all foreign currency transactions, and the transfer of dividend payments in foreign currency abroad and the repatriation of capital were permitted without prior approval of the Central Bank. From April 1, 1991, when the Convertibility Law became effective, until December 21, 2001, when the Central Bank decided to close the foreign exchange market, the Argentine currency was freely convertible into U.S. Dollars.

On December 3, 2001, the Argentine government imposed a number of monetary and currency exchange control measures, which included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad without the Central Bank's prior authorization subject to specific exceptions for transfers related to foreign trade. The Central Bank has gradually eased these restrictions with a view to gradually normalizing the domestic exchange market, and as a result, most restrictions relating to the repayment of foreign creditors and the payment of dividends to foreign shareholders have been lifted. In June 2003 the Argentine government set restrictions on capital flows into Argentina, which mainly consisted of a prohibition against the transfer abroad of any funds until 180 days after their entry into the country. Furthermore, in June 2005 the Argentine government established further restrictions on capital flows into Argentina, including increasing the period that certain incoming funds must remain in Argentina to 365 calendar days and requiring that 30% of such incoming funds be deposited with a bank in Argentina in a non-transferable, non-interest bearing account for 365 calendar days. Export and import financing operations, as well as primary public offerings of debt securities listed on self-regulated markets, among others, are exempt from the foregoing provision.



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**RISK FACTORS**

**Factors Relating to Argentina**

***Political and economic instability in Argentina has affected and may continue to adversely affect our financial condition and results of operations.***

Both Petrobras Energía Participaciones and Petrobras Energía are Argentine corporations (*sociedades anónimas*). As of December 31, 2008, with respect to Petrobras Energía, approximately 70% of our total assets, 73% of our net sales, 68% of our combined crude oil and gas production and 62% of our proved oil and gas reserves were located in Argentina. Fluctuations in the Argentine economy and actions adopted by the Argentine government have had and may continue to have a significant impact on Argentine companies, including us. Specifically, we have been affected and may continue to be affected by inflation, interest rates, the value of the peso against foreign currencies, price controls, regulatory policies, business and tax regulations and in general by the political, social and economic scenario in Argentina and in other countries that may affect Argentina.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high and variable levels of inflation and currency devaluation.

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. See Business Overview Our Principal Market . The crisis had significant and adverse consequences on our company, including (i) losses derived from the effects of the peso devaluation on our affiliates and our affiliates' net borrowing position, which primarily was denominated in U.S. dollars, (ii) the impairment of the book value of certain gas areas and tax assets due to material changes in the prospects of our operations, (iii) a decrease in U.S. dollar cash flows due to the imposition of export taxes, (iv) limits on the availability in the financial market to renew our short-term lines of credit and the current portion of our medium and long-term financings at maturity and (v) restrictions on our ability to pass through the effects of inflation to the prices of products sold by us in the domestic market. In 2002, we reported a significant net loss and our liquidity was adversely affected. Within this context and in order to secure compliance with our financial commitments, we reduced our investment plan and reached an agreement with our financial creditors and holders of notes to extend the maturity profile of a substantial portion of our debt, at face value. As a result, capital expenditures in 2002, net of divestments, totaled only P\$139 million, a relatively low amount compared to our historical average investment.

Although the Argentine economy has largely recovered from the crisis of 2001 and 2002, the current global economic crisis has led to a sudden deceleration of the economy, accompanied by political and social unrest, inflationary and peso depreciation pressures and lack of consumer and investor confidence. Uncertainty remains as to whether and how quickly Argentina may overcome the economic slowdown and regain economic growth, which depends on a variety of factors, including international demand for Argentine exports, the stability and competitiveness of the peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable and relatively low rate of inflation.

We cannot provide you with any assurance that future economic, social and political developments in Argentina, over which we have no control, will not adversely affect our financial condition or results of operations, including our ability to pay our debts at maturity or dividends.

***The Argentine economy has been adversely affected by economic developments in other markets.***

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other markets worldwide. Although economic conditions vary from country to country, investors' perceptions of events occurring in one country may substantially affect capital flows into and investments in securities from issuers in other countries, including Argentina. The Argentine economy was adversely impacted by the political and economic events that occurred during 2008, and continues to be affected by events in the economies of its major regional partners. Furthermore, the Argentine economy has been affected by events in developed economies which are trading partners or that impact the global economy. Consequently, there can be no assurance that the Argentine financial system and securities markets will not continue to be adversely affected by events in developed countries' economies or events in other emerging markets.



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***A lack of financing for Argentine companies, whether due to government regulation or market forces, may negatively impact the execution of our strategic business plan.***

The prospects for Argentine companies of accessing financial markets are limited in terms of the amount of financing available, and the conditions and cost of such financing. The default on the Argentine sovereign debt at the end of 2001, the recent global economic crisis, and the resulting international stock market crash and the insolvency of major financial institutions toward the end of 2008, have all significantly limited the ability of Argentine companies to access international financial markets as they had in the past.

Our ability to execute and carry out our strategic business plan depends upon our ability to obtain financing at a reasonable cost and on reasonable terms. In recent years, we have regularly obtained financing from the private pension fund system in Argentina, which has been a significant purchaser of our debt and shares. However, in November 2008 the Argentine National Congress passed a law eliminating the private pension system, mandating that funds administered by the private Retirement and Pension Funds Administrators (the AFJP), be transferred to a new administrator, the National Social Security Administrative Office (*Administración Nacional de la Seguridad Social*, or ANSES). Because the private pension funds had until recently been major institutional investors in the Argentine capital markets, the nationalization of these funds and the transfer of their assets to a state-run administrator has led to a decline in liquidity in the local capital markets, and may further limit the sources of financing for Argentine companies, including us. If we are unable to gain access to international or local financial markets to refinance our indebtedness at reasonable cost and on reasonable terms, we may have to reduce our projected capital expenditures, which, in turn, may negatively affect the implementation of our business plan.

***Fluctuations in the value of the peso may adversely affect the Argentine economy, our financial condition and the results of operations.***

The value of the peso has fluctuated significantly in the past and may do so in the future. Since the end of the U.S. dollar-peso parity in January 2002, the peso has fluctuated significantly in value. As a result, the Central Bank has taken several measures to stabilize the exchange rate and preserve its reserves. The marked devaluation of the peso in 2002 had a negative impact on the ability of the Argentine government and Argentine companies to honor their foreign currency-denominated debt, led to very high inflation initially and had a negative impact on businesses whose success depends on domestic market demand, including public utilities.

The significant peso devaluation during 2002 adversely affected our results of operations and financial condition. Substantially all of our financial debt and a significant portion of our affiliates' debt were denominated in U.S. dollars. Before the enactment of the Public Emergency and Foreign Exchange System Reform Law No. 25,562 (the Public Emergency Law) in January 2002, our cash flow, generally denominated in U.S. dollars or dollar-adjusted, provided a natural hedge against exchange rate risks. The Argentine regulatory framework after the enactment of the Public Emergency Law (which included the pesification of utility rates, regulatory issues related to the renegotiation of pesified utility rates, new taxes on hydrocarbon exports, and the implementation of regulations to prevent an increase in prices to final users in the domestic market and restrictions on exports), however, limited our ability to hedge the impact of the peso devaluation.

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If the peso devalues significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences to our business. On the other hand, a substantial increase in the value of the peso against the U.S. dollar also presents risks for the Argentine economy since it may lead to a deterioration of the country's current account balance and the balance of payments.

We are unable to predict whether, and to what extent, the value of the peso may further depreciate or appreciate against the U.S. dollar and how any such fluctuations would affect the demand of our products and services. Moreover, we cannot assure you that the Argentine government will not make regulatory changes that prevent or limit us from offsetting the risk derived from our exposure to the U.S. dollar and, if so, what impact these changes will have on our financial condition and results of operations.

***Inflation may escalate and undermine economic growth in Argentina and adversely affect our financial condition and results of operations.***

In the past, inflation has undermined the Argentine economy and the government's ability to stimulate economic growth. For example, during 2002, the Argentine consumer price index increased by 41%, and the wholesale price index increased by 118.2%. This inflation reflected both the effect of the peso devaluation on production costs and a significant change in relative prices, which was partially offset by the elimination of rate adjustments and a strong drop in demand as a result of the recession. According to official inflation data published by the National Statistics Institute, in 2003, inflation slowed, with a 3.7% increase in the consumer price index and a 2.0% increase in the wholesale price index.

Since 2004, encouraged by the pace of economic growth, the consumer price index increased by 6.1% in 2004, 12.3% in 2005, 9.8% in 2006 and 8.5% in 2007 while the wholesale price index went up 7.9% in 2004, 10.8% in 2005, 7.1% in 2006 and 14.4% in 2007. In 2008, the consumer and wholesale price indexes increased by 7.2% and 0.9%, respectively. In 2009, official price indexes show a slowing of inflation. In spite of these official indicators, alternative measurements have exhibited higher inflationary pressure and a general price level with a more marked dynamics.

Uncertainty surrounding future inflation may result in slowed economic activity and reduced growth. A return to a high inflation environment would also undermine Argentina's foreign competitiveness by diluting the effects of the peso devaluation, with negative effects on the level of economic activity and employment. Sustained inflation in Argentina, without a corresponding increase in the price paid by consumers for our products in the local market would have a negative effect on our results of operations and financial condition. The variability of inflation in Argentina makes it impossible to estimate with a reasonable degree of certainty how our activities and results of operations will be affected in the future.

***Exchange controls in Argentina may impair our ability to service our foreign currency-denominated debt obligations and pay dividends.***

After December 2001, Argentine authorities implemented a number of monetary and currency exchange control measures that included restrictions on the withdrawal of funds deposited with banks, the obligation to deposit with the Argentine Central Bank foreign currency from exports, restrictions on the transfers of funds abroad as well as restrictions relating to the servicing of foreign debt. The Central Bank has since issued a number of regulations aimed at gradually normalizing the domestic exchange market and, as a result, most restrictions in connection with the repayment of foreign creditors and the payment of dividends to foreign shareholders have been lifted. Nevertheless, certain exchange controls, including those imposed on foreign loans to the Argentine private sector, remain in place, with related requirements concerning the term of such loans, their denomination and transferability. See Item 3. Exchange Rates Exchange controls, and Item 5. Description of Indebtedness.

As a result of the global economic crisis and political and economic instability in Argentina, the Argentine Government may impose exchange controls and other related measures. If the Argentine Government imposes exchange controls and other restrictions on the transfer of funds, we may be unable to make principal or interest payments on our debt when they become due or to pay dividends.

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

In recent periods, Argentina has faced difficulties in satisfying its domestic energy needs. As a result, the government has enacted a series of measures limiting the export of hydrocarbons and related oil products, which has inhibited our ability to profit from higher prices for these commodities on the international market, hindered us from offsetting sustained increases in costs endemic to the energy industry, and materially affected our competitiveness and results of operations.

In April 2004, in order to facilitate the recovery of natural gas prices, the Secretary of Energy entered into an agreement with natural gas producers requiring them to sell a specified amount of gas in the local regulated market. During 2006, the Secretary of Energy required producers to redirect gas earmarked for export to instead supply local thermal power plants and gas distribution companies. In January 2007, the Secretary of Energy confirmed that the ability to export hydrocarbons would be subject to the satisfaction of domestic needs and that exports sales would have to be authorized on a case-by-case basis by the Secretary of Energy. These measures prevent us from benefiting from the higher margins offered by the export market. In 2007, upon the expiration of the aforementioned agreement, the Argentine government and producers signed a new agreement effective until 2011 aimed at securing the domestic supply of gas.

Under these agreements, temporary limits on certain natural gas exports have been imposed to avoid a crisis in the local supply of natural gas, depriving us of the higher margins offered by export prices. During 2005 and 2006, the Secretary of Energy requested producers to redirect gas for export to supply thermal plants and gas distribution companies. This decision limited our total gas export volumes by a daily average of approximately 110 thousand cubic meters and 339 thousand cubic meters, respectively. In 2007 and 2008, our total gas export volume was limited by a daily average of about 420 thousand cubic meters and 31 thousand cubic meters, respectively.

Similarly to restrictions imposed on the export of natural gas, pursuant to Resolution No. 1679/04, enacted in December 2004, producers must obtain the approval of the Argentine government prior to exporting crude oil or diesel oil. To obtain this approval, exporters must demonstrate that they have either satisfied local demand requirements or have granted the domestic market the opportunity to acquire oil or diesel oil under terms similar to current domestic market prices and, in the case of diesel oil, they must also demonstrate, if applicable, that commercial terms offered to the domestic market are at least equal to those offered to their own gas station network. Furthermore, in December 2006, pursuant to Resolution No. 1338/06, the Secretary of Energy extended these regulations to the export of gasoline, fuel oil and fuel oil mixtures, diesel oil, aero kerosene, jet fuel, lubricants, asphalts, coke and by-products for use in the petrochemical industry. In response to an increase in fuel prices in the domestic market, in January 2008 the Argentine government temporarily prohibited the exports of gasoline and diesel oil until the domestic market was fully supplied at the prices in force on October 31, 2007.

In the future, the extension of these restrictions could significantly and adversely affect the profitability of our operations, preventing us from capturing the upside of export prices, and negatively impacting the total volume of refined products sold in the domestic market, due to our need to manage crude oil volumes processed in accordance with our storage capacity.

We cannot assure you that the Argentine government will not increase export restrictions on hydrocarbons and related oil products. If it were to do so, our financial condition and results of operations could be adversely affected.

***Export taxes on our products have negatively affected, and may continue to negatively affect, the profitability of our operations.***

In order to discourage exports, secure domestic supply and fix a reference price for crude between producers and refineries, on March 1, 2002, the Argentine government imposed a withholding tax on exports of hydrocarbons, initially lasting five years.

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This tax framework prevented us from benefiting from significant increases in international prices for oil, oil related products and natural gas, hindered us from offsetting sustained increases in costs endemic to the energy industry, and materially affected our competitiveness and results of operations.

Effective November 2007, the Ministry of Economy and Production adopted a more onerous method for calculating withholding taxes on exports of crude oil and certain oil by-products. In case of crude oil, under this method, when the international price for crude oil exceeds US\$60.90 per barrel, the price the producer receives is capped at US\$42 per barrel. At prices between US\$45 and US\$60.90 per barrel, the producer pays a withholding tax of 45%. This tax regime has had a negative impact on our Refining and Distribution business unit, particularly on exports of paraffins, other heavy products and gasoline. See Item 5. Operating and financial review and prospects Factors affecting our consolidated results of operations Regulations of the Energy Industry in Argentina Withholding Taxes on Exports . We cannot assure you that the Argentine government will reduce current export tax rates or will not increase them further. We do not know the government's future intentions in regard to export taxes. As a consequence, we cannot predict the impact that any changes may have on our results of operations.

***Price controls have affected, and may continue to affect, our results of operations and capital expenditures.***

The Argentine government has imposed a series of regulations on the energy sector to limit the prices charged to end users in an effort to reduce the inflationary impact of high international commodity prices and to guarantee domestic supply. These regulations have had a material adverse impact on our results of operations. See Regulation of our Businesses .

***a) Natural gas and electricity***

Pursuant to the Public Emergency Law, Petrobras Energía was precluded from increasing the price of gas and electricity sold in the domestic market. This limitation, within the context of the peso devaluation and subsequent inflation, resulted in a substantial change in the economic and financial balance of our energy and gas-related businesses, significantly affecting our operating results and prospects.

In April 2004, Petrobras Energía and other gas producers, entered into an agreement with the Argentine government that provided for a schedule of gradual increases in gas prices in the domestic market that would culminate in a complete deregulation of the wellhead price of natural gas in 2007. Since September 1, 2005, wellhead prices have been deregulated for sales to electricity generation and gas distribution companies supplying industrial clients directly, with the Gas Electronic Market (*Mercado Electrónico del Gas*) starting operations for gas surplus spot transactions. In 2007, upon expiration of the aforementioned agreement, the Argentine government and producers signed a New Natural Gas Producers Agreement. This new agreement modified the prescribed extent of the total deregulation of wellhead prices of gas, adopting a schedule of defined prices, whereby the 2005 price remains unchanged for the residential sector and an annual average increase of approximately 6.5% is established for the Compressed Natural Gas ( CNG ), electricity generation, and industrial sectors, although the price for the latter remains freely negotiable. This new resolution has already come into effect by sector according to schedule; the residential supply commitment is the last one to expire in the year 2011. This agreement provides for minimum supply requirements that gas producers must supply to the domestic market and electricity generators.

With respect to electricity generation, with the enactment of the Public Emergency Law, the Argentine government implemented the pesification of dollar-denominated prices in the Wholesale Electricity Market ( WEM ), and set a price cap on gas supplied for electric power generation. This regulatory change imposed a deviation from the marginal cost system previously in force, and forced generators to set prices based on the price of natural gas, regardless of the fuel actually used in generation activities. In December 2004, the Secretary of Energy agreed to approve successive seasonal electricity price increases to rates that would at least cover total monomic costs by November 2006 (to include compensation for actual output at spot market rates, or energy, plus compensation for capacity placed at the disposal of the spot market, or power capacity). This commitment has not been carried out in practice. In November 2008 partial adjustments to seasonal prices were approved, applicable to the period between November 2008 and April 2009, but the adjusted prices still fail to cover costs actually incurred in the generation system, as a whole.



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In addition, the Secretary of Energy committed to pay for energy at the marginal price obtained in the spot market and to pay for power capacity at the U.S. dollar values that were in effect prior to the enactment of the Public Emergency Law, once the new generation capacity is brought into the system under the Fund for the Investment Needed to Increase the Supply of Electricity in the Wholesale Market (*Fondo para las Inversiones Necesarias que permitan incrementar la oferta de energía eléctrica en el Mercado Eléctrico Mayorista*) ( FONINVEMEM ) plan. See Item 5. Operating and Financial Review and Prospects Analysis of Consolidated Results of Operations Factors Affecting our Consolidated Results of Operations Regulation of the Energy Industry in Argentina Price Controls and Restrictions on Exports Electricity Generation .

Through these combined measures, the Argentine government is expected to gradually restore economic and financial balance to the natural gas and electricity sectors. Our results and capital expenditure plans, however, may be adversely affected if (i) the agreed schedule of increases in natural gas prices or the commitments with respect to electricity price increases fail to be fully implemented by the Argentine government or (ii) the government applies its regulatory emergency authority or adopts other regulations to control prices or supply.

**b) Downstream margins**

The downstream business in Argentina has been and may continue to be subject to extensive regulatory changes that affect prices and profitability, and these changes have had and may continue to have an adverse effect on the results of our operations. Downstream margins in Argentina have significantly declined since the enactment of the Public Emergency Law. Since 2002, the Argentine government has actively intervened in the domestic fuel market to ensure full supply and to limit increases in the price of gasoline and diesel oil at the retail level that would have resulted from: (i) higher costs due to increases in crude oil international prices (ii) the peso devaluation and (iii) domestic inflation. During 2007 and 2008, some flexibility was reintroduced to the domestic market that allowed for gradual increases in fuel prices, which facilitated a partial recovery in marketing margins.

The Argentine fuel market has steadily grown over the last several years. To secure domestic supply, in the face of growing demand and the inability of Argentine refineries to significantly increase production levels, in 2006 the Secretary of Domestic Trade promulgated Resolution No. 25/2006, which required refining companies to supply all diesel oil market demand with a baseline equal to the same month of the prior year's demand, plus an estimated market variation.

In order to comply with this resolution, Petrobras Energía was required to import 202 thousand cubic meters of diesel oil in 2008, 208 thousand cubic meters in 2007 and 85 thousand cubic meters in 2006. Considering the differential between import and retail diesel oil prices, we recognized losses of P\$151 million, P\$106 million and P\$38 million in 2008, 2007 and 2006, respectively. In 2008, under Resolution No. 121/2008 issued by the Ministry of Federal Planning, Public Investment and Services, we were able to import diesel oil at domestic market prices under the Total Energy Program ( PET ), due to a provision whereby the Treasury subsidized the cost of imports. This subsidization significantly mitigated the losses we would have otherwise had to bear under the supply requirements of Resolution No. 25/2006.

In the future, subject to the production capacity of our plants and the real market growth levels, we may be required to continue importing diesel oil pursuant to Resolution No. 25/2006, with a probable adverse effect upon our results of operations, as we do not have any assurance that the government will subsidize the cost of these programs in the future, as it did while Resolution No. 121/2008 was effective.

We cannot assure you that the Argentine government will not make further regulatory changes that will adversely affect our refining margins. See Factors Affecting Our Consolidated Results of Operations Regulation of the Energy Industry in Argentina Price Controls and Restrictions on Exports Downstream Margins .



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***The Argentine government and our affiliated utility companies are in the process of renegotiating utility contracts, and the recoverability of our investments in these affiliates depends on the successful completion of these negotiations.***

The macroeconomic state of the country after the enactment of the Public Emergency Law impacted the economic and financial condition of utility companies in Argentina. The combined effect of (i) the peso devaluation, (ii) the pesification of rates on a one-to-one basis and (iii) financial debts primarily denominated in foreign currency, adversely affected the utility companies' financial condition, results of operations and ability to satisfy financial obligations and pay dividends. Although some of these utility companies have been successful in restructuring their indebtedness, their return to financial stability and profitability on a long-term basis depends on a successful negotiation of tariff increases with the Argentine government. The Utilities Contract Renegotiation and Analysis Committee (*Unidad de Renegociación y Análisis de Contratos de Servicios Públicos*) ( UNIREN ) (the agency created by the Argentine government to, among other things, provide assistance in the utility renegotiation process, execute comprehensive or partial agreements with utility companies and submit regulatory projects related to provisional rate adjustments) is currently in the process of renegotiating contracts with our affiliates Edesur S.A. ( Edesur ) and Transportadora de Gas del Sur S.A. ( TGS ). These discussions are in different stages. See [Business Overview Gas and Energy Gas Transportation TGS Regulated Energy Segment](#) and [Business Overview Gas and Energy Electricity Electricity Distribution- Edesur](#) and [Regulation of Our Businesses Argentine Regulatory Framework Natural Gas and Electricity](#) .

We cannot assure you that these discussions will ultimately result in a level of tariff increases sufficient for our affiliated utility companies to return their regulated business to financial stability and profitability in the near future or on a long-term basis.

**Factors Relating to Our Business**

***Substantial or extended declines in the prices of crude oil and related oil products may have an adverse effect on our results of operations and financial condition.***

A significant amount of our revenue is derived from sales of crude oil and related oil products. We do not and will not have control over factors affecting international prices for crude oil and related oil products. These factors include: political developments in crude oil producing regions; the ability of the Organization of Petroleum Exporting Countries ( OPEC ) and other crude oil producing nations to set and maintain crude oil production levels and prices; global supply and demand for crude oil; competition from other energy sources; government regulations; weather conditions and global conflicts or acts of terrorism.

Changes in crude oil prices generally result in changes in prices for related oil products. International oil prices have fluctuated widely over the last ten years.

In 2008, oil average prices reached a high for the seventh year in a row, marked, however, by the sudden end of this upward trend. Oil prices were highly volatile. The benchmark West Texas Intermediate ( WTI ) crude reached a high of US\$145 per barrel in July 2008, but by the end of the year and in line with the global economic crisis, such prices experienced a clear and steep decline to below US\$40, with a resulting drop in the price for oil by-products. As of December 31, 2008, the WTI closed at US\$44.6 per barrel, 54% lower than the price as of the same date in 2007. During 2008, the average WTI was US\$99.6 per barrel, compared to US\$72.3 and US\$66.0 in 2007 and 2006, respectively.

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

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***Our crude oil and natural gas reserve estimates involve some degree of uncertainty and may prove to be incorrect over time.***

The proved crude oil and natural gas reserves set forth in this annual report account for our estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions (i.e. with prices and costs as of the estimate date). Our proved developed crude oil and natural gas reserves are those that can be expected to be recovered through existing wells with existing equipment and operating methods.

DeGolyer and MacNaughton, international technical consultants, audited 70% of our total reserves as of December 31, 2008. See **Business Overview Oil and Gas Exploration and Production Reserves** .

Crude oil and natural gas reserves are reviewed annually taking into consideration many factors, including:

new production or drilling activities;

field reviews;

the addition of new reserves from discoveries or extensions of existing fields;

changes in the international prices of oil and gas;

the application of improved recovery techniques; and

new economic conditions.

Proved reserve estimates could be materially different from the quantities of crude oil and natural gas that are ultimately recovered, and downward revisions of our estimates could impact our future results of operations and business plan, including our level of capital expenditures.

***We may not be able to replace our oil and gas reserves and this may have an adverse impact on our future results of operations and financial condition.***

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

We have limited capital resources to implement an ambitious capital expenditure program. Moreover, we face strong competition in bidding for new production blocks, especially those blocks with the most attractive crude oil and natural gas reserves. Without successful exploration activities or reserve acquisitions, our proved reserves will decline as our oil and gas production will be forced to rely on our current portfolio of assets.

Further decline in reserves and production may limit the integration of our upstream and downstream operations, since maximizing the crude oil processing capacity of our refineries would require us to obtain a greater supply of our crude oil from third parties, including imports.

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

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***Our operations could be adversely affected by events beyond our control.***

Our activities are subject to numerous risks, many of which are beyond our control. Our operations may be curtailed, delayed, interrupted or canceled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of equipment, coercive actions and compliance with governmental requirements, or other events that could adversely impact our costs of production, results of operation and financial condition. For example, from March 9, 2007 to April 10, 2007, operations in Block 18, in Ecuador were curtailed as a result of coercive actions taken by local communities. During this period, cumulative oil production decreased by approximately 305,000 barrels of oil equivalent in our participation.

***Our activities may be adversely affected by events in countries in which we do business.***

Our operations are concentrated in Latin America, a region that has experienced significant economic, social, political and regulatory volatility. In recent periods, many governments in Latin America have taken steps to assert greater control or increase their share of revenues from the energy sector, spurred by soaring oil and gas prices and nationalist politics. See Regulation of our Businesses Regulatory Framework outside of Argentina Petroleum and Gas . These risks are evidenced by changes in business conditions that we have experienced in Venezuela, Bolivia and Ecuador.

**Venezuela**

In 2006, the Venezuelan government took a majority stake in all hydrocarbon operations in that country that were the subject of operating agreements entered into between 1992 and 1997 by mandating that such operating agreements be converted into mixed-ownership companies. As a result of this conversion, four of Petrobras Energía's pre-existing operating agreements were converted into mixed-ownership companies. The conditions imposed under the new operating agreements had an adverse impact on the recoverability of our assets in Venezuela. In light of this new contractual framework, as of December 31, 2005, we recognized impairment charges of P\$424 million to adjust the book value of our assets in Venezuela to their estimated recoverable value.

The recoverability of these investments is highly sensitive to crude oil price volatility, to economic, social and regulatory changes in Venezuela and, particularly, to the decisions made by management of the mixed-ownership companies. As a result of the aforementioned variables, in the years ended December 31, 2008, 2007 and 2006, we recorded writedowns of P\$154 million, P\$33 million and P\$186 million, respectively, related to our assets in Venezuela. For more detail on the conversion into mixed-ownership companies and regulations imposed by the Venezuelan government, see Item 4. Oil and Gas Exploration and Production Production Production Outside of Argentina Venezuela

**Bolivia**

In May 2006, the Bolivian government enacted Supreme Decree No. 28,701, which provided, among other things, for the nationalization of hydrocarbon resources in Bolivia. This decree mandated that as of May 1, 2006, oil companies had to deliver all property related to hydrocarbon production for sale to the national operator, Yacimientos Petrolíferos Fiscales Bolivianos ( YPFB ). In addition, this decree provided that the Bolivian state would recover full participation in the entire oil and gas production chain and to that end provided for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one of the shares in a number of companies, including our affiliate Petrobras Bolivia Refinación S.A., in which we had a 49% interest, in partnership with Petrobras, which held a 51% interest.

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Pursuant to the terms of the contract between Petrobras Energía and YPF, we, through our branch in Bolivia, agreed to conduct, at our own expense and on our own account, exploration and production activities in the Colpa Caranda area on behalf of YPF. In addition, in June 2007, we signed an agreement, through our subsidiary Petrobras Energía Internacional S.A., under which we sold our interest in Petrobras Bolivia Refinación S.A. to YPF.

**Ecuador**

In April 2006, the Ecuadorian government approved the Law Amending the Hydrocarbon Law ( Law 42 ), which assigned the Ecuadorian state a share of at least 50% of the revenues resulting from any increase in the average monthly sales price of Ecuadorian crude oil, based upon the average monthly sales price for such oil as of the execution date of the relevant agreements, stated in constant values as of the month of settlement. In October 2007, the Ecuadorian President issued an amendment to the regulations applying Law 42, further increasing the Ecuadorian government's share of revenues from increases in the price of crude oil to 99%, reducing the oil companies' share to 1%.

EcuadorTLC S.A. and Petroecuador, the national oil company of Ecuador, adopted significant opposing interpretations as to the applicability and scope of Law 42 in connection with revenues from the Palo Azul operating agreement in which the Ecuadorian state's share in extraordinary revenues resulting from any increase in crude oil prices was already established.

The effect of these regulatory changes has been a material modification of the conditions set forth at the time of execution of our participation agreements, adversely affecting the valuation of our projects in Ecuador, and negatively impacting our assessment of recoverability. Accordingly, as of December 31, 2007, we recorded an impairment allowance of P\$759 million to write down the book value of our Ecuadorian assets to their probable recoverable value. During 2008, EcuadorTLC S.A. and the Ecuadorian state conducted negotiations aimed at designing a business framework that secures the sustained development of operations while focusing on long-term profitability and social responsibility. Within this framework, the parties agreed to resolve their previously conflicting interpretation of the applicability of Law 42. Under this agreement, EcuadorTLC S.A. made a payment in the amount of US\$44 million, which was considered a settlement of any difference arising from the application of the Law 42 until the execution date of the Amendment Agreements mentioned below, whereupon the Tax Equity Law became effective.

In October 31, 2008 EcuadorTLC S.A. and Petroecuador signed Amendment Agreements which, among other things, provided terms and conditions for the exploitation of Block 18 for one year. During such period, negotiations will be conducted as to whether or not such agreements will be converted to a new contractual modality. Under the Amendment Agreements, the Ecuadorian state's interest in the Pata and the Palo Azul fields has increased to 40% and 60%, respectively. In addition, upon execution of the Amendment Agreements the Tax Equity Law will be applicable whereby the Ecuadorian State receives 70% of revenues from sales at prices over a new base price of US\$45.43 per barrel. Furthermore, on December 31, 2008, Petrobras Energía Ecuador and Petroecuador signed a Termination Agreement in connection with Block 31 Participation Agreement, under which Block 31 was returned to the Ecuadorian State.

These measures, and any other similar measures taken in the future by governments in countries where we conduct business, have had and may continue to have a material adverse effect on our business and results of operations.

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***We could be subject to organized labor action.***

Many of our operations are highly labor-intensive and require a significant number of workers. The sectors in which we operate are largely unionized. We have experienced organized work disruptions and stoppages in the past, frequently due to strikes by employees of contractors we employ. We cannot assure you that we will not experience such disruptions or work stoppages in the future, and any such action could adversely affect our business and revenues.

During 2007 and 2008 unionized employees went on strike over salary increases, adversely affecting our operations. In 2008, in the Austral basin in Argentina, the pace of production slowed as a result of the labor strike held by our contractor's employees throughout May 2008, with an adverse impact on production levels in subsequent months.

We cannot predict what actions unionized personnel might take in the future. Furthermore, we do not maintain insurance coverage for business interruptions, including business interruptions caused by labor action. Strikes, picketing or other types of conflict with the unionized personnel could curtail our operations and cause higher costs, having an adverse effect on our results in the long-term.

***Our operations run the risk of causing environmental damage, and any changes in environmental laws may increase our operational costs.***

Some of our operations are subject to environmental risks that may arise unexpectedly and result in material adverse effects on our results of operations and financial condition. We have not incurred any material pollution liabilities as a result of operations to date. We cannot assure you that we will not incur additional costs related to the environment in the future, which could negatively impact our results of operations.

In addition, we are subject to extensive environmental regulation both in Argentina and in the other countries in which we operate. Local, provincial and national authorities in Argentina and the other countries where we operate are moving towards more stringent enforcement of environmental laws, which may require us to incur higher compliance costs. We cannot predict what additional environmental legislation or regulations will be enacted in the future or the potential effects on our financial condition and results of operations.

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**Item 4. INFORMATION ON THE COMPANY**

**HISTORY AND DEVELOPMENT**

**History**

***Petrobras Energía***

Petrobras Energía S.A. is a corporation (*sociedad anónima*) organized and existing under the laws of the Republic of Argentina and registered on November 17, 1947 with the Public Registry of Commerce, under No.759, page 569, Book 47, Volume A, with a term of duration expiring June 18, 2046. Our principal place of business is located at Maipú 1, (C1084ABA), Buenos Aires, Argentina. Telephone: 54-11-4344-6000, fax 54-11-4344-6315 and web site at [www.petrobras.com.ar](http://www.petrobras.com.ar). Our process agent in the U.S. is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

We are an integrated energy company, engaged in oil and gas exploration and production, refining, petrochemicals, electricity generation, transmission and distribution and hydrocarbon marketing and transportation. As of December 31, 2008, we conduct operations in Argentina, Bolivia, Brazil, Ecuador, Mexico, Peru, Colombia and Venezuela. Our operations are currently divided into four business segments that are in turn supported by corporate functions. The four business units are: (1) Oil and Gas Exploration and Production, (2) Gas and Energy, (3) Refining and Distribution, and (4) Petrochemicals.

Petrobras Energía was founded in 1946 as a shipping company by the Perez Companc family. In the mid-1950 s, Petrobras Energía began its forestry operations when it acquired an important forestry area in northeastern Argentina. In the 1960s, it began servicing oil wells; over time, its maritime operations were gradually discontinued and replaced by oil-related activities.

The development of Petrobras Energía s oil and gas business is marked by two significant events. The first occurred in 1991 when Petrobras Energía was awarded concessions to operate Puesto Hernandez, one of the most important oilfields in Argentina, in terms of reserves and production, and the Faro Vírgenes and Santa Cruz areas in the Austral basin. As a result of these concessions, Petrobras Energía has become one of the largest oil and gas producers in Argentina.

The second event that was a key factor in Petrobras Energía s oil and gas operations growth abroad occurred in March 1994 when Petrobras Energía was awarded the Oritupano-Leona area in Venezuela. This was the first step towards a significant regional expansion of the businesses that consolidated later on.

Between 1990 and 1994 many state-owned activities were privatized in Argentina. As a result, Petrobras Energía acquired interests in companies operating in natural gas transportation and distribution, electricity generation, transmission and distribution, oil transportation, storage and shipment and refining. These activities have formed the core of Petrobras Energía s businesses.

Petrobras Energía has in the past conducted operations in other industries, including construction, real estate, telecommunications, mining and agriculture.

Beginning in 1997, and through successive divestments, Petrobras Energía restructured its business strategy with a focus on the energy sector. As a result of these divestitures and the development of Petrobras Energía s energy businesses, Petrobras Energía has become a vertically-integrated energy company.

On January 21, 2005, the shareholders meetings of Petrobras Energía, Eg3 S.A. ( Eg3 ), Petrobras Argentina S.A. ( PAR ) and Petrolera Santa Fe S.R.L. ( PSF ), approved the merger of these companies, pursuant to which Petrobras Energía was the surviving company, having absorbed Eg3, PAR and PSF. The effective merger date was set at January 1, 2005, and as of that date all assets, liabilities, rights and obligations of the absorbed companies were assumed by Petrobras Energía.

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On March 27, 2009, the General Regular and Special Shareholders Meeting of Petrobras Energía adopted the change of the Company's corporate name to Petrobras Argentina S.A. As of the date of this annual report, the Company is in the process of completing the necessary formalities, including the registration of this name change before the relevant Argentine regulatory bodies, to bring this change into effect.

***Petrobras Energía Participaciones***

Petrobras Energía Participaciones S.A. is a corporation (*sociedad anónima*) organized and existing under the laws of the Republic of Argentina with a duration of 99 years from the date of its incorporation, September 25, 1998. PEPSA's principal executive offices are located at Maipú 1, 22nd Floor, C1084ABA Buenos Aires, Argentina, Telephone: 54 11 4344-6000. The company's process agent in the U.S. is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

Petrobras Energía Participaciones is a holding company that operates exclusively through its subsidiary, Petrobras Energía and its subsidiaries, as discussed above. Petrobras Energía Participaciones's original name was PC Holdings S.A., and the company was formed in 1998 for the sole purpose of owning shares of Petrobras Energía. Members of the Perez Companac family controlled both Petrobras Energía Participaciones and Petrobras Energía at that time. As of December 31, 1999, Petrobras Energía Participaciones owned 28.92% of Petrobras Energía's common stock.

On January 25, 2000, Petrobras Energía Participaciones acquired control of Petrobras Energía as a result of an exchange offer, increasing its ownership interest in Petrobras Energía to 98.21%. On October 17, 2002, Petrobras Participaciones, S.L. ( PPSL ), a wholly owned subsidiary of Petróleo Brasileiro S.A. Petrobras ( Petrobras ), acquired from the Perez Companac family and Fundación Perez Companac their entire ownership interest, or 58.6%, in the capital stock of Petrobras Energía Participaciones. As result of the merger of Petrobras Energía with Eg3, PAR and PSF, Petrobras Energía Participaciones's interest in Petrobras Energía declined from 98.21% to 75.82%, and considering its 58.62% shareholding in Petrobras Energía Participaciones, Petrobras increased its total shareholding in Petrobras Energía to 67.2%. Petrobras is a Brazilian company whose business concentrates on exploration, production, refining, sale and transportation of oil and by-products in Brazil and abroad. Petrobras is a mixed-capital company with a majority of its voting capital owned by the Brazilian federal government.

***Corporate reorganization of Petrobras Energía and Petrobras Energía Participaciones***

On January 31, 2009, the Special Shareholders Meetings of Petrobras Energía and Petrobras Energía Participaciones approved the merger of these two companies, pursuant to which Petrobras Energía Participaciones would be merged and absorbed into Petrobras Energía, and Petrobras Energía would be the surviving company. The effective merger date was set at January 1, 2009, and as of that date all assets, liabilities, rights and obligations of the absorbed companies are considered incorporated into Petrobras Energía. Immediately following the merger, Petrobras will continue to hold 67.2% of the outstanding shares of Petrobras Energía. As of the date of this annual report, the companies are in the process of completing the necessary formalities in Argentina to finalize this merger.

Once the requisite Argentine formalities have been completed and the merger is effective, shareholders of Petrobras Energía Participaciones will receive shares of Petrobras Energía (in the United States, in the form of American Depositary Receipts), and the American Depositary Receipts of Petrobras Energía Participaciones will be removed from listing on the NYSE and from registration with the SEC. Immediately subsequent to this exchange of shares, American Depositary Receipts, each representing 10 Class B shares of Petrobras Energía, will be listed and begin trading on the NYSE.

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**Capital Expenditures and Divestitures**

For a description of our capital expenditures see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources . For a description of our most significant divestitures see Item 5. Operating and Financial Review and Prospects Factors Affecting Our Consolidated Results of Operations Operations in Ecuador , Sale of Petrobras Energía s Interest in Petrobras de Valores Internacional de España S.L. (PVIE) and Changes in Our Portfolio .

**BUSINESS OVERVIEW**

**Our Strategy**

Our long-term strategy is to grow as an integrated energy company with a regional presence, while being a leader in profitability as well as social and environmental responsibility.

The main points of this strategy are:

Increasing oil and gas reserves and production, to secure sustainable growth.

Seeking profitability in the downstream business in Argentina, through a balanced crude production refining logistics distribution chain.

Generating energy solutions through the development of businesses in the gas and energy areas that will allow for capitalizing on the synergies with the natural gas reserves of the Petrobras group.

Consolidating our leading position in the South American styrenics markets.

Maintaining our financial solvency, while pursuing operating and management efficiency and the development of human resources.

In order to adhere to this strategy, we consider the following to be essential:

A commitment to protecting the quality of our goods and services, the environment and the health and safety of our employees, contractors and neighboring communities.

Adoption of, and compliance with, corporate governance practices in line with recognized best practices.

Maintenance of a management style that favors communication and teamwork, fostered by the value of the people that work in our organization.

Developing new business opportunities in order to maximize potential synergies and capitalize on complementary business opportunities with Petrobras.

Petrobras Energía currently manages our activities, with the support of a corporate center, in four business segments: (1) Oil and Gas Exploration and Production, (2) Gas and Energy, (3) Refining and Distribution, and (4) Petrochemicals. The discussion that follows with respect to the operations of each of our four business segments relates to the operations of Petrobras Energía, unless otherwise indicated.



**Table of Contents****Our Principal Market**

Both Petrobras Energía and Petrobras Energía Participaciones are Argentine corporations. As of December 31, 2008, with respect to Petrobras Energía, approximately 70% of total assets, 73% of net sales, 68% of combined crude oil and gas production and 62% of proved oil and gas reserves were located in Argentina. Fluctuations in the Argentine economy and actions adopted by the Argentine government have had and may continue to have a significant effect on Argentine private sector entities, including us. Specifically, we have been affected and may be affected by inflation, interest rates, the value of the peso against foreign currencies, price and export controls on oil and oil by-products, business regulations, tax regulations and in general by the political, social and economic environment affecting Argentina and other countries. See Risk Factors Factors Relating to Argentina .

Historically, the Argentine economy was characterized by its macroeconomic instability and by periods of low or negative growth and high and variable levels of inflation and currency devaluation. In 1988, 1989 and 1990, the annual inflation rates were approximately 388%, 4,924% and 1,344%, respectively, based on the Argentine consumer price index and approximately 422%, 5,386% and 798%, respectively, based on the Argentine wholesale price index. As a result of inflationary pressures, the Argentine currency was devalued repeatedly during the 1960s, 1970s and 1980s. Macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, the Argentine government implemented various plans and utilized a number of exchange rate systems and controls.

In the 1990s deep and drastic economic reforms were implemented in terms of State reform, privatization of public companies and utilities and opening of the economy. The pillar of the economic reform was the Convertibility Law enacted in 1991. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar and required that the Central Bank maintain reserves in gold and foreign currency at least equivalent to the monetary base. In the 1991-1997 period, the economy experienced growth, with exchange stability and low inflation rates.

Partly due to the crisis of the convertibility model, in 1998 the Argentine economy entered into a recession, hitting its lowest point in December 2001 that resulted in a massive withdrawal of deposits and capital outflow. In this situation, and with a fall in GDP of approximately 10%, the Argentine government implemented a number of monetary and exchange control measures, which proved to be insufficient and caused a sharp rise in social discontent. This triggered a political, social and economic crisis.

On January 1, 2002 Argentina suspended the payment of a portion of its sovereign debt. Later that month, the Argentine Congress enacted the Public Emergency Law, whereby monetary, financial and exchange measures were implemented to overcome the economic crisis in the short term. These events resulted in dramatic changes in the economic model and put an end to the US dollar-peso parity, leading to a significant devaluation of the Argentine peso.

The Federal Executive Branch implemented a number of far-reaching initiatives, which included:

- Pesification of certain assets and liabilities denominated in foreign currency and held in the country;
- Amendment of the charter of the Central Bank authorizing it to issue money in excess of the foreign currency reserves, grant short-term loans to the federal government and provide financial assistance to financial institutions with liquidity or solvency problems;
- Pesification and elimination of indexing clauses on utility rates, fixing those rates in pesos at the P\$1=US\$1 exchange rate; and
- Implementation of taxes on hydrocarbon exports and certain related oil products, among others.

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In 2002, with an active intervention by the government in the development of the economy, as a consequence of the significant political and economic changes that resulted from the severe crisis at the end of 2001, commercial and financial activities were virtually paralyzed, further aggravating the economic recession which included a 10.9% decline in the GDP. Within this context, the peso devalued 238% against the dollar and wholesale inflation grew 118.2%. Towards the end of 2002, the Argentine government implemented different measures aimed at stimulating the economy and abrogating certain restrictions to gradually normalize the foreign exchange market and the commercial and financial flow of foreign currency.

In subsequent years, the activity level exhibited an accelerated recovery, taking advantage on the existing idle capacity, a high real exchange rate and increased international prices for commodities. During this period, inflation remained stable and there was an excess supply of U.S. dollars, supported by a significant trade surplus. The Central Bank sought to prevent the nominal appreciation of the Argentine peso through the purchase of foreign currency, increasing its international reserves up to US\$46 billion in 2007. During this stage, social indicators such as unemployment exhibited highly significant improvements.

The Argentine government has maintained a surplus in its public accounts, though increasingly reduced, to meet its financing needs. In 2005, the government was able to restructure the debt in default with 76% of creditors accepting the government's exchange proposal, with reductions in principal amount, term extensions and reductions in interest rates. Early in 2006, Argentina prepaid the debt outstanding with the International Monetary Fund (IMF) (around US\$10 billion) using freely available Central Bank reserves. Since the 2005 debt exchange and up through 2007, the Argentine country-risk remained below 500 basis points.

In 2008, the Argentine economy maintained high growth of 7%, according to official data. However, this growth rate was below prior years' records, with a clear deceleration in the last months of the year. Although official inflation remained at approximately 7%, alternative, non-governmental measurements exhibited persistent inflationary pressure, which declined in the latter part of the year, consistent with the economic slowdown.

During 2008 exports reached record figures (above US\$70 billion), driven by higher international prices but with a meager performance in volume, whereas imports were slightly below US\$60 billion, with a balance of trade in excess of US\$10 billion. Unlike previous years and despite the benefit of record commodity prices, the foreign currency supply did not show a surplus, reserves at the Central Bank stagnated and the nominal exchange rate showed a depreciation, which averaged US\$1 = P\$3.16 and closed the year at US\$1 = P\$3.45, triggered by capital outflows. Within this context, public accounts showed a primary surplus of about 3% of GDP, supported by record revenues from export withholdings. However, and with the combined effect of an international context affected by the financial crisis and a reduced domestic growth, raising of voluntary funds to repay the debt was insufficient and the government had to resort mostly to intra-public sector financing. Consequently, the country-risk exhibited a clear upward trend, which was exacerbated as from September 2008 and reached approximately 1,800 basis points. By the end of 2008, Congress approved a bill which eliminated the private pension system and provided for a return to the public pension regime. This allowed the government to have additional funds available in the short term.

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During the first quarter of 2009, according to private estimates, the Argentine economy exhibited a moderate contraction. Industrial activity, in turn, showed a substantially more significant decline, with very strong drops in some sectors, especially the automobile sector. Exports were impacted by the strong drop in international prices for commodities and reduced export volumes in the largest lines of products. In line with these trends, import volumes also declined as a result of declining consumption and investment. Official price indices continue to show controlled inflation (6% year-over-year), but alternative measurements continue to evidence greater inflationary pressures, though less intense than in the two previous years, in line with the trend for the last quarter of 2008. In addition, salaries again showed increases over 20% year-over-year.

The rate of exchange recorded a 7.8% rise, closing at P\$3.72 per dollar by the end of the quarter. The increase in the exchange rate against the U.S. dollar was mitigated by the Central Bank through the sale of reserves. The financial system exhibited stagnation in the absolute level of deposits, but with a growing shift toward deposits held in U.S. dollars.

The Argentine government maintained positive fiscal figures, but the nominal primary surplus was reduced to its half compared to the same period of previous year. Tax collection was affected by reduced revenues from export withholdings, but in turn benefited from the elimination of the private capitalization pension system and the return to the public pension regime.

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**OIL AND GAS EXPLORATION AND PRODUCTION**

**Overview**

The core of our operations is the oil and gas exploration and production business segment, as it is a key link in our business chain. The business segment's strategy is to:

Use exploration activities as the main vehicle for replacement of reserves;

Look for reserve purchase opportunities which contribute to balance our business portfolio;

Keep an adequate temporal horizon for our business's reserve to production ratio; and

Focus on improving efficiency and performance in our technical and management processes.

As of December 31, 2008, we participated in oil and gas exploration and production activities in Argentina, Venezuela, Peru, Ecuador, Bolivia and Colombia. In addition, we act as a contractor and provide technical and operating support in Mexico.

As of December 31, 2008, our combined crude oil and natural gas proved reserves, including our share of the reserves of our unconsolidated investees, were estimated at 433 million barrels of oil equivalent, approximately 59.2% of which were proved developed reserves and approximately 40.8% of which were proved undeveloped reserves. Crude oil accounted for approximately 51.1% of our combined proved reserves, while natural gas accounted for about 48.9%. As of December 31, 2008, 61.6% of our total combined proved reserves were located in Argentina and 38.4% were located abroad.

During 2008, combined crude oil and natural gas production, including our share in the production of our unconsolidated investees, averaged 128.7 thousand barrels of oil equivalent per day. Crude oil accounted for approximately 75.8 thousand barrels per day, while natural gas accounted for approximately 318.2 million cubic feet per day. Approximately 56.8% of our oil production and 83.7% of our gas production is derived from our operations in Argentina.

Integration with our Refining and Distribution business segment enables us to process a large part of our crude oil production in Argentina. The Genelba Thermal Power Plant ( Genelba ), allows us to use approximately 99 million cubic feet of natural gas per day of our own reserves. In addition, in Argentina our oil and gas exploration and production business segment supplies gas to our Petrochemical and Refining operations.

***Our Oil and Gas Exploration and Production Interests***

As is commonplace in the oil and gas exploration and production business, we generally participate in exploration and production activities in conjunction with joint venture partners. Contractual arrangements among participants in a joint venture are usually governed by an operating agreement, which provides that costs, entitlements to production and liabilities are to be shared according to each party's percentage interest in the joint venture. One party to the joint venture is usually appointed as operator and is responsible for conducting the operations under the overall supervision and control of an operating committee that consists of representatives of each party to the joint venture. While operating agreements generally provide for liabilities to be borne by the participants according to their respective percentage interest, licenses issued by the relevant governmental authority generally provide that participants in joint ventures are jointly and severally liable for their obligations to that governmental authority pursuant to the applicable license. In addition to their interest in field production, contractual operators are generally paid their indirect administrative expenses on a monthly basis by their partners in proportion to their participation in the relevant field.

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As of December 31, 2008, we had interests in fifty blocks: twenty-seven oil and gas production blocks (nineteen in Argentina and eight outside of Argentina) and twenty-three exploration blocks located within exploration areas or pending authorization for production (eighteen in Argentina and five outside of Argentina). We are directly or indirectly the contractual operator of twenty-eight of the fifty blocks in which we have an interest.

As of December 31, 2008, our total gross and net productive wells were as follows:

	<b>Oil</b>	<b>Gas</b>	<b>Total</b>
Gross productive wells <sup>(1)</sup>	<b>6,070</b>	<b>368</b>	<b>6,438</b>
Net productive wells <sup>(2)</sup>	<b>3,253</b>	<b>258</b>	<b>3,511</b>

(1) Refers to number of wells completed.

(2) Refers to fractional ownership working interest in gross wells.

As of December 31, 2008, our total producing and exploration acreage, both gross and net, was as follows:

	<b>Average</b>			
	<b>Producing <sup>(1)</sup></b>	<b>Exploration <sup>(2)</sup></b>		
	<b>Gross</b>	<b>Net <sup>(3)</sup></b>	<b>Gross</b>	<b>Net <sup>(3)</sup></b>
	(in thousands of acres)			
Argentina	<b>4,116</b>	<b>2,604</b>	<b>19,293<sup>(4)</sup></b>	<b>6,861<sup>(5)</sup></b>
Peru	<b>116</b>	<b>70</b>	<b>11,548</b>	<b>5,538</b>
Venezuela	<b>485</b>	<b>125</b>		
Ecuador	<b>25</b>	<b>7</b>	<b>256</b>	<b>77</b>
Bolivia	<b>56</b>	<b>56</b>		
Colombia	<b>81</b>	<b>24</b>		
<b>Total</b>	<b>4,879</b>	<b>2,886</b>	<b>31,097</b>	<b>12,476</b>

(1) Includes all areas in which we produce commercial quantities of oil and gas or areas in the development stage.

(2)

Includes all areas in which we are allowed to perform exploration activities but where commercial quantities of oil and gas are not produced or areas that are not in the development stage.

- (3) Represents our fractional ownership working interest in the gross acreage.
- (4) Includes 15,050 thousand exploration acres in offshore areas.
- (5) Includes 4,386 thousand exploration acres in offshore areas.

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The following table sets forth the number of total wells we drilled in Argentina and outside of Argentina and the results for the relevant periods. A well is considered productive for purposes of the following table if it justifies the installation of permanent equipment for the production of oil or gas. A well is deemed to be a dry well if it is determined to be incapable of commercial production. Gross wells drilled in the table below refers to the number of wells completed during each fiscal year, regardless of the spud date, and net wells drilled relates to our fractional ownership working interest in wells drilled. This table includes wells drilled by our consolidated subsidiaries, companies under joint control and unconsolidated investees.

	Year ended December 31,					
	2008		2007		2006	
	Argentina	Outside of Argentina	Argentina	Outside of Argentina	Argentina	Outside of Argentina
<b>Gross wells drilled:</b>						
Production:						
Productive wells:						
Oil	144	151	184	132	218	60
Gas	15	3	13	6	3	2
Dry wells		1	2		3	
Total	159	155	199	138	224	62
Exploration:						
Discovery wells:						
Oil	6		5		5	
Gas	7	1	1	1	6	
Dry wells			3		4	1
Total	13	1	9	1	15	1
<b>Net wells drilled:</b>						
Production:						
Productive wells:						
Oil	67	83	79.0	115.6	100.4	57.4
Gas	10	3	5.2	5.4	0.6	1.0
Dry wells			0.9		0.6	
Total	77	86	85.1	121	101.6	58.4
Exploration:						
Discovery wells:						
Oil	3		1.1		1.7	
Gas	6	0.3	0.5	0.4	3	
Dry wells			1.3		2	0.5
Total	9	0.3	2.9	0.4	6.7	0.5

**Production**

***Argentine Production***

Oil and gas reserves in Argentina have followed a downward trend in recent years. According to official data from the Argentine Oil and Gas Institute, proved oil and gas reserves dropped by 27.8 % in the five-year period from 2003 to 2007. In the period from January to December 2008, oil production declined for the eleventh year in a row, to an average of 629 thousand barrels per day, a decline of approximately 2.2% compared to the same period in 2007.



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During the fiscal year ended December 31, 2008, according to the Argentine Oil and Gas Institute, our oil and gas production accounted for approximately 6% and 7% of total oil and gas production in Argentina, respectively, and positioned us as the fifth largest producer in the country.

Rights to develop oil and gas fields in Argentina are granted through concessions and exploration permits. Concessions are generally granted for periods of 25 years and are typically renewable for a maximum term of ten years, and permits are generally granted for initial periods of four years. Concessionaires in Argentina are entitled to gross proceeds from production sales. All permanent fixtures, materials and equipment are under the control of the concessionaire, although they revert to the Argentine government at the end of the concession. Royalties based on production are paid to the respective Argentine provinces. These royalties are in general 12% of the wellhead price for oil and gas. The wellhead price is calculated by deducting freight and other expenses to make oil and gas available for sale from the sales price obtained in transactions with third parties, or from the product price prevailing in the domestic market if the product is subject to industrialization processes.

We transport our oil and gas production in several ways depending on the infrastructure available and the cost efficiency of the transportation system in a given location. We use the oil pipeline system and oil tankers to transport oil to our customers. Oil is customarily sold through contracts whereby producers are responsible for transporting produced oil from the field to a port for shipping, with all costs and risks associated with transportation borne by the producer. Gas, however, is sold at the delivery point of the gas pipeline system near the field and, therefore, the customer bears all transportation costs and risks associated therewith. Oil and gas transportation in Argentina operates in an open access non-discriminatory environment under which producers have equal and open access to the transportation infrastructure. We maintain limited storage capacity at each oil site and at the terminals from which oil is shipped. In the past, these capacities have been sufficient to store oil without reducing current production during temporary unavailability of the pipeline systems, due, for example, to maintenance requirements or temporary emergencies.

As of December 31, 2008, we owned 19 concessions in oil and gas production areas in Argentina. Our production is concentrated in four basins, the Neuquén, Austral, San Jorge and Noroeste basins. In the Neuquén basin the most important basin in Argentina in terms of oil and gas production we own approximately 552 thousands net acres. Our most important fields in the Neuquén basin are Puesto Hernández, 25 de Mayo-Medanito S.E. and Sierra Chata. In the Austral basin, we own approximately 1,908 thousand net acres, with Santa Cruz I and Santa Cruz II being our main concessions. As of December 31, 2008, we had 3,166 productive wells.

Our proved reserves in Argentina as of December 31, 2008 were 99.8 million barrels of crude oil and 1,002.1 billion cubic feet of natural gas. For the year 2008, our average daily production was 43 thousand barrels of crude oil and 266.5 million cubic feet of natural gas. Oil and gas production activities in Argentina are mainly developed in mature fields undergoing secondary recovery operations, which are capital-intensive projects.

In 2008, we carried out an extensive investment plan in line with reserve replacement and production goals, as a crucial step in securing sustainable growth. Expenditures basically included the drilling of 171 producing and injection wells, the repairing of 228 wells, the expansion of secondary recovery projects and the expansion of surface facilities.

During December 2008, an agreement was signed with the competent authorities of the province of Neuquén to extend Aguada de la Arena, Río Neuquén, Veta Escondida and Rincón de Aranda exploitation concessions. This extension will allow for the execution of new development investments.

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In March 2008, once all the formalities concerning regulatory matters were completed, we acquired a 13.72% interest in El Tordillo and La Tapera Puesto Quiroga areas, for an acquisition price of US\$117.5 million. As a result, our interest in the aforementioned areas increased to 35.67%. El Tordillo concession produces Escalante crude oil (crude of 24° API gravity), while La Tapera Puesto Quiroga concession is in the exploration stage.

In September 2008, upon approval by the regulatory authorities, the acquisition from ConocoPhillips of a 25.67% and 52.37% interest in Sierra Chata and Parva Negra assets, respectively, was completed. The price agreed upon by the parties was US\$77.6 million, plus adjustments resulting from variations in working capital as of the date the agreement became effective. This transaction has increased our interest in Sierra Chata and Parva Negra to 45.55% and 100%, respectively.

***Production Outside of Argentina***

As of December 31, 2008, 38.4% of our combined proved reserves were located outside of Argentina. In addition, as of December 31, 2008, approximately 43.2% of our oil production and 16.3% of our gas production came from outside of Argentina. As of that date, we also had working interests in eight oil and gas production blocks outside of Argentina: Oritupano Leona, La Concepción, Acema and Mata (these four through direct and indirect interest in Petroritupano S.A., Petroven-Bras S.A., Petrowayú S.A. and Petrokariña S.A.) in Venezuela, Lote X in Peru, Block 18 in Ecuador, Colpa Caranda in Bolivia and Tibú in Colombia.

***Venezuela***

As of December 31, 2008, estimated proved oil and gas reserves attributable to operations in Venezuela amounted to 61.6 million barrels of oil equivalent, accounting for 14.2% of our total reserves. In 2008, oil and gas production attributable to operations in Venezuela averaged 14 thousand barrels of oil equivalent per day, representing 10.9% of our daily production. Our four areas under operation in Venezuela, Oritupano Leona, La Concepción, Acema and Mata, had 389 productive wells.

In 1994, Petróleos de Venezuela S.A. ( PDVSA ) awarded us the contract at the Oritupano-Leona field to provide exploration and production services for a 20-year period. In 1997, PDVSA awarded us three 20-year service contracts for the exploration and production of La Concepción, Acema and Mata blocks.

In April 2005, the Venezuelan Energy and Oil Ministry ( MEP ) ordered PDVSA to convert existing operating agreements effective at that time into mixed-ownership companies in which the Venezuelan government, through PDVSA, would own at least a majority stake.

In August 2006, the conversion operating agreements were signed. The migration agreements provided that the equity interest of private partners in such mixed companies would be of 40%, with the remaining 60% to be held by the Venezuelan government. As a result, our direct and indirect interests in the mixed-ownership companies operating the areas of Oritupano Leona, La Concepción, Acema and Mata (operated by Petroritupano S.A., Petrowayú S.A., Petroven-Bras S.A. and Petrokariña S.A., respectively) were reduced to ownership interests of 22%, 36%, 34.5% and 34.5%, respectively. Additionally, the Corporación Venezolana del Petróleo S.A. ( CVP ) recognized a divisible and transferable credit in favor of the Company in the amount of US\$88.5 million, which would not accrue interest and could be applied toward the acquisition of bonds to be used in any new mixed ownership project for oil exploration and production activities, or licenses for gas exploration and production operations in Venezuela. Since (i) no projects for which the credit is eligible for investment have materialized, (ii) our efforts to transfer the credit to third parties have been unsuccessful, and (iii) alternative uses of the credit cannot be anticipated, as of December 31, 2007 we wrote down the carrying value of the credit to zero.

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Mixed-ownership companies have to sell all liquid hydrocarbons and the associated natural gas they produce to PDVSA (when so provided in the agreement), according to a price formula that uses international benchmarks such as the price of WTI crude and the cost of Well Test Services ( WTS ).

Mixed companies are subject to royalty payments of 33.33% based on production. In addition, they are required to pay to the Venezuelan government an amount equivalent to any difference between (1) 50% of the value of oil and gas sales during each calendar year and (2) the sum of total royalty payments made during such year plus income tax and any other tax or duty calculated on the basis of the sales revenues paid during such year.

Additionally, since April 2008, with the enactment of the Special Tax Law on Extraordinary Prices of the International Hydrocarbon Market, a special tax payable by companies exporting or transporting liquid hydrocarbons and oil by-products abroad will be applicable when the average Venezuelan basket price of crude oil exceeds, in any month, US\$70 per barrel. The special tax per barrel is 50% of the difference between the aforementioned monthly average price and the US\$70 threshold price. In addition, when such average price exceeds US\$100, the special tax per barrel, applicable to any difference in excess of the US\$100 threshold, will be 60%.

The Venezuelan government may set a limit on the oil production of mixed-ownership companies. Venezuela is a member of OPEC and has set forth a policy of strict compliance with the production quotas decided upon within the organization. According to the Venezuelan Hydrocarbon Law, any decisions made by the federal administration in connection with agreements or international treaties involving hydrocarbons are applicable to any party that carries out activities governed by the law. As a result, if OPEC approves production cuts, these cuts will affect PDVSA and the mixed companies. See Regulation of Our Businesses Venezuelan Regulatory Framework Petroleum and Gas OPEC . In the last quarter of 2008, OPEC imposed some production cuts, which affected Petroritupano S.A oil production during November.

**Peru**

In 1996, we, through Petrobras Energía Perú, acquired 30-year oil and 40-year natural gas production rights in Lote X, in which Petrobras Energía Perú held a 100% interest. Lote X is an area of approximately 116,000 acres in Peru s Talara Basin, which is operated pursuant to a concession production agreement with free crude oil availability.

In December 2007, we sold 40% of our equity interest in PVIE, the holding company whose main asset is a 99.79% interest in Petrobras Energía Perú S.A. s capital stock, to Petrobras Internacional Braspetro B.V. ( PIB BV ), a wholly owned subsidiary of our controlling shareholder, Petrobras, for US\$423.3 million, plus a contingent compensation to be defined by the parties in the event a commercially viable discovery is made at the Kinteroni prospect in Block 57. See Exploration Exploration Outside of Argentina Peru . Following this sale, and during all subsequent periods covered by the financial statements included in this annual report, we continued to hold a 60% interest in PVIE. Pursuant to the terms and conditions of the stock purchase agreement, we and PIB BV agreed to share the power and authority to define and direct PVIE s operating and financial policies. In April 2009, we sold our 60% remaining equity interest in PVIE to PIB BV, for total consideration of US\$619.4 million. As of the date of this annual report, we no longer have any remaining interest in any operations in Peru. As of December 31, 2008, estimated proved oil and gas reserves attributable to operations in Peru amounted to 71.2 million barrels of oil equivalent, accounting for 16.4% of our total reserves. In 2008, our net daily production in Peru was 9.6 thousand barrels of oil equivalent or 7.5% of our total production.

As of December 31, 2008, Lote X had 2,663 productive wells. We entered into a long-term sales agreement, whereby Perupetro S.A. s Talara refinery is the sole customer of our crude oil production.

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In Peru, royalties paid for the production of crude oil are determined on the basis of the price of a basket of varieties of crude oil, starting at a rate of 13% for prices of up to US\$23.9 per barrel. The royalty rate applicable for oil at December 2008 was 18.7%. Production of natural gas in Peru is subject to a fixed royalty of 24.5%. Our activities in Peru during the year included the drilling of 128 productive wells, 102 workovers and the reactivation of 37 wells.

***Ecuador***

In Ecuador we, through EcuadorTLC S.A., operate Block 18 under a participation agreement, in which as of December 31, 2008 we held a 30% interest. As of December 31, 2008, estimated proved oil and gas reserves attributable to our operations in Ecuador amounted to 6.6 million barrels of oil equivalent, accounting for 1.5% of our total reserves. In 2008, our oil production in Ecuador averaged 10.5 thousand barrels per day, accounting for 8.2% of our total average daily production in barrels of oil equivalent. As of December 31, 2008, Block 18 had thirty-two productive wells, twenty-nine located at the Palo Azul field and three located at the Pata field. Block 18 also has a plant with a treatment capacity of 40 thousand barrels of oil per day.

Block 18 comprises the Pata and Palo Azul fields, which are located in the Oriente Basin. Block 18 covers approximately 84,360 net acres and has a significant potential of 28° to 33° API gravity light crude oil reserves. We acquired a 70% working interest in Block 18 in 2001. The concession for production activities in Block 18 was initially granted for a 20-year term, which commenced in October 2002. Production agreements relating to Block 18 provide for the free availability of the crude oil output and a share in production in favor of the Ecuadorian state.

On January 11, 2007 the Ministry of Energy and Mines of Ecuador approved a preliminary agreement entered into with Teikoku Oil Co. Ltd. ( Teikoku ) in January 2005, whereby we assigned 40% of our rights and obligations under the Block 18 Participation Agreement to Teikoku. On October 24, 2008, Petroecuador, the Ecuadorian national oil company, incorporated Teikoku Oil Ecuador, a subsidiary of Teikoku, as a partner in the Block 18 agreements. On October 27, 2008, the transfer of our interest to Teikoku, and consequent reduction in our interest in Block 18 from 70% to 30% was completed when Petroecuador registered the Assignment Agreement with the National Hydrocarbons Board.

On October 31, 2008, EcuadorTLC S.A., Teikoku Oil Ecuador and Petroecuador, among others, executed the Amendment Agreements, which, among other things, will govern the operation of Block 18 for one year. During that period, negotiations will be conducted to determine whether or not such agreements will be converted into a new contractual modality. Under these Amendment Agreements, the Ecuadorian Government's share in Pata and Palo Azul fields' production increased to 40% and 60%, respectively. In addition, under the Tax Equity Law, the Ecuadorian State receives 70% of the revenues when prices exceed the base price of US\$45.43 per barrel.

On December 31, 2008, we, through Petrobras Energía Ecuador, and Petroecuador signed a Termination Agreement in connection with the Block 31 Participation Agreement, under which the block was returned to the Ecuadorian State.

As a result of the return of Block 31 our proved reserves decreased by an amount of 24.3 million barrels of oil equivalent.

**Law 42**

In April 2006, the Ecuadorian government approved the Law Amending the Hydrocarbon Law ( Law 42 ), which assigned the Ecuadorian state a share of at least 50% of the revenues resulting from any increase in the average monthly sales price of Ecuadorian crude oil, based upon the average monthly sales price for such oil as of the execution date of the relevant agreements, stated in constant values as of the month of settlement. In October 2007, the Ecuadorian state's share of revenues from increases in the price of crude oil increased to 99%, reducing the oil companies' share to 1%. EcuadorTLC S.A. and Petroecuador adopted significant opposing interpretations as to the applicability and scope of Law 42 in connection with revenues from the Palo Azul operating agreement in which the Ecuadorian state's share in extraordinary revenues resulting from any increase in crude oil prices was already established. The effect of these regulatory changes has been a material modification of the conditions set forth at the time of execution of our participation agreements, adversely affecting the valuation of our projects in Ecuador, and negatively impacting our assessment of recoverability.



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During 2008, EcuadorTLC S.A. and the Ecuadorian state conducted negotiations aimed at designing a business framework that secures the sustained development of operations while focusing on long-term profitability and social responsibility, which resulted in the execution of the aforementioned Amendment Agreements. Within this framework, among others, the parties resolved their previously conflicting interpretation of the applicability of Law 42.

**Ship or Pay Obligations with Oleoducto de Crudos Pesados ( OCP )**

In connection with our operations in Ecuador, we executed a transportation agreement with OCP whereby we acquired an oil transportation capacity of 80 thousand barrels per day for a 15-year term, starting November 10, 2003. Under the ship or pay clause included in the agreement, we, as well as all other producers, must pay a fee covering OCP operating costs and financial services even when no crude oil is transported. As of December 31, 2008, such fee amounted to US\$2.08 per barrel. We expect that during the term of the transportation agreement oil production will be lower than the aggregate committed transportation capacity. This assumption is based on our current assessment of reserves in Ecuador. Considering this situation and with a view to mitigating their effects, we periodically enter into agreements to reduce our committed transportation capacity exposure.

On December 31, 2008, we signed an agreement with Petroecuador concerning the use of the oil transportation capacity committed under the agreement we entered into with OCP. Under this agreement, the Ecuadorian state has undertaken the commitment, beginning January 1, 2009, to transport its crude oil, at a negotiated rate, under our transportation commitment with OCP, up to a maximum of 70,000 barrels per day.

In addition, we sold a portion of our transportation capacity (at an average amount of 8,000 barrels per day from July 2004 to January 2012). The economic impact of our ship or pay commitment is factored into our calculation of the recoverability of assets in Ecuador.

***Bolivia***

As of December 31, 2008, we held a 100% interest in the Colpa Caranda Block in Bolivia. The Colpa Caranda Block covers approximately 56,000 net acres located in the Sub Andina Central basin and has sixty-one producing wells.

As of December 31, 2008, estimated proved oil and gas reserves attributable to operations in Bolivia amounted to 23.6 million barrels of oil equivalent, accounting for 5.4% of our total reserves. In 2008, our net daily production in Bolivia under the economic method was 7.8 thousands barrels of oil equivalent or 6.1% of our total production. Approximately 87% of our proved developed reserves in Bolivia are gas reserves. These fields, which originally exported gas to Argentina, currently have priority in the delivery of gas to the Santa Cruz-São Paulo pipeline that transports gas to Brazil.

We have operated the Colpa Caranda Block in Bolivia since 1989. Under a contract signed with the Bolivian national oil company, YPFB, in October 2006, we now perform exploration and production activities at our own risk and for our own account in the Colpa Caranda Block, but on behalf of and in the name of the YPFB. Under the current agreement, YPFB owns the hydrocarbons and pays royalties, direct interest and direct tax on hydrocarbons, which in the aggregate amount to 50% of the production valued on the basis of sales prices. The 80% of the remaining amounts are used to pay for operating services provided by us, including depreciation. Any remainder is shared between YPFB and us on the basis of an index calculated based on production volumes, depreciation rates, prices and taxes paid, among other items. The agreement was signed on November 28, 2006, approved by the Bolivian Legislature on April 19, 2007 and became effective on May 2, 2007. In previous years, we operated the block under a shared risk contract whereby it had free oil production availability.

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***Colombia***

We are involved in the exploitation of the Tibú Field in the Catatumbo basin, Colombia, through our 30% interest in the Tibú Consortium. This consortium signed an agreement with the Colombian state-owned company, Ecopetrol, for the development of the Tibú field. We contribute our expertise in the development and exploitation of mature fields to this project. During the initial phase of the project, for a period of two and a half years from January 2007, the Tibú Consortium will make investments in the amount of US\$40 million in studies and works to determine the actual potential of the field. Once the committed investments are fulfilled, the Tibú Consortium will be in charge of 55% of the investments, and will be entitled to 40% of the field's production after royalties.

As of December 31, 2008, estimated proved oil and gas reserves attributable to operations in Colombia amounted to 3.3 million barrels of oil equivalent, accounting for 1% of our total reserves. In 2008, our net daily production was 0.05 thousands barrels of oil equivalent.

**Statistical Information Relating to Oil and Gas Production**

The following table sets forth our oil and gas production during 2008. Production figures represent our working interest in production (and are therefore net to us). In addition, the table includes our working interest in each field, the number of producing wells and the expiration date of the concessions, in each case as of December 31, 2008. Although some of these concessions may be extended at their expiration, the expiration dates set forth below do not include any extensions.

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<b>Production Areas</b>	<b>Location</b>	<b>Basin</b>	<b>2008 Production</b>		<b>Oil and Gas Wells</b>	<b>Interest</b>	<b>Expiration</b>
			<b>Oil<sup>(1)</sup></b>	<b>Gas<sup>(2)</sup></b>			
<b>Argentina:</b>							
25 de Mayo	La Pampa and Río Negro	Neuquén	4,331	3,819	593	100.00%	2016
Medanito S.E.	Neuquén	Neuquén	10	11,185	9	100.00%	2025
El Mangrullo	Río Negro and La Pampa	Neuquén	1,392	2,914	114	100.00%	2015
Jagüel de los Machos	Mendoza and Neuquén	Neuquén	3,020		821	38.45%	2016
Puesto Hernández	Neuquén	Neuquén	38		14	17.9% <sup>(11)</sup>	2015
Bajada del Palo	Santa Cruz	Austral	824	5,460	73	100.00%	2017/2028
Santa Cruz II	Neuquén and Río Negro	Neuquén	375	9,058	125	100.00%	2017/2027
Río Neuquén	Neuquén and Río Negro	Neuquén	875	1,099	446	17.9% <sup>(11)</sup>	2016
Entre Lomas	Río Negro	Neuquén					
Veta Escondida and Rincón de Aranda	Neuquén	Neuquén				55.00%	2027
U.T.E.	Neuquén	Neuquén	64	7,046	13	80.00%	2036
Aguada de la Arena	Santa Cruz	Austral	1,304	41,665	107	71.00%	2017/2035
Santa Cruz I U.T.E.	Neuquén	Neuquén	38	8,261	50	45.55% <sup>(3)</sup>	2023
Sierra Chata	Mendoza	Neuquén	4		6	33.33% <sup>(11)</sup>	2015
Atuel Norte	La Tapera						
Puesto Quiroga	Chubut	San Jorge				35.67% <sup>(4)(11)</sup>	2017
El Tordillo	Chubut	San Jorge	2,965		729	35.67% <sup>(4)(11)</sup>	2016
Aguaragüe	Salta	Noroeste	113	6,828	40	15.00% <sup>(11)</sup>	2017/2023
Estancia Agua Fresca	Santa Cruz	Austral	327	201	4	50.00%	2033
Gobernador Ayala	Mendoza	Neuquén	64		17	22.51% <sup>(11)</sup>	<sup>(5)</sup>
Agua Amarga	Río Negro	Neuquén			5	17.90% <sup>(11)</sup>	2013
<b>Total Argentina</b>			15,744	97,536	3,166		
<b>Outside of Argentina:</b>							
		Sub					
Colpa Caranda <sup>(6)</sup>	Bolivia	Andina	569	13,657	61	100.00%	2029
Oritupano Leona <sup>(7)</sup>	Venezuela	Oriental	2,816		227	22.00% <sup>(11)</sup>	2025
Acema <sup>(7)</sup>	Venezuela	Oriental	205	758	25	33.24% <sup>(8)(11)</sup>	2025
		Lago					
La Concepción <sup>(7)</sup>	Venezuela	Maracaibo	1,253	1,109	92	36.00% <sup>(11)</sup>	2025



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Mata <sup>(7)</sup>	Venezuela	Oriental	329	1,000	45	34.49% <sup>(11)</sup>	2025
Lote X <sup>(9)</sup>	Peru	Talara	3,102	2,416	2,663	60.08%	2024
Block 18 <sup>(10)</sup>	Ecuador	Oriente	3,695		32	30.00%	2022
Tibú	Colombia	Catatumbo	19		127	30.00% <sup>(11)</sup>	2009

**Total Outside of  
Argentina**

11,988      18,940      3,272

**Total**

27,732      116,476      6,438

- (1) In thousands of barrels.
- (2) In millions of cubic feet.
- (3) 19.88% interest until August 2008, then increased to 45.55% as a consequence of the acquisition of an additional 25.67% interest completed in September 2008.
- (4) 21.95% interest until February 2008, then increased to 35.67% as a consequence of the acquisition of an additional 13.72% interest completed in March 2008.
- (5) We have filed an application for an exploitation concession with respect to this field, which is still pending approval.

- (6) Production from Colpa Caranda block were calculated using the economic method .
- (7) Indirect interests through mixed companies.
- (8) Includes a 1.88% working interests held through PVIE, which was sold in April 2009.
- (9) Working interest held through PVIE, which was sold in April 2009.
- (10) 70% working interest until October 2008, then reduced to 30% as a consequence of the transfer of part of our ownership.
- (11) Areas operated by third parties.

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The following table sets forth our average daily production of oil, including other liquid hydrocarbons, for the fiscal years ended December 31, 2008, 2007 and 2006. This table includes our net share of production of consolidated subsidiaries, companies under joint control and unconsolidated investees.

	Year ended December 31,		
	2008	2007	2006
	(average barrels per day)		
Argentina	43,016	46,700	54,233
Outside of Argentina	32,754	38,925	49,181
Total	75,770	85,625	103,414

The following table sets forth our average daily gas production for the fiscal years ended December 31, 2008, 2007 and 2006. This table includes our net share of production of consolidated subsidiaries, companies under joint control and unconsolidated investees.

	Year ended December 31,		
	2008	2007	2006
	(average thousand cubic feet per day)		
Argentina	266,492	261,529	250,030
Outside of Argentina	51,749	56,487	54,677
Total	318,241	318,016	304,707

The following table sets forth the average sales price per barrel of oil and per million cubic feet of gas for each geographic area for the fiscal years ended December 31, 2008, 2007 and 2006, of our consolidated subsidiaries and companies under joint control.

	Year ended December 31,		
	2008	2007	2006
<b>Argentina:</b>			
Oil (in pesos per barrel of oil equivalent)	135.6	126.3	124.4
Gas (in pesos per million cubic feet)	4.6	4.1	3.5
<b>Outside of Argentina <sup>(1)</sup>:</b>			
Oil (in pesos per barrel of oil equivalent)	280.2	202.5	144.3
Gas (in pesos per million cubic feet)	17.5	10.8	10.5

(1) Figures are translated into Argentine pesos at the historic exchange rates, calculated on an averaged monthly basis.

The following table sets forth our average lifting cost, royalties and depreciation cost of oil and gas fields in each geographic area for the fiscal years ended December 31, 2008, 2007 and 2006. This table includes our net share of

production of our consolidated subsidiaries and companies under joint control.

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in pesos per barrel of oil equivalent)</b>		
<b>Argentina:</b>			
Lifting Cost	19.83	17.27	13.50
Royalties	11.01	9.13	9.42
Depreciation	20.35	17.09	13.91
Total	51.19	43.49	36.83
<b>Outside of Argentina <sup>(1)</sup>:</b>			
Lifting Cost	11.60	11.55	12.10
Royalties	52.16	48.55	23.72
Depreciation	9.69	16.24	13.91
Total	73.45	76.34	49.73

(1) Figures are translated into Argentine pesos at the historic exchange rates, calculated on an averaged monthly basis.

**Table of Contents****Exploration**

We consider exploration our main vehicle for future growth and the replacement of reserves. Our strategy is focused on constantly searching for new exploration opportunities aligned with our growth targets. Accordingly, we expect an increase in our exploration investments, including exploration opportunities in Argentina's offshore areas. In exploring offshore areas, we use the expertise and know-how of Petrobras, a world leader in offshore exploration and a pioneer in deep and ultra deep-water activities.

The following table lists exploration areas as of December 31, 2008, the location and basin of each area, our net working interest and the expiration date for the exploration authorization.

	<b>Location</b>	<b>Basin</b>	<b>Interest</b>	<b>Expiration</b>
<b>In Argentina:</b>				
Glencross	Santa Cruz	Austral	87.00%	2033
Estancia Chiripá	Santa Cruz	Austral	87.00%	2032
Cerro Manrique	Rio Negro	Neuquén	50.00%	(1)
Parva Negra	Neuquén	Neuquén	100.00% <sup>(2)</sup>	2001 <sup>(3)</sup>
Gobernador Ayala	Mendoza	Neuquén	39.64% <sup>(5)</sup>	2004 <sup>(3)</sup>
Cañadón del Puma	Neuquén	Neuquén	50.00% <sup>(5)</sup>	2009
Puesto Oliverio	Santa Cruz	Austral	50.00%	2006 <sup>(3)</sup>
El Campamento	Santa Cruz	Austral	50.00%	2006 <sup>(3)</sup>
El Cerrito Oeste	Santa Cruz	Austral	50.00%	2006 <sup>(3)</sup>
Chirete	Salta	Noroeste	100.00%	2012
Hickman	Salta	Noroeste	50.00% <sup>(5)</sup>	2015
Rio Colorado	Salta	Noroeste	30.00% <sup>(5)</sup>	2013
	Continental Shelf	Offshore Argentina		
Enarsa 1	Continental Shelf	Offshore Argentina	25.00% <sup>(5)</sup>	2020
	Continental Shelf	Offshore Argentina		
Enarsa 3	Continental Shelf	Offshore Argentina	35.00%	2020
Río Atuel	Mendoza	Neuquén	33.33% <sup>(5)</sup>	2014
	Continental Shelf	Offshore Argentina		
Bloque CAA 40	Continental Shelf	Offshore Argentina	33.00% <sup>(5)</sup>	2009
	Continental Shelf	Offshore Argentina		
Bloque CAA 46	Continental Shelf	Offshore Argentina	33.00% <sup>(5)</sup>	2010
	Continental Shelf	Offshore Argentina		
CGSJ Marina I	Continental Shelf	Offshore Argentina	33.00% <sup>(5)</sup>	2009
<b>Outside of Argentina:</b>				
Block 57	Peru	Madre de Dios	27.73%	2011 <sup>(4)</sup>
Block 58	Peru	Madre de Dios	60.08%	2012 <sup>(4)</sup>
Block 103	Peru	Huallaga	18.02%	2013 <sup>(4)</sup>
Block 110	Peru	Madre de Dios	60.08%	2013 <sup>(4)</sup>
Block 117	Peru	Marañon	60.08%	2013 <sup>(4)</sup>

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- (1) The grant of an exploration permit is still pending as of the date of this annual report.
- (2) 47.63% interest until August 2008, then increased to 100% as a consequence of the acquisition of an additional 52.37% interest completed in September 2008.
- (3) We have filed an application for an exploitation concession with respect to this field, which is still pending approval.
- (4) Working interests held through PVIE, which was sold in April 2009.
- (5) Areas operated by third parties.

***Exploration in Argentina***

As of December 31, 2008, we held interests in approximately 19,293 thousand gross exploration acres in Argentina, 15,050 thousand in offshore areas.

In 2008, we entered into a joint venture agreement with Repsol-YPF, which acts as operator, in CGSJ Marina-1 block, in Golfo San Jorge basin, Argentina, in which we hold a 33% interest. In accordance with the exploratory plan, three wells were drilled. The first was drilled in 2008, and the other two were drilled during 2009.

We have also entered into a joint venture agreement for the exploration of the CAA-40 and CAA-46 blocks in the offshore Malvinas basin. The Company has a 33% interest in this consortium, and the other parties are Repsol-YPF (33.5%), which is the operator, and Pan American (33.5%).

In 2008, twelve onshore exploration wells were drilled (including four extension wells), three of which were successful.

In 2008, we conducted 3D seismic surveys over 415 km<sup>2</sup>, including 200 km<sup>2</sup> at Chirete block in the Noroeste basin and 215 at Gobernador Ayala in the Neuquén basin. In addition, 2D seismic surveys were conducted over 10,500 km in the offshore area.

In addition, airborne gravimetric, magnetometric and gradiometric surveys were conducted over 180 thousand square kilometers, including 160 thousand square kilometers in the Noroeste basin and the rest in the Enarsa 3 offshore block.

### ***Exploration Outside of Argentina***

#### ***Peru***

As of December 31, 2008, we held several interests in exploratory blocks in Peru, through Petrobras Energía Perú, company in which we held a 60% stake. In April 2009, we sold our 60% remaining equity interest in our Peruvian assets, including all Peruvian exploratory blocks.

In 2004, we, through Petrobras Energía Perú, entered into an agreement with Repsol Exploración Perú S.A. to jointly perform exploration activities in Block 57, located in the Madre de Dios basin. Pursuant to this agreement, Petrobras Energía Perú's interest in the Block was 35.15%. In 2005, Petrobras Energía Perú pursued an aggressive policy to increase its acreage position, through exploration license applications and farm-ins. During 2005, Petrobras Energía Perú applied for four exploration blocks: Blocks 58 and 110 in the Madre de Dios basin and Blocks 112 and 117 in the Marañón basin (the first three were granted during 2005 and the last one was granted during 2006). In 2005, through a farm-in, Petrobras Energía Perú acquired a 30% working interest in Block 103, operated by Occidental, in the Huallaga basin. Early in 2007, Burlington Resources sold their working interest in Block 57 to Petrobras Energía Perú and Repsol. Petrobras Energía Perú's interest increased from 35.15% to 46.16%. In February 2008 the Peruvian authorities approved the new consortium.

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In August 2007, Petrobras Energía Perú decided, based on technical and economic merits, not to proceed with the second exploration period in Block 112, and therefore relinquished this area.

During 2008, exploratory activities carried out in Lote 57, operated by Repsol, located near Camisea field, Madre de Dios basin, in the south of Peru and bordering Lote 58 to the south, operated by us, resulted in the discovery of gas and condensate with a potential flow of approximately 2 trillion cubic feet of gas and 87 million barrels of condensate in the Kinteroni 1-X production well. In order to complete well evaluation, production tests on high interest mineralized levels are still pending. Pursuant to the PVIE sale agreement, contingent compensation will be determined by the parties in the event a commercially viable discovery is made at this prospect. As of December 31, 2008, our total gross exploration area in Peru was 11,548 thousand acres.

**Reserves**

We believe our estimates of remaining proved recoverable oil and gas reserve volumes to be reasonable. Pursuant to Rule 4-10 of Regulation S-X, promulgated by the SEC, proved oil and natural gas reserves are those estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs, under existing economic and operating conditions, i.e., prices and cost at the date of estimation. DeGolyer and MacNaughton audited approximately 70% of our estimated reserves as of December 31, 2008. The majority of the reserves not audited by DeGolyer and MacNaughton are in areas where we do not act as operator. The audit covered approximately 90% of the estimated reserves located in areas operated by us. DeGolyer and MacNaughton concluded that the proved oil and natural gas reserve volumes covered by the audit are reasonable and that reserve estimates have been prepared in accordance with Rule 4-10 of Regulation S-X and in accordance with oil and gas reserve disclosure provisions of the Financial Accounting Standards Board FASB Statement of Financial Accounting Standards No. 69 Disclosures about Oil and Gas Producing Activities. We resolved all questions that arose during the course of the audit process to the auditor's satisfaction.

As of December 31, 2007, 71% of our estimated reserves were audited by DeGolyer and MacNaughton and as of December 31, 2006, 93% of our estimated reserves were audited by Gaffney, Cline & Associates Inc.

The estimates of reserves related to areas in which we act as operator were prepared by our petroleum engineers. Most of the reserve estimates related to areas in which we do not act as operator were prepared by the operators and subsequently reviewed by our petroleum engineers before making the assessment of our proved reserves. The reported hydrocarbon reserves were estimated based on professional, geological and engineering judgment and on information supplied by us prior to January 9, 2009. Thus they are subject to revisions, upward or downward, as a result of future operations or as additional information becomes available. DeGolyer and MacNaughton's audit examination included those tests and procedures considered necessary by them in view of the circumstances prevailing in each case. These tests and procedures included a review of the appropriateness of the methodologies employed by us in estimating reserves, the adequacy and quality of the data obtained and used by us in estimating reserves, the scope and completeness of the process used by us in estimating reserves and our classification of reserves in accordance with relevant definitions and guidance, as well as an economic test of the proved developed and total proved categories of reserves for each audited property.

An audit of proved reserves is an examination of proved reserves that is conducted by the auditor for the purpose of expressing an opinion as to whether such reserve information, in the aggregate, is reasonable. The estimation of reserves is an imprecise science due to many unknown geologic and reservoir factors that can only be estimated through sampling techniques. Since reserves are therefore only estimates, they cannot be audited for the purpose of verifying exactness. Instead, reserve information is audited for the purpose of reviewing in sufficient detail the policies, procedures and methods used by us, engaged in the exploration and production of oil and gas in estimating our reserves so that the auditor may express an opinion as to whether, in the aggregate, the reserve information furnished by us is reasonable.



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As of December 31, 2008, liquid hydrocarbon and natural gas proved developed and undeveloped reserves amounted to 433 million barrels of oil equivalent (221.5 million barrels of oil and 1,269.1 billion cubic feet of natural gas), representing a 10% decline compared to proved reserves as of December 31, 2007 (a decline of 16.4% and 2.9% for liquid hydrocarbons and natural gas, respectively). During 2008, a downward revision of 32.7 million barrels of oil equivalent was recorded, mainly as a result of the return of Block 31, in Ecuador. Divestment of part of our interest in Block 18 in Ecuador resulted in a reduction in reserves of 10.7 million barrels of oil equivalent. In addition, 32.8 million barrels of oil equivalent were acquired as a result of the purchase of interest in Sierra Chata and the renegotiation of Aguada de la Arena and Río Neuquén concessions. Production for 2008 totaled 47.1 million barrels of oil equivalent.

Liquid hydrocarbons and natural gas accounted for 51% and 49%, respectively, of our total proved reserves as of December 31, 2008. Approximately, 38.4% of our total proved reserves as of December 31, 2008 were located outside of Argentina, as compared to 44.5% as of December 31, 2007.

As of December 31, 2008, proved developed reserves of crude oil equivalent represented 59.2% of our total proved reserves of crude oil equivalent.

As of December 2008, we had proved reserves equal to 9 years of production at 2008 rates.

The table below sets forth, by geographic area, total proved reserves and proved developed reserves of crude oil, condensate and natural gas liquids and reserves of natural gas at the indicated dates. This table includes our net share of the proved reserves of our consolidated subsidiaries, companies under joint control and unconsolidated investees. Our net share of the proved reserves of our unconsolidated investees represented 16% of our total proved reserves as of December 31, 2008.

	<b>Crude oil, condensate and natural gas liquids</b>			<b>Natural gas</b>			<b>Combined (in millions of barrels of oil equivalent)</b>
	<b>Argentina</b>	<b>Outside of Argentina</b>	<b>Total</b>	<b>Argentina</b>	<b>Outside of Argentina</b>	<b>Total</b>	
	<b>(in thousands of barrels)</b>			<b>(in millions of cubic feet)</b>			
Total proved developed and undeveloped reserves as of December 31, 2006	122,409	201,527	323,936	949,185	270,640	1,219,825	527.2
Proved developed reserves as of December 31, 2006	81,845	102,735	184,580	497,680	179,884	677,564	297.5
Increase (decrease) originated in:							
Revisions of previous estimates	(8,766)	9,380	614	(5,348)	79,904	74,556	13.0
Improved recovery		8,864	8,864		2,027	2,027	9.2
Extensions and discoveries	3,113	299	3,412	168,326		168,326	31.5
Purchase of proved reserves in place							

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Sale of proved reserves in place	(1,231)	(39,439)	(40,670)		(41,595)	(41,595)	(47.6)
Year s production	(17,046)	(14,208)	(31,254)	(95,458)	(20,618)	(116,076)	(50.6)
Total proved developed and undeveloped reserves as of December 31, 2007	98,479	166,423	264,902	1,016,705	290,358	1,307,063	482.7
Proved developed reserves as of December 31, 2007	71,927	79,530	151,457	507,140	188,542	695,682	267.4
Increase (decrease) originated in:							
Revisions of previous estimates	3,245	(22,039)	(18,794)	(79,435)	(4,398)	(83,833)	(32.7)
Improved recovery							
Extensions and discoveries	1,505		1,505	39,195		39,195	8.0
Purchase of proved reserves in place	12,296		12,296	123,125		123,125	32.8
Sale of proved reserves in place		(10,677)	(10,677)				(10.7)
Year s production	(15,744)	(11,988)	(27,732)	(97,536)	(18,940)	(116,476)	(47.1)
Total proved developed and undeveloped reserves as of December 31, 2008	99,781	121,719	221,500	1,002,054	267,020	1,269,074	433.0
Proved developed reserves as of December 31, 2008	75,634	63,720	139,354	539,386	162,179	701,565	256.3

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The following table sets forth the breakdown of our total proved reserves of liquid hydrocarbons and natural gas into proved developed and undeveloped reserves as of December 31, 2008, 2007 and 2006.

	<b>2008</b>		<b>2007</b>		<b>2006</b>	
	<b>Millions of barrels of oil equivalent</b>	<b>% of total proved reserves</b>	<b>Millions of barrels of oil equivalent</b>	<b>% of total proved reserves</b>	<b>Millions of barrels of oil equivalent</b>	<b>% of total proved reserves</b>
Proved developed reserves	256.3	59.2%	267.4	55.4%	297.5	56.4%
Proved undeveloped reserves	176.7	40.8%	215.3	44.6%	229.7	43.6%
<b>Total Proved Reserves</b>	<b>433.0</b>	<b>100%</b>	<b>482.7</b>	<b>100%</b>	<b>527.2</b>	<b>100%</b>

Estimated reserves were subject to economic evaluation to determine their economic limits. Estimated reserves in Argentina and Peru are stated before royalties, as the latter have the same attributes as taxes on production and as they are not paid in kind, and therefore are treated as operating costs. In Ecuador, due to the type of contract involved in which the government receives a share of production, reserves are stated after the government's share. Estimated reserves in Venezuela are stated before royalties and are computed by multiplying our ownership in each mixed company by the proved reserve volumes of the relevant mixed company. Bolivian reserves are calculated using the economic method, according to the terms of the operating agreements signed in October 2006.

There are many uncertainties in estimating quantities of proved reserves and in projecting future rates of production and the timing of development expenditures, including certain factors that are beyond our control. The reserves data set forth in this annual report solely represents estimates of our proved oil and gas reserves. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be precisely measured. The accuracy of a reserve estimate stems from available data, engineering and geological interpretation and judgment of reserves and reservoir engineering. As a result, different engineers often obtain different estimates. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate, so the reserve estimates at a specific time are often different from the quantities of oil and gas that are ultimately recovered. Furthermore, estimates of future net revenues from our proved reserves and the present value thereof are based upon assumptions about future production levels, prices and costs that may prove to be incorrect over time. Estimates of future prices, costs and production volumes are subject to uncertainties and may prove to be incorrect over time. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they are based. Accordingly, we cannot ensure that any specified production levels will be reached or that any cash flow arising therefrom will be produced. The actual quantity of our reserves and future net cash flows therefrom may be materially different from the estimates set forth in this annual report.

We replace our reserves through the acquisition of new producing fields, new exploration of our existing fields, the exploration of new fields and by proving up reserves in existing fields. Proving up is the process by which additional reserves classified as probable and possible reserves in a producing field are accessed and reclassified as proved reserves. We prove up reserves with reservoir management techniques by implementing waterflood and enhanced oil recovery projects. Reservoir management techniques currently used include water injection and drilling of horizontal wells, including producing and injection wells. In addition, technologies such as 3D seismic process, horizontal and step out wells, underbalance drilling and reservoir numerical stimulation are also used.

**Table of Contents****Sales**

The following table sets forth sales for the Oil and Gas Exploration and Production business segment (consolidated subsidiaries and companies under joint control), by geographical area for fiscal years ended December 31, 2008, 2007 and 2006:

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(in millions of pesos)		
Argentina	2,518	2,502	2,694
Outside of Argentina	2,222	2,122	2,087
Total	4,740	4,624	4,781

During 2008, the principal clients of this segment were Petrobras International Finance Co. ( PIFCo ), a subsidiary of Petrobras and Petroperú Petr6leos del Per6 S.A., and sales to these companies represented about 23% and 20%, respectively, of total sales for the year for the oil and gas exploration and production business segment, before deducting export duties. During 2008, oil and gas exports totaled approximately P\$1,090 million, which were principally made to PIFCo.

**Petrolera Entre Lomas S.A. ( PELS A )**

PELSA, a company in which we hold a 19.21% interest, participates in oil and gas exploration and production activities in Argentina. PELS A s other shareholders are PPSL and Apco Argentina, Inc.

As of December 31, 2008, PELS A owned two concessions in oil and gas production areas in Argentina, of which the Entre Lomas field is most important. PELS A holds a 73.15% interest in the Entre Lomas field, and we hold a 17.9% stake. In 2008, PELS A s average daily production was 9.6 thousand barrels of crude oil and 12.4 million cubic feet of natural gas. PELS A s proved reserves in Argentina as of December 31, 2008 were 22.3 million barrels of crude oil and 43.4 billion cubic feet of natural gas.

**Oleoducto de Crudos Pesados (OCP)**

The Ecuadorian government awarded OCP the construction and operation for a 20-year term of the 503 km-long pipeline that runs from the northeastern region of Ecuador to the Balao distribution terminal on the Pacific Ocean coast. As of December 31, 2008, we held an 11.42% interest in OCP. OCP s other shareholders are Andes Petroleum, Perenco, Occidental, Repsol-YPF and AGIP.

The oil pipeline has a transportation capacity of approximately 450,000 barrels per day, of which at least 350,000 barrels per day have been committed under transportation agreements that include a ship or pay clause. Because the oil pipeline runs across ecologically sensitive areas, the pipeline was constructed under stringent environmental protection and technical standards. The construction of the oil pipeline was completed and began operations in 2003.

We entered into a transportation agreement with OCP that includes a ship or pay clause whereby OCP has committed to transport 80 thousand barrels per day of our oil for a 15-year term, from November 2003.

For a more detailed discussion see Oil and Gas Exploration and Production Production - Production outside of Argentina Ecuador .

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**Oleoductos del Valle S.A. Oldelval**

Oldelval, a company in which we have a 23.1% interest, holds the concession for the transportation of crude oil through a 888 km-long oil pipeline with 1,706 km of installed piping between the Neuquén Basin and Puerto Rosales (located in the Province of Buenos Aires). The concession has a 35-year term starting in 1993, with an option to renew for ten years. Oldelval's other shareholders are Repsol-YPF, Petrolera San Jorge, Pluspetrol, Pan American Energy and Tecpetrol.

The pipeline between Allen and Puerto Rosales has a transportation capacity of approximately 220 thousand barrels per day, with one million barrels of storage capacity.

During 2008, oil volumes transported by Oldelval from Allen to Puerto Rosales totaled 71.5 million barrels.

The applicable laws governing the transportation of hydrocarbons through oil pipelines, which are based on the notion of free access, assign loading preference quotas to pipeline owners based on their shareholdings. Oil transportation rates are set by the Argentine Secretary of Energy.

**Competition**

Our oil and gas related businesses are subject to oil price fluctuations determined by international market conditions. In executing our strategy to expand our oil and gas operations both in and outside of Argentina, we face competition from oil and gas producers throughout the world.

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**REFINING AND DISTRIBUTION**

Our presence in the Refining and Distribution business is a further step towards the vertical integration of our operations and enables us to capitalize on our hydrocarbon reserves. Refining and distribution operations are a necessary link in the business value chain, starting with crude oil and gas exploration and processing and ending with customer service at the gas station network and the supply of petrochemical products.

Our main strategy in the Refining and Distribution segment is to seek profitability through a balanced crude oil-refining-logistics-commercial chain.

Our Refining and Distribution operations are based in Argentina where we operate two refineries and a network of 644 gas stations. One of the refineries is located in San Lorenzo (Province of Santa Fe) and the other in Bahía Blanca (Province of Buenos Aires). In addition, we have a 28.5% interest in Refinería del Norte S.A. ( Refinor ).

**The Refining and Distribution Business in Argentina**

In 2008, gasoline and diesel oil sales volumes in the Argentine fuel market totaled 19.2 million cubic meters, accounting for a 3.3% increase over 2007. Diesel oil sales remained at levels similar to those recorded in 2007, totaling 13.6 million cubic meters. This accounts for a deceleration in growth, which in the previous two years was approximately 7%. This slowdown was the result of reduced demand as a consequence of the farmers' protests during the second quarter of the year, during which the country's major highways were blocked, preventing us from transporting inputs and finished products, as well as the general decline in economic activity as a result of the international economic crisis during the last few months of the year. Gasoline sales volumes grew 11% over 2007, totaling 5.5 million cubic meters. This increase resulted from average growth in demand during 2008, boosted by economic expansion, in general, and higher sales of new cars, in particular. A decline in growth (during the two previous years growth was approximately 17%) resulted from the slowdown in the general level of economic activity as a result of the international economic crisis.

The premium gasoline market, in turn, declined 17% compared to 2007, due to declining demand in response to an increase in the product price. Conversely, high-grade gasoline demand grew 26%, still maintaining the leading position in sales. Regular gasoline consumption experienced a 9% recovery in 2008, a notable development as this segment has not shown any signs of growth since 2002. Conversely, compressed natural gas ( CNG ) consumption dropped for the third year in a row, down 4.5%, due to fewer conversions of engines to CNG.

Subsequent to December 31, 2008, in the first quarter of 2009 the weakened economic activity resulted in an 8% contraction in the demand for diesel oil over the same quarter in 2008. Conversely, the demand for gasoline still remains slightly above figures in the same period of the previous year, as consumers continue to return to gasoline consumption at the expense of the CNG sector. The gasoline market showed a marked substitution for lower price products: a strong drop in premium gasoline consumption and an improvement in regular gasoline consumption. In line with the aforementioned trends, we witnessed a decline in the use of installed capacity at our refineries.

After several years of government-imposed prices caps, during 2007 and 2008 some flexibility was reintroduced to the domestic market that allowed for gradual increases in fuel prices, which facilitated a partial recovery in marketing margins.

This resulted in a partial recovery of sales margins. However, there can be no assurance that new measures will not be imposed by the Argentine government in the future as part of its policy of ensuring domestic gasoline and diesel oil supplies and limiting the impact of inflation and rising commodity costs.

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***Refining Division***

In Argentina, the Company has a total refining capacity of 80,800 barrels of oil per day: 50,300 from the San Lorenzo refinery and 30,500 from the Ricardo Eliçabe refinery. Processed crude oil volumes at the refineries totaled 72.2 thousand barrels per day in 2008, 76.6 thousand barrels per day in 2007 and 63.1 thousand barrels per day in 2006.

***San Lorenzo Refinery***

The San Lorenzo Refinery, located in the Province of Santa Fé, is strategically located along the main distribution system. The refinery's processing capacity is approximately 50,300 barrels of oil per day following an expansion in October 2006. The refinery has three atmospheric distillation units, two vacuum distillation units and a heavy diesel oil thermal cracking unit. It produces the following products: premium gasoline, ultra high octane gasoline (Podium), regular gasoline, jet fuel, diesel oil, fuel oil, solvents, aromatics and asphalts. We are one of the few oil companies in Argentina that owns facilities for the production of asphalt products. This unique feature has enabled us to supply asphalt products for many of the most important road construction works in the country.

The San Lorenzo refinery is located on the bank of the Paraná River, with access from the so-called hydroway forming part of the Océano-Santa Fé trunk navigation route. It has three docks for 250 meter-long vessels, having 70 thousand ton displacement. The refinery has a fuel storage dispatch plant with a capacity for 1190 thousand barrels of heavy products and 828 thousand barrels of light products.

***Ricardo Eliçabe Refinery***

The Ricardo Eliçabe Refinery is located in Bahía Blanca, Province of Buenos Aires, a strategic location for the reception of crude oil coming through an oil pipeline from the Neuquén Basin, other Argentine crude oils coming by sea from the Golfo San Jorge or Santa Cruz Sur basins, and for imports from international markets. With a crude processing capacity of approximately 30,500 barrels per day, it manufactures a wide variety of products: regular gasoline, premium gasoline and ultra high octane gasoline (Podium), diesel oil, fuel oil, asphalts and liquefied gases (propane and butane).

The refinery also produces intermediate fuel oil mixes used as fuel in vessels, raw materials for solvents and varieties for the petrochemical industry. The refinery has a storage capacity of 585 thousand barrels of heavy products and 625 thousand barrels of light products.

***Dock Sud Plant***

The Dock Sud plant, located in the province of Buenos Aires, has a total storage capacity of approximately 245 thousand barrels of heavy products and 950 thousand barrels of light products. Crude oil is received from the oil pipeline connecting Bahía Blanca with Dock Sud and is dispatched to tankers transporting the oil to the San Lorenzo refinery.

***Caleta Paula Plant***

The Caleta Paula plant is our newest receiving and distribution plant. It is located in the Province of Santa Cruz, close to the city of Comodoro Rivadavia, in southern Argentina. The strategic location of this plant significantly improves our logistical capacity in an area far from refineries. In addition, it allows us to maintain significant stocks of products to satisfy demand in the southern area of the country for gasoline, diesel oil and lubricants. The plant is located on the Atlantic coast, and is supplied by vessels and supplemented by truck loading facilities. It has a storage capacity of 90 thousand barrels of light products.

**Table of Contents****Refining Master Plan**

We designed and implemented a Refining Master Plan aimed at adapting refining capabilities so products can meet more stringent Argentine environmental and quality standards.

The plan allowed us to increase total crude oil processing capacity to approximately 80,800 barrels of oil per day. The San Lorenzo Refinery capacity increased from 37,000 barrels per day in 2006 to 50,300 barrels per day.

During 2008, the Refining Master Plan was mainly focused on fuel quality improvement projects. In Bahía Blanca, major works were performed in connection with the ACAR BB (Refining Quality Adjustment) Project which involves the construction of diesel oil and gasoline hydro-treatment plants to remove sulfur content. During 2009, we anticipate completing the project's basic design stage and moving towards the detail engineering and procurement stages. Start up of these facilities is scheduled for 2012.

Start up and completion of works for removal and recovery of benzene from gasoline took place both at Puerto General San Martín and Bahía Blanca plants, thus meeting legal specifications and, at the same time, recovering a valuable raw material for the petrochemical business.

Additionally, we plan to construct new ducts in Bahía Blanca for environmental care purposes and a new pier at Dock Sud that will allow for loading and unloading activities separately from other oil companies.

**Distribution Division**

As of December 31, 2008 our commercial network of gas stations and wholesale customers allowed us to deliver products and services to a number of regions in Argentina. In recent years, our strategy has been to optimize our customer portfolio, adapt its size to our refineries' production capacity, and streamline distribution processes. We expect implementation of this strategy to continue in the coming years.

At present, we have a network of 644 gas stations located throughout Argentina.

During 2008, we moved forward with the optimization of our gas station network. In addition, we also made progress in selective branding efforts in gas stations that still lacked Petrobras Energía's branding. Consistent with these plans, we re-branded 22 new points of sale, extending our brand to 518 gas stations that account for 80% of our network.

Petrobras Energía's points of sale (gas stations) in Argentina were as follows:

	<b>As of December 31, 2008</b>
Owned <sup>(1)</sup>	<b>128</b>
Franchised <sup>(2)</sup>	<b>516</b>
<b>Total</b>	<b>644</b>

(1) Owned or controlled by Petrobras Energía under long-term commercial contracts or other types of contractual relationships that secure a long-term direct influence over such points of



sale.

- (2) The term franchised is used to refer to gas stations owned by third parties with whom Petrobras Energía has signed a franchise agreement that provides Petrobras Energía with the right (i) to become the gas stations exclusive supplier and (ii) to brand the gas station with its corporate image. Current laws establish that the term of such contracts should be 5 years for existing stations and 8 years for new constructions.

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Petrobras Energía sells fuels in Argentina under the Petrobras, Eg3 and San Lorenzo brand names. Distribution as of December 31, 2008 was broken down as follows:

**Gas Stations**

	<b>As of December 31, 2008</b>
Petrobras	<b>518</b>
Eg3	<b>101</b>
San Lorenzo	<b>25</b>
<b>Total</b>	<b>644</b>

The convenience store business has grown significantly in Argentina. To profit from this trend, we are developing convenience stores, named Spacio 1, throughout our gas station network. In the first stage of this process, we are opening convenience stores exclusively in gas stations owned by us. We currently have 27 Spacio 1 convenience stores.

Our liquid fuels domestic sales totaled 2.6 million cubic meters during 2008, a 1.9% increase compared to 2007. Thus, we maintained our third-place position in the market, with a 13.7% market share.

In 2008, 712 thousand cubic meters of gasoline were sold in our gas station network, a 4.8% increase in growth compared to the prior year as a result of increased market demand for regular gasoline, partially offset by a 26.4% decrease by volume in sales of premium gasoline, reflecting the substitution of lower priced products by consumers. Consequently, we reached a 12.9% market share for gasoline sales. Our diesel oil sales volumes totaled 1.9 million cubic meters in 2008, showing the same performance recorded in 2007. Consequently, our share of the Argentine market was 14%.

In compliance with Resolution 1283/06 issued by the Secretary of Energy, in June 2009 we have started to commercialize Diesel Podium, a maximum quality fuel for all types of state-of-the art diesel engines, like the modern Euro IV. Its high refining level (with less than 50 parts per million sulfur) and its specially selected additives support optimum performance, higher engine protection and greater environmental care.

Our Distribution business is also significantly focused on lubricants. We aim at consolidating the Lubrax brand in the Argentine market through the development of exclusive lubricant customers, the leverage of combined sales with liquid fuels, promotions at retail outlets and mass media communication involving the brand.

Two new products were launched to the market during the year: Lubrax Tec Turbo, a multigrade oil for leading edge diesel oil engines in trucks and buses, and Lubrax Gold, a synthetic oil for gearboxes. These product launches reinforce our brand image, distinguished by quality, technological and innovative attributes.

In 2008 Lubrax sales in the Argentine market totaled 34.9 thousand cubic meters. In line with a reduced demand by the farming sector, sales volumes declined 4% from 2007. However, the Company's market share remained at 11.1% for the year.

We also sell petroleum products to the industrial, construction and marine markets. Products sold in these markets include marine fuels and lubricants, asphalts, and other products that are beyond governmental price stabilization policies. Our strategy is to consolidate our presence within these markets in order to maximize sales margins.

In 2008, we maintained the leading position in the marine market in Argentina with sales volumes totaling 303 thousand tons of Intermediate Fuel Oil ( IFO ) bunker, accounting for a 43% market share. In addition, we sold 33 thousand cubic meters of marine diesel oil with a 14% market share.

We are the leading company in road asphalt sales volumes in the domestic market. We sold 174 thousand tons of asphalt. This represented a 41% market share.

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The following table shows production and sales for our consolidated Refining and Distribution business segment for fiscal years ended December 31, 2008, 2007 and 2006:

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Average crude oil processed per day (barrels)</b>	72,200	76,600	63,100
<b>Production (thousands of tons):</b>			
Virgin naphtha	882	890	737
Diesel oil	1,427	1,468	1,282
Other products	1,330	1,532	1,229
<b>Sales:</b>			
Crude oil (thousands of m3) <sup>(1)</sup>	487		
Gasoline (thousands of m3)	857	886	872
Diesel oil (thousands of m3)	2,393	2,362	1,977
Fuel oil/ IFOS (thousands of m3)	896	825	673
Paraffins (thousands of m3)	436	346	191
Others	603	900	934
<b>Sales (in millions of pesos):</b>			
Argentina	5,708	4,171	3,361
Outside of Argentina	1,234	1,655	1,170
<b>Total</b>	<b>6,942</b>	<b>5,826</b>	<b>4,531</b>

(1) From fiscal year 2008, the Refining and Distribution business segment commercializes the oil produced in Argentina, which is transferred at market prices from the Oil and Gas Exploration and Production business segment.

**Refinor**

We have a 28.5% interest in Refinor. Refinor's other shareholders are Repsol-YPF S.A. (50%) and Pluspetrol S.A. (21.5%). Refinor is engaged in crude refining, natural gas processing, product transportation, marketing and sales.

Refinor owns the only refinery in the northern region of Argentina, which is located in Campo Durán, Province of Salta. Refinor's refining capacity is approximately 26,400 barrels of oil per day and its natural gas processing capacity is 20.4 million cubic meters per day. In May 2007, Refinor increased its installed natural gas processing capacity by replacing the turbine that drives the Turboexpansion II Plant compressor. As a result, the plant's processing capacity increased by 850 thousand cubic meters per day.

Refinor has the following processing plants: an atmospheric distillation unit (Topping), a vacuum distillation unit, a gasoline hydrotreatment unit, a catalytic reformer plant, two turboexpander and fractionating plants for liquefied petroleum gas (LPG) production, as well as a plant for the production of auxiliary services (industrial water, steam, electricity, compressed air) used in the different processing plants.

The Campo Durán Refinery receives crude oil/condensate and natural gas from the northwestern basin and from Bolivia. These operations are conducted through two oil pipelines and three gas pipelines.

In addition, Refinor operates a 1,100 km long pipeline running from Campo Durán (Salta) to Montecristo (Province of Córdoba) for the distribution of its products. Along the pipeline, the Banda Río Salí (Tucumán), Güemes (Salta) and Leales (Tucumán) dispatch plants are supplied. This poliduct is the most important distribution means of all liquids generated in the northwestern basin in Argentina and transports diesel oil, gasoline for petrochemical use, gasoline for automotive use, kerosene, butane and propane.

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As of December 31, 2008, Refinor has a commercial network of 71 gas stations located in the Provinces of Salta, Tucumán, Jujuy, Córdoba, Santiago del Estero, La Rioja, Catamarca and Chaco. Through these gas stations, Refinor sells a high performance fuel line: Refinor 97 (97 octane), High grade (95 octane), Regular (85 octane) and Eco Diesel.

In 2008, daily average volumes of crude processed totaled 14,917 barrels per day, accounting for a 6% decline compared to 2007 due to reduced crude oil availability in the Northwestern Basin. Sales volumes totaled 1,007 thousand cubic meters per year, accounting for a 3% slight reduction compared to 2007, 530 thousand cubic meters of which were directed to the domestic market and 477 thousand cubic meters to export markets. During 2008, Refinor had a market share of approximately 24% and 21% in the motor gasoline and diesel oil markets, respectively, in the northwestern region of Argentina. Considering the size of its gas station network, Refinor continues to be the oil company with the second highest number of retail outlets and sales volumes in the northwestern region of Argentina.

In 2008, Refinor processed an average of 18 million cubic meters of natural gas per day, accounting for a 2.8% decline compared to 2007 due to the reduction in natural gas supply during the winter months in Argentina (June through August).

In terms of LPG, during 2008 production totaled 315.3 thousand tons and sales totaled 313 thousand tons during the year, 13.5% lower than the 362 thousand tons sold in 2007, as a result of a new agreement entered into between Refinor and others companies which provide natural gas, which granted these companies the ownership and marketing of LPG, paying a processing fee to Refinor.

The following table sets forth Refinor's production and sales for fiscal years ended December 31, 2008, 2007 and 2006:

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Production:</b>			
Gasoline (thousands of m3)	111	99	93
Virgin naphtha (thousands of m3)	297	376	420
Diesel oil (thousands of m3)	323	336	331
Natural gasoline (thousands of m3)	147	141	130
Propane / butane (thousands of tons)	307	358	357
Other products (thousands of m3)	119	102	127
<b>Sales:</b>			
Gasoline (thousands of m3)	110	102	95
Virgin naphtha (thousands of m3)	484	493	573
Diesel oil (thousands of m3)	324	350	450
Propane/butane (thousands of tons)	313	362	354
Other products (thousands of m3)	89	90	101
<b>Sales (in millions of pesos):</b>			
Argentina	894	774	731
Outside of Argentina	344	711	785
<b>Total</b>	<b>1,238</b>	<b>1,485</b>	<b>1,516</b>

**Competition**

Our principal competitors in the Argentine motor gasoline and diesel oil market are Repsol-YPF S.A., Shell CAPSA, and Esso S.A., who hold 56.1%, 12.6%, and 12.5% of market share, respectively.



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**PETROCHEMICALS**

The Petrochemical business is a key component in our strategy to vertically integrate our operations. Our goal in the petrochemical business is to consolidate our regional leadership by:

Maximizing the use of our own petrochemical raw materials.

Capitalizing on current conditions in the styrenics market by expanding our regional leadership and supporting growth in demand in the local market.

Consolidating the fertilizer business, which uses natural gas and, therefore, adds value to the business.

Our petrochemical operations are performed in Argentina and Brazil. We produce a wide array of products, such as styrene, polystyrene, synthetic rubber and fertilizers, both for the domestic and export markets.

Through Innova, a wholly owned subsidiary in Brazil, and our operations in Argentina, we have the region's largest installed capacity to produce styrene and polystyrene, and can provide services to clients in both Brazil and Argentina.

**Argentine Operations**

***Argentine Styrenics Division***

In Argentina, we are the only producer of styrene, polystyrene and elastomers and the only integrated producer of products from oil and natural gas to plastics. As part of our efforts to integrate our operations, we use a substantial amount of styrene for the production of polystyrene and synthetic rubber.

The styrenics division has the following plants:

An Integrated Petrochemical Complex at Puerto General San Martín, Province of Santa Fé, with an annual production capacity of 160 thousand tons of styrene, 58.5 thousand tons of synthetic rubber, 180 thousand tons of ethylbenzene and 31 thousand tons of ethylene.

A polystyrene plant located at Zárate, Province of Buenos Aires, with a production capacity of 65 thousand tons of polystyrene per year and 14 thousand tons of bioriented polystyrene ( BOPS ) per year. This state-of-the-art BOPS plant is the only one of its type in South America.

An ethylene plant located in San Lorenzo with a production capacity of 19 thousand tons per year. It is located along the Paraná river coast, near our San Lorenzo refinery, which provides the oil feedstock necessary for operation, and near the Puerto General San Martín petrochemical complex, which uses ethylene as raw material for the production of ethylbenzene and ultimately styrene.

In March 2008, the Light Reformate Project ( LRP ) started operations at Puerto General San Martín. This project involved, among other things: change of Reformer catalyst, revamping of the aromatics recovery unit and Purification plant, change in cooling tower fill, assembly of the pyrolysis gasoline hydrogenation plant and connections with Refiner's light reformate discharge line.

The revamped Reformer plant now has sufficient capacity for processing light reformates from other plants with an increase in its benzene fractionation capacity from 60 thousand to 133 thousand tons per year allowing for self-supply of this product. In addition, the aromatics recovery unit capacity increased from 750 to 1,250 cubic meters per day. Additionally, the LRP calls for the installation of a pyrolysis gasoline partial hydrogenation plant that allows for cleaner processing and adds value by facilitating motor gasoline blending.

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In 2008, the Argentine styrenics market (styrene and polystyrene) recorded a 16.4% drop compared to 2007.

In 2008 sales volumes of monomer styrene totaled 50.9 thousand tons, of which 36 thousand tons were sold in the domestic market, accounting for a 1% slight decline compared to 2007. Regional exports, in turn, dropped 7% compared to 2007.

Ethylbenzene sales volumes totaled 22 thousand tons, accounting for a 29% decrease compared to 2007. This decline was mainly attributable to the start up of the new Innova ethylbenzene plant in September 2008 which derived in the suspension of ethylbenzene deliveries from Argentina.

During 2008 polystyrene and BOPS sales volumes dropped 16.3% compared to 2007, totaling 60.7 thousand tons, as a result of a reduced domestic demand.

In the elastomer market, sales volumes decreased 12.2% to 48.1 thousand tons reflecting a decline in both domestic sales and exports. In the domestic market, sales volumes dropped as a result of a lower activity level in tires, auto-parts and technical devices relating to automobiles.

As of December 31, 2008, our estimated market share of the following products in Argentina was:

Styrene and Polystyrene 89%

Styrene butadiene rubber ( SBR ) 98%.

***Fertilizers Division***

We are pioneers in the production and distribution of fertilizers in Argentina and the only producer of liquid fertilizers in Latin America.

We supply approximately one-fifth of the domestic demand with a wide array of specific solutions.

The fertilizers division has an industrial complex at Campana, Province of Buenos Aires, with an annual production capacity of 200 thousand tons of urea and 560 thousand tons of liquid fertilizers, and a storage capacity of 68 thousand tons of urea and 70 thousand of liquid fertilizers.

We have approximately 400 customers throughout Argentina. Of these, 130 are distributors with their own storage facilities, which complement our warehouses and assistance centers in twelve strategically located agricultural regions.

In 2008, sales volumes totaled 483 thousand tons, a 28% decline compared to 2007, as result of lower demand as a result of the combined effect of the conflict between the government and the farm sector in the first half of 2008, a historical drought and a strong drop in the price for grains attributable to the global financial crisis.



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The following table sets forth production and sales by major product for both the styrenics and fertilizers divisions in Argentina for fiscal years ended December 31, 2008, 2007 and 2006:

	Year ended December 31,		
	2008	2007	2006
<b>Production</b> (thousands of tons):			
Styrene <sup>(1)</sup>	122	116	95
Synthetic rubber <sup>(2)</sup>	45	54	53
Urea	67	47	58
UAN and other liquid fertilizers	274	295	392
Polystyrene	59	62	57
BOPS	12	13	13
<b>Sales</b> (thousands of tons):			
Styrene <sup>(1)</sup>	73	82	100
Synthetic rubber <sup>(2)</sup>	48	55	56
Fertilizers	483	673	747
Polystyrene and BOPS	61	73	72
Propylene	18	25	23
<b>Sales</b> (in millions of pesos):			
Argentina	1,503	1,376	1,084
Outside of Argentina	477	417	500
Total	1,980	1,793	1,584

(1) Including ethylbenzene.

(2) Including SBR, NBR and butadiene.

**Brazilian Operations**

Our petrochemical operations in Brazil are conducted through Innova, our wholly owned subsidiary. Innova has the first integrated complex in Latin America for the production of ethylbenzene, styrene and polystyrene. It is located at Triunfo Petrochemical Pole, Rio Grande do Sul, in southern Brazil. The styrene plant has a production capacity of 250 thousand tons per year, the polystyrene plant has a production capacity of 146 thousand tons per year. The polystyrene plant uses approximately 137 thousand tons of styrene as feedstock to produce two grades of polystyrene (Crystal and High Impact). The remaining styrene is sold mainly in the Brazilian market for the production of synthetic rubber, expanded polystyrene, polyester and acrylic resins. In September 2008, following an investment of approximately US\$100 million, Innova opened a new ethylbenzene plant, one of the world's most modern facilities in terms of technology, environment and occupational health. The new plant has an initial estimated production capacity of 270 thousand tons per year, which can be expanded to 540 thousand tons per year. The plant's state-of-the-art technology and its location on the same styrene plant site allow for a significant reduction in costs. In 2008, Innova's performance included a total production of 206 thousand tons of ethylbenzene and 224 thousand tons of styrene. Polystyrene production reached 110 thousand tons in 2008.

Styrene sales totaled 145.6 thousand tons, a 6% rise compared to 2007 mainly attributable to the increase in the automobile industry and civil construction works in Brazil. Conversely, polystyrene volumes dropped 8% to 111.7 thousand tons, due to reduced exports.

Innova is the leading styrene and polystyrene producer and marketer in Brazil with a combined market share of 45%.

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In addition, production of a new high-impact polystyrene grade started in October 2008 after two years of studies and tests. R830D marks a new grade generation in the refrigeration market, which demands high-performance materials, especially to reduce wall thickness, such as in door panels and inner boxes of refrigerators and freezers.

We also started the resale of Acrylonitrile-Butadiene-Styrene ( ABS ) resin . ABS is a plastic resin characterized by its high resistance to chemicals, good impact resistance, gloss, toughness and good processing capacity, used in the manufacture of electrical and electronic devices, household appliances, plates and shoes, among others. Early in 2008, the company closed the first ABS import operation with Formosa Chemical, located in Taiwan and in May 2008 the first negotiations started with Innova polystyrene clients also using ABS in their processes. The main objective for the year was to meet the demand from the main Polystyrene clients and penetrate the automobile market.

During the year 2007, Innova became the first petrochemical company in Brazil to receive a Restriction of Hazardous Substances ( ROHS ) certification, a European Union standard under which companies must demonstrate that their products conform to the required minimum level of substances harmful to the environment and human health.

The following table sets forth Innova s styrene and polystyrene production and sales for fiscal years ended December 31, 2008, 2007 and 2006.

	2008	2007	2006
<b>Production</b> (in thousands of tons):			
Styrene	224	222	234
Polystyrene	110	123	113
<b>Sales</b> (in thousands of tons):			
Styrene	146	138	136
Polystyrene	112	121	114
Other	53	71	94
<b>Sales</b> (in millions of pesos):			
Brazil	1,571	1,353	1,007
Outside of Brazil	74	104	207
Total sales	1,645	1,457	1,214

**Competition**

The petrochemical market in which we compete is highly cyclical, and world market conditions have a strong impact on our results of operations. We are the only producer of styrene, polystyrene and elastomers in Argentina, but compete with other foreign producers, especially those in Brazil. In the fertilizers market, we compete with Profertil S.A., a urea and ammonia producer with a production capacity of one million tons per year and other companies who import and mix fertilizers such as Cargill, Nidera, Bunge and Yara. Profertil is owned by Repsol-YPF and Agrium S.A.

In Brazil, we compete with Dow Chemical, Basf, CBE and Videolar. Videolar only produces polystyrene, with an annual capacity of 120 thousand tons. Dow Chemical and Basf have a polystyrene production capacity of 120 thousand and 190 thousand tons per year, respectively. CBE have a styrene production capacity of 110 thousand tons per year.

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**GAS AND ENERGY**

The Gas and Energy business segment serves to link together our energy businesses and allows us, by integrating our various businesses, to maximize profits from gas and electricity production and ensure self-supply.

Within this segment, we sell gas produced by our Oil and Gas Exploration and Production business segment, as well as imported gas. We also provide oil, gas and LPG brokerage and trading services. In addition, through our stake in TGS, we are engaged in the transportation of gas in southern Argentina and in the processing and marketing of natural gas liquids ( NGL ). In the electricity business, we are engaged in the generation, transportation and distribution segments, being positioned as a major player in the Argentine electricity market.

In the Gas and Energy segment our main business objectives are:

Growing profitably in the gas business.

Growing profitably in the LPG business.

Growing profitably in the electricity market.

**Marketing**

Our Gas and Energy business segment transacts sales of gas produced by our Oil and Gas Exploration and Production segment, as well as imported gas. In addition, we provide oil, gas and LPG brokerage and trading services in order to expand our production opportunities. This business segment enables us to position ourselves as a leading commercial service provider because we assist clients not only in sales, but also in logistics, foreign trade and market knowledge.

In 2008, in Argentina sales volumes of gas totaled 9.35 million cubic meters per day, which includes 0.15 million cubic meters per day imported from Bolivia. We sold, in turn, 3.32 million cubic meters per day in gas brokerage services. LPG sales volumes totaled 261 thousand tons, of which 32 thousand tons were sold under the brokerage modality. In 2008, two Automotive LPG points of sale were installed: one in Rojas and the other one in Bahía Blanca (both in the province of Buenos Aires) aimed at supplying captive fleets. In the province of Entre Ríos, ten irrigation facilities were converted to the dual fuel system (diesel oil and LPG).

During 2007, sales volumes in Argentina for gas produced by us and imported gas totaled 8.18 million cubic meters per day. We sold, in turn, 7.35 million cubic meters per day in gas brokerage services. LPG sales volumes totaled 254.9 thousand tons. We sold 34.1 thousand tons in LPG brokerage services. In terms of bulk LPG, sales volumes significantly increased. We installed 60 tanks and captured 17 new customers, and as a result sales increased from 486 tons in 2006 to 3.3 thousand tons in 2007.

***Gas Transportation TGS***

***Our Interest in TGS and Corporate Developments***

We indirectly hold a 27.65% interest in TGS. TGS's controlling shareholder is CIESA, which as of the date of this annual report holds approximately 55.3% of TGS's capital stock. The remaining 44.7% of TGS's capital stock is publicly held. TGS's shares are listed on the Buenos Aires Stock Exchange and on the NYSE. CIESA is 50% owned by Petrobras Energía (directly and indirectly through our subsidiary Petrobras Hispano Argentina S.A.), 40% by the CIESA Trust (the Trust), and the remaining 10% by Enron Pipeline Company Argentina S.A., a subsidiary of Enron Corp. (together, Enron). CIESA's and TGS's current stock structure reflects the implementation of the first stage of the Master Settlement Agreement and the Mutual Release Agreement, signed by Petrobras Energía and certain Enron subsidiaries on April 16, 2004 (the Master Settlement Agreement), in connection with the restructuring of CIESA's indebtedness. CIESA's Board of Directors is composed of three of our representatives, two representatives of the Trust and one representative of Enron. TGS's Board of Directors is composed of nine members, six of whom are CIESA's representatives (three of whom are our representatives, two are representatives of the Trust and one is an Enron representative), and three independent directors, who must be unanimously approved by all the shareholders of CIESA. Pursuant to a shareholders' agreement entered into on August 29, 2005 (the Shareholders' Agreement) among Enron, the Trust and us, we have the right to appoint the chairman of the Board of Directors of both TGS and CIESA and the Chief Executive Officer of TGS.



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Due to abrupt changes following the enactment of the Public Emergency Law in Argentina, CIESA and TGS both defaulted on their debt. CIESA failed to repay corporate notes having a principal amount of US\$220 million and derivative instruments of approximately US\$2 million. In 2004, TGS successfully restructured substantially all of its debt, pursuant to a proposal accepted by almost all of its creditors.

Regarding CIESA's debt restructuring, in April 2004, Petrobras Energía and Enron, at that time CIESA's only shareholders, entered into the Master Settlement Agreement to provide the necessary flexibility to move forward in restructuring CIESA's financial debt. The agreement provided for, among other things, certain stock transfers to be implemented in two successive steps. In July 2005, *Ente Nacional Regulador del Gas* (Argentine Gas Regulatory Agency) (ENARGAS) approved the implementation of the first stage of the transactions contemplated by the Master Settlement Agreement and, as a result, on August 29, 2005, (a) Enron transferred 40% of CIESA's shares to a newly created trust (the aforementioned Trust), and (b) Petrobras Energía and its subsidiary, Petrobras Hispano Argentina, transferred Class B common shares of TGS, representing 7.35% of TGS's capital stock, to subsidiaries of Enron, which in turn were subsequently sold to third parties.

In a second stage, pursuant to the terms of CIESA's financial debt refinancing agreement entered into in September 2005, once the appropriate approvals are obtained from ENARGAS and the *Comisión Nacional de Defensa de la Competencia* (anti-trust authorities) (CNDC), CIESA will provide its financial creditors with about 4.3% of TGS's Class B common shares as partial settlement of the financial debt. These shares will then be transferred to Enron in exchange for the remaining 10% of its shareholding in CIESA and the creditors will then capitalize the financial debt balance. This second stage has not yet been completed.

Once the debt restructuring is completed, and considering that in addition to the foregoing share transfers: (a) the fiduciary ownership of the CIESA shares held by the trust fund would be transferred to Petrobras Energía and Petrobras Hispano Argentina S.A. and (b) new shares would be issued for the benefit of the entity's creditors, CIESA's capital structure would be as follows: (i) Class A shares directly and indirectly held by Petrobras Energía S.A., representing 50% of the capital stock and votes in CIESA; and (ii) Class B shares held by the financial creditors of CIESA, representing the remaining 50% of the capital stock and votes in CIESA.

On January 9, 2009 Ashmore Energy International Limited (now AEI), the only self declared holder of the Corporate Bonds (*Obligaciones Negociables*) issued by CIESA in 1997, announced its decision to terminate the Restructuring Agreement, to which AEI, CIESA and others were a party.

On January 28, 2009, CIESA brought an action before the Supreme Court of the State of New York, County of New York, USA (the New York Court), seeking a declaratory judgment that any claim brought by AEI against CIESA in connection with the Corporate Bonds was time-barred, due to the fact that the statute of limitations pertaining to any such claim had expired.

On April 2, 2009, CIESA filed an amended complaint including new causes of action of CIESA against AEI. In the amended complaint filed in the New York Court, CIESA seeks (i) a declaration that all claims under the Corporate Bonds are time-barred because the six-year New York statute of limitation period to seek recovery thereunder has expired, (ii) on a subsidiary basis to the first claim, that CIESA be paid damages in an amount not to exceed US\$300 million for breach of the Restructuring Agreement, (iii) on a subsidiary basis to the first and second claims, that the strict performance of the Restructuring Agreement be ordered, and (iv) that AEI be ordered to refrain from filing any claim against CIESA under the Corporate Bonds.

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On April 21, 2009, AEI filed a motion before the New York Court to dismiss CIESA's amended complaint, or in the alternative, for a stay of the action. AEI argued in its motion that the complaint by CIESA should be dismissed on comity grounds, for failure to state a claim, or in the alternative, in favor of pending proceedings in Argentina.

On May 4, 2009, CIESA filed its reply to the motion to dismiss the complaint rebutting the arguments of AEI and requesting of the New York Court that CIESA's complaint be sustained. On May 14, 2009, CIESA and AEI appeared in the New York Court for oral argument regarding AEI's motion to dismiss. As of the date of this annual report, the New York Court has not rendered a decision on the motion to dismiss.

Separately, on April 6, 2009, CIESA was given notice of a petition in bankruptcy filed in Argentine bankruptcy court by AEI in relation to the recovery of part of the Corporate Bonds for a total nominal value of US\$127 million. On April 16, 2009 CIESA answered the notice to the petition in bankruptcy and objected to it on the following grounds, among others: (i) failure to meet the admissibility requirements for a petition in bankruptcy considering there is no enforceable claim because the claims under the Corporate Bonds are time-barred under the New York law governing them, (ii) CIESA is not in a state of insolvency, and (iii) abusive and improper use by AEI of the petition in bankruptcy to get out of the statute of limitations action previously brought in the courts of competent jurisdiction in the State of New York, and unlawfully seek the individual recovery of an alleged claim by means of proceedings designed for a very different purpose.

**Business**

TGS began operations in late 1992 as a part of the privatization of the Argentine energy sector. Currently, TGS is the leading gas transportation company in Argentina, delivering about 61% of total gas transported in Argentina. TGS is also one of the leading natural gas liquid ( NGL ) producers and traders, both in the domestic and international markets, and an important provider of midstream services, including business structuring, turnkey construction and operation and maintenance of facilities used for gas storage, conditioning and transportation.

Petrobras Energía provides services to TGS related to the operation and maintenance of the gas transportation system and related facilities and equipment to ensure that the system performance is in conformity with international standards and in compliance with certain environmental standards.

The following chart shows statistical information relating to TGS's business segments for fiscal years ended December 31, 2008, 2007 and 2006.

	2008	2007	2006
<b>Regulated Segment:</b>			
Average firm committed capacity <sup>(1)</sup>	73.3	72.7	71.6
Average daily deliveries <sup>(1)</sup>	63.0	63.0	61.2
Annual load factor <sup>(2)</sup>	86%	87%	86%
<b>Unregulated Segment:</b>			
Liquids total production <sup>(3)</sup>	891.4	828.6	1,036.4
Processing capacity at year end <sup>(1)</sup>	46.0	46.0	43.0

(1) In millions of cubic meters per day.

(2) Corresponds to the quotient of the average daily deliveries and the average firm contracted capacity.

(3) In thousands of  
tons.



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***Regulated Energy Segment***

Within the regulated energy segment, TGS has a gas transportation license in southern Argentina, and is the largest transporter of natural gas in Argentina and all of Latin America. TGS's pipeline system connects Argentina's southern and western gas reserves with the main consumption centers in those regions, including Greater Buenos Aires. TGS has an exclusive license for the use of the southern gas transportation system, which is due to expire in 2027 with an option to extend for ten additional years if certain conditions are fulfilled.

TGS transports gas through more than 8,611 km of pipelines, of which almost 7,572 km belong to TGS, with a firm contracted capacity as of December 31, 2008, of 73.3 million cubic meters per day. Pursuant to these contracts, the capacity is reserved and paid for irrespective of the actual use by the customer. Almost all capacity of the gas transportation pipelines in Argentina is currently apportioned among gas distribution companies, large industrial customers and gas-fired power plants under firm long-term transportation contracts. The total average life of its firm transportation contracts is approximately ten years. In addition, TGS provides interruptible transportation services under which gas transportation is dependent on the availability of capacity.

Transportation services begin with the receipt of gas owned by a shipper (e.g. distribution companies, producers, traders or large users) at one or more reception points. It is then transported and delivered to delivery points along the system. The total service area includes approximately 5.1 million end users, approximately 3.5 million of which are in greater Buenos Aires. Direct services to residential, commercial, industrial users and electric power plants are mainly provided by four gas distribution companies, which are connected to the TGS system: Metrogas S.A., Gas Natural Ban S.A., Camuzzi Gas Pampeana S.A. and Camuzzi Gas del Sur S.A. Some important industries and electric power plants are also located within TGS's operational area and are provided with direct gas transport services by TGS.

TGS has made significant investments in its business since the privatization. As a result, compression power has been increased from 429,030 HP in 1992 to 608,900 HP in 2008 and transportation capacity has been increased from 42.9 million cubic meters per day to 73.3 million cubic meters per day by the end of 2008.

***Gas Trust***

In light of the lack of expansion of the natural gas transportation system over recent years (as a consequence of the pesification of tariffs and the fact that the renegotiation of the terms of the utility contracts is still pending) and a growing gas demand in certain segments of the Argentine economy, the Argentine government established the framework for the creation of a trust fund, the Gas Trust, aimed at financing the expansion of the national gas transportation system.

Within this framework, the first expansion of the San Martín pipeline was completed in August 2005, which increased the transportation capacity by 102 millions of cubic feet per day. This project involved the construction of approximately 509 km of pipeline and a 30,000 HP compression capacity increase through the construction of a compressor plant and the revamping of some of TGS's existing compressor units. The works financed by these means belong to the Gas Trust. TGS, as well as being in charge of the management of the works, is responsible for the operation and maintenance of the gas trust assets.

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In April 2006, the Argentine Government and gas transportation companies, among others, agreed to carry out a second and much more significant expansion of the gas transportation pipeline system. Upon completion, this expansion would increase the transportation capacity of TGS's pipeline system by 378 million cubic feet per day.

Expansion works will belong to a financial trust for works and will be financed by other financing trusts, whose beneficiaries are the shippers who subscribed the incremental capacity. The expansion works will be paid by means of a new tariff charge on industries, power plants and large and medium-sized businesses.

In December 2008, expansion works for an additional 78 million of the planned 378 million cubic feet per day of additional transportation capacity were completed and came into operation. In 2009, an additional expansion of 169 million cubic feet per day of transportation capacity is expected to be carried out, including the construction of a new pipeline across the Straits of Magellan, which will allow gas transportation from Tierra del Fuego.

***Tariff Renegotiation Process***

As a consequence of the Public Emergency Law that pesified and prohibited the increase of tariffs, revenues from the Regulated Energy Segment have declined considerably. The gas transportation segment represented 36%, 41% and 38% of the total revenues of TGS in 2008, 2007 and 2006, respectively, while from the time of TGS's privatization through 2001, revenues for this segment represented approximately 80% of TGS's total annual revenues. TGS is still engaged in discussions with UNIREN regarding the renegotiation of its tariffs. As a result, and despite contracted capacity increases, the profitability of the regulated business has not yet been restored.

After several proposals aimed at adjusting TGS's license contract terms, which were rejected by TGS considering that they did not reflect preliminary agreements, in 2005 UNIREN proposed a 10% tariff increase and an overall tariff review effective in 2006. This proposal required that TGS and its shareholders waive any future claim against the Argentine government resulting from the Public Emergency Law and/or the failure to adjust tariffs during 2000 and 2001 based on the United States Industrial Goods Producer Price Index. TGS responded by rejecting the initial 10% increase as insufficient, and jointly with Petrobras Energía agreed not to pursue any such claims if the parties reached a reasonably satisfactory agreement on tariff adjustments. In addition, Enron, which filed a claim against Argentina with the International Centre for Settlement of Investment Disputes ( ICSID ) and obtained a favorable judgment in May 2007, reported that it would only consider waiving its claims provided it were fairly compensated. During 2006, UNIREN submitted two proposals to TGS with guidelines identical to those established in previous proposals.

On October 9, 2008, TGS executed a provisional agreement with UNIREN, which provides for a 20% tariff increase to be retroactively applied as from September 1, 2008 and for the application of the cash from such increase to an investment plan in the gas transportation system devised under the same agreement. The tariff increase will become effective after the ratification of the provisional agreement by the Argentine Executive Branch. This provisional agreement will be valid until the effective date of an agreement for the comprehensive renegotiation of the transportation license to be entered into with the National Government. In this respect, in October 2008, TGS received from UNIREN a proposal for a comprehensive renegotiation agreement (including the 20% initial tariff increase), aimed at renegotiating the license terms and starting an overall tariff review process. As of the date of this annual report, TGS is evaluating this proposal. As set forth in the provisional agreement, TGS should reach an agreement with UNIREN on the modalities, terms and dates for the execution of the comprehensive agreement before the date the Public Emergency Law expires. If no agreement is reached, UNIREN will submit a report to the Executive Branch recommending what future actions to take, if any.

**Table of Contents*****Non-regulated Businesses***

In addition to the regulated segment of natural gas transportation, TGS is one of the leading processors of natural gas and one of the largest traders of NGL. NGL production and distribution involves the extraction of ethane, propane, butane, and natural gasoline from the gas flow that arrives to the General Cerri Complex, located near Bahía Blanca, in the Province of Buenos Aires, which is connected to TGS's main pipelines. TGS has two gas processing plants at the General Cerri Complex: (1) an ethane, propane, butane and natural gasoline turbo expander separating plant and (2) an absorption plant which extracts propane, butane and gasoline from the gas transported through the TGS's pipeline system, with a gas processing capacity of 46 million cubic meters per day and a storage capacity of 54,840 tons. After extraction, TGS sells these products in the domestic and international markets. TGS also stores and ships the products at facilities located in Puerto Galván. These activities are not regulated by ENARGAS.

NGL production and distribution net revenues accounted for approximately 57%, 53% and 55% of TGS's net revenues in 2008, 2007 and 2006, respectively. TGS's operations were benefited by a significant increase in market price for exports of propane, butane and natural gasoline. NGL production in 2008, 2007 and 2006 totaled 891.4 thousand tons, 828.6 thousand tons and 1,036.4 thousand tons, respectively. See Item 5. Operating and Financial Review and Prospects Analysis of Equity in Earnings of Affiliates.

TGS sells its NGL production to brokers and refineries in the local market and part of the production is exported to PIFCo at current international market prices. During 2006, the agreements entered into with PIFCo for the sale of natural gasoline and propane and butane were renewed for a three-year term. One hundred percent of TGS's ethane is sold in the domestic market to PBB-Polisur S.A. at prices agreed between the parties.

***Competition***

TGS's gas transportation business, which provides an essential service in Argentina, faces only limited direct competition. In view of the characteristics of the market in which TGS operates, it would be very difficult for a new entrant in the transportation market to pose a significant competitive threat to TGS, at least in the short to medium term. In the longer term, the ability of new entrants to successfully penetrate TGS's market would depend on a favorable regulatory environment, an increasing and unsatisfied demand for gas by end users, and sufficient investment in gas transportation to accommodate delivery capacity from the transportation systems.

On a day-to-day basis, TGS competes, to a limited extent, with Transportadora de Gas del Norte S.A. for interruptible transportation services and for new firm transportation services made available as a result of expansion projects from the Neuquén basin to the Greater Buenos Aires area. Interruptible transportation services accounted for only 7% of TGS's regulated business net revenues for 2008. The relative volumes of such services will depend mainly upon the specific arrangements between buyers and sellers of gas in such areas, the perceived quality of services offered by the competing companies, and the applicable rate for each company.

With respect to natural gas liquids processing activities, TGS competes with Compañía MEGA S.A., which owns a gas processing plant at the Neuquén basin and has a processing capacity of approximately 36 million cubic meters per day. Our controlling company, Petrobras, has a 34% interest in Compañía MEGA S.A.

***Electricity***

In the electricity business, we are engaged in generation, transportation and distribution activities, and are positioned as a major player in the Argentine electricity market. Electricity generation allows us to accelerate the monetization of gas reserves. Integration of our business chain provides us with new growth opportunities, adding value through the sale of power and energy services to end users as well as through the development of cutting-edge technology.

We conduct electricity generation activities through the Genelba Thermal Power Plant ( Genelba ) in the Province of Buenos Aires and the Pichi Picún Leufú Hydroelectric Complex ( HPPL ), in the Comahue region, on the Limay River, Province of Neuquén. The electricity distribution business is developed through our indirect equity interest in Edesur, a company controlled by Distrilec. In addition, in the transportation business segment, we hold an equity interest in Enecor S.A.

**Table of Contents*****The Argentine Electricity Market***

In Argentina in the early 1990s, as part of a general state reform, the Argentine government carried out an overall restructuring of the electricity sector and transformed it into a more decentralized system with greater private sector participation. Up to then, the electricity system was characterized by the inability to meet short- and long-term demand and low service quality, all within a framework of a limited capacity on the part of the state to make necessary investments.

For the ten years prior to 2008, electricity demand in Argentina strongly increased at an average rate of 5.2% per year, exceeding the growth in gross domestic product for the same period. However, during 2008 the rate of growth declined as a consequence of a warm winter and the onset of the global economic crisis. In 2007 and 2006, electricity demand grew approximately 5.6% and 5.5%, respectively, while in 2008 growth was 2.9% compared to 2007 reaching 102,950 GWh for the year, mainly as result of increased industrial and residential consumption. Total electricity generation, including imports and exports, totaled 112,326 GWh (59.5% attributable to thermoelectric plants, 32.8% to hydroelectric plants, 6.1% to nuclear plants and 1.6% to imports). During the first quarter of 2009, demand for electricity dropped 1% compared to the same quarter of 2008 as a result of a 13% decrease in energy consumption by industrial clients, notwithstanding an increase in residential demand partly attributable to higher temperatures. The reduced demand for gas by industrial clients resulted in an increased participation of thermal generation and a reduction in the use of liquid fuels for electricity supply. As of December 2008 installed generation capacity stood at 25,411 MW, representing a growth of approximately 70% since the privatization of electricity services in the early 1990s.

***Electricity Generation: Genelba and HPPL***

Genelba is a 660 MW combined cycle gas-fired generating unit located at the central node in the Argentine electricity network, in Marcos Paz, about 50 km away from the City of Buenos Aires. As part of our strategy to increase vertical integration, Genelba allows us to use approximately 99 million cubic feet of natural gas per day of our own gas reserves.

Genelba, which commenced commercial operations in February 1999, has two gas-fired turbines that receive gas through an 8 km duct connected to the transportation system operated by TGS. The electricity produced at Genelba is distributed via the national grid through a connection to the Ezeiza transformer station located only 1 km away from Genelba.

The allocation of electricity dispatched to the wholesale electricity market, whether such electricity is produced under firm contracts or for the spot market, is subject to market rules based on the lowest variable cost of electricity generation. See Regulation of our Businesses Argentine Regulatory Framework Electricity . Since Genelba uses combined cycle technology for a natural gas-fired power plant, our short-run variable cost is expected to be lower than the cost of most other thermoelectric power plants, granting significant competitive advantages to Genelba. Therefore, the Wholesale Electricity Market Administration Company (*Compañía Administradora del Mercado Mayorista Eléctrico S.A.*) ( CAMMESA ) is expected to dispatch Genelba's generating capacity before that of most other thermoelectric plants. Genelba stands out in the Argentine electricity market for its high reliability and efficiency. The plant is recognized as one of the combined cycle electric power plants with the highest availability.

During 2007, Petrobras Energía's Board of Directors approved construction of a new 170 MW open cycle gas-fired turbine. This thermoelectric plant will be close to the existing Genelba plant, in Marcos Paz. The project has been approved by the Ministry of Federal Planning, Public Investment and Services and commercial operations are scheduled to start by July 2009. In addition, construction started in connection with the Ecoenergía 14MW power plant. This plant is located at TGS's General Cerri complex, in Bahía Blanca, and commercial operations are scheduled to start by the end of 2009.

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We were awarded a 30-year concession beginning in August 1999 for hydroelectric power generation at Pichi Picún Leufú Hydroelectric Complex. The complex has three generating units with an installed capacity of 285 MW.

Pursuant to our concession contract and applicable laws, from August 2002 we paid 1% in hydroelectric royalties, with scheduled annual increases of 1% per year until royalties reach a cap of 12%, based upon the tariff rate applied to block sales of the electricity sold. As of December 31, 2008, we paid hydroelectric royalties at a rate of 7%. In addition, we pay the Argentine government a monthly fee for the use of the water source amounting to 0.5% of the same amount used for the calculation of hydroelectric royalties.

In 2008, Genelba generated 5,111 GWh of electricity, with an availability factor of 92.6%. Along these lines, Genelba reached a 4.6% share of total power generation for the year and an 8.1% share of thermal generation. The reliability factor was 94%. In 2007, Genelba generated 4,405 GWh, with an availability factor of 84%.

In addition, HPPL generated 1,082 GWh, with an 89.6% availability factor and a 100% reliability factor. HPPL had an approximately 0.9% share of total power generation for the year and a 2.9% share of hydraulic generation. By comparison, in 2007 HPPL generated 741 GWh of electricity.

Genelba and HPPL, together, account for approximately 5.5% of the power generated in the Argentine electricity system. The joint operation of the generating units minimizes income volatility, capitalizing on the natural barriers existing among the different energy resources used for power generation.

The following chart details energy generation and sales figures for Genelba and HPPL for fiscal years ended December 31, 2008, 2007 and 2006:

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Power Generated (Gwh)</b>	6,193	5,146	6,434
<b>Power Sold (Gwh):</b>			
Forward market	2,578	2,421	2,300
Spot market	4,209	3,300	4,656
Total sales	6,787	5,721	6,956
<b>Sales</b> (in millions of pesos)	697	518	500

**Electricity Transmission: Enecor**

Enecor, S.A. is an independent electricity transmission company. We own 69.99% of Enecor, and Impregilo International Infrastructures N.V. of The Netherlands owns the remaining interest in the company. Enecor has a 95-year concession, expiring in 2088, to construct, operate and maintain approximately 22 km of electricity lines and a 500 Kv/132 Kv transformer station in the Province of Corrientes. Under the concession contract, certain shares of Enecor are pledged in favor of the Province of Corrientes.

Enecor entered into a maintenance agreement with the *Compañía de Transporte de Energía Eléctrica en Alta Tensión* S.A. ( Transener ), which in June 2008 has been extended for a period of ten years. Transener owns the majority of the national interconnection system, including almost all of the 500 kV transmission lines.

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***Electricity Distribution: Edesur***

Edesur was created as part of the privatization of the Buenos Aires electricity distribution network. We currently own 48.5% of Distrilec, which, in turn, owns 56.35% of Edesur. Petrobras Energía and Enersis/Chilectra Group, owned by ENDESA S.A., are the only shareholders of Distrilec and, pursuant to a shareholders' agreement, both parties have the right to elect an equal number of directors, with an equal number of votes to approve all the resolutions at meetings of the Board of Directors.

In 1992, Edesur was awarded an exclusive license by the Argentine government to distribute electricity in the southern area of the Federal Capital and 12 districts of the Province of Buenos Aires, serving a residential population of approximately 6 million inhabitants. The license expires in 2087 and is renewable for an additional 10-year period. By the end of 2008, Edesur's clients totaled 2,262,231 accounting for a 1.55% net increase compared to 2007. This indicator continues the upward trend resumed in 2003, after two years of decline. Edesur has added more than 425,000 customers since its privatization. Some of these customers were added as a result of new electricity lines and others, who had been receiving electricity outside the system, are now fully connected and duly billed.

The unanimous approval of the Board of Directors is required for the granting of any lien on Edesur's shares or in relation to any merger, reorganization, dissolution or spin-off of Distrilec. Shareholders also have preferential rights on any transfer or new issue of shares.

Under its concession contract, Edesur is subject to a fixed cap on what it may charge each customer for the distribution of electricity to that customer. However, Edesur may pass through to the customer the cost of the electricity purchased, limited only by the pre-adjusted seasonal wholesale electricity market price. Customers are divided into tariff categories based on the type of consumption required. Under current regulations, large users may purchase energy and power directly from the wholesale electricity market. Edesur charges a fee for the provision of distribution services. Residential consumers purchase power only from distributors. These customers are generally daylight and weather sensitive and their consumption of electricity is different in summer and winter. Peak demand occurs in July, when there is the least amount of sunlight, and in January, which is usually the hottest summer month in Argentina.

The enactment of the Public Emergency Law significantly affected Edesur's economic and financial balance and its ability to comply with its contractual commitments. For this reason, Edesur's efforts were focused on refinancing financial liabilities, reducing risks and optimizing working capital. Based on these guidelines, Edesur was able to refinance all of its financial debt, achieving a better maturity profile and lower average costs.

In August 2005, Edesur signed a Memorandum of Agreement (MOA) with UNIREN as part of the renegotiation of its concession contract. The MOA included the terms and conditions which would be the basis for the adjustment of Edesur's concession agreement. The MOA provided that between the execution of the MOA and June 30, 2006 an overall rate review would be performed in order to establish a new rate schedule effective August 1, 2006 and for five subsequent years. In addition, the MOA provided an interim period for which the following was agreed upon: (i) an interim rate schedule as from November 1, 2005 with an increase in the average rate not exceeding 15%, applicable to all rate categories except for residential users, (ii) a cost monitoring system which allows for reviewing rate adjustments, (iii) restrictions on dividend distribution and debt interest payments during 2006, (iv) investment commitments for 2006, (v) service quality standards and (vi) restrictions on Distrilec with regard to changes in its interest or sale of its shareholdings in Edesur. Subsequently, Resolution No. 864/2008 issued by the Secretary of Energy put off the effectiveness of the new rate system until February 1, 2009. As of the date of this annual report, there have been no new resolutions about the overall tariff review.

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In February, 2007, as a consequence of the full effectiveness of the terms and conditions of the MOA, a 23% increase was applied to Edesur's distribution costs (not affecting T1R1 and T1R2 residential tariffs), connection costs and the reconnection service charged by Edesur, and an additional average increase of 5% was also applied to the aforementioned distribution costs for the execution of a work plan. In addition, the National Electricity Regulator (*Ente Nacional Regulador de la Electricidad*) (ENRE) authorized, as of May 1, 2006, the application to the aforementioned costs of a 9.962% positive variation in the cost monitoring system indexes provided under the MOA. Subsequently, under Resolutions No.1838/2007 issued by the Secretary of Energy and No. 867/2007 issued by ENRE, a 9.75% adjustment according to the cost monitoring system provided for under the MOA was approved for the May 2006-April 2007 period, applicable as from May 2007 sales.

On July 31, 2008 ENRE issued Resolution No 324/2008 in relation to the Interim Tariff Scheme, approving a new tariff schedule for Edesur applicable as from July 1, 2008, which imposes gradual increases between 10% and 30% on residential users with bimonthly consumption levels over 650 kilowatts as well as a 10% increase on commercial or industrial users. In addition, it provides for the application of the new tariff to the Program for the Rational Use of Energy and the partial recognition of the cost monitoring system for subsequent periods.

On June 1, 2009, Edesur received a notice from ENRE demanding the suspension of dividend distribution in the amount of P\$65 million that had previously been approved at the Shareholders' Meeting held on March 16, 2009, on the grounds of non-compliance with the formal request for dividend distribution according to the MOA. The Board of Directors of Edesur resolved, on grounds of prudence and without any acknowledgment of rights or facts, to abide by the terms of the notice sent by ENRE and requested that ENRE reconsider its demand.

Edesur has applied all the additional resources received to maintain the provided services and to finance the investment plan, which was the higher from the beginning of the enactment of the Public Emergency Law.

Although this represents significant progress, Edesur was not able to restore the economic and financial balance to its operations that existed prior to the devaluation of the peso and pesification of tariffs that was imposed in January 2002.

The chart below sets forth Edesur's annual power sales for each type of user for fiscal years ended December 31, 2008, 2007 and 2006.

	<b>Annual sales in Gwh</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Sales in Gwh:</b>			
Residential	6,199	6,063	5,638
General	3,179	3,109	2,967
Large users	6,518	6,375	6,232
Total	15,896	15,547	14,837
<b>Sales (in millions of pesos)</b>	2,048	1,842	1,412

Argentina's recent economic growth has had an impact on the demand for electricity, which has surpassed consumption levels recorded prior to the 2001 crisis. Within Edesur's concession area, demand increased to 18,083 GWh, or 1.9%, compared to 2007, with a 3,320 MW peak demand record in November 2008. As a result, the network is close to overloading. In addition, electricity sales also hit maximum historical values with total annual sales of 15,896 GWh, accounting for a 2.24% increase compared to 2007.

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**Competition**

We compete with other generators in the wholesale electricity market, both in the spot market and for contracts (mainly short-term contracts).

**INSURANCE**

Our insurance programs principally focus on the concentration of risks and the importance and replacement value of assets. Under our risk management policy, risk associated with our principal assets, such as oil and gas facilities, refineries, petrochemical plants and power generation plants are insured for their replacement value.

We insure against material damages, control of wells, especially where we have gas production, and third-party liability, including marine liabilities.

Our reinsurers have ratings equal or above A- from Standard & Poor's, A3 from Moody's and/or B+ from A.M.Best.

Insurance companies provide coverage in each and every country where Petrobras Energía has controlled interests, following terms and conditions given by our reinsurers.

We maintain coverage for operational third-party liability with respect to our onshore and marine activities, including sudden environmental risks such as oil spills.

We carry third party liability insurance coverage of up to US\$125 million for each and every ocean marine and non-ocean marine incident of loss.

We maintain control of wells coverage in many gas and oil fields located in Argentina, Bolivia and Ecuador.

We also carry marine cargo insurance and directors and officers insurance coverage.

All projects and installations under construction are required to be insured in compliance with the contract for any damage and liability risk.

We also carry insurance for workmen's compensation and automobile liabilities.

Our main areas of coverage include the following different types of deductibles:

US\$10,000,000 for combined claims for property damage for all our businesses;

US\$5,000,000 for control of wells; and

US\$5,000,000 in ocean and non-ocean marine third-party liability.

Our insurance decisions are based on our requirements and available commercial and market opportunities. Our facilities are regularly subject to risk surveys undertaken by international risk consultants.



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**PATENTS AND TRADEMARKS**

Minor portions of our commercial activities are conducted under licenses granted by third parties. Royalties related to sales associated with such commercial activities are paid under the relevant licenses. We use the name Petrobras with the permission of Petrobras.

**QUALITY, SAFETY, ENVIRONMENT AND HEALTH**

Petrobras Energía is a socially and environmentally responsible corporation that promotes continuous improvement. This commitment lies at the core of our corporate mission. We believe that caring for the environment in which we operate and for the safety and health of individuals is an essential condition for the activities we develop.

Our Quality, Safety, Environment and Health ( QSEH ) policies, incorporate state-of-the-art concepts, including: eco-efficiency, life cycle, continuous improvement and leadership. This is implemented through the use of 15 guidelines for practical and customary action, each aimed at responsible behavior-based development.

We have complied with international audits and certifications with respect to environmental management, quality, safety and occupational health. We have 24 assets certified under internationally recognized standards, including ISO 14001, ISO 9001 and OHSAS 18001/IRAM 3800, which are maintained through regular third-party audits.

**Excellence in Management**

We are moving towards Excellence in Management through the use of outstanding Management Tools such as the Excellence in Management Program and the Management Evaluation Program for Safety Environment and Health ( MEP-SEH Program ).

The Excellence in Management Program, developed by Petrobras based on the Brazilian National Quality Award, was first implemented in Petrobras Energía in 2004 and involved the evaluation of units from all business segments by a team of evaluators from other international units of Petrobras. This program measures business management and identifies strengths and opportunities for the implementation of improvement plans focused on excellence. In 2007 the program was redesigned and optimized through the development of a new simplification process that facilitates self-evaluation assisted by a team of Petrobras experts.

The MEP-SEH Program started in 2004 verifies site adherence to the Safety, Environmental and Occupational Health Policy and its 15 Safety, Environmental and Health ( SEH ) Corporate Guidelines. This verification involves triennial evaluations conducted by specialized assistants from Petrobras System locations, selected by our Head Office.

To guarantee the effective implementation of our SEH policy and guidelines, we developed a set of corporate management tools under the Process Safety Program ( PSP ). This program, which launched in April 2004 and concluded in October 2006, diagnosed management in 23 production units and centralized functions, and interviewed over 300 members of management, employees and contractors. The results of this program were an input to our QSEH strategic agenda for 2007-2015.

Another goal of Petrobras Energía is to promote transparent and integrated management, while improving the efficiency of operations. Therefore, in 2007, the Company completed the implementation of the Standardization Process, based on the application SINPEP (Petrobras Electronic Integrated Standardization System), software developed by Petrobras for all its units to facilitate the creation, implementation and improvement of standards for organizational process management.

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In order to avoid the occurrence and repetition of unexpected events, the Anomaly Management process has been implemented since 2006. This process enables tracking, traceability and learning from critical situations to avoid repeated damage to individuals, property and/or the environment.

Throughout the last few years, results showed a permanent improvement in QSEH processes as well as in management indicators, based on the strong commitment of the management and high employee motivation.

**Safety**

In order to reduce our risk of accidents, a series of preventive measures were developed, which focused on and were addressed to Petrobras Energía's supervisors and contractors' supervisors as well as to Petrobras Energía's management staff through the Proactive Leadership Program.

We also launched the Leadership Program in Injury Prevention, essentially addressed to contractors' supervisors, who are trained so that they may, in turn, provide employees in their area with specific training in safety movement, hand care and accident prevention.

Since 2005, we have conducted our Contractor Staff Ranking and Certification process, through which more than 10,000 employees were trained to implement our SEH policies and guidelines.

In 2008 we worked on the implementation of a risk analysis process that coordinates planning related to tasks that pose risks to individuals, the environment and the Company. As a result of this analysis, the safest way to perform a task is provided, including the identification of possible emergencies. During 2008, we also implemented a significant program of asset audits in order to monitor the status of compliance with these preventative processes.

With respect to road safety, since 2004, we have implemented certain best practices related to the safety, environmental and health management of the transportation by land of liquid fuels. At present, we have 350 tankers that travel approximately 46 million kilometers per year throughout Argentina. This transport implies a high exposure to risk for our drivers, community members, equipment and product, including environmental risks. In response to this risk, management has focused on three main aspects: professional training of drivers, fleet condition and maintenance and risk analysis relating to the area where the units travel. The implementation of these practices resulted in a strong reduction in the Company's accident rate. In addition, since 2005 the Company has conducted driver safety training to employees that drive Company vehicles, as well as supervision to ensure compliance with existing standards.

**Environment**

We are committed to minimizing our impact on the environment, and are developing a framework to assess and report on the eco-efficiency of all our business units. Eco-efficiency is based on the concept of creating more goods and services while using fewer resources and creating less waste and pollution.

In line with our strategic commitment to environmental responsibility, we have been working to ensure that increased production is as compatible as possible with the efficient use of natural resources such as water and energy, and generates the least possible amount of effluents and emissions in all of our business units, as evidenced by programs such as our SIGEA project.

Since July 2003, our Inventory System of Atmospheric Emissions ( SIGEA ) project has assisted us in reducing our atmospheric emissions by enhancing our decision-making process for new investments, particularly in terms of energy conservation and eco-efficiency. Additionally, the SIGEA project has helped us detect improvements that will facilitate our participation in carbon credit markets. During 2008, ICF International consulting company conducted a verification of Petrobras Energía's greenhouse gas emissions inventory. Oil and Gas Exploration and Production assets in Argentina, Ecuador and Peru as well as Refining and Distribution and Petrochemicals facilities in Argentina were subject to audits.

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We implemented clean-up projects in our oil fields and refineries, focused on contaminated water and soils. The Waste Corporate Management System (*Sistema Corporativo de Residuos*) ( SCR ), which has been implemented during 2008 in all our business units, was created for the purpose of recording and supervising waste inventories.

After a rigorous economic, social and environmental evaluation, Petrobras Energía, through Petrobras, has once again qualified for inclusion in the Dow Jones Sustainability Index. This index evaluates corporate sustainability in almost 60 economic sectors worldwide.

***Environmental Training***

In 2006, Petrobras Energía worked to promote the environmental knowledge and awareness of internal and external stakeholders in the communities around its assets, and organized an e-learning course about sustainability, life cycle analysis and eco-efficiency with the participation of employees from all South American countries where we operate.

Likewise, we continued technically and financially supporting the Global Learning Observations to Benefit the Environment, which promotes the practical study of environmental science and care at educational institutions.

***Emergency Response***

The Company is actively engaged in preventing, preparing for, and responding to emergency situations, with an emphasis on minimizing damage and rapidly restoring previous conditions in the event of an accident.

Petrobras Energía is party to a mutual assistance agreement with Petrobras, our controlling shareholder, whereby we have committed to assist each other during possible spills in our land and maritime operations.

In 2005, we created emergency response bases, which are distributed throughout different strategic points in Argentina (nautical and ground bases), all of them with the necessary equipment and personnel for effective performance in an emergency.

We regularly conduct land and nautical drills to develop the skills and competency needed to carry out our emergency plans in different sectors. These drills are carried out within the framework of our SEH policy, and coordinate the activities of various parties who would be called upon in an emergency, such as the fire department, police, our customer service centers, contractors, and our own employees. Between 2004 and 2008, more than 1,000 individuals from the emergency-response community, including civil defense and firemen, have been trained in techniques for reducing leaks and fire fighting related to land transportation. Through the responses to these drills, we are able to analyze information, assess situations by ranking the seriousness of each scenario on site, establish response strategies, and study the development of joint intervention techniques, rescue assistance and protection.

Petrobras Energía is the only company in Argentina that has an environmental agents program, which is based on growth-oriented, proactive and responsible responses, and involving three stakeholders: the community, governmental authorities and Petrobras Energía. Since 2004, approximately 700 people have been trained under this program. In 2007, the program was carried out for the first time in Block 18 in Ecuador with the participation of local communities.

In 2008, we organized five workshops on handling of hazardous material emergencies relating to road transportation in several locations within the country. The workshops culminated in road accident drills based on a range of different scenarios such as fire, spills and human injuries. In addition, a nautical simulation drill for tankers was conducted to test our National Contingency Plan, developed when we became the owner of the Poti tanker in March 2008.

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**Health**

Petrobras Energía has implemented a Health Promotion and Protection Program, which prioritizes the quality of life of our employees. The principal components of the program are health promotion, stress management, physical activity, healthy diet and disease and accident prevention through early detection and control of epidemiological risk factors. Program activities include workshops on stress, sedentary life-style, healthy diet and a smoking reduction plan. Since 2005, 4,100 employees have participated in these programs.

In order to encourage physical activity, we opened health promotion centers gyms and aerobics tracks in several plants and executed agreements with fifteen private gyms in Buenos Aires. As a result, 2,500 employees and related family members are exercising at these facilities. We have also made preventive dental checks available to all employees to improve dental health and minimize health risk factors.

In addition, since 2005 we have provided CPR (cardiopulmonary resuscitation) and first-aid training to 3,000 individuals, and more than 200 people have participated in our smoking reduction program. Families are eligible to participate in our health promotion program workshops, and we were certified by the Ministry of Health in 2007 as a smoke-free work place. Moreover, in December 10, 2008 we obtained a heart safe certificate from the Argentine Federation of Cardiology in connection with all assets in Argentina, certifying that the Company has all the necessary elements and trained personnel in case of a heart attack emergency.

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**REGULATION OF OUR BUSINESS**

**Argentine Regulatory Framework**

***Petroleum***

***Overview***

The Argentine oil and gas industry is regulated by Law No. 17,319 (the Hydrocarbons Law ), enacted in 1967, and natural gas is regulated by Law No. 24,076 (the Natural Gas Law ), enacted in 1992. The Hydrocarbons Law, which sets forth the general legal framework for the exploration and production of oil and gas, allows the federal executive branch of the Argentine government to establish a national policy for the development of Argentina's hydrocarbon reserves, with the principal purpose of satisfying domestic demand.

Originally, the Hydrocarbons Law provided that all oil and gas reserves located within the Argentine territory were owned by the federal government but in 1992, a new regulatory framework was implemented in response to several changes in the Argentine oil and gas industry after the privatization of Yacimientos Petrolíferos Fiscales Sociedad del Estado ( YPF ), and Gas del Estado ( GdE ). In order to respond to these changes Law No. 24,145 (the Privatization Law ) was enacted. Pursuant to the Privatization Law, the federal government transferred ownership of oil and gas reserves to the government of the provinces in which these reserves were located, upon satisfaction of certain conditions. Furthermore pursuant to section 124 of the Argentine Constitution, as amended in 1994, provinces were also granted primary control over natural resources existing in their respective territories. In 2007, Law 26,197 (the Federalization Law ) amended the Hydrocarbons Law to also provide that oil and gas areas belong either to (and should be administrated by) the federal government or the provinces, depending on the territory where the relevant areas are located.

Fields located in the area lying between twelve nautical miles from the coastline and the outer boundary of the continental shelf belonging to the federal government. All the fields lying within the various provinces or in offshore areas within twelve nautical miles of the coast belong to the provinces or the City of Buenos Aires, as applicable. The Federalization Law also divides authority over hydrocarbon transportation concessions between the federal government and the provinces, as discussed in detail below under Federalization Law.

As a result of the Federalization Law, all oil and gas exploration permits and production concessions as well as other types of exploration and/or exploitation contracts with respect to the fields located in provincial territories, where originally granted by the federal government, were transferred to the relevant provinces by operation of law without affecting the rights or obligations of permit or concessions holders. Transportation concessions within provincial territories were also transferred to the relevant provinces.

The Hydrocarbons Law allows the federal government to establish national policies for the development of Argentine reserves and to set out federal energy policy. Provinces have the right to (i) control and conduct surveillance of permits, concessions and exploration and exploitation agreements, (ii) enforce compliance of the terms and conditions of permits, concessions and explorations and exploitation contracts, (iii) approve the extension of the terms of permits, concessions and exploration and exploitation agreements, and (iv) impose fees.

Following, the enactment of the Federalization Law, several provinces (i.e., Chubut, Río Negro, La Pampa and Mendoza) conducted public biddings processes for the granting of new exploration permits and, eventually, production concessions.

While privatized, the oil and gas industry still remains heavily regulated, particularly with respect the granting of exploration and production rights, restrictions and productions export, taxes and fees on gross production, and specific investment obligations related the drilling activities, and other environmental controls and works.

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***Exploration and Production***

Pursuant to the Hydrocarbons Law, exploration and production of oil and gas is carried out through exploration permits, production concessions, exploitation contracts or partnership agreements. Nevertheless, the Hydrocarbons Law permits surface reconnaissance of territories not covered by exploration permits or production concessions, with authorization if the Argentine Secretary of Energy and the permission of the owner of the land. Information obtained through surface reconnaissance must be provided to the office of the Secretary of Energy, which is prohibited from disclosing it for a period of two years, without the prior authorization of the party that conducted the except in connection with the granting of exploration permits or production concessions.

The Hydrocarbons Law originally granted exploration permits and production concessions at the federal level through a competitive bidding process. Since the enactment of the Federalization Law, this power is exercised by both the federal and provincial governments, as applicable. Companies and individuals seeking to obtain oil and gas permits and participate in concession biddings need to satisfy certain registration requirements with the Secretary of Energy. Permits granted to third parties in connection with the deregulation and demonopolization process were granted in accordance with procedures specified in certain decrees, known as the Oil Deregulation Decrees, issued by the federal executive branch. In 1991, the federal executive branch established a program under the Hydrocarbons Law, known as the Argentina Exploration Plan, pursuant to which exploration permits may be auctioned. The holder of an exploration permit has the exclusive right to perform the operations necessary or appropriate for the exploration of oil and gas within the area specified by the permit. Each exploration permit may cover only unexplored areas up to 10,000 square kilometers (15,000 square kilometers for offshore exploration), and may have a term of up to 14 years (17 years for underwater exploration). The Argentina Exploration Plan remains in effect.

In the event holders of an exploration permit discover commercially exploitable quantities of oil or gas, such holders will be entitled to obtain an exclusive concession for the production and exploitation of the relevant reserves. The production concession provides its holder the exclusive right to produce oil and gas from the area covered by the concession for a term of 25 years (plus, in certain cases, a part of the unexpired portion of the underlying exploration permit), which may be extended by the relevant authority for an additional ten-year term. A production concession also entitles the holder to obtain a transportation concession for the transport of the oil and gas produced.

Under the Hydrocarbons Law, holders of exploration permits and production concessions are required to carry out all necessary works to find or extract hydrocarbons, using appropriate techniques, and to make the investments specified in their respective permits or concessions. In addition, holders must avoid damage to oil and gas fields and waste of hydrocarbons, must undertake adequate measures to prevent accidents and damage to agricultural activities, the fishing industry, communications networks and ground water, and must comply with all applicable federal, provincial and local laws and regulations.

Holders of production concessions are required to pay for such permits and concessions, and certain royalties to the federal government. Please see [Royalties](#) below for more detail.

Exploration permits and production or transportation concessions are subject to termination upon breach or violation of applicable laws, regulations, permits or concessions terms or upon the bankruptcy of the permit holder or concessionaire. In the event of the expiration of exploration permits or production concessions, all oil and gas wells, operating and maintenance equipment and ancillary facilities automatically revert to the federal or provincial government, without payment to the permit holder or concessionaire.

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Exploration permits and production concessions can be partially or totally assigned with prior authorization of the executive branch.

No early termination is provided under the Hydrocarbon Law due to a change of control in the company's equity, however, change of control clauses may be included under the relevant exploration permits or production concessions.

### ***Authorized Governmental Agency***

The office of the Secretary of Energy is the federal governmental agency in charge of enforcing the Hydrocarbons Law. However, the federal executive branch is in charge of determining areas in which hydrocarbons activities are to be encouraged and the granting of permits and concessions. Pursuant to the Federalization Law, each province is the application authority of the Hydrocarbons Laws within its own territory.

### ***State-Owned Energy Company***

In October 2004, the Argentine Congress enacted Law No. 25,943 creating a new state-owned energy company called Energía Argentina S.A. ( ENARSA ). The corporate purpose of ENARSA is to carry out, through third parties or through joint ventures with third parties, (i) studies, exploration and exploitation of hydrocarbon natural reserves, (ii) the transportation, processing and sale of hydrocarbons and their direct and indirect by-products, (iii) the transportation and distribution of natural gas and (iv) the generation, transportation, distribution and sale of electricity. Moreover Law No. 25,943 granted to ENARSA all exploration concessions in respect of all national offshore areas located more than twelve nautical miles from the coastline, up to the outer boundary of the continental shelf, that were vacant at the time of the effectiveness of this law (i.e., November 3, 2004). Therefore, any future exploration of offshore areas must be done in joint venture with ENARSA.

### ***Net Worth Requirements***

The Hydrocarbons Law requires that, to engage in any exploration, production or transportation of oil and gas activity, companies must comply with certain capital requirements and financial solvency standards.

Secretary of Energy Resolution No. 193/03, states that in order to receive and maintain permits or concessions, the permit holder or concessionaire must have a minimum net worth of P\$2 million, in the case of land areas, and P\$20 million, in the case of the offshore areas, and that such minimum net worth must be maintained for the entire term of the permit of concession. Non-compliance with this requirement may result in penalties, including fines or even removal from the register of oil companies of the Secretary of Energy. Up to 70% of these net worth requirements may be satisfied by means of financial banking or other guarantees.

### ***Federalization Law***

The Federalization Law was published in the Official Bulletin on January 3, 2007, and amended the Hydrocarbons Law to clarify the federal and provincial governments' ownership rights over liquid and gaseous hydrocarbon fields, based upon their location. As noted above, the Federalization Law transferred ownership of all hydrocarbon reservoirs that are onshore or within twelve nautical miles of the coast to the provinces and the City of Buenos Aires, and provided for federal government ownership of reservoirs more than twelve nautical miles from the coast, until the outer limit of continental shelf. Pursuant to the Federalization Law, the Argentine Congress shall continue to enact laws and regulations to develop oil and gas resources existing within all of the Argentine territory (including marine resources), but the governments of the provinces where the hydrocarbon reservoirs are located shall be responsible for the enforcement of these laws and regulations, the administration of the hydrocarbon fields and shall act as granting authorities for the exploration permits and production concessions. However, the administrative powers granted to the provinces shall be exercised within the framework of the Hydrocarbons Law and the regulations complementing this law. Consequently, even though the Federalization Law established that the provinces shall be responsible for administering the hydrocarbon fields, the Argentine Congress retained its power to issue rules and regulations regarding the oil and gas legal framework. Additionally, the Argentine federal government retained the power to determine national energy policy. It is expressly stated that the transfer will not affect the rights and obligations of exploration permit and production concession holders, or the basis for the calculation of royalties, which shall be calculated in accordance with the concession title and paid to the province where the reservoirs are located. The Federalization Law provides that the Argentine government shall retain the authority to grant transportation concessions for: (i) transportation concessions located within two or more provinces territory and (ii) transportation concessions directly connected to export pipelines for export purposes. Consequently, transportation concessions

which are located within the territory of only one province and which are not connected to export facilities have been transferred to the provinces.



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Finally, the Federalization Law grants the following powers to the provinces: (i) the exercise in a complete and independent manner of all activities related to the supervision and control of the exploration permits and production concessions transferred by Law No. 26,197; (ii) the enforcement of all applicable legal and/or contractual obligations regarding investments, rational production and information and surface fee and royalties payment; (iii) the extension of legal and contractual terms; (iv) the application of sanctions provided in the Hydrocarbons Law; and (v) all the other faculties related to the granting power of the Hydrocarbons Law.

As of the enactment of the Federalization Law on January 3, 2007, each enforcement authority was made a counterparty to the different permits and concessions granted, with all the powers set forth in the Hydrocarbons Law and its supplementary regulations, and the rights derived therefrom.

***Transportation***

The Hydrocarbons Law grants hydrocarbon producers the right to obtain from the federal executive branch a 35-year transportation concession for the transportation of oil, gas and their by-products through public tenders. Producers granted a transportation concession remain subject to the provisions of the Natural Gas Law, and in order to transport their hydrocarbons do not need to participate in public tenders. The term of a transportation concession may be extended for an additional ten years upon application to the federal executive branch.

Transporters of hydrocarbons must comply with the provisions established by Decree No. 44/91, which implements and regulates the Hydrocarbons Law as it relates to the transportation of hydrocarbons through oil pipelines, gas pipelines, multiple purpose pipelines and/or any other services provided by means of permanent and fixed installations for transportation, loading, dispatching, tapping, compression, conditioning infrastructure and hydrocarbon processing. This decree is applicable currently and primarily to oil pipelines and not to gas pipelines. See Regulation of Our Business Argentine Regulatory Framework Natural Gas ENARGAS .

The transportation concessionaire has the right to transport oil, gas, and petroleum products and to construct and operate oil pipelines and gas pipelines, storage facilities, pumping stations, compressor plants, roads, railways and other facilities and equipment necessary for the efficient operation of a pipeline system. While the transportation concessionaire is obligated to transport hydrocarbons on a non-discriminatory basis on behalf of third parties for a fee, this obligation applies only if such producer has surplus capacity available and after such producer's own transportation requirements are satisfied.

Depending on whether gas or crude oil is transported, transportation tariffs are subject, respectively, to approval by ENARGAS or the Secretary of Energy. Resolution No. 5/04 of the Secretary of Energy sets forth:

Maximum amounts for tariffs on hydrocarbon transportation through oil pipelines and multiple purpose pipelines, as well as for tariffs on storage, use of buoys and the handling of liquid hydrocarbons; and

Maximum amounts that may be deducted in connection with crude oil transportation by producers that, as of the date of the regulation, transport their production through their own unregulated pipelines, for the purpose of assessing royalties.

Upon expiration of a transportation concession, ownership of the pipelines and related facilities is transferred to the Argentine government with no compensation paid to the concessionaire.

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***Refining and Marketing***

Executive Decree No. 1212/89, issued pursuant to the Hydrocarbons Law in 1989, regulates hydrocarbon-refining activities by oil producers and other third parties. This decree, as well as rules and regulations issued by the Secretary of Energy, regulates the commercial, environmental, quality and safety related-aspects of refineries and gas stations. This law authorized imports, abolished oil assignments by the Secretary of Energy and deregulated the installation of refineries and gas stations. Certain supervisory and control powers of the Secretary of Energy have also been delegated to provincial and municipal authorities and therefore the refining and sale of refined products must also comply with provincial and municipal technical, health, safety and environmental regulations.

The refining of hydrocarbons is subject to requirements established by the Secretary of Energy, including registration of oil companies. Approval of registration is granted on the basis of financial, technical and other standards. As described below, liquid fuel retail outlets, points of sale for fuel fractioning, the resale to large users and supply contracts between gas stations and oil companies are also subject to the registration requirements set by the Secretary of Energy.

Disposition S.S.C. No. 157/06 of the Undersecretariat of Fuels provides that fuel sellers who are parties to contracts that create any degree of exclusivity between the refining company and the fuel seller, and which for any reason are seeking to terminate such contract, shall report the termination in advance to the Undersecretariat of Fuels in order to inform the Secretary of Domestic Commerce of the situation. In that case, the Secretary of Domestic Commerce is to: (i) issue a statement regarding the validity of the termination of the contract and (ii) use all necessary means to allow the fuel seller terminating the contract to execute another agreement with a refining company and/or fuel broker in order to guarantee its fuel supply.

Gas stations, other fuel retail outlets and other distributors are required to register with the Secretary of Energy to participate in the liquid fuel markets. Severe sanctions are imposed on those who execute transactions with unregistered parties, and repeated violations may result in removal from the registry. Additional requirements are also imposed on all fuel market participants, and brand owners are jointly liable for any breaches by companies operating under their brand name (Resolution No. 1102/04).

Gas stations in border areas must sell fuels to vehicles bearing foreign license plates at mandatory differential prices (Secretary of Energy, Resolutions No. 938/06 and 959/06).

The Argentine government, in an attempt to guarantee the supply of fuel to the domestic market, has also imposed restrictions on exports, requiring producers to gain authorization before performing export operations (Executive Decree 645/02 and Secretary of Energy, Resolution Nos. 1679/04 and 1338/06). Prior to obtaining the Secretary of Energy's approval to export crude oil or diesel oil, producers must generally show that they have either satisfied local demand requirements or granted the domestic market the opportunity to purchase oil on similar terms. Potential exporters of diesel oil must also register in advance with the government (Secretary of Energy, Resolution No. 1679/04).

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In 2005, the Argentine government imposed additional requirements to guarantee the domestic supply of diesel oil to gas stations by refiners (Secretary of Energy, Resolutions No. 1834/05 and 1879/05). Initially, these regulations allowed gas stations to obtain diesel oil from third parties if refiners were unable to meet demand, with refiners bearing any additional costs incurred in procurement. In 2006, these regulations were expanded to require refining companies, wholesalers and retailers to meet total reasonable diesel oil demand on a continuous basis in every geographical region in Argentina at the same level demanded for the corresponding month in the previous year, plus an adjustment to account for growth in domestic product (Domestic Trade Secretary, Resolution No. 25/06).

The Secretary of Energy also regulates the quality content of fuels. These regulations have become significantly more stringent in recent years.

Any new fuels marketed within Argentina must be authorized for sale by the Undersecretary of Fuels, regardless of the brand or trade name under which they are marketed (Secretary of Energy, Resolution No. 1334/06). In 2008, the Secretary of Energy exempted fuel oils sold to power plants from marketing requirements under Resolution No. 1283/06 (Resolution No. 150/08).

Resolution No. 1103/04 issued by the Secretary of Energy provides, pursuant to Executive Decree 1212/89, section 17, that in the case of gas stations operating under a brand, the owner of the brand under which fuels are sold shall be responsible for the specification, quality and quantity of products sold and for compliance thereof with reported requirements, and in the case of gas stations operating under no brand, the operator shall be the responsible party and fuel suppliers may also be jointly and severally liable when duly identified.

The Ministry of Federal Planning, Public Investment and Utilities created the Energía Total (Total Energy) program in 2007 to help guarantee the supply of liquid and gas fuels to producers and the Argentine population during 2008 (Resolution 459/2007). The program was designed to encourage the substitution of alternative fuels for natural gas and electricity consumption used in various production activities and electricity generation. The program has been extended through December 31, 2009. ENARSA is in charge of coordinating the Energía Total program, under which two separate plans call for the provision of liquid and gas fuels. One goal of the program is to guarantee the supply of liquid fuels derived from oil (liquefied petroleum gas, diesel oil, fuel oil, gasoline and octane enhancers) and to meet overall demand, based on economic growth and industrial development. The beneficiaries of this plan are primarily fuel refining and importing companies in Argentina that qualify pursuant to regulations governing the Energía Total program and that have reached an agreement with ENARSA.

**Market Regulation**

Under the Hydrocarbons Law and certain decrees issued in connection with the deregulation and demonopolization process that took place in the early 1990s (the Oil Deregulation Decrees), holders of production concessions have the right, with a few limited exceptions, to freely dispose of their production either through sales in the domestic market or abroad. However, as explained elsewhere in this report, since 2002, the Argentine federal executive branch has imposed restrictions on the export of hydrocarbons under the Hydrocarbons Law. See Refining and Marketing above and Risk Factors Factors Relating to Argentina Limits on exports of hydrocarbons and related oil products have affected and may continue to affect our results of operations.

Pursuant to Decree No. 1589/89, relating to the deregulation of the upstream oil industry, companies engaged in oil and gas production in Argentina are free to sell and dispose of the hydrocarbons they produce and are entitled hold up to 70% of the foreign currency proceeds they receive from crude oil and gas sales abroad, while being required to repatriate at least 30% through Argentine exchange markets.

The Hydrocarbons Law authorizes the federal executive branch to regulate the Argentine oil and gas markets and prohibits the export of crude oil during any period in which the federal executive branch finds domestic production to be insufficient to satisfy domestic demand. In the event the federal executive branch restricts the export of oil and petroleum products or the free disposal of natural gas, the Oil Deregulation Decrees provide that producers, refiners and exporters shall receive a price, in the case of crude oil and petroleum products, not lower than that of similar imported crude oil and petroleum products and, in the case of natural gas, not less than 35% of the international price per cubic meter of Arabian light oil, at 34 degrees. See Refining and Marketing above.



**Table of Contents*****Oil Plus and Refining Plus Programs***

On November 25 2008, the Executive Branch issued Decree 2014/2008. This Decree created two programs known as Oil Plus (*Petróleo Plus*) and Refining Plus (*Refinación Plus*). The principal purpose of these programs is to stimulate the exploration, production and exploitation of oil reserves, to increase refining capability and the production of different types of fuels. According to the Decree the companies that fulfill requirements established by these programs will be awarded with fiscal credit that are transferable and that can be applied against export taxes levied on exports of crude oil, natural gas and derivatives.

Also, according to Decree 2014/2008, construction of infrastructure by oil companies in order to: (i) enable the exploration and production of new hydrocarbons reservoirs, (ii) increase their production capacity, or (iii) incorporate new technology for the operation of existing and new hydrocarbons reservoirs, could be qualified as Critical Infrastructure Construction (*Obra de Infraestructura Crítica*) according to Law No. 26,360. This qualification allows companies to obtain a return of the value-added tax ( VAT ) corresponding to the assets involved in the infrastructure construction, or to accelerate the amortization of the same assets for the purpose of determining their income tax. Decree 2014/2008 has been regulated by Secretary of Energy, Resolution No. 1312/2008; this resolution defines and quantifies the incentives to be awarded under the programs described above. These incentives are awarded according to variables such as the international price of oil, the volumes of production and the ratios of recovery of hydrocarbons reserves. Fiscal credits awarded under the Oil Plus program are subject to the verification of an increase in the production of oil and the incorporation of new reserves of hydrocarbons. Fiscal credits awarded under the Refining Plus program are contingent upon the existence of projects to install new refining units or the expansion of existing units.

***Royalties***

Pursuant to sections 57 and 58 of the Hydrocarbons Law, holders of exploration permits and production concessions must pay an annual surface fee that is based on acreage of each block and which varies depending on the phase of the operation, *i.e.*, exploration or production, and in the case of the former, depending on the relevant period of the exploration permit. On October 17, 2007, Executive Decree No. 1,454/07 significantly increased the amount of exploration and production surface fees expressed in Argentine pesos that are payable to the different jurisdictions where the hydrocarbon fields are located.

Holders of production concessions and permits are required to pay a 12% royalty to the government of the province in which production occurs, calculated on the wellhead price (equal to the FOB price less transportation costs and certain other reductions) of crude oil and natural gas produced. The Hydrocarbons Law authorizes the government to reduce royalties up to 5% based on the productivity and location of a well and other special conditions. Any oil and gas produced by the holder of an exploration permit prior to the grant of a production concession is subject to the payment of a 15% royalty.

Resolution No. 435/04 issued by the Secretary of Energy, which updates Resolution No. 155 dated December 23, 1992, (i) imposes additional reporting requirements with respect to royalties, (ii) introduces certain changes with respect to the powers of provinces, (iii) amends certain parts of the royalty determination system, including applicable deductions and exchange rates and (iv) establishes penalties upon default of a reporting duty. This resolution has been applicable to permit and concession holders since June 2004.

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Concession holders are required to file sworn statements with the Secretary of Energy and the relevant provincial authorities, informing them of:

The quantity and the quality of extracted hydrocarbons, including the computable production levels of liquid hydrocarbons and a break down of the crude oil (specifying the type), condensate and total natural gas recovered (with a 0.1% maximum error tolerance);

Sales to domestic and foreign markets;

Reference values for transfers made at no cost for purposes of further industrialization;

Freight costs from location where marketable condition is acquired to location where commercial transfer takes place; and

Description of sales executed during the month.

In addition to the sworn statement, concession holders must file receipts evidencing payment of royalties. Upon breach of any reporting duty, provincial authorities are entitled to make their own assessment of royalties.

Resolution No. 435/04 also provides that if a concession holder allots crude oil production for further industrialization processes at its own or affiliated plants, the concession holder is required to agree with provincial authorities and the Secretary of Energy, as applicable, on the reference price to be used for the purpose of calculating royalties and payments. Upon default by the concession holder, provincial authorities may fix this reference price. The concession holder is eligible for certain deductions including (i) inter-jurisdictional freight costs, which can be deducted from the selling price, as long as transportation is made by means other than a pipeline, and monthly invoices and any relevant agreements are provided and (ii) internal treatment costs (not exceeding 1% of the payment) incurred by authorized permit or concession holders.

By Decree 2240/2008, the Province of Neuquen approved the agreement signed with Petrobras Energía for the extension of its exploitation concessions, by which the company agreed to pay to the Province an extraordinary exploitation rent of 3% on its production of oil and gas.

***Exchange Rates Applicable to Royalties***

Under Resolution No. 76/02 of the Ministry of Economy, royalties on oil exports must be fixed taking into account the seller exchange rate of Banco de la Nación Argentina on the day before the royalty is paid.

However, from December 2001 until May 2002, producers and refiners agreed to negotiate a reduced exchange rate in order to moderate the impact of the devaluation in product price. Producers calculated and paid royalties according to this reduced exchange rate. These calculations have been rejected by Neuquén Province, which have presented a claim for any shortfall arising from this agreement. This claim is still pending a judgment from the Supreme Court.

***Regulations to Secure the Supply of Diesel Oil***

Over the past several years, the Argentine government has passed various laws and adopted various initiatives aimed at guaranteeing the supply of diesel fuel to the domestic market.

One government initiative aimed at securing local supply exempts diesel fuel imports intended for domestic consumption from the Fuel Liquids and Natural Gas Tax, as well as the Diesel Oil Tax. The following laws exempted diesel fuel imports in the following amounts from such taxes: Law No. 26,022 (2005) 500,000 m<sup>3</sup>; Law No. 26,074 (2006) 800,000 m<sup>3</sup> (subject to an additional exemption of 20% in 2007); Law No. 26,337 (2007) 1,800,000 m<sup>3</sup> (applicable in 2008, subject to an additional exemption of 20%). Exemptions under Law No. 26,337 are valid when the average monthly parity of diesel oil imports is not lower than the ex-refinery price of diesel oil (excluding all taxes except VAT). Resolution No. 151/08 of the Secretary of Energy has also applied these exemptions to the first 500,000 m<sup>3</sup> of diesel fuel imported each year.

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The federal executive branch has also undertaken initiatives aimed at securing the supply of diesel fuel at subsidized, differential prices for regulated-rate public transportation service providers. Following the promulgation of Executive Decree No. 675/03 (as amended by Executive Decrees No. 159/04, 945/04, 280/05 and 564/05), several agreements were subsequently signed whereby refining companies agreed to supply diesel oil at lower than market prices, depending on the kind of services provided by the transportation companies. Executive Decree No. 449/2008 empowered the Chief of Cabinet (*Jefe de Gabinetes*) to sign annual agreements extending the diesel fuel subsidy to transportation companies for the fiscal year 2008.

In exchange for providing diesel fuel at below market prices, refining companies receive direct compensation in the form of a credit on export duties. Refining companies receive export credits equivalent to the difference between the net revenues from the sale of diesel oil at the subsidized price and the net revenues that would have been obtained from the sale of the same diesel oil volumes at market price. Refining companies that process the crude oil they produce are entitled to direct compensation, calculated by deducting such compensation from any amount payable for export duties. The applicable rate is determined by the Chief of Cabinet and the credit is issued by the Secretary of Energy.

The new agreement for the supply of diesel oil to public transportation companies has not yet been signed.

***Stability of Fuel Prices***

In an effort to mitigate the impact of the significant increase in international prices for oil and oil by products on domestic prices and to ensure price stability for crude oil, gasoline and diesel oil, since January 2003, at the request of the federal executive branch, hydrocarbon producers and refineries have entered into a series of temporary agreements, which contained price limits with respect to crude oil deliveries. By the end of 2004, in light of further increases in the WTI, the Argentine government established a series of measures to ensure the supply of crude oil to local refiners at price levels consistent with the local retail price of refined products.

Currently producers and refiners freely negotiate purchase and sale prices for oil. However, certain differences over the economic terms applied to the fuel stability price agreements have not been resolved.

***Natural Gas***

In 1992, the Natural Gas Act was passed providing for the privatization of Gas del Estado, or GdE, and the deregulation of the price for natural gas. To carry out the privatization, the assets of GdE were divided among two new transportation companies and eight new regional distribution companies. The transportation assets were divided into two systems on a geographical basis, the northern and southern area pipeline systems, designed to give both systems access to gas sources and to main centers of demand, including the greater Buenos Aires region. A majority of the shares of each of the transportation and distribution companies was sold to private bidders.

The Natural Gas Act established a regulatory framework for the privatized industry and created ENARGAS, an autonomous entity under the Ministry of Economy and Public Works that is responsible for the regulation of the transportation, distribution, marketing and storage of natural gas.

***Regulatory framework***

Natural gas transportation and distribution companies operate in an open access, non-discriminatory environment under which producers, large users and certain third parties, including distributors, are entitled to equal and open access to the transportation pipelines and distribution systems. In addition, exploitation concessionaires may transport their own gas production pursuant to certain concessions granted under the Hydrocarbons Law.

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The Natural Gas Act prohibits gas transportation companies from buying and selling natural gas. Additionally, gas producers, storage companies, distributors and consumers who contract directly with producers may not own a controlling interest (as defined in the Natural Gas Act) in a transportation company. Furthermore, gas producers, storage companies and transporters may not own a controlling interest in a distribution company, and no seller of natural gas may own a controlling interest in a transportation or distribution company (unless such seller neither receives nor supplies more than 20% of the gas received or transported, on a monthly basis, by the relevant distribution or transportation company).

Contracts between affiliated companies engaged in different stages of the natural gas industry must be reported to ENARGAS, which may refuse to authorize such contracts only if it determines that they were not entered into on an arm's-length basis.

### ***ENARGAS***

ENARGAS is an autonomous entity which functions under the Ministry of Economy and Public Works and Services of Argentina and is responsible for a wide variety of regulatory matters regarding the natural gas industry, including the approval of rates and rate adjustments and transfers of controlling interests in the distribution and transportation companies. ENARGAS is governed by a board of directors composed of five full-time directors who are appointed by the federal executive branch subject to confirmation by the Argentine Congress.

On May 21, 2007 the federal executive branch announced that it was temporarily intervening in the operations of ENARGAS. Though the board of directors remains in place, as of the time of filing of this annual report, officials from the federal executive branch currently exercise control over ENARGAS, in consultation with the board of directors. We cannot provide you with any assurances or estimates as to how long this arrangement will remain in place.

ENARGAS has its own budget, which must be included in the Argentine national budget and submitted to Congress for approval. ENARGAS is funded principally by annual control and inspection fees that are levied on regulated entities in an amount equal to the approved budget, net of collected penalties, and allocated proportionately to each regulated entity.

Conflicts between two regulated entities or between a regulated entity and a third party arising from the distribution, storage, transportation or marketing of natural gas must first be submitted to ENARGAS for its review. ENARGAS's decisions may be appealed through an administrative proceeding to the Ministry of Economy or directly to the federal courts.

### ***Rate Regulation***

#### ***Summary***

Since the enactment of the Public Emergency Law and other emergency measures in early 2002, public utility tariff regulation has been radically modified, including regulation of gas transportation and distribution services. The rapid implementation of various tariffs has generated a patchwork of conflicting regulations. Although the rules regulating tariffs described hereunder remain in effect, in practice they have been supplemented by other laws described throughout this section ( Regulation of Our Business ). The Company cannot provide any assurances as to which rules and regulations will remain in place if these various conflicts are resolved.

#### ***Regulation of Natural Gas Distributors Prior to the Public Emergency Law***

Prior to the enactment of the Public Emergency Law, provisions of the Natural Gas Act regulated the rates for gas transportation and distribution services, including those of TGS. Tariffs to end-users consisted of the sum of three components: (i) the price of the gas purchased; (ii) a transportation tariff for transporting gas from the production area through the distribution system; and (iii) a distribution tariff. Under the Natural Gas Act and TGS license, TGS was permitted to adjust rates (i) semi-annually to reflect changes in the U.S. producer price index, and (ii) every five years in accordance with efficiency and investment factors to be determined by ENARGAS. In addition, subject to ENARGAS's approval, rates were subject to adjustment from time to time to reflect cost variations resulting from changes in the tax regulations (other than income tax) applicable to TGS, and for objective, justifiable and non-recurring circumstances. The ratemaking methodology contemplated by the Natural Gas Act and the TGS license is the price-cap with periodic review methodology, a type of incentive regulation designed to allow regulated companies to retain a portion of the economic benefits arising from efficiency gains. This legal framework remains in



effect, though it has been modified by the regulations described below.

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***UNIREN***

The Public Emergency Law pesified tariffs for public utility services at a P\$1=US\$1 parity and prohibited the increase of these tariffs based on indexation factors. Additionally, this law authorized the Argentine federal executive branch to renegotiate the terms of contracts for the provision of public utility services without being constrained by the applicable regulatory framework. This authority was later delegated by the executive to the Ministry of the Economy, which created, in July 2003, the UNIREN, for the purpose of assisting in the renegotiation process. The renegotiation of service contracts (some of which have been completed and others which are ongoing) must take into account the following criteria, among others:

Impact of tariffs on economic competitiveness and on income distribution;

Quality of services to be provided and/or the capital expenditure programs provided for in the contracts;

Interest of customers and accessibility to the services;

The safety of the systems; and

The company's profitability.

On October 1, 2003, the Argentine Congress passed a bill allowing the executive branch of the government to set public utility rates until the completion of the renegotiation process. TGS is in the process of re-negotiating a tariff structure with UNIREN. See Item 4. Information on the Company Gas and Energy Gas and Transportation TGS Renegotiation process .

***Modifications to the regulatory framework***

On February 16, 2004, the government, through Decree No. 180/04, took a number of significant steps that altered the regulatory framework for the Argentine gas industry. The decree authorized the Secretary of Energy to take any necessary measures to maintain an adequate level of services in the event of a supply crisis. In addition, Decree No. 180/04 provided for:

The creation of a trust fund (to be funded by tariffs payable by users of the service, special credit programs and contributions from direct beneficiaries) to finance the expansion of the industry and the creation of an electronic market;

The creation of an electronic wholesale market to coordinate spot transactions of the sale of natural gas and secondary market transactions for transportation and distribution of natural gas; and

A prohibition on distributors or their shareholders from having a controlling participation in more than one gas dealer.

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***Adjustment of Natural Gas Price at Wellhead***

Decree No. 181/04 instructed the Secretary of Energy to design a framework for the normalization of prices of natural gas at the wellhead. The decree authorized the Secretary of Energy to negotiate with gas producers on a price framework for the adjustment of prices in sale contracts to distributors. Natural gas prices for residential consumers were excluded from this process. It also authorized the Secretary of Energy to create a new category of users who must buy gas directly from producers.

The prices resulting from this framework are used as a reference for calculating and paying royalties and are used by ENARGAS in calculating any necessary adjustments in tariffs that result from variations in the price of purchased gas. In addition, the decree required that all agreements for the sale of natural gas be filed with the gas electronic market, and granted authority to the Secretary of Energy to regulate the sale of gas (i) between producers and (ii) between producers and their affiliates.

Pursuant to Decree No. 181/04, in April 2004 the Secretary of Energy entered into an agreement with natural gas producers approved by Resolution No. 208/04 that regulated the price of natural gas by sector, and that called for the complete deregulation of the wellhead price of natural gas by January 1, 2007. Under the April 2004 agreement, natural gas producers were required to provide minimum supply volumes to the local market, including (i) distributors for industrial users, (ii) clients of distributors, or new direct consumers, and (iii) local electric power generators. Additionally, this agreement called for producers to report all supply agreements to the Secretary of Energy.

In 2007, upon expiration of the 2004 agreement, the Secretary of Energy and the producers signed a new Natural Gas Producers Agreement aimed at ensuring the domestic supply of natural gas, approved by Secretary of Energy, Resolution No. 599/07. This agreement modified the proposed scope of gas price deregulation, and established set prices, under which the 2005 price is maintained for the residential segment, and an annual average increase is established of approximately 6.5% for the compressed natural gas, generation and industrial segments (though the price for gas in the industrial segment remains freely negotiable). The implementation of this agreement is staggered by segment, and the last supply commitment to expire is that for residential supply, in the year 2011.

In 2008, the government implemented the Gas Plus Program to create an incentive for producers participating in the aforementioned supply agreements to increase production in unexploited areas, areas under exploitation with particular geologic characteristics (e.g. tight gas), areas that have not been in production since 2004, or new fields in areas otherwise under production (Secretary of Energy Resolution 24/2008). Gas produced in these new areas can be freely marketed without being subject to the conditions imposed by the aforementioned natural gas producers agreement.

On May 23, 2005, pursuant to Resolution No. 752/05, the Secretary of Energy established a mechanism by which new direct consumers were able to buy natural gas directly from producers as from August 1, 2005. Resolution No. 1886/2006 subsequently extended this mechanism through December 31, 2016. New direct consumers were allowed to buy natural gas through the electronic gas market, which was originally created for spot transactions but now permits long-term operations. In order to purchase gas in the electronic market, new direct customers were required to post irrevocable purchase orders that provided for: (i) terms of at least 36 months, (ii) prices of at least export parity, and (iii) volume of at least 1,000 m<sup>3</sup> per day.

If the irrevocable offer is not accepted, new direct consumers may require the Secretary of Energy to require export producers to provide natural gas for a period of six months pursuant to the prices approved by Resolution No. 599/07 of the Ministry of Federal Planning, Public Investments and Utilities. Transportation companies are prohibited from transporting natural gas for export purposes as long as the domestic supply of natural gas is not satisfied.

**Table of Contents*****Restrictions on Exports of Gas***

In March 2004, in order to prevent a crisis in the supply of gas to the domestic market, the Secretary of Energy suspended all prior export authorizations and exports of natural gas surplus volumes and instructed the Undersecretary of Fuels to create a program for the rationing of gas exports and the use of the country's transportation capacity. The Undersecretary of Fuels subsequently adopted a program, known as the Program for the Rationalization of Natural Gas Exports, which established a mechanism for the determination of export restrictions based on various factors and contemplated monthly and quarterly limits on gas exports. In addition, during 2004, the Undersecretary of Fuels did not authorize exports of volumes (excluding surplus volumes) in excess of those exported during 2003. This program was replaced in June 2004 with the Complementary Program to Supply Natural Gas to the Domestic Market, which eased the monthly and quarterly limits established under the Program for the Rationalization of Natural Gas Exports. Since 2005, as part of the Complementary Program to Supply Natural Gas to the Domestic Market, the Secretary of Energy has requested that producers redirect natural gas targeted for export to supply thermal plants and gas distribution companies. These measures restricted our total volume of exported gas by a daily average of approximately 31 thousand cubic meters in 2008, 420 thousand cubic meters in 2007, 339 thousand cubic meters in 2006 and 110 thousand cubic meters in 2005, preventing us from benefiting from the higher margins offered by the export market. See Risk Factors Factors Relating to Argentina Limits on exports of hydrocarbons and related oil products have affected and may continue to affect our results of operations .

Moreover, according to the Natural Gas Producers Agreement approved by Resolution No. 599/07, the exportation of natural gas is prohibited as long as domestic supply is not satisfied. A mechanism for the determination of export restrictions was also established.

The Public Emergency Law created a withholding tax on exports of hydrocarbons regime for five years from March 1, 2002, which was subsequently extended for five years from January 2007 pursuant to Law No. 26,217. The taxes withheld are deducted from the sales price of the exported hydrocarbons. In May 2004, a 20% withholding rate was first imposed on gas exports. In 2006, under Resolution 534/2006 issued by the Secretary of Energy, the Argentine government increased taxes on natural gas exports to 45% of the price of gas imported from Bolivia. In April 2008, the Ministry of Economy and Production issued Resolution No.127/08, amending Resolution No. 534/2006, and imposing a 100% withholding tax on natural gas exports, based upon the highest price set for natural gas under any applicable agreement for natural gas imports into Argentina. Under this resolution, taxes on natural gas exports are set equivalent to the cost of natural gas imported into Argentina.

***Compressed Natural Gas for Vehicles***

Effective April 1, 2006, distributors may not provide compressed natural gas, or CNG, to gas stations. Instead, gas stations will be required to purchase CNG through the electronic wholesale market pursuant to a mechanism of irrevocable purchase orders designed by the Secretary of Energy. The mechanism is designed to conceal the identity of buyers and sellers, and buyers are able to make joint offers. If any purchase orders are not satisfied through this system, exports of natural gas will be diverted to cover the unsatisfied demand. This mechanism is expected to continue until the Secretary of Energy determines that it is no longer necessary, in light of the status of the domestic supply of natural gas. This mechanism is still in force as of the date of this annual report.

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***Liquefied Petroleum Gas***

Prior to the enactment of Law No. 26,020 on April 8, 2005, the Argentine liquefied petroleum gas, or LPG, market was regulated by the Hydrocarbons Law, as supplemented by several technical and commercial rules, and regulations issued by the Undersecretary of Fuels, which covered all activities related to LPG. Under Resolutions No. 49/01 and No. 52/01, the Secretary of Energy is responsible for enforcing the rules and regulations applicable to the LPG industry and an LPG board, which reports to the National Refining and Marketing Board, which, in turn, reports to the Undersecretary of Fuels, was in charge of supervising and auditing the industry.

In 2005, the Argentine Congress established, pursuant to Law 26,020, a new regulatory framework for the LPG industry that is intended to guarantee regular, reliable and cost effective provision of LPG to low-income residential sectors that currently are without natural gas network services. This new regime regulates the production, fractioning, transportation, storage, distribution and sale of LPG. These activities are considered of public interest. The Secretary of Energy is responsible for enforcement of Law 26,020, and may delegate supervision and control tasks to ENARGAS. The relevant portions of this law are summarized below:

Prices: the Secretary of Energy determines and disseminates reference prices (which must be below export parity prices) for the domestic market (by region, on a seasonal basis every six months), with the goal of guaranteeing regular supply in that market, and may establish price stabilization mechanisms in order to avoid price fluctuations in the domestic market.

Market limitations: the Secretary of Energy and the Antitrust Commission, or CNDC, are authorized to analyze the sector, for the purpose of fixing limits at each stage of vertical integration of the industry.

Open Access: an open access regime is established in connection with the storage of LPG and the Secretary of Energy establishes terms and conditions for the determination of maximum tariffs for storage.

Imports/Exports: no restrictions are imposed, and no prior authorization is required, for the import of LPG, and the Secretary of Energy may authorize the export of LPG without restriction, so long as the domestic market is satisfied. No shortage of supply is currently experienced in the domestic market.

Trust Fund: a trust fund was established for the purpose of subsidizing the consumption of LPG by the low-income residential sector and expanding the distribution network to areas without service. The trust is to be funded from the sanctions collected under this law and contributions from the national budget.

Resolution No. 168/05 of the Undersecretary of Fuels extends the domestic supply and export restrictions applicable to other hydrocarbons under Resolution 1679/04 to LPG producers. However, as of the date of this annual report, domestic supply mandates and export restrictions have not been extended to the LPG market due to adequate domestic supply.

Secretary of Energy, Resolution No. 792/05 complements Law 26,020 and sets forth two seasonal periods (winter and summer), fixing reference prices for each period. It also divides the country into three geographical areas north, center and south in which these prices are applied, as discussed above. It also approves a mechanism for the determination of the export parity price and an exclusive price that applies only to retailers, calculated from an average of its purchases for the last 24-month period.

***Electricity***

As recently as 1990, virtually all of the electricity supply in Argentina was controlled by the public sector. In 1991, the Argentine government undertook an extensive program of privatization of all major state-owned industries, including the electricity generation, transmission and distribution sectors. In January 1992, the Argentine federal congress adopted Law No. 24,065 (the Regulatory Framework Law), which established guidelines for the restructuring and privatization of the electricity sector. The Regulatory Framework Law, which continues to provide the framework for regulation of the electricity sector, distinguished the generation, transmission and distribution of electricity as separate businesses and subjected each to respective regulatory regimes.



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The ultimate objective of the privatization process was to reduce rates paid by users and improve quality of service through competition. The privatization process commenced in February 1992 with the sale of several large thermal generation facilities, and continued with the sale of transmission and distribution facilities (including those currently operated by our company) and additional thermoelectric and hydroelectric generation facilities.

The Public Emergency Law, combined with the devaluation of the peso and high rates of inflation, had a severe effect on public utilities in Argentina. Because public utilities were no longer able to increase tariffs at a rate at least equal to the rate of inflation in Argentina, increases in the rate of inflation led to decreases in their revenues in real terms and a deterioration of their operating performance and financial condition. Most public utilities had also incurred large amounts of foreign currency indebtedness under the Convertibility Law regime and, following the elimination of the Convertibility Law regime and the resulting devaluation of the peso, the debt service burden of these utilities increased sharply, which led many of these utilities to suspend payments on their foreign currency debt in 2002. This situation caused many Argentine electricity generators, transmission companies and distributors to defer making further investments in their networks. As a result, Argentine electricity market participants, particularly generators, are currently operating at near full capacity, which could lead to insufficient supply to meet a growing national energy demand.

To address the electricity crisis generated by the economic crisis, the Argentine government has repeatedly intervened in and modified the rules of the wholesale electricity market since 2002. These modifications include the imposition of caps on the prices paid by distributors for electricity power purchases (Resolution No. 8/2002) and the requirement that all prices charged by generators be calculated based on the price of natural gas (which are also regulated by the Argentine government), regardless of the fuel actually used in generation activities (Resolution No. 240/2003), which together has created a huge structural deficit in the operation of the wholesale electricity market.

In December 2004, the Argentine government adopted new rules to readapt or readjust the marketplace (Resolutions Nos. 826/2004 and 712/2004), but these rules will not come into effect until the construction of two new 800 MW combined cycle generators is completed. Commercial operations in open cycle commenced on these generators during 2008, and were expected to begin operating in combined cycle in the fourth quarter of 2009 or the first quarter of 2010. Construction is partially financed with credit balances of generators resulting from the spread between the sales price of energy and generation variable cost, which will be deposited with the funds for FONINVEMEM I and II.

Generators accepted the opportunity under Resolution No. 1427/2004 to participate in the FONINVEMEM projects. Petrobras Energía contributed 65% of its credits accrued in the Wholesale Electricity Market during the 2004-2006 period for the construction of the combined cycle generators mentioned above, and earned the right to be a shareholder in both companies that carry out the projects.

The construction of these new generators reflects a decision by the Argentine government to take a more active role in promoting energy investments in Argentina. In addition to these projects, in April 2006 the Argentine congress enacted a law that authorized the executive branch to create a special fund to finance infrastructure improvements in the Argentine energy sector through the expansion of generation, distribution and transmission infrastructure relating to natural gas, propane and electricity. Contributions to this fund are made through *cargos específicos* (specific charges) passed on to customers as an itemization on their energy bills.

In 2006 the Secretary of Energy implemented the Energy Plus Program (Resolution No. 1281/2006) to create an incentive for increased electricity generation. Projects implemented under the Energy Plus Program are not subject normal market regulations. Prices can be freely negotiated between generators and users.

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### *Regulatory authorities*

The principal regulatory authorities responsible for the Argentine electricity industry are:

(1) the Secretary of Energy of the Ministry of Federal Planning, Public Investment and Services, and

(2) the National Electricity Regulator (*Ente Nacional Regulador de la Electricidad*) ( ENRE ).

The Secretary of Energy advises the Argentine government on matters related to the electricity sector and is responsible for the application of the policies concerning the Argentine electricity industry.

ENRE is an autonomous agency created by the Regulatory Framework Law. ENRE has a variety of regulatory and jurisdictional powers, including, among others:

enforcement of compliance with the Regulatory Framework Law and related regulations;

control of the delivery of electric services and enforcement of compliance with the terms of concessions;

adoption of rules applicable to generators, transmitters, distributors, electricity users and other related parties concerning safety, technical procedures, measurement and billing of electricity consumption, interruption and reconnection of supplies, third-party access to real estate used in the electricity industry and quality of services offered;

prevention of anticompetitive, monopolistic and discriminatory conduct between participants in the electricity industry;

imposition of penalties for violations of concessions or other related regulations; and

arbitration of conflicts between electricity sector participants.

ENRE is managed by a five-member board of directors appointed by the executive branch of the Argentine government. Two of these five members are nominated by the Federal Council on Electricity (*Consejo Federal de la Energía Eléctrica*) (the CFEE ). The CFEE is funded with a percentage of revenues collected by CAMMESA (as defined below) for each MWh sold in the market. Sixty percent of the funds received by the CFEE are reserved for the *Fondo Subsidiario para Compensaciones Regionales de Tarifas a Usuarios Finales* (Regional Tariff Subsidy Fund for End Users), from which the CFEE makes distributions to provinces that have met certain specified tariff provisions. The remaining forty percent is used for investments related to the development of electrical services in the interior regions of Argentina.

### ***The Wholesale Electricity Market***

#### ***Overview***

The Secretary of Energy established the wholesale electricity market in August 1991 to allow electricity generators, distributors and other agents to buy and sell electricity in spot transactions or under long-term supply contracts at prices determined by the forces of supply and demand.

The wholesale electricity market consists of:

a term market in which generators, distributors and large users enter into long-term agreements on quantities, prices and conditions;

a spot market, in which prices are established on an hourly basis as a function of economic production costs, represented by the short-term marginal cost of production measured at the Ezeiza 500 kV substation, the system's load center; and

a stabilization system for spot market prices applicable to purchases by distributors, which operates on a quarterly basis.





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***Operation of the Wholesale Electricity Market***

CAMMESA oversees the operation of the wholesale electricity market. CAMMESA was created in July 1992 by the Argentine government, which currently owns 20% of CAMMESA's capital stock. Various associations that represent wholesale electricity market participants, including generators, transmitters, distributors, large users and electricity brokers own the remaining 80%.

CAMMESA is in charge of:

managing the national interconnection system pursuant to the Regulatory Framework Law and related regulations, which includes:

determining technical and economic dispatch of electricity in the national interconnection system;

maximizing the system's security and the quality of electricity supplied;

minimizing wholesale prices in the spot market;

planning energy capacity needs and optimizing energy use pursuant to the rules set out from time to time by the Secretary of Energy; and

monitoring the operation of the term market and administering the technical dispatch of electricity pursuant to any agreements entered into in such market;

acting as agent of the various wholesale electricity market participants;

purchasing or selling electricity from or to other countries by performing the relevant import/export operations; and

providing consulting and other services related to these activities.

CAMMESA's operating costs are covered by mandatory contributions made by wholesale electricity market participants. CAMMESA's annual budget is subject to a mandatory cap equivalent to 0.85% of the aggregate amount of transactions in the wholesale electricity market projected for that year.

***Wholesale Electricity Market Participants***

The main participants in the wholesale electricity market are generation, transmission and distribution companies. Large users and traders participate also in the wholesale electricity market, but to a lesser extent.

***Generators***

According to CAMMESA, there are 48 generation companies in Argentina, most of which operate more than one generation plant. As of December 31, 2008, Argentina's installed power capacity was 25,411 MW. Of this amount, 60% was derived from thermal generation, 36% from hydraulic generation and 4% from nuclear generation, provided by 40 private companies using conventional thermal equipment and hydraulic generation technology, 2 bi-national companies using hydraulic generation technology and one national state-owned company using nuclear generation technology. Private generators participate in CAMMESA through the Argentine Association of Electric Power Generators (*Asociación de Generadores de Energía Eléctrica de la República Argentina*) ( AGEERA ), which is entitled to appoint two acting and two alternate directors of CAMMESA.

**Table of Contents***Transmitters*

Electricity is transmitted from power generation facilities to distributors through high voltage power transmission systems. Transmitters do not engage in purchases or sales of power. Transmission services are governed by the Regulatory Framework Law and related regulations promulgated by the Secretary of Energy.

In Argentina, transmission is carried at 500 kV, 220 kV and 132 kV through the national interconnection system. The national interconnection system consists primarily of overhead lines and sub-stations and covers approximately 90% of the country. The majority of the national interconnection system, including almost all of the 500 kV transmission lines, has been privatized and is owned by Transener. Regional transmission companies, most of which have been privatized, own the remaining portion of the national interconnection system. Supply points link the national interconnection system to the distribution systems, and there are interconnections between the transmission systems of Argentina, Brazil, Uruguay and Paraguay allowing for the import or export of electricity from one system to another. Transmission companies also participate in CAMMESA by appointing two acting and two alternate directors through the Argentine Association of Electric Power Transmitters (*Asociación de Transportistas de Energía Eléctrica de la República Argentina*) ( ATEERA ).

*Distributors*

Each distributor supplies electricity to consumers and operates the related distribution network in a specified geographic area pursuant to a concession. Each concession establishes, among other things, the concession area, the quality of service required, the rates paid by consumers for service and an obligation to satisfy demand. ENRE monitors compliance by federal distributors with the provisions of their respective concessions and with the Regulatory Framework Law, and provides a mechanism for public hearings at which complaints against distributors can be heard and resolved. In turn, provincial regulatory agencies monitor compliance by local distributors with their respective concessions and with local regulatory frameworks.

The largest distribution companies are Edesur and Empresa Distribuidora y Comercializadora Norte S.A.

Distributors participate in CAMMESA by appointing two acting and two alternate directors through the Argentine Association of Electric Power Distributors (*Asociación de Distribuidoras de Energía Eléctrica de la República Argentina*) ( ADEERA ).

*Large users*

The wholesale electricity market classifies large users of energy into three categories: Major Large Users (*Grandes Usuarios Mayores*) ( GUMAs ), Minor Large Users (*Grandes Usuarios Menores*) ( GUMEs ) and Particular Large Users (*Grandes Usuarios Particulares*) ( GUPAs ).

Each of these categories of users has different requirements with respect to purchases of their energy demand. For example, GUMAs are required to purchase 50% of their demand through supply contracts and the remainder in the spot market, while GUMEs and GUPAs are required to purchase all of their demand through supply contracts.

Large users participate in CAMMESA by appointing two acting and two alternate directors through the Argentine Association of Electric Power Large Users (*Asociación de Grandes Usuarios de Energía Eléctrica de la República Argentina*) ( AGUEERA ).

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*Traders*

Since 1997, traders are authorized to participate in the wholesale electricity market by intermediating block sales of energy. Currently, there are eight authorized traders in the wholesale electricity market, several of which conduct transactions with Comercializadora de Energía del Mercosur S.A. ( CEMSA ) in the export market.

***Spot Market***

*Spot prices*

The emergency regulations enacted after the Argentine crisis in 2001 had a significant impact on energy prices. Among the measures implemented pursuant to the emergency regulations were the pesification of prices in the wholesale electricity market, known as the spot market, and the requirement that all spot prices be calculated based on the price of natural gas, even in circumstances where alternative fuel such as diesel is purchased to meet demand due to the lack of supply of natural gas. Despite these modifications, the basic framework for the spot market that was established prior to the economic crisis remains in place.

Under this system, energy prices in the spot market are set by CAMMESA, which determines the price charged by generators for energy sold in the spot market of the wholesale electricity market on an hourly basis. The spot price reflects supply and demand in the wholesale electricity market at any given time, which CAMMESA determines using different supply and demand scenarios that dispatch the optimum amount of available supply, taking into account the restrictions of the transmission grid, in such a way as to meet demand requirements while seeking to minimize the production cost and the cost associated with reducing risk of system failure.

The spot price set by CAMMESA compensates generators according to the cost of the last unit to be dispatched for the next unit as measured at the Ezeiza 500 Kv substation, which is the system's load center and is in close proximity to the City of Buenos Aires. Dispatch order is determined by plant efficiency and the marginal cost of providing energy. In determining the spot price, CAMMESA also considers the different costs incurred by generators not in the vicinity of Buenos Aires.

In addition to energy payments for actual output at the prevailing spot market prices, generators receive compensation for capacity placed at the disposal of the spot market, including stand-by capacity, additional stand-by capacity (for system capacity shortages) and ancillary services (such as frequency regulation and voltage control).

*Seasonal Prices*

The regulations implemented in the wake of the Argentine economic crisis also made significant changes to the seasonal prices charged to distributors in the wholesale electricity market, including the implementation of a cap (which varies depending on the category of customer) on the cost of electricity charged by CAMMESA to distributors at a price significantly below the spot price charged by generators.

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Prior to implementation of the emergency regulations, seasonal prices were regulated by CAMMESA as follows: prices charged by CAMMESA to distributors and large users changed only twice per year (in summer and winter), with interim quarterly revisions in case of significant changes in the spot price of energy, despite prices charged by generators in the wholesale electricity market fluctuating constantly; prices were determined by CAMMESA based on the average cost of providing one MW of additional energy (its marginal cost), as well as the costs associated with the failure of the system and several other factors; and

CAMMESA would use seasonal database and optimization models in determining the seasonal prices and would consider both anticipated energy supplies and demand as follows:

in determining supply, CAMMESA would consider energy supplies provided by generators based on their expected availability, committed imports of electricity and the availability declared by generators;

in determining demand, CAMMESA included the requirements of distributors and large users purchasing in the wholesale electricity market as well as committed exports.

*Stabilization Fund*

The stabilization fund, managed by CAMMESA, absorbs the difference between purchases by distributors and large users at seasonal prices and payments to generators for energy sales at the spot price. When the spot price is lower than the seasonal price, the stabilization fund increases, and when the spot price is higher than the seasonal price, the stabilization fund decreases. The outstanding balance of this fund at any given time reflects the accumulation of differences between the seasonal price and the hourly energy price in the spot market. The stabilization fund is required to maintain a minimum amount to cover payments to generators if prices in the spot market during the quarter exceed the seasonal price.

Billing of all wholesale electricity market transactions is performed monthly through CAMMESA, which acts as the clearing agent for all purchases between participants in the market. Generally, payments are made approximately 40 days after the end of each month by CAMMESA to the generators.

The stabilization fund was adversely affected as a result of the modifications to the spot price and the seasonal price made by the emergency regulations, pursuant to which seasonal prices were set below spot prices resulting in large deficits in the stabilization fund. This deficit has been financed by the Argentine government through loans to CAMMESA and by generators through contributions to FONINVEMEM.

*Term market*

Historically, generators were able to enter into agreements in the term market to supply energy and capacity to distributors and large users. Distributors were able to purchase energy through agreements in the term market instead of purchasing energy in the spot market. Term agreements typically stipulated a price based on the spot price plus a margin. Prices in the term market were at times lower than the seasonal price that distributors were required to pay in the spot market. However, as a result of the emergency regulations, spot prices are currently higher than seasonal prices, particularly with respect to residential tariffs, making it unattractive to distributors to purchase energy under term contracts while prices remain at their current levels.

*Renegotiation of Utility Tariffs*

Our affiliate Edesur is currently negotiating its utility contracts with UNIREN. See Item 4. Information on the Company Gas and Energy Electricity Electricity Distribution: Edesur. Although Edesur has managed to negotiate some increases in the tariffs it is able to charge customers, we cannot guarantee that future negotiations will ultimately result in a level of tariff increases sufficient to restore Edesur to the financial and economic position it held prior to the Argentine economic crisis of 2001-2002.

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***Argentine Taxation***

***General Overview***

Holders of exploration permits and production concessions are subject to federal, provincial, and municipal taxes and regular customs duties on imports. The Hydrocarbons Law grants such holders a legal guarantee against new taxes and certain tax increases at the provincial and municipal levels. Permit holders and concessionaires must pay an annual surface tax based on the area held. Attempts by the Province of Neuquén to change the reference price used for calculating royalties are currently being challenged through litigation. For more detail on concession fees and royalties, see [Royalties](#) above.

Oil and gas exploration and production activities in Argentina are subject to the following taxes:

An annual surface tax based on the area held, which varies depending on the permit and concession terms.

An income tax of 35% of net income.

A VAT of 21% for the domestic sale of oil and gas, which is added to invoice amounts and passed on to purchasers (exports have a zero percent VAT).

A provincial tax (over gross revenues tax) applied in general at an average percentage of 2% of gross local revenues (revenues from exports are excluded).

A presumed minimum income tax calculated on the basis of 1% of the value of the assets that the company owns as of December 31 of each year. Certain assets, such as shares and stakes in other companies subject to the same tax, are exempt. Assets located in the jurisdiction of the Province of Tierra del Fuego are also exempted. The value of acquisitions and investments in assets subject to depreciation (except automobiles) is deductible for the purpose of determining the amount of taxable assets in the economic year of the acquisition or investment and in the subsequent tax year. The income tax paid as determined for the same economic year is considered to be payment against this tax. Over time, if the presumed minimum income tax paid may be credited during the next ten years as payment on account of that portion of the income tax not absorbed.

A provincial stamp tax applied to written agreements entered within the provincial jurisdiction, at rates varying between 0.3% and 2.5% of the economic value of the relevant agreement.

A withholding taxes on crude exports, as described under [Export Taxes](#) below.

A tax on debts and credits applicable to bank account transactions and other banking transactions used as a replacement for current accounts. The general percentage is 0.6% for each debit or credit transaction (although in some cases, an increase of 1.2% and reduction if 0.075% of the value of such assets).

A tax on personal property that applies to the shares or other stakes of Argentine companies held by foreign companies or individuals at a rate of 0.5% of the value of such assets.

A surveillance fee applicable to downstream activities and transportation of liquid hydrocarbons and its derivatives through pipelines, as described under [Surveillance Fee](#) below.

In addition, the net profit (as defined in the Hydrocarbons Law) of holders of permits or concessions accruing from activity of such holders might be subject to the application of a special 55% income tax. This tax has never been applied. Each permit or concession granted to an entity other than us has provided that the holder thereof is subject instead to the general Argentine tax regime, and a decree of the executive branch of the Argentine government provides that we are also subject to the general Argentine tax regime.



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Following the introduction of market prices for downstream petroleum products in connection with the deregulation of the petroleum industry, Law No. 23,966 established a volume-based tax on transfers of certain types of fuel, replacing the prior regime, which was based on the regulated price. Law No. 25,745, modified effective as of August 2003, the mechanism for calculating the tax, replacing the old fixed value per liter according to the type of fuel for a percentage to apply to the sales price, maintaining the old fixed value as the minimum tax.

Dividends distributed by us to our shareholders, regardless of their country of residence, are exempt from income tax in Argentina. However, dividends distributed in excess of the accumulated earnings, determined according to the provisions of the Argentine Income Tax Law by the end of the fiscal year prior to the year when the dividends are distributed, shall be subject to a 35% tax on such excess. The tax must be withheld by the distributing company.

Holding of our shares by individuals resident in Argentina or abroad and corporations, any type of legal entity, enterprise, permanent establishment, estate or resident abroad shall be subject to a personal assets tax on those holdings by December 31st every year. The tax basis shall be the percentage net equity of each shareholder, and the tax rate is 0.5%. We act as a substitute obligor and pay the tax. The Argentine government is entitled to recover the amount paid through withholding or by foreclosing on the assets that generated the tax liability.

***Export Taxes***

In 2002, the Argentine government began to impose customs duties on the export of hydrocarbons. Export tax rates were increased on crude oil 20%, on butane, methane and LPG to 20% and gasoline and diesel fuel to 5%. In May 2004, Resolution No. 337/04 of the Ministry of Economy and Production increased export duties on crude oil to 25%. These export tax rates were increased again in 2004, when the Ministry of Economy and Production issued Resolution No. 532/04, establishing a progressive scheme of export duties for crude oil, with rates ranging from 25% to 45%, depending on the quotation of the WTI reference price at the time of the exportation. In addition, in May 2004, pursuant to Resolution No. 645/04 of the Ministry of Economy and Production, an export duty on natural gas and natural gas liquids was established at a rate of 20%. The export duty on natural gas was increased again in July 2006, when the Ministry of Economy and Production increased the rate to 45% and instructed the Customs General Administration to apply the price fixed by the Framework Agreement between Argentina and Bolivia (approximately US\$6/mmBtu in December 2007) as the base price to which to apply the new tax rate, irrespective of the actual sales price. In addition, on October 10, 2006, the Ministry of Economy and Production imposed prevalent export duties on exports from the Tierra del Fuego province, which were previously exempted from taxes. Moreover, in May 2007 the Ministry of Economy and Production increased to 25% the export duty on butane, propane and LPG. There can be no assurances as to future levels of export taxes.

Resolution No. 394/07 of the Ministry of Economy and Production, effective as of November 16, 2007, increased export duties on Argentine oil exports (as defined by the regulator) on crude oil and other crude derivatives products. This regime provides that when the international price exceeds the reference price, which is fixed at US\$60.90 per barrel, the producer shall be allowed to collect US\$42 per barrel, with the remainder being withheld by the Argentine government as an export tax. If the international price of Argentine oil exports (as defined by the regulator) is under the reference price but over US\$45 per barrel, a 45% withholding rate will apply to all amounts over US\$45. If such price is under US\$45 per barrel, the applicable export tax is to be determined within 90 business days. A similar withholding regime applies to exports of oil by-products such as gasoline, fuel oil and lube oils, with different cut-off and reference prices. Despite the drop in reference prices following July 2008, there has not been a recalculation of the applicable export tax, as of the date of this annual report.



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Resolution No. 127/2008 of the Ministry of Economy and Production, effective July 11, 2008, increased export duties applicable to natural gas exports from 45% to 100%, mandating a valuation basis for the calculation of the duty as the highest price established in any contract of any Argentine importer for the import of gas (including the reference price set by the Framework Agreement between Argentina and Bolivia mentioned above). Resolution No. 127/2008 provides with respect to LPG products (including butane, propane and blends thereof) that if the international price of the relevant LPG product, as notified daily by the Secretary of Energy, is under the reference price established for such product in the resolution (US\$338/m<sup>3</sup> for propane, US\$393/m<sup>3</sup> for butane and US\$363/m<sup>3</sup> for blends of the two), the applicable export duty for such product will be 45%. If the international price exceeds the reference price, the producer shall be allowed to collect the maximum amount established by the resolution for the relevant product (US\$223/m<sup>3</sup> for propane, US\$271/m<sup>3</sup> for butane and U.S.\$250/m<sup>3</sup> for blends of the two), with the remainder being withheld by the Argentine government as an export tax.

***Surveillance Fee***

Law No. 25,565 imposed a surveillance fee payable to the Secretary of Energy for downstream activities, equal to P\$0.0003 for each commercialized transaction in the domestic market, and for the transportation of liquid hydrocarbons and its derivatives through pipelines, at a 0.35% rate of the estimated income for the provision of transportation service.

***Argentine Environmental Regulations***

The environmental legal framework comprises Sections 41 and 43 of the Argentine Constitution, as well as federal, provincial and municipal laws. According to Section 41 of the Argentine Constitution, the federal government legislates on the minimum standards for protection of the environment, while the provinces and municipalities are responsible for establishing specific standards and implementing regulations. Please note that in addition to the regulations described below, certain regulations may also apply depending on the location of the oil and gas reserve.

***International Treaties***

The Argentine Republic is a state member of several international treaties concerning environmental matters that may impact our business. Argentina has undertaken several obligations in connection with the protection of the environment, the preservation of biological diversity and the implementation of sustainable development.

Such treaties include the following: (i) the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and their Disposal (1989), (ii) The United Nations Framework Convention on Climate Change adopted in Rio de Janeiro (1992), (iii) The Montreal Protocol of Substances that Deplete the Ozone Layer (1989), (iv) the Kyoto Protocol (a protocol to the United Nations Framework Convention on Climate Change) (1997), and (v) the Stockholm Agreement on Persistent Organic Polluting Agents (2001).

***Federal Environmental Laws***

In accordance with Section 41 of the Argentine Constitution, federal law establishing minimum standards for environmental protection have been enacted. These Laws provided a general framework for the legislation to be enacted by the local jurisdictions, which must satisfy the minimum standards contained therein.

***General Environmental Laws***

Law 25,675 (the General Environmental Policy ) enacted in November 2002, established minimum standards for the protection of the environment, the preservation of biological diversity and sustainable development.

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The main purpose of the General Environmental Policy is the promotion of the rational and sustainable use of natural resources and the establishment of procedures and mechanisms to minimize environmental risks, prevent and mitigate environmental emergencies and redress damages caused by environmental pollution.

The General Environmental Policy requires that any work or activity capable of significantly degrading the environmental or its components or which may adversely affect the quality of life, shall be subject to a prior environmental impact evolution. All entities (including our company) must provide information related to the environmental impact of their activities and this information shall be publicly available, unless declared classified.

Entities carrying out dangerous activities for the environment and ecosystems must take out insurance policies for the damages such activities may cause. Any person liable for environmental damages must take the actions necessary to restore the *status quo ante*, and where such restoration is not possible, the indemnification determined by the courts shall be transferred to an environmental restoration fund for the execution of remedial action,

***Specific Environmental Regulations of Oil and Gas Industries***

Secretary of Energy Resolution No. 105/92 contains specific regulations and procedures for the protection of the environmental during oil and gas exploration and exploitation.

During exploration, companies must prepare an environmental impact report to be filed with the Secretary of Energy, and no drilling activity may be carried out before filing such environmental impact report. Once any oil and gas fields have been discovered, companies must prepare an environmental assessment report also to be filed with the Secretary of Energy. Thereafter, environmental reports are to be filed with the Secretary of Energy on an annual basis.

***Integral Management of Industrial and Services Activities Wastes***

Law 25,612 established minimum standards for environmental protection with respect to the integral management of waste originated in industrial or service providing activities. It sets forth minimum environmental protection requirements for generation, handling, storage, transport, treatment and final disposal of the aforementioned wastes. It also maintains the Argentine Constitution's prohibition on the importation, introduction, or transportation into the country, its air space and seas, of any types of wastes from other countries.

In general terms, Law 25,612 sets a system of tort liability to that of Law 24,051 described under *Hazardous Waste* below. Infringements of this law may be subject to warnings, fines, closure, suspension of activities for up to one year and definitive withdrawal of authorizations and registrations in the applicable registers. In the case of legal entities, board members and managers may be held severally liable for such penalties.

***Hazardous Waste***

Law 24,051 regulates all issues related to the generation, manipulation, transport, treatment and final disposition of hazardous wastes generated or located in places under national jurisdiction, or although located in the territory of a province, transported outside the provinces, that could affect individuals or the environment in other provinces other than the one where they were generated, or when the sanitary measures which adoption may become necessary have an economic impact making it advisable to unify those measures throughout the country.

With respect to hazardous waste liability, it is presumed, though there is evidence to the contrary, that every hazardous waste is considered a risk good as contemplated by section 113 of the Civil Code, which means that the generator or handler of hazardous waste will only be exonerated from its liability to the extent it proves the victim's or third parties negligence or willful misconduct. The law established severe civil and criminal sanctions for infringers.

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***Air Pollution***

Law No. 20,284 applies in federal jurisdiction and in those provinces which have adopted the provisions of this law. It established general principles for the treatment of sources capable of contaminating the atmosphere. Enforcement of this law is vested in the respective national, provincial or local health authorities.

***Water Environmental Management***

Law 25,688 established minimum standards for the preservation of water, its exploitation and rational use. It defines the different uses of waters and the need for obtaining a permit from the local authorities to be entitled to use the same.

Additionally, it provides that a federal enforcement agency shall determine: (i) maximum limits for contamination and protection of aquifers, (ii) instructions for the refilling and protection of aquifers, and (iii) the fixing of parameters and environmental standards for the quality of waters.

***PCB Elimination and Management***

Law No. 25,670, enacted in October 2002, regulates the management and elimination of polychlorinated biphenyls ( PCB ). It forbids the entry of PCBs and machines containing PCBs into Argentina as well as the installation of machines containing PCBs. According to Law 25,670 the government is empowered to take all necessary measures to guarantee the prohibition of the production, commercialization and the entry of PCBs into Argentina, as well as the elimination of the used PCBs and the decontamination and elimination of PCBs and machines containing PCBs within the terms provided therein.

***Concealment and Money Laundering***

Argentine Law No. 25,246 categorizes money laundering as a crime, which is defined as the exchange, transfer, management, sale or any other use of money or other assets obtained through a crime, by a person who did not take part in such original crime, with the potential result that such original assets (or new assets resulting from such original assets) have the appearance of having been obtained through legitimate means, provided that the aggregate value of the assets involved exceeded in the aggregate (through one or more related transactions) \$50,000.

The money laundering legal framework in Argentina also assigns information and control duties to certain private sector entities, such as banks, agents, stock exchanges, insurance companies, according to the regulations of the Financial Information Unit, and for financial entities, the Central Bank. These regulations apply to many Argentine companies, including us. These obligations consist mainly of maintaining internal policies and procedures aimed at money laundering prevention and financing of terrorism, especially through the application of the policy know your client .

Among other duties, each financial entity is required to establish a control and money laundering prevention committee and to appoint a senior official responsible for money laundering prevention policies, who shall be in charge of centralizing and processing any information that the Central Bank and/or the Financial Information Unit may require.

Furthermore, the financial entities are required to report to the Financial Information Unit any transaction that may be considered suspicious or unusual, which lacks economic or legal justification, or involves unjustified complexity. Financial entities must pay special attention to transactions arising from or relating to jurisdictions included in the Central Bank s list of non-cooperating jurisdictions. As of the date of this annual report, Myanmar is the only jurisdiction included in such list.

Law No. 25,246 has been amended by Laws No. 26,087 and 26,119.

**Table of Contents****Venezuelan Regulatory Framework**

The Venezuelan state owns all hydrocarbon fields and has established methods for regulating the exploitation of hydrocarbons in Venezuelan fields that are different from those in Argentina.

The Gas Hydrocarbons Organic Law published on September 23, 1999 regulates the exploitation of free or non-associated gas and the transportation, distribution, collection, storage, industrialization, handling and internal and external sale of associated (gaseous hydrocarbon that is extracted jointly with crude oil) gas and free or non-associated gas (hydrocarbon that is extracted from a field which does not contain crude oil), permitting the private sector's participation in these activities.

The Venezuelan Constitution, effective December 1999, contains provisions related to petroleum activity, including Article 12, which states that oil fields are the property of the Venezuelan state, and Article 302, which reserves petroleum activity to the Venezuelan state. The Constitution tasks *Petróleos de Venezuela S.A.*, PDVSA, a state-owned entity, with responsibility for managing petroleum activity.

The Hydrocarbons Organic Law published on November 13, 2001 effectively reversed most prior related legislation, except for the Gas Hydrocarbons Organic Law, and purported to grant ample opportunity for the private sector to participate in the industry, limiting the activities reserved by the Venezuelan state to primary activities (which include exploration, extraction and initial transportation and storage) and to the sale of crude oil and specific products.

The Hydrocarbons Organic Law regulates the exploration, exploitation, refinery, industrialization, transportation, storage, sale and conservation of hydrocarbons and refined products. The law sets forth the following principles: (i) hydrocarbon fields are public property, (ii) hydrocarbon activities are activities of public utility and of social interest, and (iii) activities described in the law are subject to decisions of the Venezuelan state adopted in connection with international treaties and agreements on hydrocarbons.

***The Performance of Hydrocarbon Related Activities***

Primary activities expressly reserved by law to the Venezuelan state can only be performed by: (i) the executive branch, (ii) wholly-owned state entities or (iii) companies in which the Venezuelan state maintains direct control by owning fifty percent or more of the shares or quotas that represent the capital stock. The sale of natural hydrocarbons and certain specified by-products can only be performed by wholly-owned state entities. Installations and existing facilities dedicated to the refining of natural hydrocarbons in the country and to the transportation of products and gas are the property of the Venezuelan state.

The National Assembly must grant approval to mixed companies before they can operate. These entities must meet the following minimum conditions: (i) each must have a maximum duration of 25 years (which may be extended for 15 years), (ii) each must provide information regarding location, orientation and extension of the area under operation, (iii) all of the entity assets must be reserved and turned over to the Venezuelan state once the activity ends and (iv) any dispute among its shareholders must be resolved through private negotiations or arbitration and shall be subject to the Venezuelan legal system.

Prior to April 2006, our interest in Venezuelan oil and gas fields was through operating service agreements with PDVSA, which established the terms of our compensation for production activities and investments. These contracts were awarded during bidding rounds in 1994 and 1997. In 2005, the Venezuelan government announced that these operating service agreements did not comply with the Hydrocarbons Organic Law and instructed the Ministry of Energy and Petroleum to commence negotiations with private operators to convert all operating agreements into mixed-ownership ventures where more than 50% of each field is state-owned. These negotiations were completed in March 2006, and as a result, all our operating service agreements were converted to mixed ownership companies (*empresas mixtas*) in which the Venezuelan government, through the CVP, holds at least 60% of the share capital and private companies hold the remainder. The shareholdings allocated to private companies were determined on the basis of the value attributed to the different operating service agreements during the negotiations.

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The National Assembly has approved (i) the principal terms of the conversion agreements and the form of organizational documents for the mixed ownership companies, (ii) amendments to the Hydrocarbons Organic Law and certain tax laws to allow the mixed ownership companies to sell their production of crude oil to PDVSA and its affiliates and to qualify as exporters for VAT purposes and (iii) the Law for Regulating the Participation of Private Entities in Primary Activities, which limits private company participation in primary activities in Venezuela to participation through mixed ownership companies.

***Licenses and permits***

A license is required from the Venezuelan Ministry of Energy and Mines to refine natural hydrocarbons, and permits are required from the Ministry for activities related to the processing or domestic sale of refined hydrocarbons.

***Relevant Tax Features***

***Income tax***

Venezuelan income tax law imposes a tax at a rate of 50% on the net taxable income of persons involved in hydrocarbon related activities, or activities related to the purchase or acquisition of hydrocarbons and by-products for export. These persons may be authorized to deduct from their income tax 8% of the value of new investments in fixed assets up to a maximum amount equal to 2% of their annual income for the relevant fiscal year. Any excess may be used in the following three fiscal years. Four percent of the value of certain investments in high waters may also be deducted. Accelerated amortization and depreciation of fixed assets and direct or indirect expenses necessary for the drilling of oil wells is permitted.

Activities related to the export of extra-heavy hydrocarbons through vertically integrated projects or the exploration or exportation of natural non-associated gas are subject to a 34% rate.

Contractors dedicated to exploration and production activities under operating agreements with state companies are also subject to a 50% rate.

***Value Added Tax***

Subject to certain exceptions, in particular for exporting companies, imports and local purchases of goods and services are subject to a VAT at a rate of 15%, with a limited number of goods and services subject to VAT at a rate of 8%.

***Municipal taxes***

Hydrocarbon activities are not subject to municipal taxes, as these taxes are exclusively reserved for the national executive branch.

Income from contractors that have entered into operative contracts with state companies for the rehabilitation of marginal fields is generally subject to a municipal tax on gross income.

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*Royalties*

Since January 2002, royalties on oil and gas production have been set at a rate of 30%.

*Special Advantages and Contributions*

Mixed ownership companies in the hydrocarbons sector are subject to payment of the following special taxes: (i) a 3.33% share, as additional royalty on the hydrocarbons volume extracted under the concession and delivered to PDVSA, and (ii) an amount equivalent to the difference, if any, between (a) 50% of the value of the hydrocarbons extracted under the concession and delivered to PDVSA, during each calendar year and (b) the aggregate of payments made by the mixed ownership company to Venezuela in connection with activities conducted by the company during such calendar year, as royalties applicable on hydrocarbons extracted (including the additional royalty indicated in preceding item (i), income tax and any other tax or contribution calculated on income (either gross or net income), and investments in endogenous development projects amounting to one percent (1%) of profit before taxes.

*Law of Special Contribution to Extraordinary Prices*

In April 2008, the government of Venezuela published the Law of Special Contribution to Extraordinary Prices at the International Hydrocarbons Market. This law imposes a windfall profits tax on exports of liquid hydrocarbons and related oil products when the average monthly price of Brent crude exceeds US\$70.00 per barrel, with 50% of the Brent crude price in excess of US\$70.00 payable to the Venezuelan government. Likewise, when the average monthly Brent crude price exceeds US\$100.00 per barrel, 60% of the Brent crude price above US\$100.00 is payable as tax.

***OPEC***

Venezuela is a founding member of OPEC. In the past, PDVSA, under instructions from the Ministry of Energy and Mines, has adjusted its own production to ensure that Venezuela, as a whole, complies with the production ceilings set forth by OPEC.

The Venezuelan government has created a policy of strict compliance with the production quotas established by OPEC. Article 6 of the Hydrocarbons Organic Law requires all persons who perform activities regulated by the Hydrocarbons Law to comply with production cuts, such as those that may be set by OPEC. Hence any production cuts may directly affect private producers, contractors, PDVSA, and mixed ownership companies.

***Exchange Control System***

On February 5, 2003, the Venezuelan government set forth an exchange control system. These regulations state that companies established for the purpose of developing any of the activities described in the Hydrocarbons Organic Law may maintain accounts in currency other than the currency of Venezuela in banking or similar institutions outside of Venezuela only for purposes of meeting their obligations outside Venezuela. The Central Bank of Venezuela must approve these accounts. Any other foreign currency generated by these companies must be sold to the Central Bank of Venezuela. These companies do not have the right to acquire foreign currency from the Central Bank of Venezuela to make foreign currency payments. These same exchange control measures are also applicable to mixed ownership companies.

***Additional Matters***

Companies operating in the hydrocarbons sector in Venezuela that meet certain income thresholds are also required to contribute a percentage of gross income to scientific, technological and research programs. Hydrocarbon companies operating as mixed ownership companies are also required to contribute to social programs. Additionally, all employers of more than 50 employees are required to contribute to social programs aimed at reducing drug trafficking and substance abuse.

**Table of Contents****Ecuadorian Regulatory Framework**

Petroleum activity in Ecuador is regulated by (i) the Ecuadorian Hydrocarbons Law, as amended, and regulations promulgated thereunder, (ii) certain regulations of the Ministry of Energy and Mines and (iii) the specific terms of a tender for public auction.

The executive branch regulates hydrocarbon policies. The Ministry of Energy and Mines is responsible for developing hydrocarbon policies for the President's consideration. The National Directorate of Hydrocarbons (also known as the National Hydrocarbons Board), which is under the authority of the Ministry of Energy and Mines, is the technical and administrative entity in charge of controlling and auditing hydrocarbon operations. The National Directorate for Environmental Protection (DINAPA), also under the authority of the Ministry of Energy and Mines, is in charge of approving environmental impact studies and environmental management plans that apply to Natural Protected Areas.

Hydrocarbons and related products are the property of the Ecuadorian state. Hydrocarbon activities are performed by the Empresa Estatal de Petroleos Ecuador, or Petroecuador, by and through third parties.

The award of exploration and exploitation agreements is performed through a special tender mechanism. In order to reach the exploitation phase, the contractor may only retain those areas with commercially exploitable hydrocarbons. If the contractor fails to comply with this requirement, that contractor will be forced to return those areas to the state. The exploration and exploitation agreements for crude oil in Ecuador are generally divided into two stages. The first stage, or the exploration period, lasts four years and is renewable for another two years. The second stage, or the exploitation period, may be up to 20 years in duration and is renewable. A minimum average investment of US\$120 to US\$180 per hectare, either on land and/or in sea water, must be made during each of the first three years of the exploration period. Royalties are paid as follows: (i) 12.5% for daily gross production levels less than 30,000 barrels, (ii) 14% when these daily levels are between 30,000 and 60,000 barrels, and (iii) 18.5% when gross production exceeds 60,000 barrels per day. The contractor is not obliged to pay royalties on contracts for specified services or for marginal or participation fields. The contractor may not sell any of the assets related to the agreement without authorization from the Ministry of Energy and Mines. At the end of the term of the agreement, the contractor must deliver to Petroecuador, at no cost, all these assets.

The contractor assumes at its own risk and expense all investments, costs and expenses required to perform these hydrocarbon related activities, and, in turn, it has the right to receive a portion of the production of the area covered by the agreement, with Petroecuador having the right to the other portion. Petroecuador may enter into joint venture agreements by contributing rights over areas, fields, hydrocarbons or other rights. Petroecuador's joint venture party, in turn, acquires these rights and is obligated to make the investments agreed to by the parties. In services agreements, the contractor provides exploration and exploitation services in the agreed area at its own risk and expense. If the contractor finds commercially exploitable fields, it has the right to be reimbursed for its investments, costs and expenses and to be paid for its services.

Prior to initiating any work, an environmental impact study and an environmental management plan must be prepared, in accordance with consultation and participation procedures referred to in the National Constitution.

In April 2006, the Ecuadorian government approved the Law Amending the Hydrocarbon Law, or Law 42, which assigned the Ecuadorian state a share of at least 50% of the revenues resulting from any increase in the average monthly sales price of Ecuadorian crude, based upon the average monthly sales price for such oil as of the execution date of the relevant agreements, stated in constant values as of the month of settlement. In October 2007, the Ecuadorian President issued an amendment to the regulations applying Law 42, further increasing the Ecuadorian government's share of revenues from increases in the price of crude oil to 99%, reducing the oil companies' share to 1%.

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EcuadorTLC S.A. and Petroecuador adopted significant opposing interpretations as to the applicability and scope of Law 42. During 2008, EcuadorTLC S.A. and the Ecuadorian state conducted negotiations aimed at designing a business framework that secures the sustained development of operations while focusing on long-term profitability and social responsibility, which resulted in the execution of amended participation agreements for our operations in Ecuador. Within this framework, the parties resolved their previously conflicting interpretation of the applicability of Law 42.

**Bolivian Regulatory Framework**

In Bolivia, the petroleum and gas industry is regulated by the System of Regulation by Sectors ( SIRESE ), which regulates, controls and supervises telecommunications, electricity, hydrocarbons, transportation and water activities, to ensure that they operate efficiently and protect the interests of users, service providers and the Bolivian state by contributing to the development of the country. In May 2005, a new hydrocarbons law, Law No. 3,058 was enacted, which, among other things, significantly increased taxes for companies in the industry. The law imposed an 18% royalty and a 32% direct tax on hydrocarbons applicable on 100% of production. These new taxes were imposed in addition to applicable taxes under applicable Law No. 843.

In May 2006, the Bolivian government enacted Supreme Decree No. 28,701, which provided, among other things, for the nationalization of hydrocarbon resources in Bolivia. This decree mandated that as of May 1, 2006, oil companies had to deliver all property related to hydrocarbon production for sale to the national operator, YPFB. In addition, this decree provided that the Bolivian state would recover full participation in the entire oil and gas production chain and to that end provided for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one of the shares in a number of companies.

**Peruvian Regulatory Framework**

In Peru, the petroleum, transportation, gas and liquefied petroleum gas industry are each regulated under Peru's regulatory framework, which includes taxation, environmental codes and payments of royalties. In 1993, Perupetro, a state owned company functioning under private law, was created under Organic Hydrocarbon Law No. 26,221 and has assumed significant powers within the Peruvian energy industry. It represents the Peruvian State as contracting party and has authority to grant areas for hydrocarbon exploration and exploitation activities and to supervise the activities carried out in those areas. Perupetro was also given the authority to negotiate contracts, including the payment of royalties, which is further governed by a series of national decrees. Certain consultation and participation procedures must be followed.

**Brazilian Regulatory Framework**

In Brazil, our subsidiary Innova is subject laws affecting and regulating the petrochemical industry, as well as certain environmental, health and safety regulations.



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**ORGANIZATION STRUCTURE**

Below is a diagram of our corporate organization structure prior to the merger of Petrobras Energía and Petrobras Energía Participaciones and as of the date of this annual report.

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The following diagram illustrates the corporate organization structure of Petrobras Energía Participaciones, Petrobras Energía, and its subsidiaries, as of the date of this annual report.

In addition to the companies included in this chart, Petrobras Energía has holding companies in Spain, Austria, Bolivia, the Cayman Islands, Bermuda and Argentina, which are not reflected in the chart. Some of our material subsidiaries and affiliates are held through such holding companies.

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The following diagram illustrates the holding company structure and ownership interests in Petrobras Energía following the contemplated merger:

**PROPERTY, PLANT AND EQUIPMENT**

Petrobras Energía has freehold and leasehold interests in various countries in South America, but there is no specific interest that is individually material to the company. The majority of our property, consisting of oil and gas reserves, service stations, refineries, petrochemical plants, power plants, manufacturing facilities, power distribution systems, stock storage facilities, gas pipelines, oil and gas wells, pipelines and corporate office buildings, is located in Argentina. As of the date of this annual report we also have interests in crude oil and natural gas operations outside Argentina in Venezuela, Ecuador, Bolivia and Colombia, and a petrochemical plant in Brazil.

**Item 4A. UNRESOLVED STAFF COMMENTS**

None.

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**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The discussion of operating and financial review and prospects in this annual report relates solely to the operations of Petrobras Energía. Petrobras Energía Participaciones is a holding company with no independent operations, other than those undertaken by Petrobras Energía and Petrobras Energía's subsidiaries.

The following discussion should be read in conjunction with, and is entirely qualified by reference to, the consolidated financial statements of both Petrobras Energía and Petrobras Energía Participaciones and the notes to those financial statements. Both companies' consolidated financial statements were prepared in accordance with Argentine GAAP, which differs in certain significant respects from U.S. GAAP. Note 20 to both PESA and PEPSA's consolidated financial statements, respectively, provides a description of the principal differences between Argentine GAAP and U.S. GAAP, and Note 21 in each set of consolidated financial statements provides a reconciliation to U.S. GAAP of net income, shareholders' equity and certain other selected financial data.

**ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS**

**PROPORTIONAL CONSOLIDATION AND PRESENTATION OF DISCUSSION**

In accordance with the procedures set forth in Technical Resolution No. 21 of the FACPCE, we are required to consolidate on a proportional basis the financial statements of companies over which we exercise joint control. Joint control exists where all shareholders, or shareholders representing a voting majority, have resolved, on the basis of written agreements, to share control over defining and establishing the company's operating and financial policies. When consolidating companies over which we exercise joint control, the amount of our investment in the companies under our joint control and the interest in their income (loss) and cash flows are replaced by our proportional interest in the company's assets, liabilities and income (loss) and cash flows. In addition, related party receivables, payables and transactions among members of the consolidated group and companies under joint control are eliminated on a pro rata basis pursuant to our ownership share in those companies.

As of December 31, 2008 and 2007, we exercised joint control over the following companies:

CIESA, a company mainly engaged in the gas transportation business in southern of Argentina through its subsidiary, TGS.

Distrilec, a company engaged in the electricity distribution business in the southern area of the Federal Capital and twelve districts of the Province of Buenos Aires, through its subsidiary, Edesur S.A. (Edesur).

PVIE, a holding company whose main asset is 99.79% of the capital stock of Petrobras Energía Perú S.A.

In April 2009, we sold our 60% remaining equity interest in PVIE to a subsidiary of our controlling shareholder, Petrobras.

As of December 31, 2006, we exercised joint control over CIESA, Distrilec and Citelec, a company engaged in the electricity transmission business in Argentina through its subsidiary Transener. Despite being a company under our joint control, we did not consolidate the financial statements of Citelec proportionally because we had committed to sell such interest in connection with the Argentine Antitrust Commission's Resolution approving the transfer of our control to Petrobras.

On July 19, 2007, we entered into an agreement to transfer our 50% equity interest in Citelec to ENARSA and Electroingeniería S.A., who each purchased half of our interest. By December 2007, various regulatory agencies and authorities granted the final approvals upon which the completion of the transaction was contingent, and the transaction closed in December 2007.

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Even though we consolidate the results of CIESA and Distrilec proportionally in our financial statements, our management analyzes our results and financial condition separately from the results and financial condition of these companies. Accordingly, and in line with management's view, we believe financial information without proportional consolidation of CIESA and Distrilec is useful to investors in evaluating our financial condition and results of operations. A separate analysis of PVIE's financial results is not given in this annual report since our management analyzes PVIE's results and financial condition together with those of the Company and its controlled companies, and due to the fact that since December 2007 PVIE has been jointly owned and controlled together with our controlling shareholder, Petrobras. PVIE's financial results are proportionally consolidated in our Oil and Gas Exploration and Production Business segment. Unless otherwise provided, the discussion below is presented on the basis of our consolidated financial data without proportionally consolidating CIESA or Distrilec, and, therefore, is not directly comparable to the corresponding financial data set forth in our financial statements. For the results of CIESA and Distrilec (both of which are presented under proportional consolidation in our consolidated financial statements) please refer to our discussion under "Analysis of Consolidated Results of Operations - Equity in Earnings of Affiliates."

**OVERVIEW**

Petrobras Energía is an integrated energy company engaged in:

Exploration and production of oil and gas;

Refining and distribution;

Petrochemicals; and

Gas and energy.

Our long-term strategy is to grow as an integrated energy company with a regional presence, while being a leader in profitability as well as social and environmental responsibility.

Our principal place of business has historically been Argentina, but we also conduct operations in Venezuela, Ecuador, Peru, Bolivia, Brazil, Colombia and Mexico as of December 31, 2008. Approximately 70% of our total assets, 73% of our net sales, 68% of our combined crude oil and gas production and 62% of our proved oil and gas reserves were located in Argentina as of December 31, 2008. Fluctuations in the Argentine economy and actions adopted by the Argentine government have had and will continue to have a significant effect on Argentine private sector entities, including us. See "Item Key Information - Risk Factors."

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Year to year fluctuations in our income are a result of a combination of factors, including principally:

The volume of crude oil, oil products and natural gas we produce and sell;

Changes in international prices of crude oil and oil by-products, which are denominated in U.S. dollars;

Fluctuations in the Argentine peso/U.S. dollar exchange rate;

Interest rates;

Changes to our capital expenditures plan;

Price and export controls on crude oil and oil by-products; and

Changes in laws or regulations affecting our operations, including tax and environmental matters.

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**FACTORS AFFECTING OUR CONSOLIDATED RESULTS OF OPERATIONS**

**1) Argentine Economic Situation**

Fluctuations in the Argentine economy have had and will continue to have a significant effect on Argentine private sector entities, including us. Specifically, we have been affected and might continue to be affected by Argentine tax regulations, the value of the peso against foreign currencies, inflation, interest rates, and the general political, social and economic environment in and affecting Argentina.

***a) Value of the Peso Against Foreign Currencies***

As of December 31, 2008, the peso-U.S. dollar rate of exchange was P\$3.45 per U.S. dollar, compared to P\$3.15 and P\$3.07 per U.S. dollar as of December 31, 2007 and 2006, respectively.

Almost all of our financial debt, as well as a significant portion of the debt of our related companies, is denominated in U.S. dollars, which exposes us to exchange risks. The diversification of our business, with foreign operations having a cash flow primarily denominated in U.S. dollars and commodity prices that are sensitive to U.S. dollar changes helps us mitigate our peso-U.S. dollar exchange rate exposure. Exchange differences arising from liabilities in foreign currency assumed to hedge the net investment in foreign entities are not directly charged to results but to the item Deferred Results within Stockholders' Equity, to which results for conversion of operations abroad are also charged.

With the stated accounting considerations, the exchange differences determined for fiscal years 2008, 2007 and 2006 losses for P\$141 million, gains for P\$25 million and losses for P\$6 million, respectively. See Risk Factors Fluctuations in the value of the peso may adversely affect the Argentine economy, our financial condition and the results of operations .

***b) Inflation***

Historically, the Argentine economy has exhibited significant volatility, characterized by periods of high inflation. The FACPCE, on an ongoing basis, estimates whether Argentina is in an inflationary or deflationary environment.

In March 2003, as a result of the Argentine economy's stabilization following the marked economic instability of 2002, the CNV, through General Resolution No. 441, mandated that from March 1, 2003 forward, all financial statements of reporting Argentine companies must be in nominal currency.

Since 2004, encouraged by the pace of economic growth, the consumer price index increased by 12.3% in 2005, 9.8% in 2006 and 8.5% in 2007 while the wholesale price index went up by 10.8% in 2005, 7.1% in 2006 and 14.4% in 2007.

In 2008, the consumer and wholesale price indexes increased by 7.2% and 0.9%, respectively. In spite of these official government indicators, alternative measurements exhibited persistent inflationary pressure, which declined in the last part of the year, in line with the economic slowdown.

In the past, inflation has materially undermined the Argentine economy and the government's ability to stimulate economic growth. Sustained inflation in Argentina, without a corresponding increase in the price of products sold by us in the domestic market, would have an adverse effect on our results of operations and financial position.

**2) Regulation of the Energy Industry in Argentina**

Over the past several years, and until the global financial crisis erupted in the third quarter of 2008, commodity prices experienced an extended period of sustained increases. In response, the Argentine government imposed a series of regulations, particularly focused on the energy sector, aimed at reducing the impact of inflationary pressures from high commodity prices and ensuring energy supplies to the domestic market.

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Many of these regulations were issued pursuant to the Public Emergency and Foreign Exchange System Reform Law No. 25,561 (the Public Emergency Law ), which was issued in January 2002. These regulations have prevented us from benefiting from significant increases in international commodity prices, and have significantly affected our financial condition and results of operations, since they have prevented us from passing through to consumers higher production costs resulting from high international commodity prices and inflation in the domestic market. See Risk Factors Inflation may escalate and undermine economic growth in Argentina and adversely affect our financial condition and results of operations .

***i) Natural Gas***

Under the Public Emergency Law, Petrobras Energía was prevented from increasing the price of natural gas sold in the domestic market. In February 2004, the Argentine government, through Decree No. 181/04, mandated the creation of a plan for the normalization of natural gas prices. In April 2004, we and other Argentine gas producers entered into an agreement with the government that provided for a schedule of gradual increases in gas prices in the domestic market that would culminate in complete deregulation of the wellhead price of natural gas by 2007. In addition, the agreement required producers to supply minimum gas volumes to the domestic market. Since September 1, 2005, wellhead prices have been deregulated for sales to electricity generation companies and gas distribution companies supplying industrial clients directly, with the Gas Electronic Market (*Mercado Electrónico del Gas*) starting operations for gas surplus spot transactions.

In 2007, upon expiration of Decree No. 181/04, the Argentine government and producers signed a new Natural Gas Producers Agreement aimed mainly at securing the domestic supply of gas. This agreement approved by Resolution No. 599/07 of the Secretary of Energy modified the prescribed extent of the total deregulation of wellhead prices of gas, adopting a schedule of defined prices, whereby the 2005 price remains unchanged for the residential sector and an annual average increase of approximately 6.5% is established for the Compressed Natural Gas ( CNG ), electricity generation, and industrial sectors, although the price for the latter remains freely negotiable. This new resolution has already come into effect by sector according to schedule; the agreement also contemplates minimum volume requirements for the domestic market by sector, with the residential supply commitment expiring last in 2011. During 2008, gas sales were made as follows: 27% to the residential sector, 42% to CNG and electricity generation, 24% to industries and 7% to foreign markets.

In response to the aforementioned regulatory changes that were introduced by the Argentine government with a view to restoring profitability of gas production activities, as of December 31, 2008, we recorded a P\$121 million gain from the reversal of previously recorded allowances on the recoverability of investments in gas areas.

During 2006, the Secretary of Energy required producers to redirect gas earmarked for export to supply thermal power plants and gas distribution companies. In January 2007, through Resolution No. 1,886, the Secretary of Energy confirmed that the ability to export hydrocarbons would be subject to the satisfaction of domestic needs and that exports sales would have to be authorized on a case-by-case basis by the Argentine Executive Branch. The Secretary of Energy was authorized to approve or reject export applications.

These measures restricted our total volume of exported gas by a daily average of approximately 31 thousand cubic meters in 2008, 420 thousand cubic meters in 2007 and 339 thousand cubic meters in 2006, preventing us from benefiting from the higher margins offered by the export market.

In November 2008, a Trust Fund was created to cover natural gas imports required to secure supply of the domestic market. The resulting expenses will be borne by users of transportation and/or distribution regulated services, by gas consumers receiving gas directly from producers without using natural gas transportation or distribution systems and by natural gas processing companies. This resolution has negatively impacted our petrochemical and downstream margins by increasing our operating costs.



**Table of Contents*****ii) Withholding Taxes on Exports***

The Public Emergency Law established a withholding tax on exports of hydrocarbons regime for five years from March 1, 2002, which was subsequently extended for five years from January 2007 pursuant to Law No. 26,217. The taxes withheld are deducted from the sales price of the exported hydrocarbons.

At its inception, this regime imposed a 20% tax on exports of crude oil and LPG and a 5% tax on exports of certain oil related products.

In May 2004, withholding rates for crude oil and LPG were increased to 25% and 20% respectively, and a 20% withholding rate was imposed on gas exports. From August 2004 through November 2007 a graduated withholding regime was applied to crude oil exports, starting at 25% when the price per barrel was equal to or lower than US\$32 and with additional, incremental rates ranging between 3% and 20% when the price per barrel of crude oil ranged between US\$32.01 and US\$45, with a cap set at 45% when the price exceeded US\$45. In 2006, under Resolution 534/2006 issued by the Secretary of Energy, the Argentine government increased taxes on natural gas exports to 45% of the price of gas imported from Bolivia.

Effective November 2007, Resolution No. 394/07 issued by the Ministry of Economy and Production ( Resolution No. 394/07 ) provided for a new calculating method for withholdings on exports of crude oil and certain oil by-products. Under this new method, when the international price for crude oil exceeds US\$60.90 per barrel, an incremental withholding rate is set on crude oil exports, capping the price the producer receives at US\$42 per barrel. When the international price for crude oil ranges between US\$45 and US\$60.90 per barrel, a 45% withholding tax is applied. If the international price for crude oil decreases below US\$45 per barrel, the authorities will set new rates within 90 days. A similar withholding regime applies to exports of oil by-products such as gasoline, fuel oil and lube oils, with different cut-off and reference prices. This new tax regime had a negative impact on our Refining and Distribution business unit, particularly on exports of fuel oil, VGO and gasoline.

In April 2008, the Ministry of Economy and Production issued Resolution No.127/08, amending Resolution No. 534/2006, and imposing a 100% withholding tax on natural gas exports, based upon the highest price set for natural gas under any applicable agreement for natural gas imports into Argentina. Under this resolution, taxes on natural gas exports are set equivalent to the cost of natural gas imported into Argentina. Petrobras Energía has negotiated new contractual terms with our foreign customers to pass along the economic effect of these increased withholdings. In addition, under Resolution No.127/08, the calculating method for withholdings on exports of crude oil, as explained above, is also applicable to LPG. See Risk Factors Export taxes on our products have negatively affected, and may continue to negatively affect, the profitability of our operations .

***iii) Downstream Margins***

The downstream business in Argentina has been and may continue to be subject to extensive regulatory changes that have affected the sector's prices and profitability. These regulatory changes have had and may continue to have an adverse effect on our operational results.

Downstream margins have significantly declined since the enactment of the Public Emergency Law in January 2002. Since that time the Argentine government has actively intervened in the fuel market to secure full supply to the domestic market and limit increases in the price of gasoline and diesel oil at the retail level in the domestic market that would have otherwise resulted from: (i) higher costs due to increases in international crude oil prices, (ii) the peso devaluation and (iii) domestic inflation.

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During 2007 and 2008, some flexibility was reintroduced to the domestic market that allowed for gradual increases in fuel prices, which facilitated a partial recovery in marketing margins. In March 2008, the Argentine government announced that beginning in April 2008, fuel prices would be adjusted taking into account a target inflation rate. We have not received any assurances from the government, and can provide you with no assurances, that the prices adjustments will match real inflation rates or on how long this measure will remain in force. We cannot assure you that the Argentine government will not make additional regulatory changes that could further undermine our refining margins.

Since November 2007, upon approval of Resolution No. 394/07, our downstream business margin has declined significantly, as the new withholding taxes on exports were significantly higher than those previously in place, with the greatest impact on fuel oil, VGO and gasoline exports. In addition, the Argentine government has sought to discourage exports and consolidate domestic supply by imposing stricter authorization levels for oil and fuel exports, which could lead to delays and eventually restrictions in the processing of export permits in the future.

Business margins were also affected by Resolution No. 25/2006 of the Secretary of Domestic Trade ( Resolution No. 25/2006 ), which required refining companies to supply all domestic diesel oil market demand with a baseline equal to the same month of the prior year s demand plus an estimated market variation. This measure was intended to secure domestic market supplies in the face of growing demand and the inability of Argentine refineries to significantly increase production levels. Refineries in Argentina have operated at levels very close to maximum installed capacity, a situation that could result in temporary supply shortages. In order to comply with the provisions of Resolution No. 25/2006, we imported 202 thousand cubic meters of diesel oil in 2008, 208 thousand cubic meters in 2007 and 85 thousand cubic meters in 2006. Considering the gap between import and retail diesel oil prices, we recognized losses of P\$151 million, P\$106 million and P\$38 million in 2008, 2007 and 2006, respectively. In 2008, under Resolution No. 121/2008 issued by the Ministry of Federal Planning, Public Investment and Services, we were temporarily able to import diesel oil at domestic market prices under the Total Energy Program, which provided that the Treasury would bear the total operation loss, resulting in a significant reduction in losses borne by us in the implementation of Resolution No. 25/2006. In the future, subject to our plants production capacity and market growth levels, we could be required to continue importing diesel oil under Resolution No. 25/2006, with a probable adverse effect on our results, as we do not have any assurance that the government will bear the losses derived from gas oil imports in the future, as it did while Resolution No. 121/2008 was effective.

***iv) Electricity Generation***

With the enactment of the Public Emergency Law, the Argentine government implemented the pesification of dollar-denominated prices in the WEM, and set a cap on prices that could be charged for gas used in electric power generation. This regulatory change imposed a deviation from the marginal cost system previously in force, and forced generators to set prices based on the price of natural gas, regardless of the type of fuel actually used in generation activities.

As a result of this regulation, electricity prices failed to reflect total generation costs. This discrepancy led to the gradual depletion of the Stabilization Fund (*Fondo de Estabilización*), causing an increasing deficit, which in turn prevented CAMMESA from normally settling accounts with market agents.

In an effort to reduce the Stabilization Fund deficit, the Argentine government first made successive contributions to the fund and reinstated seasonal adjustments, recognizing some increased costs resulting from the recovery of natural gas prices in the determination of wholesale spot prices. Subsequently, the Secretary of Energy encouraged WEM creditors to participate in investments in electric power generation in order to increase the available supply of electric power generation in Argentina. For this purpose, two investment funds were organized, FONINVEMEM I and II. The financing of FONINVEMEM I and II was made through the contribution of 65% and 50% of the credit balances recorded in 2004-2006 and in 2007, respectively, resulting from the spread between the selling price of energy and the variable generation cost. The total contribution by all wholesale electric market private creditors is estimated at US\$ 816 million for all periods, of which Petrobras Energía contributed US\$55 million, dedicating US\$39 million to FONINVEMEM I and US\$16 million to FONINVEMEM II.



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On October 17, 2005, and under the terms of Resolution No. 1,193 issued by the Secretary of Energy, Petrobras Energía and the other WEM creditors formally announced the decision to participate in the construction, operation and maintenance of two power plants, each of at least 800 megawatt capacity. The estimated cost for construction of both plants is approximately US\$1.3 billion, which will be funded with contributions made to FONINVEMEM I and II and the remaining balance with an additional charge imposed on users and contributions by the Argentine government. As of December 31, 2008, the gas turbines of Termoeléctrica Manuel Belgrano and Termoeléctrica José de San Martín power plants were commercially operating and were expected to begin operating in combined cycle in the fourth quarter of 2009 or the first quarter of 2010.

In order to restore the regular operation of the WEM as a competitive market that provides sufficient supply, in December 2004, the Secretary of Energy committed to approving successive seasonal price increases to values that would cover at least total monomic costs by November 2006. This commitment has not been carried out in practice. In November 2008 partial adjustments to seasonal prices were approved, applicable to the period comprised between November 2008 and April 2009, but the adjusted prices still fail to cover costs actually incurred in the generation system as a whole. When the additional capacity contributed by FONINVEMEM is brought into the system, it is anticipated that the electricity market will return to more competitive market conditions and have adequate supply. Once this happens, the Secretary of Energy currently plans to compensate energy producers at the marginal cost of electricity produced, as established in the spot market, and for capacities and at values in U.S. dollars as existed prior to the Public Emergency Law.

In 2008, as a consequence of the increasing deficit in the Stabilization Fund, CAMMESA's debt with generation agents, including us, gradually increased. Therefore, generation companies only received payment from CAMMESA for variable production costs and for power and services such as the primary frequency response system, but not for the margin (between the spot price and the variable production cost) on sales to the spot market. For the purpose of remedying this situation and securing generation supply, the Secretary of Energy issued Resolution 724/08 aimed at improving the collection priority of generation companies. Under this resolution, generation companies were able to submit projects for the expansion of the useful life and/or generation capacity of their units for the purpose of ensuring priority in the collection of credit balances owed by CAMMESA. As of December 31, 2008, Petrobras Energía has an outstanding credit owed to it by CAMMESA totaling P\$182 million for electricity generated by it and sold to the spot market.

***v) Regulation of Utilities***

The Public Emergency Law pesified tariffs for public utility services at a P\$1=US\$1 parity and prohibited the increase of these tariffs based on indexation factors. In addition, the Argentine Federal Executive Branch was authorized to renegotiate the terms of contracts relating to the provision of public utility services, taking into account the following criteria: (i) impact of tariffs on economic competitiveness and on income distribution; (ii) quality of services to be provided and/or the capital expenditure programs provided for in the contracts; (iii) interest of customers and accessibility to services; (iv) the safety of the systems; and (v) the companies' profitability.

In February 2002, the Ministry of Economy and Production was authorized to renegotiate contracts with public utility companies. In July 2003, the UNIREN was created under the joint jurisdiction of the Ministry of Economy and Production and the Ministry of Federal Planning, Public Investment and Services. UNIREN's mission is, among other purposes, to provide assistance in the utilities renegotiation process, execute comprehensive or partial agreements with utility companies and submit regulatory projects related to transitory price and rate adjustments.

UNIREN is currently renegotiating the contracts with Edesur and TGS.

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In August 2005, Edesur signed a MOA with UNIREN as part of the renegotiation of its concession contract, which included an interim tariff scheme and mechanism for monitoring costs, which allows for tariff adjustments. In February 2007, the ENRE Resolution No. 50/2007 was issued, approving the values stated in Edesur's Tariff Schedule effective as of February 1, 2007, which reflected the interim tariff scheme provided in the MOA. As a consequence of the full effectiveness of the MOA, a 23% increase was applied to Edesur's distribution costs (not affecting T1R1 and T1R2 residential tariffs), connection costs and the reconnection service charged by Edesur, and an additional average increase of 5% was also applied to the aforementioned distribution costs for the execution of a work plan. In addition, Resolution No. 50/2007 authorized a 9.962% positive variation in the monitoring system indexes applicable to the aforementioned costs provided under the MOA, effective May 1, 2006. Under Resolution No. 50/2007, the amounts resulting from the application of the Interim Tariff Scheme to consumptions accrued between November 1, 2005 and January 31, 2007 would be invoiced by Edesur in 55 equal and consecutive installments. In response to this adjustment, Edesur recorded income for distribution services of approximately P\$237 million during 2007. Subsequently, under Resolutions No. 1,838/2007 issued by the Secretary of Energy and No. 867/2007 issued by ENRE, a 9.75% adjustment was approved for the May 2006-April 2007 period, applicable for sales from May 2007 forward. On July 31, 2008 the ENRE issued Resolution No. 324/2008 approving a new tariff schedule for Edesur effective July 1, 2008, which provides for gradual increases between 10% and 30% to residential users with bimonthly consumption levels over 650 kilowatts and a 10% increase to commercial and industrial users. In addition, it provides for the application of the new tariff to the Program for the Rational Use of Energy and the partial recognition of the cost monitoring system for subsequent periods.

On October 9, 2008, after UNIREN sent TGS several proposals for adjustment of the tariffs provided for in the concession contract, which proposals had been deemed insufficient, TGS signed with UNIREN a provisional agreement which provides for a 20% tariff increase to be retroactively applied from September 1, 2008 and the application of funds generated from that increase to an investment plan in the gas transportation system provided under the same agreement. The tariff increase will be effective after ratification of the provisional agreement by the Argentine Executive Branch. The provisional agreement will be applicable until the effective date of a comprehensive license renegotiation agreement to be entered into with the Argentine government. In this respect, early in October 2008, TGS received from UNIREN a proposal for a comprehensive renegotiation agreement (including the 20% initial tariff increase), aimed at renegotiating the license terms and starting an overall tariff review process. As of the date of this annual report, TGS is evaluating that proposal.

In December 2008, under Law No. 26,456, the term to renegotiate contracts for public works and utilities was extended until December 31, 2009. If no agreement is reached, UNIREN will submit a report to the Argentine Executive Branch recommending future actions to be taken in the renegotiation process.

We are unable to predict the future development of the renegotiation process involving tariff and concession contracts or the impact it may have on our results of operations or our financial position.

***vi) CIESA's Debt Restructuring Process***

Due to the Argentine macroeconomic situation, starting with the enactment of the Public Emergency Law, CIESA did not pay at maturity, in April 2002, either the principal and the last interest installment, or the cap and collar of its interest rate agreements.

In April 2004, Petrobras Energía and Enron, at that time CIESA's only shareholders, entered into the Master Settlement Agreement to provide the necessary flexibility to move forward in restructuring CIESA's financial debt. The Master Settlement Agreement provided for, among other things, certain stock transfers to be implemented in two successive steps. In July 2005, ENARGAS approved the implementation of the first stage of the transactions contemplated by the Master Settlement Agreement and, as a result, on August 29, 2005, (a) Enron transferred 40% of CIESA's shares to a newly created trust, and (b) Petrobras Energía and its subsidiary, Petrobras Hispano Argentina, transferred Class B common shares of TGS, representing 7.35% of TGS's capital stock, to subsidiaries of Enron, which in turn were subsequently sold to third parties.



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In a second stage, pursuant to the terms of CIESA's financial debt refinancing agreement entered into in September 2005, once the appropriate approvals are obtained from ENARGAS and the CNDC, CIESA will provide its financial creditors with about 4.3% of TGS's Class B common shares as partial settlement of the financial debt. These shares will then be transferred to Enron in exchange for the remaining 10% of its shareholding in CIESA and the creditors will then capitalize the financial debt balance. This second stage has not yet been completed. Once the debt restructuring is completed Petrobras Energía, directly and indirectly, will hold a 50% interest in CIESA.

On January 9, 2009 Ashmore Energy International Limited (now AEI), the only self-declared holder of the Corporate Bonds issued by CIESA in 1997, announced its decision to terminate the Restructuring Agreement to which AEI, CIESA and others were a party.

On January 28, 2009, CIESA brought an action before the Supreme Court of the State of New York, County of New York, USA (the New York Court), seeking a declaratory judgment that any claim brought by AEI against CIESA in connection with the Corporate Bonds was time-barred, due to the fact that the statute of limitations pertaining to any such claim had expired. AEI requested, in turn, that CIESA's claim be dismissed.

On April 2, 2009, CIESA filed an Amended Complaint seeking (i) at least US\$300 million from AEI in damages due to the breach of the Restructuring Agreement (in the alternative to the first cause of action, which seeks a judicial declaration as set forth above) and (ii) specific performance of the Restructuring Agreement, dated September 1, 2005 (in the alternative to the first cause of action seeking a judicial declaration and in the alternative to the second cause of action for breach of contract seeking damages).

On April 21, 2009, AEI filed a motion before the New York Court to dismiss CIESA's amended complaint, or in the alternative, for a stay of the action. AEI argued in its motion that the complaint by CIESA should be dismissed on comity grounds, or for failure to state a claim, or in the alternative, in favor of pending proceedings in Argentina.

On May 4, 2009, CIESA filed its reply to the motion to dismiss the complaint rebutting the arguments of AEI and requesting of the New York Court that CIESA's complaint be sustained. On May 14, 2009, CIESA and AEI appeared in the New York Court for oral argument regarding AEI's motion to dismiss. As of the date of this annual report, the New York Court has not rendered a decision on the motion to dismiss.

Separately, on April 6, 2009, CIESA was given notice of a petition in bankruptcy filed in Argentine bankruptcy court by AEI in relation to the recovery of part of the Corporate Bonds for a total nominal value of US\$127 million. On April 16, 2009 CIESA answered the notice and objected to the bankruptcy petition based, among others, on the following grounds: (i) failure to meet the admissibility requirements for a bankruptcy petition considering there is no enforceable claim as the claims under the Corporate Bonds are time-barred under the New York law governing them, (ii) CIESA is not in a state of insolvency, and (iii) abusive and improper use by AEI of the bankruptcy petition to circumvent the statute of limitations action previously brought before the courts of competent jurisdiction in the State of New York, and to unlawfully seek the individual recovery of an alleged claim by means of proceedings designed for a very different purpose.

CIESA's financial statements were prepared using the on-going concern basis of accounting and therefore such financial statements do not include any adjustment stemming from the resolution of the uncertainties associated from the debt restructuring process.

**Table of Contents****3) Migration of Operating Agreements in Venezuela**

In April 2005, the Venezuelan Energy and Oil Ministry instructed the Venezuelan national oil company, PDVSA, to review all operating agreements signed with oil companies between 1992 and 1997. The Ministry further instructed PDVSA to take all necessary action to convert those operating agreements into mixed-ownership companies whereby the Venezuelan government, through PDVSA, would be entitled to majority ownership.

In March 2006, we, through our related companies in Venezuela, signed memoranda of understanding ( MOU ) with PDVSA and the CVP in order to effect the migration of our four pre-existing operating agreements.

In August 2006, we, through our related companies in Venezuela, signed the pertinent agreements with PDVSA and CVP in order to effect the migration of our four pre-existing operating agreements. As a result, the direct and indirect interests of Petrobras Energía in the mixed companies that operate the areas of Oritupano Leona, La Concepción, Acema and Mata (operated by Petroritupano S.A., Petrowayú S.A., Petroven-Bras S.A. and Petrokariña S.A., respectively) were reduced to 22%, 36%, 34.5% and 34.5%, respectively. In view of the new contractual framework, as of December 31, 2005, we recognized impairment charges of P\$424 million to adjust the book value of our assets in Venezuela to their estimated recoverable value.

Additionally, CVP recognized a divisible and transferable credit in favor of Petrobras Energía in the amount of US\$88.5 million, which does not accrue interest, but could be applied toward acquisition bonds for any new mixed company project for oil exploration and production activities, or licenses for gas exploration and production operations in Venezuela. Once the milestones required for recognition of the credit by PDVSA were reached, as of December 31, 2006, we recorded the credit at its estimated recoverable value of P\$180 million. As of December 31, 2007, since no projects for which the aforementioned credit was eligible for investment had materialized, our efforts to transfer the credit to third parties had been unsuccessful and alternative uses of the credit could not be anticipated, we recorded a writedown to reflect carrying value of such credit to zero.

As of December 31, 2008 the book value of our direct and indirect interest in Venezuelan mixed companies, net of impairment charges, is P\$2,751 million. The recoverability of these investments is highly sensitive to crude oil price volatility, to economic, social and regulatory changes in Venezuela and, particularly, to the decisions made by management of the mixed-ownership companies. Decreases in crude oil prices, fluctuations in economic conditions, the adoption of more restrictive measures by the Venezuelan government, and decisions by mixed-ownership companies to limit the development of reserves could adversely affect the valuation of the recoverability of our investment in these companies and, consequently, our income. As a result of the aforementioned variables, in the years ended December 31, 2008, 2007 and 2006, we recorded writedowns of P\$154 million, P\$33 million and P\$186 million, respectively, related to our assets in Venezuela.

See Oil and Gas Exploration and Production Production Production Outside of Argentina Venezuela , and Risk Factors Our activities may be adversely affected by events in countries in which we do business .

**4) Commodity Prices**

Our results of operations and cash flows are exposed to risks related to the volatility of international prices, mainly crude oil and oil by-product prices.

International prices for crude oil have fluctuated significantly over the last ten years. Changes in crude oil prices typically result in changes in the price for oil by-products.



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In 2008, oil prices were highly volatile. 2008 showed the seventh consecutive annual rise in the average oil price, marked, however, by the sudden end of this upward trend. The benchmark WTI crude price reached US\$145 per barrel in July 2008, but by the end of the year, in part due to the global economic crisis, this benchmark price experienced a clear and steep decline to below US\$40. As of December 31, 2008, the WTI closed at US\$44.60 per barrel, 54% lower than in 2007. During 2008, the average WTI was US\$99.60 per barrel, compared to US\$72.30 and US\$ 66.00 in 2007 and 2006, respectively. Oil by-products experienced a similar decline in price in the latter half of 2008.

**5) Oil and Gas Production in Argentina**

Oil and gas reserves in Argentina have followed a downward trend in recent years. According to official data from the Argentine Oil and Gas Institute, proved oil and gas reserves dropped by 27.8 % in the five-year period from 2003 to 2007. In the period from January to December 2008 oil production declined for the eleventh year in a row, to an average of 629 thousand barrels per day nationwide, a decline of approximately 2.2% compared to the same period of 2007. Oil and gas production activities in Argentina are mainly developed in mature fields undergoing secondary recovery operations, which are capital-intensive projects.

In this context, our oil and gas reserves in Argentina, net of additions, declined 13% in 2008 and 4.5% in 2007. Our production declined 3% in 2008 and 6% in 2007.

The Company's business plan provides for major exploratory investments in Argentina, including both offshore and onshore projects. Due to risks inherent in exploration activities, our management cannot assure you that this downward trend in our Argentine reserves will be reversed.

**6) Operations in Ecuador*****a) Law Amending the Hydrocarbon Law in Ecuador***

In April 2006, the Ecuadorian government approved the Law Amending the Hydrocarbon Law ( Law 42 ), which assigned the Ecuadorian state a share of at least 50% of the revenues resulting from any increase in the average monthly sales price of Ecuadorian crude, based upon the average monthly sales price for such oil as of the execution date of the relevant agreements, stated in constant values as of the month of settlement.

In October 2007, the Ecuadorian President issued an amendment to the regulations applying Law 42, further increasing the Ecuadorian government's share of revenues from increases in the price of crude oil to 99%, reducing the oil companies' share to 1%.

EcuadorTLC S.A. (our subsidiary) and Petroecuador adopted significant opposing interpretations as to the applicability and scope of Law 42 to our revenues under the Palo Azul operating agreement, pursuant to which the state's share in revenues resulting from any increase in crude oil prices was already provided. In our opinion, the application of Law 42 in accordance with Petroecuador's interpretation constituted a confiscatory measure, and threatened the economic feasibility of our investment. EcuadorTLC paid under protest settlements made by Petroecuador under Law 42 from April 2006 to December 2007, deducting the amounts payable to the government due to price increases under the operating agreement for the Palo Field in Block 18. Since January 2008, EcuadorTLC S.A. neither recorded the settlements made by Petroecuador under Law 42 nor made the relevant payments.

The dispute over the scope and application of Law 42 was settled within the framework of negotiations with the Ecuadorian state that resulted in the Amendment Agreements to the Block 18 Participation Agreements. This settlement took into account the opinion of the Ecuadorian Attorney General on the application of Law 42. EcuadorTLC S.A. agreed to make a payment in the amount of US\$44 million, as a settlement of any difference arising from the application of Law 42, from the date of its adoption through the date of the execution of the Amendment Agreements.

**Table of Contents*****b) Recoverability of Investments***

Since 2006 the Ecuadorian government imposed a number of comprehensive tax and regulatory reforms on the hydrocarbon industry, including Law 42.

These regulatory changes have materially modified the conditions set forth at the time of execution of our participation agreements, adversely affecting the valuation of our ongoing projects in Ecuador, and negatively impacting our assessment of recoverability and prospects. Accordingly, as of December 31, 2007, we recorded an impairment allowance of P\$759 million to write down the book value of our Ecuadorian assets to their probable recoverable value. These estimates of recoverable value took into consideration the incidence of the net shortfall with respect to our transportation capacity commitments with Oleoducto de Crudos Pesados Ltd.

***c) Teikoku Oil Co. Ltd. Agreement***

On January 11, 2007, the Ecuadorian Ministry of Energy and Mines approved a preliminary agreement entered into with Teikoku in January 2005, whereby Petrobras Energía would assign Teikoku 40% of its rights and obligations under the Block 18 participation agreement. On October 24, 2008, Petroecuador admitted Teikoku Oil Ecuador, a subsidiary of Teikoku, as partner in Block 18 agreements, and the Assignment Agreement was registered with the National Hydrocarbons Board (*Dirección Nacional de Hidrocarburos*) on October 27, 2008. During the year ended December 31, 2008 we recognized a loss estimated at P\$28 million in connection with this transaction.

***d) Amendment Agreements to the Block 18 Participation Agreement***

On October 31, 2008 Ecuador TLC S.A. and Petroecuador signed Amendment Agreements which, among other things, govern the terms and conditions concerning the exploitation of Block 18 for one year. During this period, negotiations will be conducted over whether new contractual arrangements will be applied to the participation agreement. Under the Amendment Agreements, the Ecuadorian state's interest in the Pata and Palo Azul fields increased to 40% and 60%, respectively. In addition, upon execution of the Amendment Agreements, the Tax Equity Law will be applicable to operations in Ecuador, granting the Ecuadorian state 70% of revenues on all sales at prices over a new base price of US\$45.43 per barrel.

***e) Block 31***

On December 31, 2008, Petrobras Energía Ecuador and Petroecuador signed a Termination Agreement in connection with Block 31 Participation Agreement, under which Block 31 was returned to the Ecuadorian State. As of December 31, 2008 we record a P\$31 million loss in connection with the Termination Agreement.

***f) Crude oil transportation agreement with Oleoducto de Crudos Pesados Ltd. (OCP)***

The Company entered into an agreement with OCP, whereby we committed to oil transportation capacity of 80,000 barrels per day for a 15-year term, starting November 10, 2003. Under the ship or pay clause of our transportation agreement, we must fulfill our contractual obligations for the aggregate oil volume committed, even if no crude oil is transported, and pay, as well as all other producers, a fee covering OCP's operating costs and financial services. As of December 31, 2008, this fee amounted to US\$2.075 per barrel committed.

We expect that during the effective term of the ship or pay clause of our transportation agreement, our oil production will be lower than the aggregate transportation capacity committed. This assumption is based on the current estimate of our reserves in Ecuador. Considering this situation and with a view to mitigating the effects of these anticipated trends, we periodically enter into agreements to reduce our committed transportation capacity exposure. On December 31, 2008, we signed an agreement with Petroecuador concerning the use of the oil transportation capacity committed under the agreement we entered into with OCP. Under this agreement, the Ecuadorian state has undertaken a commitment, beginning January 1, 2009, to transport its crude oil, at a negotiated rate, under our transportation commitment with OCP, up to a maximum of 70,000 barrels per day.

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In addition, we sold a portion of our transportation capacity (at an average amount of 8,000 barrels per day from July 2004 to January 2012). The economic impact of our ship or pay commitment is factored into our calculation of the recoverability of assets in Ecuador.

**7) Sale of Petrobras Energía's Interest in Petrobras de Valores Internacional de España S.L. (PVIE)**

In December 2007, we sold 40% of our equity interest in PVIE, a holding company whose main asset is the ownership of 99.79% of the capital stock of Petrobras Energía Perú S.A., to PIB BV for US\$423.3 million, plus a contingent compensation to be defined between the parties, in the event of a commercial discovery in the Kinteroni prospect in Lote 57. We and PIB BV agreed to share control over PVIE's operating and financial policies. As a result of this transaction, we recognized a gain of P\$1,014 million during 2007.

In April 2009, we sold our 60% remaining equity interest in PVIE to PIB BV, for total consideration of US\$619.4 million. As a result of this transaction, we recognized an income before income tax on the sale of approximately P\$1.6 billion.

The assignment of our interest in PVIE enables us to optimize our asset portfolio, adjusting exploratory investments in Peru to amounts in line with our business plan. In addition, the assignment increases our investment capacity in Argentina and strengthening our financial position.

Petrobras Energía Perú S.A. holds a one hundred percent interest in an exploitation concession in Lote X, in the Talara basin, with a production of 16 thousand barrels of oil equivalent per day. In addition, Petrobras Energía Perú S.A. holds an interest in five exploration areas.

In January 2008, we announced the discovery of gas and condensate in the Kinteroni prospect, which is still in the exploratory stage. Production tests performed on some of the reservoir levels show a potential flow of over 35 million cubic feet of gas per day and an average of 1,245 barrels of condensate per day. In order to complete the evaluation, production tests on high interest mineralized levels are still being conducted. For more information on the risks involved with such projects, see Risk Factors Factors Relating to Our Business Our activities may be adversely affected by events in countries in which we do business and Risk Factors Factors Relating to Our Business Our crude oil and natural gas reserve estimates involve some degree of uncertainty and may prove to be incorrect over time .

**8) Changes in Our Portfolio**

In addition to the sales of our 40% interests in PVIE and in Block 18, and the reversion of Block 31 to the Ecuadorian State (each, as described above), the following changes have occurred in our portfolio:

a) In September 2008, upon approval by the regulatory authorities, the acquisition from ConocoPhillips of a 25.67% and 52.37% interest in Sierra Chata and Parva Negra assets, respectively, was completed. The price agreed upon by the parties was US\$77.6 million, plus adjustments, mainly resulting from variations in working capital as of the date the agreement became effective.

b) In March 2008, upon approval by the regulatory authorities, acquisition from Energy Development Corporation (Argentina), Inc., Argentine Branch, of a 13.72% interest in El Tordillo and La Tapera Puesto Quiroga assets in an amount of US\$117.5 million was completed.

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- c) In December 2007, we signed a stock purchase agreement for the sale of our 40% interest in Petroquímica Cuyo S.A.I.C. The sale price amounted to US\$32 million, accounting for a gain of P\$40 million.
- d) In December 2007, upon compliance with all terms and conditions the transaction was subject to, the transfer of our 50% equity interest in Citelec to Energía Argentina S.A. and Electroingeniería S.A., who each purchased half of our interest, became effective. This transaction was performed in compliance with the divestment commitment assumed by Petrobras Energía with the Argentine government upon approval by the *Comisión Nacional de Defensa de la Competencia* (Argentine antitrust authorities) of the agreement for the purchase of the shares representing Petrobras Energía Participaciones S.A.'s majority capital stock by Petrobras Participaciones S.L. The sale price amounted to US\$54 million. We did not recognize any significant gains or losses on account of this transaction.
- e) In November 2007, we sold 76.15% of our rights and obligations in the Bajada del Palo area, transferring a 73.15% interest to Petrolera Entre Lomas S.A. and the remaining 3% to APCO. As a result of this transaction, we recorded a gain of P\$62 million.
- f) In July 2007, we signed a stock purchase agreement with Electroingeniería S.A for the sale of our 22.22% equity interest in Yacylec. This transaction was authorized by the ENRE in December 2007. The sale price amounted to US\$6 million, accounting for a gain of P\$16 million.
- g) In June 2007, we signed an agreement for the sale to YPFB, of our equity interest in Petrobras Bolivia Refinación S.A. The sale price amounted to US\$55 million, accounting for a gain of P\$44 million.
- h) In January 2007, we executed an agreement for the sale of our 9.19% shareholding in Hidroneuquén S.A., a company holding 59% of Hidroeléctrica Piedra del Aguila S.A.'s capital stock. The sale price amounted to US\$15 million, accounting for a P\$23 million gain.
- i) In October 2006, we sold our rights and obligations in Refugio Tupungato and Atamisqui areas. As a result of this transaction we recognized a gain of P\$85 million.

**9) Tax Benefits Regarding Innova Operations FUNDOPEM**

We enjoy a tax benefit under an incentive program granted by the Rio Grande do Sul State for companies located in that state through Innova's operations in Brazil. The benefit consists of a 60% reduction of the ICMS (interstate goods transport tax).

On account of the construction and start-up of the new ethylbenzene plant, the FUNDOPEM benefit was extended until 2015. Under this program, we recorded P\$80 million, P\$70 million and P\$46 million gains in 2008, 2007 and 2006, respectively.

**Table of Contents****DISCUSSION OF RESULTS**

The table below presents our selected consolidated financial data and that of our subsidiaries, including the proportional consolidation of CIESA and Distrilec, as compared to such data excluding the proportional consolidation of such companies under joint control, in each case for the fiscal years indicated. To this effect, the Company's equity in the earnings of these companies under joint control is shown under Equity in Earnings of Affiliates.

	<b>With proportional consolidation</b>			<b>Without proportional consolidation</b>		
	<b>For the year ended December 31,</b>			<b>of CIESA and Distrilec</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>For the year ended December 31,</b>		
				<b>(Unaudited)</b>		
				<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(millions of pesos)</b>					
Net sales	15,175	13,458	11,745	13,577	11,997	10,458
Cost of sales	(11,000)	(10,111)	(8,062)	(9,915)	(9,152)	(7,200)
Gross Profit	4,175	3,347	3,683	3,662	2,845	3,258
Administrative and selling expenses	(1,756)	(1,463)	(1,281)	(1,556)	(1,309)	(1,152)
Exploration expenses	(238)	(172)	(117)	(238)	(172)	(117)
Other operating expenses, net	(229)	(176)	(135)	(196)	(255)	(96)
Operating income	1,952	1,536	2,150	1,672	1,109	1,893
Equity in earnings of affiliates	305	176	219	311	234	253
Financial expenses and holding losses, net	(786)	(495)	(504)	(622)	(326)	(361)
Other income (expenses), net	(93)	131	99	(149)	140	108
Income before income tax and minority interest in subsidiaries	1,378	1,348	1,964	1,212	1,157	1,893
Income tax provision	(529)	(494)	(465)	(439)	(393)	(477)
Minority interest in subsidiaries	(73)	(92)	(83)	3	(2)	
Net income	776	762	1,416	776	762	1,416

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The following tables set out net sales, gross profit and operating income for each of our business segments for the years ended December 31, 2008, 2007 and 2006, including proportional consolidation, which is required by Argentine general accounting standards, and excluding the proportional consolidation of CIESA and Distrilec. Our management analyzes our results and financial condition separately from the results and financial conditions of these companies, as we believe financial information without their proportional consolidation is useful to investors in evaluating our financial condition and results of operations. See Proportional Consolidation and Presentation of Discussion and Reconciliation Tables . Net sales eliminations relate to intersegment sales. Gross profit eliminations relate to adjustments related to intersegment sales and costs associated with such sales. Intersegment transactions are made at market prices.

The business segment year-to-year comparisons that follow the table include intersegment sales.

**With Proportional Consolidation**

	<b>For the year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in millions of pesos)</b>		
<b>Net sales <sup>(1)</sup></b>			
Oil and Gas Exploration and Production	4,740	4,624	4,781
Refining and Distribution	6,942	5,826	4,531
Petrochemicals	3,475	3,063	2,490
Gas and Energy <sup>(2)</sup>	2,993	2,671	2,498
Corporate and Eliminations <sup>(3)</sup>	(2,975)	(2,726)	(2,555)
Total	15,175	13,458	11,745
<b>Gross Profit (loss) <sup>(4)</sup></b>			
Oil and Gas Exploration and Production	2,262	2,142	2,687
Refining and Distribution	293	82	(161)
Petrochemicals	713	387	422
Gas and Energy <sup>(2)</sup>	885	746	706
Corporate and Eliminations <sup>(3)</sup>	22	(10)	29
Total	4,175	3,347	3,683
<b>Operating Income (loss)</b>			
Oil and Gas Exploration and Production	1,580	1,480	2,179
Refining and Distribution	(171)	(314)	(468)
Petrochemicals	339	92	162
Gas and Energy <sup>(2)</sup>	620	653	537
Corporate and Eliminations <sup>(3)</sup>	(416)	(375)	(260)
Total	1,952	1,536	2,150

- (1) Royalties with respect to the oil and gas business in Argentina, Peru and Bolivia (in the case of the latter, only for sales until May 2007) are accounted for as a cost or production and are not deducted in determining net sales.
- (2) This segment includes two sections:  
Electricity and  
Gas  
Transportation.
- (3) Eliminations correspond to sales between our business units and their associated costs.
- (4) Net sales less cost of sales.

**Table of Contents****Without Proportional Consolidation (Unaudited)**

	<b>For the year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in millions of pesos)</b>		
<b>Net Sales <sup>(1)</sup></b>			
Oil and Gas Exploration and Production	4,740	4,624	4,781
Refining and Distribution	6,942	5,826	4,531
Petrochemicals	3,475	3,063	2,490
Gas and Energy <sup>(2)</sup>	1,395	1,210	1,211
Corporate and Eliminations <sup>(3)</sup>	(2,975)	(2,726)	(2,555)
<b>Total</b>	<b>13,577</b>	<b>11,997</b>	<b>10,458</b>
<b>Gross Profit (loss) <sup>(4)</sup></b>			
Oil and Gas Exploration and Production	2,262	2,142	2,687
Refining and Distribution	293	82	(161)
Petrochemicals	713	387	422
Gas and Energy <sup>(2)</sup>	372	244	281
Corporate and Eliminations <sup>(3)</sup>	22	(10)	29
<b>Total</b>	<b>3,662</b>	<b>2,845</b>	<b>3,258</b>
<b>Operating Income (loss)</b>			
Oil and Gas Exploration and Production	1,580	1,480	2,179
Refining and Distribution	(171)	(314)	(468)
Petrochemicals	339	92	162
Gas and Energy <sup>(2)</sup>	340	226	280
Corporate and Eliminations <sup>(3)</sup>	(416)	(375)	(260)
<b>Total</b>	<b>1,672</b>	<b>1,109</b>	<b>1,893</b>

(1) Royalties with respect to the oil and gas business in Argentina, Peru and Bolivia (in the case of the latter, only for sales until



May 2007) are accounted for as a cost or production and are not deducted in determining net sales.

- (2) This segment includes two sections:  
Electricity and Gas  
Transportation.
- (3) Eliminations correspond to sales between our business units and their associated costs.
- (4) Net sales less cost of sales.

**Table of Contents****YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007**

*Net income:* Net income for fiscal year 2008 increased P\$14 million, or 1.8%, to P\$776 million from P\$762 million in 2007.

*Net sales:* Net sales increased P\$1,717 million, or 12.8%, to P\$15,175 million from P\$13,458 million in 2007. Net sales for fiscal year 2008 include P\$639 million and P\$993 million attributable to our share of the net sales (net of intercompany sales of P\$34 million) of CIESA and Distrilec, respectively. Net sales for fiscal year 2007 include P\$602 million and P\$894 million attributable to our share of the net sales (net of intercompany sales of P\$35 million) of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, net sales increased P\$1,580 million, or 13.2%, to P\$13,577 million from P\$11,997 million in 2007. Sales in the Refining and Distribution, Petrochemicals, Gas and Energy and Oil and Gas Exploration and Production business segments increased P\$1,116 million, P\$412 million, P\$185 million and P\$116 million, respectively. Intercompany sales totaled P\$3,009 million in 2008 and P\$2,761 million in 2007. Most of these sales were attributable to the Oil and Gas Exploration and Production, Refining and Distribution and Gas and Energy business segments.

*Gross profit:* Gross profit increased P\$828 million, or 24.7%, to P\$4,175 million from P\$3,347 million. Gross profit for 2008 includes P\$263 million and P\$250 million attributable to our share of the gross profit of CIESA and Distrilec, respectively. Gross profit for 2007 includes P\$287 million and P\$215 million attributable to our share of the gross profit of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, gross profit for 2008 fiscal year increased P\$817 million, or 28.7%, to P\$3,662 million from P\$2,845 million. This increase mainly resulted from a rise in gross profit from the Petrochemicals (P\$326 million), Refining and Distribution (P\$211 million), Gas and Energy (P\$128 million) and Oil and Gas Exploration and Production (P\$120 million) business segments.

*Administrative and selling expenses:* Administrative and selling expenses increased P\$293 million, or 20%, to P\$1,756 million from P\$1,463 million in 2007. Administrative and selling expenses for 2008 include P\$42 million and P\$158 million attributable to our share of the administrative and selling expenses of CIESA and Distrilec, respectively. Administrative and selling expenses for 2007 include P\$38 million and P\$116 million attributable to our share of the administrative and selling expenses of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, administrative and selling expenses increased P\$247 million, or 18.9%, to P\$1,556 million from P\$1,309 million in 2007, mainly as a result of increases in the Refining and Distribution and Petrochemicals business segments, as well as in our corporate expenses.

*Exploration expenses:* Exploration expenses increased P\$66 million to P\$238 million from P\$172 million in 2007. See Oil and Gas Exploration and Production .

*Other operating expenses, net:* Other operating expenses, net accounted for P\$229 million and P\$176 million in 2008 and 2007, respectively. Other operating expenses, net for 2008 include losses of P\$16 million and P\$17 million attributable to our share of other operating expenses, net of CIESA and Distrilec, respectively. Other operating expenses, net for 2007 include gains of P\$2 million and P\$77 million attributable to our share of other operating income (expense), net of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, other operating expense, net accounted for P\$196 million and P\$255 million, mainly attributable to improvements reported by the Refining and Distribution and Petrochemicals business segments.

*Operating income:* Operating income increased P\$416 million, or 27.1%, to P\$1,952 million from P\$1,536 million. Operating income for 2008 includes gains of P\$204 million and P\$76 million attributable to our share of the operating income of CIESA and Distrilec. Operating income for 2007 includes P\$251 million and P\$176 million gains attributable to our share of the operating income of CIESA and Distrilec.

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Without proportional consolidation of CIESA and Distrilec, operating income increased P\$563 million, or 50.8%, to P\$1,672 million from P\$1,109 million in 2007. This increase was mainly attributable to the rise in the Petrochemicals, Refining and Distribution, Gas and Energy and Oil and Gas Exploration and Production business segments, in the amount of P\$247 million, P\$143 million, P\$114 million and P\$100 million, respectively.

*Equity in earnings of affiliates:* Equity in earnings of affiliates increased P\$129 million, or 73.3%, to P\$305 million from P\$176 million in 2007. Without proportional consolidation of CIESA and Distrilec, equity in earnings of affiliates increased P\$77 million, or 32.9%, to P\$311 million from P\$234 million in 2007. See Analysis of Equity in Earnings of Affiliates .

*Financial expenses and holding losses, net:* Financial expenses and holding losses, net increased P\$291 million, or 58.8%, to P\$786 million from P\$495 million in 2007. The charge for 2008 include losses of P\$175 million and gains of P\$11 million attributable to our share of the financial expenses and holding losses of CIESA and Distrilec, respectively. The charge for 2007 includes losses of P\$139 million and P\$30 million attributable to our share of the financial expenses and holding losses of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, financial expense and holding losses increased P\$296 million, or 90.8%, to P\$622 million from P\$326 million. This increase derived from:

Increased losses from holding of inventories (P\$206 million), a loss of P\$119 million in 2008 compared to a gain of P\$87 million in 2007, resulting from the decline in prices for oil and oil by-products in 2008 fourth quarter, mainly in petrochemicals.

Higher exchange losses of P\$170 million, a loss of P\$146 million in 2008 compared to a gain of P\$24 million in 2007, attributable to increased depreciation of the Argentine peso against the US dollar (9.5% and 2.6% in 2008 and 2007, respectively), and to a 37% depreciation of the Brazilian Real, compared to a 12% appreciation in 2007.

Net interest expense declined 6.8% to P\$340 million from P\$365 million, accounting for a 2% drop in dollar denominated average indebtedness, and, to a lesser extent, higher gains from increased financial placements in 2008.

*Other income (expenses), net:* Other income (expenses), net include losses of P\$93 million in 2008, compared to gains of P\$131 million in 2007. Other income (expenses), net for 2008 include a gain of P\$56 million attributable to our share of other income (expenses), net of CIESA. Other income (expenses), net for 2007 include losses of P\$3 million and P\$6 million attributable to our share of other income (expenses), net of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, other income (expenses), net accounted for a loss of P\$149 million in 2008, compared to a gain of P\$140 in 2007.

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Other income (expense), net for 2008 mainly reflect:

P\$154 million loss from impairment charge on assets in Venezuela.

P\$31 million loss derived from the Termination Agreement in connection with Block 31 Participation Agreement.

P\$28 million loss from the sale of a 40% interest in Block 18 in Ecuador.

P\$121 million gain from reversal of allowances on oil areas in Argentina.

Other income (expense), net for 2007 mainly reflect:

P\$1,014 million gain from the sale of 40% of our interest in PVIE.

P\$62 million gain from the sale of oil areas in Argentina.

P\$44 million gain from the sale of Petrobras Bolivia Refinación S.A.

P\$40 million gain from the sale of Petroquímica Cuyo S.A.

P\$23 million gain from the sale of Hidroneuquén S.A.

P\$16 million gain from the sale of Yacylec S.A.

P\$759 million impairment charge on assets in Ecuador.

P\$214 million impairment charge on assets in Venezuela, principally related to the full writedown of the credit granted to us in connection with the renegotiation of our operating agreements in 2006.

P\$41 million impairment charge on loans granted to joint venture partners in Venezuela.

*Income tax:* Income tax charge for 2008 and 2007 accounted for P\$529 million and P\$494 million losses, respectively. The income tax for 2008 reflects P\$56 million and P\$34 million losses attributable to our share of the income tax of CIESA and Distrilec. The income tax for 2007 reflects P\$57 million and P\$44 million losses attributable to our share of the income tax of CIESA and Distrilec.

Without proportional consolidation of CIESA and Distrilec, income tax accounted for losses of P\$439 million and P\$393 million in 2008 and 2007, respectively, in line with improved results of operations.

**Table of Contents****ANALYSIS OF OPERATING RESULTS BY BUSINESS SEGMENT****Oil and Gas Exploration and Production**

*Operating income:* Operating income for the Oil and Gas Exploration and Production business segment increased P\$100 million, or 6.8%, to P\$1,580 million from P\$1,480 million in 2007.

*Net sales:* Net sales for this business segment increased P\$116 million, or 2.5%, to P\$4,740 million in 2008 from P\$4,624 million in 2007. This growth was mainly attributable to the rise in the average sale price per barrel of oil which, including the effect of withholding taxes on exports in Argentina, increased 18.7% to P\$182.8 from P\$153.9. Conversely, average daily oil and gas sales volumes dropped 9.6%.

Combined average daily oil and gas sales volumes dropped to 110.5 thousand barrels of oil equivalent from 122.2 thousand barrels of oil equivalent, mainly as a result of: (i) the sale of the 40% interest in Lote X, in Peru, (ii) the decline in production from mature fields in Argentina and, to a lesser extent, (iii) the sale of inventories in 2007.

In 2008, average oil sales volumes dropped 16% to 60.8 thousand barrels per day from 72.5 thousand barrels per day. Average daily oil production decreased to 61.9 thousand barrels from 69.4 thousand barrels in 2007.

Average daily gas sales volumes slightly decreased to 297.8 million cubic feet in 2008 from 298.5 million cubic feet. Average daily production volumes were at similar levels in both fiscal years, totaling 301.1 million cubic feet per day.

*Argentina*

Net sales in Argentina grew P\$14 million, or 0.5%, to P\$2,518 million in 2008 from P\$2,504 million in 2007, as a result of an increase in average sales prices and a 3.4% drop in total daily sales volumes of oil and gas, averaging 86.5 thousand barrels of oil equivalent per day.

Crude oil sales dropped by P\$71 million, or 3.4%, to P\$2,035 million in 2008 from P\$2,106 million in 2007, mainly due to a 10.2% decline in sales volumes, partially offset by a 7.4% increase in average sales prices to P\$135.6 per barrel from P\$126.3 per barrel. As a result of the price control policy implemented by the Argentine government, the significant increase in WTI prices in the international market during 2007 and 2008 could not be passed through to domestic crude oil sales prices. The decline in average daily sales volumes to 41 thousand barrels from 45.7 thousand barrels was mainly attributable to: (i) a 7.6% drop in average daily production volumes from 44.8 thousand barrels to 41.4 thousand barrels, mainly resulting from the natural decline of mature fields, partially offset by an increased interest in El Tordillo area from March 2008, and (ii) increased sales in 2007 as a result of the reduction in inventories.

Gas sales increased P\$59 million, or 14.8%, to P\$457 million from P\$398 million, basically due to a 10.6% hike in average sales prices and, to a lesser extent, a 3.7% increase in average daily sales volumes. The average sale price increased to P\$4.6 per million cubic feet from P\$4.1 per million cubic feet mainly due to a change in the sales mix and the renegotiation of agreements with industrial clients. Daily gas sales volumes increased to 273.1 million cubic feet from 263.3 million cubic feet, in line with a 2% rise in production volumes. In this respect, higher production from Estancia Agua Fresca and El Mangrullo fields had a positive impact as a result of increased development activities in the fields derived from the investments made. In addition, increased interest in the Sierra Chata area had a positive impact. The labor strike during the fourth quarter of 2007 and May 2008, which had an impact on production in the winter season, restricted the pace of average production growth.

*Outside of Argentina*

Combined oil and gas sales outside of Argentina increased P\$102 million, or 4.8%, to P\$2,222 million from P\$2,120 million, mainly as a result of the 42% rise in the average sales price of oil equivalent to P\$176.1, partially offset by a 26.7% decline in sales volumes.

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*Ecuador*

Oil sales increased 24.7% to P\$1,089 million in 2008 from P\$873 million, boosted by improved sales prices, partially offset by reduced sales volumes.

Average sales price increased 46.7% to P\$282.4 per barrel from P\$192.5 per barrel, mainly due to a rise in international reference prices.

Average daily oil sales volumes dropped 15.3% to 10.5 thousand barrels per day from 12.4 thousand barrels per day, mainly due to average daily oil sales volumes for 2007 including sales as a result of the postponement of crude oil shipments accumulated by the end of 2006 and, to a lesser extent, reduced interest in Block 18 derived from the sale of a 40% interest in EcuadorTLC in December 2008. Daily production from Block 18 increased 1% to 10.5 thousand barrels in 2008 from 10.4 thousand barrels in 2007. Daily production for 2007 was adversely affected by the strikes organized by local communities in the first quarter that hindered normal production operations that were not restored until the fourth quarter.

*Peru*

Oil and gas sales in 2008 declined 12.4% to P\$965 million from P\$1,102 million in 2007, mainly due to the drop in sales volumes, partially offset by the increase in the sales price of oil equivalent.

Average daily sales volumes decreased 35.5% to 9.9 thousand barrels of oil equivalent from 15.4 thousand barrels of oil equivalent in 2007, as a result of the sale of a 40% interest in Lote X, in Peru, which averaged 6.2 thousand barrels of oil equivalent in 2007. Without portfolio adjustment, crude oil production grew 6% as a result of the successful investments made, mainly in well drilling and workover activities.

Average crude oil price increased 35.5% to P\$294.2 per barrel from P\$217.1 per barrel, boosted by the increased price of the WTI. Average gas price rose 59.2% to P\$13.3 per million cubic feet from P\$8.4 per million cubic feet in 2007.

*Bolivia*

Oil and gas sales increased 11.2% to P\$139 million in 2008 from P\$125 million in 2007, mainly due to the 54.2% rise in the sales price of oil equivalent, as a consequence of the rise in the price for fuel oil which is included in the formula for calculation of the sales price. This fact allowed us to reverse the effects of the new terms and conditions of the operating agreement that, effective May 2007, resulted in a 28.1% drop in the total oil and gas production volumes assigned to us.

*Mexico*

Sales of other services totaled P\$26 million in 2008, 30% higher compared to P\$20 million in 2007.

*Gross profit:* Gross profit for the Oil and Gas Exploration and Production business segment rose P\$120 million to P\$2,262 million in 2008 from P\$2,142 million. Margin on sales was 47.7% and 46.3% in 2008 and 2007, respectively. The increase in gross profit is mainly attributable to the rise in all crude oil reference prices and reduced royalties and depreciation in Ecuador. The reduced impact of royalties in Ecuador reflects the terms of the agreement made with Petroecuador in connection with the application of Law 42, while reduced depreciation results from the impairment recorded in 2007. These effects were partially offset by the sale of the 40% interest in Lote X, the increase in lifting costs, the increase in depreciation in Argentina, as a result of the investments made, and the increase in royalties in Peru derived from the application of increased tax rates, which vary according to the level of international oil prices. Our lifting cost rose 9.9% to P\$16.7 per barrel of oil equivalent from P\$15.2 per barrel of oil equivalent, mainly in Argentina and, to a lesser extent, in Peru. Higher costs in Argentina were attributable to the effect of inflation on oil service rates and to an increased demand for pulling and workover services to support production at mature fields in Argentina.

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*Administrative and selling expenses:* Administrative and selling expenses decreased 16.5%, or P\$47 million, in 2008 to P\$237 million from P\$284 million in 2007, mainly due to the changes made in connection with the allocation of sales of crude oil produced in Argentina, which is commercialized by the Refining and Distribution business segment as from 2008.

*Exploration expenses:* Exploration expenses totaled P\$238 million in 2008 and P\$172 million in 2007. In 2008, expenses were mainly attributable to seismic surveys and well drilling, both onshore and offshore. Works in offshore areas included drilling of the Aurora x-1 well in the CGSJ Marina 1 block, which was abandoned due to the existence of high water levels. In 2007, expenses were mainly attributable to 3D seismic works in Argentina offshore areas (Austral and Neuquen basins) and 2D seismic works in Peru. Expenses for unsuccessful wells totaled P\$42 million in 2008 and P\$45 million in 2007.

*Other operating expenses, net:* Other operating expenses, net, accounted for losses of P\$207 million and P\$206 million, respectively. Losses for 2008 were mainly attributable to costs associated with the unused transportation capacity under the Ship or Pay contract with OCP in Ecuador (P\$174 million). Losses for 2007 mainly reflected costs associated with the unused transportation capacity under the Ship or Pay contract with OCP in Ecuador (P\$155 million) and losses of P\$47 million in Ecuador derived from application of Law 42.

**Refining and Distribution**

As from 2008 fiscal year, allocation of product sales among business units has been subject to a series of changes. As a result, the Refining and Distribution business segment commercializes the oil produced in Argentina, which is transferred at market prices from the Oil and Gas Exploration and Production business segment.

*Operating expenses, net:* Operating expenses, net for the Refining and Distribution business segment reflected losses of P\$171 million and P\$314 million in 2008 and 2007, respectively. During 2008, the Refining and Distribution operating results improved as a result of the partial recovery of sales prices. In spite of this improvement, in both years, operating margins were significantly affected by the price control measures implemented in Argentina that significantly limited the passing through to market prices of the increase in crude oil prices and domestic inflation.

*Net sales:* Net sales for refinery products increased P\$1,116 million, or 19.2%, to P\$6,942 million in 2008 from P\$5,826 million, mainly as a result of the partial recovery of sales prices in the domestic market and, to a lesser extent, the start of commercialization of crude oil which accounted for additional sales in the amount of P\$374 million in 2008. These effects were partially offset by a 2.5% decline in sales volumes and the negative effects of Resolution No. 394/2007 under which a sliding-scale tax regime was imposed on exports of refined products as from November 2007.

Processed crude oil volumes at the refineries dropped 5.7% to 72.2 thousand barrels per day in 2008 from 76.6 thousand barrels per day in 2007, mainly as a result of the shutdown for maintenance works at both refineries, under the plan designed to increase the refining capacity and improve product quality in line with future specifications and, to a lesser extent, the decline in domestic demand as from October 2008, which led to a reduction in crude oil volumes processed at the refineries, and road blockades nationwide in the second quarter of 2008 as a consequence of protests implemented by the Argentine farm sector, which affected dispatch logistics.

In a context characterized by increased domestic demand and reduced product availability as a result of decreased processed crude oil volumes, the Company prioritized the supply of the domestic market over exports.

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Diesel oil sales in our gas stations network volumes totaled 1.9 million cubic meters in 2008, a similar level to that recorded in 2007. In both fiscal years, our market share averaged 14%. In addition, diesel oil sales to others refining companies volumes totaled 0.5 million cubic meters in both years.

Our gasoline sales in the domestic market totaled 767 thousand cubic meters, of which 712 thousand cubic meters were attributable to sales in our gas station network, accounting for a 4.8% increase compared to 2007, as a result of the growth in demand boosted by economic expansion, in general, and higher sales of new cars, in particular. Consequently, our market share reached 13%. In line with the general trend, premium gasoline dropped 26.4% compared to 2007, bringing the market share to 8.8%. In addition, gasoline sales to others refining companies volumes totaled 90 thousand cubic meters in 2008.

Total sales volumes of fuel oil and IFOs grew 8.6%, primarily due to higher fuel oil demand for domestic electricity generation.

Total sales volumes of other by-products decreased 16.6%, mainly as a result of the decline in the asphalt domestic market, the first recorded since 2003.

Sales average prices for gasoline, diesel oil and fuel oil improved 32%, 30% and 21%, respectively.

*Gross profit:* Gross profit accounted for gains of P\$293 million and P\$82 million in 2008 and 2007, with meager gross margins of 4.2% and 1.4%, respectively. Marginal increases in domestic prices and an international scenario with high prices during most of the year allowed for a slight recovery of business margins, absorbing the negative effects of the increase in crude oil costs and losses associated to diesel oil imports.

*Administrative and selling expenses:* Administrative and selling expenses rose 27% to P\$475 million in 2008 from P\$374 million, mainly due to increased costs derived from inflation, particularly freights and wages, and higher taxes in line with the price increase.

*Other operating income (expenses), net:* Other operating income (expenses), net accounted for a gain of P\$11 million in 2008 and a loss of P\$22 million in 2007.

**Petrochemicals**

*Operating income:* Operating income for the Petrochemicals business segment increased P\$247 million, or 268.5%, to P\$339 million in 2008 from P\$92 million in 2007, mainly due to higher sales prices in line with the increase in international reference prices.

*Net sales:* Net sales increased P\$412 million, or 13.5%, to P\$3,475 million in 2008 from P\$3,063 million in 2007 (net of eliminations in the amount of P\$150 million and P\$187 million for styrenics operations in Argentina and Innova), mainly due to higher sales prices.

**Styrenics Argentina:**

In Argentina, styrenics sales increased P\$91 million, or 8.2%, to P\$1,199 million from P\$1,108 million in 2007, due to a 26.3% improvement in average sales prices, partially offset by a decline in sales volumes.

In 2008 and in line with the move in international reference prices and improvements in the sales mix, average sales prices in the synthetic rubber, styrene and polystyrene lines increased 41.9%, 31% and 19.6%, respectively.

Total sales volumes declined 14.4% due to the shrinkage in domestic demand as a consequence of the conflict between the government and the farm sector and the global financial crisis. Accordingly, in 2008 the Argentine combined styrene and polystyrene market dropped by 16.4% compared to 2007. In addition, ethylbenzene exports to Brazil declined as a result of the start up of operations at Innova's ethylbenzene plant in September 2008.



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In 2008, our combined market share (styrene and polystyrene) was 89%, accounting for a 1.4% growth over the market as a whole.

Styrenics performance was as follows:

- a) Styrene sales volumes totaled 50.9 thousand tons, in line with levels recorded in 2007.
- b) Propane and propylene sales volumes totaled 17.8 thousand tons, accounting for a 26.7% decline compared to 2007, mainly attributable to three factors: the impact of the 2008 fourth quarter global financial crisis that led to a decline in domestic demand for these products, the conflict between the government and the farm sector during the first half of 2008 and the shutdown performed at the main client's plant during November and December 2008.
- c) Ethylbenzene sales volumes totaled 22 thousand tons, accounting for a 29% drop compared to 2007. This decline was attributable to the start up of Innova's new ethylbenzene plant.
- d) Polystyrene and BOPS sales volumes dropped 16.3% compared to 2007, totaling 60.7 thousand tons, as a result of a reduced domestic demand, mainly attributable to two factors: (i) the conflict between the government and the farm sector and (ii) reduced credit to purchase durable goods, such as television sets and refrigerators, during the last quarter of the year, compared to the sustained economic growth in 2007 fiscal year. In connection with the export market, polystyrene sales volumes in the region totaled 9.9 thousand tons, 37.5% higher than sales volumes in 2007 as a result of increased exports to Uruguay, Bolivia and Paraguay.
- e) Synthetic rubber sales volumes decreased 12.2% to 48.1 thousand tons, reflecting a decline in both domestic sales and exports. In the domestic market, sales volumes dropped as a result of a lower activity level in tires, auto-parts and technical devices relating to automobiles.

Styrenics Brazil Innova:

Innova sales increased P\$188 million, or 12.9%, to P\$1,645 million in 2008 from P\$1,457 million in 2007, mainly due to improved prices in the year under review, reflecting a 13.7% average increase as a result of the rise in international reference prices.

Styrene average sales volumes rose by 5.7% to 145.6 thousand tons, due to the higher demand for acrylic resins and polyester derived from the growth in the automobile and construction industries. Conversely, polystyrene volumes dropped 7.9% to 111.7 thousand tons, due to reduced exports.

Fertilizers:

Fertilizers sales increased P\$96 million, or 14%, to P\$781 million in 2008 from P\$685 million, primarily due to a 58.6% improvement in average sales prices, as a result of higher international sales prices, mainly for urea and phosphate fertilizers. This improvement was partially offset by a 28% decline in sales volumes to 483 thousand tons. Demand significantly dropped in 2008 as a result of the combined effect of the conflict between the government and the farm sector, a significant drought and a strong drop in the price for grains attributable to the global financial crisis.

*Gross profit:* Gross profit increased P\$326 million, or 84.2%, to P\$713 million from P\$387 million in 2007, due to improved sales prices for all products. Gross margin on sales rose to 20.5% from 12.6%, mainly due to the increase in styrenics in Argentina and fertilizers.

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**Styrenics Argentina:**

Gross profit increased P\$105 million, or 81.4%, to P\$234 million from P\$129 million in 2007, and gross margin on sales rose to 19.5% from 11.6%, as a result of the improvements in sales prices mentioned above.

**Styrenics Brazil:**

Gross profit increased P\$68 million, or 30.1%, to P\$294 million in 2008 from P\$226 million in 2007. Gross margin on sales increased to 17.9% from 15.5%, as a consequence of improved sales prices.

**Fertilizers:**

Gross profit increased P\$153 million to P\$185 million in 2008 from P\$32 million in 2007, and gross margin on sales rose to 23.4% from 4.7%, as a result of the combined effect of improved sales prices and reduced costs compared to 2007. Production costs in 2007 were adversely affected by the need to import inputs due to lower availability of inputs derived from gas supply restrictions and the shutdown of the ammonia plant for scheduled maintenance works.

*Administrative and selling expenses:* Administrative and selling expenses increased P\$88 million, or 25.1%, to P\$439 million in 2008 from P\$351 million. This rise was primarily attributable to higher fees and taxes, derived from higher sales, and to increased costs as a result of inflation, particularly freights for transportation and shipping.

*Other operating income, net:* Other operating income, net totaled P\$65 million and P\$56 million in 2008 and 2007, respectively, mainly attributable to the collection of FUNDOPEM tax benefits.

**Gas and Energy**

*Operating income:* Operating income for the Gas and Energy segment increased P\$114 million, or 50.5%, to P\$340 million in 2008 from P\$226 million.

*Net sales:* Net sales increased P\$185 million, or 15.3%, to P\$1,395 million in 2008 from P\$1,210 million in 2007, mainly due to increases in electricity generation and marketing and transportation of gas of P\$179 million and P\$63 million, respectively. Intercompany sales totaled P\$210 million in 2008 and P\$155 million in 2007, which were attributable to gas deliveries to the Genelba Power Plant.

*Gross profit:* Gross profit increased P\$128 million, or 52.5%, to P\$372 million from P\$244 million in 2007, mainly in electricity generation. See Electricity, below.

*Administrative and selling expenses:* administrative and selling expenses for the Gas and Energy segment increased P\$18 million, or 31.6%, to P\$75 million in 2008 from P\$57 million in 2007, mainly due to increased gas sales.

*Other operating income, net:* other operating income, net for the Gas and Energy segment totaled P\$43 million and P\$39 million in 2008 and 2007, respectively, basically due to technical assistance services provided to TGS.

**Marketing and Transportation of Gas**

*Operating income:* Operating income for the Marketing and Transportation of Gas operations increased P\$24 million to P\$37 million from P\$13 million in 2007.

*Net sales:* Sales revenues increased P\$63 million, or 7.6%, to P\$897 million from P\$834 million, mainly due to increased gas sales and increased gas and LPG brokerage services, totaling P\$47 million in 2008 and P\$12 million in 2007.

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Revenues from the sale of gas increased P\$34 million, or 6.5%, to P\$558 million from P\$524 million, due to higher sales volumes, which increased 7.4% to 323.7 million cubic feet per day in 2008 from 301.3 million cubic feet per day in 2007, mainly as a result of a higher demand for gas and increased commitments for the supply of the domestic market.

Revenues from the sale of liquid fuels decreased by P\$6 million, or 2%, to P\$292 million from P\$298 million, due to a 7.2% drop in sales volumes, partially offset by a 5.6% increase in sales prices, as a result of higher international reference prices. Sales volumes fell to 230 thousand tons in 2008 from 248 thousand tons in 2007, mainly due to reduced liquid fuel production in the plants operated by us, as a result of shutdowns for scheduled maintenance works at the two refineries and labor strikes in 2008 second quarter that affected operations of the separating plant located in the south of the country. Conversely, volumes processed at TGS's plant located at General Cerri increased compared to 2007. Volumes processed in 2007 were adversely affected by increased regulatory restrictions that, as a consequence of a higher residential demand resulting from low temperatures, resulted in reduced gas availability.

*Gross profit:* Gross profit increased P\$43 million, or 79.6%, to P\$97 million in 2008 from P\$54 million. Gross margin on sales grew to 10.8% from 6.5%, as a result of improved marketing margins.

**Electricity**

*Operating income:* In 2008 operating income for the electricity generation operations increased P\$96 million, or 57.8%, to P\$262 million from P\$166 million.

*Net sales:* net sales for electricity generation increased P\$179 million, or 34.6%, to P\$697 million from P\$518 million in 2007, due to the combined effect of an 18.6% rise in sales volumes and a 13.4% improvement in average sales prices, boosted by thermal generation.

Net sales attributable to the Genelba power plant increased P\$143 million, or 32%, to P\$589 million from P\$446 million, due to the combined effect of a rise in the average sales price and an increase in sales volumes. The average price increased 16% to P\$104.6 per MWh in 2008 from P\$90.2 per MWh in 2007, primarily due to a higher demand that resulted in energy deliveries by less efficient power plants and, to a lesser extent, contract renewal at higher prices and the recognition, effective November 2008, of higher costs derived from the increase in gas prices. Energy delivered in 2008 grew 13.8% to 5,628 GWh from 4,944 GWh in 2007, during which period scheduled maintenance works were performed. Within this context, the power plant's availability increased to 92.6% from 84%. Net sales attributable to the Pichi Picún Leufú Hydroelectric Complex increased P\$36 million, or 50.2%, to P\$108 million in 2008 from P\$72 million, mainly as a result of increased sales volumes. Energy delivered in 2008 rose 49.2% to 1,159 GWh from 777 GWh, mainly due to the return to normal generation levels that in 2007 recorded historical minimum values due to lower water supply in the Comahue basin. The average sales price was similar in both quarters, P\$93.3 per MWh in 2008 and P\$92.7 per MWh in 2007.

*Gross profit:* Gross profit for the electricity business sector increased P\$83 million, or 44.6%, to P\$269 million in 2008 from P\$186 million. Gross margin rose to 38.6% from 35.9%, basically due to higher generation volumes and an improvement in thermal generation prices.

**Table of Contents****ANALYSIS OF EQUITY IN EARNINGS OF AFFILIATES**

In the following discussion, unless we specifically mention that a figure represents Petrobras Energía's share of the affiliate's results, the amounts attributed to each affiliate or company represents the total amount recorded by that affiliate or company.

**Mixed companies in Venezuela:** our equity in the earnings of mixed companies increased to P\$290 million in 2008 from P\$49 million in 2007, mainly as a result of improved average sales prices, in line with the increase in international reference prices. In 2008, our direct and indirect equity interest in the earnings of Petroritupano S.A., Petrowayú S.A., Petrokariña S.A. and Petroven-Bras S.A. totaled P\$132 million, P\$107 million, P\$48 million and P\$3 million, respectively. In 2007, our direct and indirect equity interest in the earnings of Petroritupano S.A., Petrowayú S.A., Petrokariña S.A. and Petroven-Bras S.A. totaled P\$55 million, P\$2 million, P\$(6) million and P\$(2) million, respectively.

Total sales of mixed companies in Venezuela increased 35% compared to 2007, mainly due to a 28% improvement in average sales prices and, to a lesser extent, a 6% increase in sales volumes. Sales for Petroritupano S.A., Petrowayú S.A., Petrokariña S.A. and Petroven-Bras S.A. totaled US\$1,054 million, US\$335 million, US\$118 million and US\$45 million, respectively. Sales prices per barrel of oil averaged US\$73.5, US\$83.4, US\$80.8 and US\$78.1, for each mixed company, respectively. Daily sales volumes in 2008 totaled 39.3 thousand barrels, 11 thousand barrels, 4 thousand barrels and 2.7 thousand barrels for each mixed company, respectively.

**CIESA/ TGS:** Our equity in the earnings of CIESA accounted for a P\$20 million loss compared to a P\$7 million gain in 2007.

Total sales revenues increased approximately P\$162 million, or 13%, to P\$1,419 million, mainly as a result of an improvement in revenues from natural gas liquid ( NGL ) production and marketing activities, which increased P\$140 million, or 21%, to P\$807 million. This improvement was mainly attributable to the combined effect of increased sales prices, in line with the rise in NGL international reference prices, and higher sales volumes, since in 2007 as a result of unusually low temperatures in winter throughout Argentina, TGS had to interrupt production to allow for an increased supply to residential users and power plants.

CIESA's operating income decreased P\$58 million, or 12%, in 2008 to P\$431 million, mainly due to the negative impact of higher withholding taxes on NGL exports, as a consequence of the rise in rates resulting from the sliding-scale export tax regime as from the end of 2007.

The effect of the devaluation of the Argentine peso against the US dollar was a net loss of P\$169 million compared to P\$61 million in 2007.

This effect was partially offset by a gain of P\$114 million from early payment of US\$95 million of TGS's financial debt and the reduced interest as a result of the lower level of indebtedness.

**Distrilec /Edesur:** Our equity in the earnings of Distrilec dropped P\$25 million to P\$26 million in 2008 from P\$51 million in 2007.

Revenues from services increased P\$206 million, or 11.2%, to P\$2,048 million in 2008, mainly due to a 7.7% rise in the energy average sales price (including toll), attributable to the implementation of new tariff schedules and, to a lesser extent, a 1.9% growth in electric power demand compared to 2007.

Distrilec's operating income dropped P\$236 million, or 60%, to P\$158 million in 2008, mainly due to the fact that operating income for 2007 includes the effects of the implementation of the new tariff schedule to consumptions accrued before 2007 and, to a lesser extent, due to increased administrative and selling expenses during 2008 as a result of the increase in salaries and tariffs and services under contract.

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In addition, in 2008 Distrilec recognized a loss of P\$31 million for adjustment of fines applied by ENRE, pursuant to the terms of the MOA.

**PELSA:** Our equity in the earnings of PELSAs declined P\$5 million to P\$25 million from P\$30 million, mainly due to a drop in operating income and, to a lesser extent, exchange losses resulting from increased depreciation of the Argentine peso against the US dollar and higher interest expense as a result of a higher indebtedness to finance investments.

PELSA's operating income dropped P\$20 million, or 8.6%, to P\$213 million, as a result of increased production costs due to inflation, higher depreciation resulting from increased investments and the rise in LPG export taxes as from the end of 2007. These negative effects were partially offset by an increase in sales revenues, particularly crude oil, resulting from an 11% improvement in sales prices and a 6% rise in sales volumes.

**Refinor:** Our equity in the earnings of Refinor accounted for a loss of P\$6 million in 2008, compared to a gain of P\$44 million in 2007.

Refinor's sales dropped P\$247 million, or 16.6%, to P\$1,238 million from P\$1,485 million in 2007, mainly due to the negative impact of the implementation of the sliding-scale export tax regime from November 2007.

In addition, Refinor recorded a significant loss for holding of raw material and finished product inventories as a result of the significant drop in international reference prices in 2008 fourth quarter, compared to the increase recorded in 2007.

***Other Affiliates***

In addition, in 2007 we recorded gains of P\$31 million and P\$21 derived from our interests in Petrobras Bolivia Refinación S.A. and Petroquímica Cuyo S.A.I.C., investments which were sold in 2007.

**Table of Contents****YEAR ENDED DECEMBER 31, 2007 COMPARED TO YEAR ENDED DECEMBER 31, 2006**

*Net income:* Net income for fiscal year 2007 decreased P\$654 million, or 46.2%, to P\$762 million from P\$1,416 million in 2006.

*Net sales:* Net sales in 2007 increased P\$1,713 million, or 14.6%, to P\$13,458 million from P\$11,745 million in 2006. Net sales for fiscal year 2007 include P\$602 million and P\$894 million attributable to our share of the net sales (net of intercompany sales of P\$35 million) of CIESA and Distrilec, respectively. Net sales for fiscal year 2006 include P\$632 million and P\$695 million attributable to our share of the net sales (net of intercompany sales of P\$40 million) of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, net sales increased P\$1,539 million, or 14.7%, to P\$11,997 million in 2007 from P\$10,458 million in 2006, boosted by the significant increase in the price of our main petrochemical and refined products. Sales in the Refining and Distribution and Petrochemicals business segments (including intercompany sales) increased P\$1,295 million and P\$573 million, respectively. Sales in the Oil and Gas Exploration and Production business segment decreased P\$157 million, a reflection of the fact that we have not consolidated our Venezuelan operation since April 2006, and a drop in oil sales volumes in Argentina, as further explained below. Intercompany sales grew to P\$2,726 million from P\$2,555 million, respectively. Most of these sales were attributable to the Oil and Gas Exploration and Production, Refining and Distribution and Gas and Energy business segments.

*Gross profit:* Gross profit decreased P\$336 million in 2007, or 9.1%, to P\$3,347 million from P\$3,683 million in 2006. Gross profit for 2007 includes P\$287 million and P\$215 million attributable to our share of the gross profit of CIESA and Distrilec, respectively. Gross profit for 2006 includes P\$324 million and P\$101 million attributable to our share of the gross profit of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, gross profit declined P\$413 million, or 12.7%, to P\$2,845 million in 2007 from P\$3,258 million in 2006. This drop mainly resulted from a decline in gross profit from the Oil and Gas Exploration and Production (P\$545 million), Gas and Energy (P\$37 million) and Petrochemicals (P\$35 million) business segments, partially offset by an increase in the Refining and Distribution business segment (P\$243 million). The elimination of intercompany results derived in a loss of P\$39 million.

*Administrative and selling expenses:* Administrative and selling expenses increased P\$182 million, or 14.2%, to P\$1,463 million in 2007 from P\$1,281 million in 2006. Administrative and selling expenses for 2007 include P\$38 million and P\$116 million attributable to our share of the administrative and selling expenses of CIESA and Distrilec, respectively. Administrative and selling expenses for 2006 include P\$35 million and P\$94 million attributable to our share of the administrative and selling expenses of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, administrative and selling expenses increased P\$157 million, or 13.6%, to P\$1,309 million in 2007 from P\$1,152 million in 2006, mainly as a result of increases in the Refining and Distribution and Petrochemicals business segments, as well as in our corporate expenses.

*Exploration expenses:* Exploration expenses increased P\$55 million to P\$172 million in 2007 from P\$117 million in 2006. See *Oil and Gas Exploration and Production* below.

*Other operating expenses, net:* Other operating expenses, net accounted for P\$176 million and P\$135 million losses in 2007 and 2006, respectively. Other operating expenses, net for 2007 includes gains of P\$2 million and P\$77 million attributable to our share of other operating income (expense), net of CIESA and Distrilec, respectively. Other operating expenses net for 2006 includes losses of P\$1 million and P\$38 million attributable to our share of other operating expense net of CIESA and Distrilec, respectively.

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Without proportional consolidation of CIESA and Distrilec, other operating expense, net accounted for losses of P\$255 million and P\$96 million, mainly attributable to increased losses reported by the Oil and Gas Exploration and Production business segment.

*Operating income:* Operating income declined P\$614 million, or 28.6%, to P\$1,536 million in 2007 from P\$2,150 million in 2006. Operating income for 2007 includes P\$251 million and P\$176 million gains attributable to our share of the operating income of CIESA and Distrilec. Operating income for 2006 includes a P\$288 million gain and a P\$31 million loss attributable to our share of the operating income of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, operating income decreased P\$784 million, or 41.4%, to P\$1,109 million in 2007 from P\$1,893 million in 2006. This drop was mainly attributable to a decline in the Oil and Gas Exploration and Production business segment and, to a lesser extent, in the Petrochemicals and Gas and Energy business segments, in the amount of P\$699 million, P\$70 million and P\$54 million, respectively, partially offset by a P\$154 million improvement in operating income for the Refining and Distribution business segment.

*Equity in earnings of affiliates:* Equity in earnings of affiliates decreased P\$43 million, or 19.6%, to P\$176 million in 2007 from P\$219 million in 2006. Without proportional consolidation of CIESA and Distrilec, equity in earnings of affiliates decreased P\$19 million, or 7.5%, to P\$234 million in 2007 from P\$253 million in 2006. See Analysis of Equity in Earnings of Affiliates .

*Financial expenses and holding losses, net:* Financial expenses and holding losses, net decreased P\$9 million, or 1.8%, to P\$495 million in 2007 from P\$504 million in 2006. The charge for 2007 includes losses of P\$139 million and P\$30 million attributable to our share of the financial expenses and holding losses of CIESA and Distrilec, respectively. The charge for 2006 includes losses of P\$132 million and P\$11 million attributable to our share of the financial expenses and holding losses of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, financial expense and holding losses, net decreased P\$35 million, or 9.7%, to P\$326 million from P\$361 million.

The improvement in financial expenses and holding losses, net mainly derived from increased income from holding of inventories, particularly in Petrochemicals, in line with the increase of international reference prices, totaling P\$87 million in 2007 and P\$24 million in 2006. This improvement was also attributable to an exchange gain in line with the appreciation of the Brazilian Real. Net interest expense slightly declined to P\$365 million in 2007 from P\$379 million in 2006. These effects were partially offset by reduced income from the sale of securities.

*Other income, net:* Other income, net totaled P\$131 million and P\$99 million in 2007 and 2006, respectively. Other income, net include P\$3 million and P\$6 million losses attributable to our share of other income (expense), net of CIESA and Distrilec in 2007, respectively. Other income, net include a loss of P\$9 million attributable to our share of other income (expense), net of Distrilec in 2006.

Without proportional consolidation of CIESA and Distrilec, other income, net accounted for P\$140 and P\$108 million gains in 2007 and 2006, respectively.

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Other income (expense), net for 2007 mainly reflect:

P\$1,014 million gain from the sale of 40% of our interest in PVIE.

P\$62 million gain from the sale of oil areas in Argentina.

P\$44 million gain from the sale of Petrobras Bolivia Refinación S.A.

P\$40 million gain from the sale of Petroquímica Cuyo S.A.

P\$23 million gain from the sale of Hidroneuquén S.A.

P\$16 million gain from the sale of Yacylec S.A.

P\$759 million impairment charge on assets in Ecuador, following the enactment of the new Hydrocarbons Law.

P\$214 million impairment charge on assets in Venezuela, principally related to the full writedown of the credit granted to us in connection with the renegotiation of our operating agreements in 2006.

P\$41 million impairment charge on loans granted to joint venture partners in Venezuela.

Other income, net for 2006 mainly reflect:

P\$85 million gain from the sale of oil areas in Argentina.

P\$23 million gain from reversal of an allowance on the investment in Citelec S.A.

P\$10 million gain from reversal of an allowance on the investment in Hidroneuquén S.A.

P\$18 million assessment by SENIAT Venezuela.

P\$6 million net impairment charge on assets in Venezuela.

*Income Tax:* Income tax charge for 2007 and 2006 accounted for P\$494 million and P\$465 million losses, respectively. The income tax for 2007 reflects P\$57 million and P\$44 million losses attributable to our share of the income tax of CIESA and Distrilec, respectively. The income tax for 2006 reflects P\$6 million and P\$6 million gains attributable to our share of the income tax of CIESA and Distrilec, respectively.

Without proportional consolidation of CIESA and Distrilec, income tax accounted for losses of P\$393 million and P\$477 million in 2007 and 2006, respectively, attributable to a decline in taxable income, particularly income from operations in Argentina.

**ANALYSIS OF OPERATING RESULTS BY BUSINESS SEGMENT**

**Oil and Gas Exploration and Production**

*Operating income:* Operating income for the Oil and Gas Exploration and Production business segment declined P\$699 million, or 32.1%, to P\$1,480 million in 2007 from P\$2,179 million in 2006. Operating income for 2006 includes a P\$186 million gain attributable to operations in Venezuela, which we stopped consolidating in April 2006. Excluding such results, operating income decreased P\$513 million, or 25.7%. During 2007 our profitability in the Oil and Gas Exploration and Production business segment was restrained by significant increases in industry costs worldwide and principally by regulatory changes, such as increases in royalty rates, particularly in Ecuador, aimed at limiting private companies' benefits derived from the prevailing crude oil international price context.





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*Net sales:* Net sales for this business segment decreased P\$157 million, or 3.3%, to P\$4,624 million in 2007 from P\$4,781 million in 2006. Net sales for 2006 include P\$312 million attributable to consolidation of operations in Venezuela through March 31, 2006. Excluding such results, net sales for this business segment increased P\$155 million, or 3.5%. This growth was mainly attributable to the rise in the average sale price per barrel of oil which, including the effect of withholding taxes on exports, increased 10.2% to P\$153.9 from P\$139.6. Conversely, combined average daily oil and gas sale volumes dropped 3.9% to 122.2 thousand barrels of oil equivalent in 2007 from 127.1 thousand barrels of oil equivalent.

In 2007, average oil sales volumes dropped 5.6% to 72.5 thousand barrels per day from 76.8 thousand barrels per day in 2006, principally due to an 11.5% decline in production volumes, partially offset by a reduction of inventory levels in 2007. Average daily oil production decreased to 69.4 thousand barrels from 78.5 thousand barrels in 2006, particularly in Argentina and Ecuador. This decrease was partially offset by an increase in production volumes in Peru.

Average daily gas sales volumes decreased by 1.2% to 298.5 million cubic feet from 302.2 million cubic feet and average daily production volumes were at similar levels in both fiscal years, totaling 306.9 million cubic feet per day. Though company-wide gas sales volumes were similar, a 5.4% increase in gas production in Argentina was offset by a reduction in production in Bolivia as a result of changes in the terms and conditions of our Bolivian operating agreement in 2007.

*Argentina*

Net sales in Argentina decreased P\$190 million, or 7.1%, to P\$2,504 million from P\$2,694 million, mainly as a result of a 4.9% drop in total daily sales volumes of oil and gas, averaging 89.5 thousand barrels of oil equivalent per day.

Crude oil sales dropped P\$243 million, or 10.3%, to P\$2,106 million in 2007 from P\$2,349 million in 2006, mainly due to an 11.7% decline in sales volumes, partially offset by a 1.5% increase in average sales prices to P\$126.3 per barrel from P\$124.4 per barrel. As a result of the price control policy implemented by the Argentine Government, the significant increase in WTI prices in the international market during 2007 could not be passed through to crude oil sales prices. The decline in average daily sales volumes to 45.7 thousand barrels from an average of 51.7 thousand barrels per day was attributable to a 14.7% drop in average daily production volumes to 44.8 thousand barrels from an average of 52.5 thousand barrels per day in 2006. The drop in production was mainly the result of: (i) the natural decline of mature fields and (ii) reduced oil deliveries as a consequence of labor strikes during the last quarter of 2007. We have made significant investments in oilfields, mainly to improve our basic production curve, allowing us to mitigate the natural decline of mature fields in Argentina.

Gas sales increased P\$69 million, or 21%, to P\$398 million from P\$329 million, basically due to a 16.8% increase in the average sales price and, to a lesser extent, a 3.5% rise in average daily sales volumes. The average sale price increased to P\$4.1 per million cubic feet from P\$3.5 per million cubic feet, mainly as a consequence of higher export prices (our export clients have agreed to accept some of the increase in export duties) and to the deregulation of prices for sales to industrial clients and electricity generation companies. Daily gas sales volumes increased to 263.3 million cubic feet from 254.3 million cubic feet due to a 5.4% rise in production volumes. In 2007, El Mangrullo area in the Neuquén basin began production activities. In addition, increased production from the Santa Cruz 1 field at the Austral basin had a positive impact, as a result of increased development activities in the field derived from the investments made. This growth trend was negatively impacted by labor strikes during the last quarter of 2007.

*Outside of Argentina*

Combined oil and gas sales outside of Argentina increased P\$33 million, or 1.6%, to P\$2,120 million in 2007 from P\$2,087 million in 2006. Excluding results from our operations in Venezuela, which were consolidated through March 31, 2006, sales outside of Argentina increased P\$345 million, or 19.4%, mainly due to a 20.6% rise in the average sales price per barrel of oil equivalent to P\$176.10.

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*Ecuador*

In Ecuador, oil sales increased 33.9% to P\$873 million in 2007 from P\$652 million in 2006, boosted by the combined effect of higher sales prices and increased sales volumes.

Average sales price increased 17.7% to P\$192.5 per barrel from P\$163.6 per barrel, mainly due to an increase in international reference prices.

Average daily oil sales volumes rose 13.7% to 12.4 thousand barrels per day, as a result of the sale of inventories accumulated as of year-end 2006 that allowed us to offset lower oil availability derived from a 12.3% reduction in daily production from Block 18, to 10.4 thousand barrels from 12.7 thousand barrels. Reduced production levels in 2007 were mainly attributable to a strike organized by local communities from March 9, 2007 to April 10, 2007 that hindered normal operations with the consequent delay in the development of Block 18. During the strike, our participation in cumulative oil production decreased by approximately 305,000 barrels of oil equivalent.

*Peru*

In Peru, oil and gas sales in 2007 increased 22.2% to P\$1,102 million from P\$902 million in 2006, mainly due to a 16.9% rise in the sales price of oil equivalent and, to a lesser extent, an increase in sales volumes.

Average crude oil price increased 17.5% to P\$217.1 per barrel from P\$184.8 per barrel, boosted by the increase in the WTI and, to a lesser extent, amendments to the agreement for the sale of crude oil since the last quarter of 2006 that changed the composition of the reference crude oil basket. Average gas prices were at similar levels in both years, averaging P\$8.5 per million cubic feet.

Average daily sales volumes increased 4.8% to 15.4 thousand barrels of oil equivalent in 2007 from 14.7 thousand barrels of oil equivalent in 2006, as a result of the rise in oil production derived from successful investments made throughout 2007, mainly in well drilling and workover activities.

*Bolivia*

Oil and gas sales decreased 39.6% to P\$125 million in 2007 from P\$207 million in 2006, due to the new terms and conditions of the operating agreement that, effective May 2007, resulted in a 34% drop in the total oil and gas production volumes assigned to us, and an 8.4% decline in the sales price of oil equivalent.

*Mexico*

Sales of other services totaled P\$20 million in 2007, 42.9% higher than P\$14 million in 2006.

*Gross profit:* Gross profit for the Oil and Gas Exploration and Production business segment decreased P\$545 million to P\$2,142 million from P\$2,687 million. Margin on sales was 46.3% and 56.2% in 2007 and 2006, respectively. Excluding results from our operations in Venezuela, which were consolidated through March 31, 2006, gross profit dropped P\$352 million, or 14.1%, and margin on sales decreased to 46.3% from 55.8% in 2006.

Our lifting costs rose 14.3% to P\$15.2 per barrel of oil equivalent from P\$13.3 per barrel of oil equivalent, mainly in Argentina. Higher costs in Argentina were attributable to the effect of inflation on oil service rates and to increased pulling and workover activities to support production at mature fields. In Ecuador, increased costs were attributable to higher royalty charges as a result of the amendment to Law 42 in 2007. In Peru, the increase in production costs was principally the result of higher royalty charges derived from the application of increased tax rates, which vary according to the level of international oil prices, determined on the basis of a basket of varieties of crude oil.

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In addition, we recorded a 7.3% increase in depreciation resulting from significant investments made in 2007.

*Administrative and selling expenses:* Administrative and selling expenses decreased P\$29 million, or 9.3%, to P\$284 million in 2007 from P\$313 million in 2006. Excluding results from our operations in Venezuela, which were consolidated through March 31, 2006, administrative and selling expenses declined P\$4 million, or 1.4%, in 2007 to P\$284 million from P\$288 million in 2006.

*Exploration expenses:* Exploration expenses totaled P\$172 million in 2007 and P\$117 million in 2006. In both years, expenses were mainly attributable to 3D seismic surveys. In 2007, 3D seismic surveys covered 3,552 km<sup>2</sup> 1,594 km<sup>2</sup> of which covered offshore areas in Argentina. 3D seismic surveys were also conducted at the Austral and Neuquén basins. In addition, in Peru we conducted 2D seismic surveys over 283 km in Lote 57. Expenses for unsuccessful exploration wells totaled P\$45 million and P\$78 million in 2007 and 2006, respectively.

*Other operating expenses, net:* Other operating expenses, net, accounted for losses of P\$206 million and P\$78 million, respectively. Losses for 2007 were mainly attributable to costs associated with the unused transportation capacity under the ship or pay contract with OCP in Ecuador (P\$155 million) and losses in Ecuador (P\$47 million) derived from the amendment to the Hydrocarbons Law under Law 42. Losses for 2006 mainly reflected costs associated with the unused transportation capacity under the Ship or Pay contract with OCP in Ecuador (P\$178 million), partially offset by a P\$74 million gain attributable to the favorable resolution of certain commercial claims in Venezuela.

**Refining and Distribution**

*Operating expenses, net:* Operating expenses, net for the Refining and Distribution business segment reflected losses of P\$314 million and P\$468 million in 2007 and 2006, respectively. During 2007, the Refining and Distribution operating results improved as a result of the partial recovery of sales prices. In spite of this improvement, in both years, business operating margins were significantly affected by the price control measures implemented in Argentina that prevented us from passing through to market prices the increase in crude oil prices and domestic inflation.

*Net sales:* Net sales for refinery products increased P\$1,295 million, or 28.6%, to P\$5,826 million in 2007 from P\$4,531 million in 2006, due to the combined effect of an 18.8% increase in average sales volumes mainly in reformer plant by-products, other heavy distillates and diesel oil, and a 9.4% improvement in average sales prices.

Sales volumes rose in 2007 principally as a consequence of an 18% increase in our consolidated crude oil processing capacity to 80.8 thousand barrels per day, resulting from an overall revamping of the San Lorenzo Refinery completed in October 2006. For this reason, processed crude oil volumes rose 21.4% to 76.6 thousand barrels per day in 2007 from 63.1 thousand barrels per day in 2006.

Total diesel oil sales in our gas station network, by volume, rose 10.3% to 1.9 million cubic meters as a result of a 6.6% increase in domestic demand, boosted by the agricultural, industrial and transportation sectors. In 2007, our market share in the Argentine diesel market climbed to 13.9% from 13.6%. In addition, diesel oil sales to others refining companies volumes totaled 0.5 and 0.2 million cubic meters in 2007 and 2006, respectively.

Total gasoline sales volumes rose slightly by 1.6% to 886 thousand cubic meters in 2007. As a result of an estimated 16.6% growth of the domestic gasoline market in 2007, attributable to economic growth, an increase in purchasing power, and current levels of refined gasoline prices, domestic sales increased by 9.6%. Within this context, our market share reached 13.7% in 2007. Export volumes declined as we focused on satisfying domestic demand, in line with the government's restrictions and taxes on exports.

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Capitalizing on increased product availability, as a result of the expansion of the crude oil processing capacity mentioned above, sales volumes of heavy distillates and cracking feedstock grew 24.3%. The increase in volumes was attributable primarily to higher diesel oil demand in response to higher domestic electricity generation and the growing IFO market due to an increased number of ships accessing domestic ports. Surplus volumes were directed to supply export markets.

Asphalt sales volumes increased 5.8% in 2007 as a result of domestic market growth.

As a consequence of the 9.4% increase in WTI, average sales prices of benzene, other heavy distillates and diesel oil improved 18%, 18% and 16%, respectively in 2007 compared to 2006. Export prices rose an average of 12% as a result of the increase in international prices, partially offset by the new withholding regime on exports of hydrocarbons by-products effective November 2007 in Argentina.

*Gross profit:* Gross profit for 2007 accounted for an P\$82 million gain compared to a P\$161 million loss in 2006, with gross margins of 1.4% in 2007 and (3.6%) in 2006. Marginal increases in domestic prices and an international scenario with high prices allowed for a partial recovery of business margins. Following implementation of Resolution No. 394/07, effective November 2007, foreign market margins have been adversely affected by the new withholding regime on exports of refined products.

*Administrative and selling expenses:* Administrative and selling expenses increased 19.5% to P\$374 million in 2007 from P\$313 million, mainly due to increased expenses derived from higher sales volumes, and an increase in labor costs.

*Other operating income (expenses), net:* Other operating income (expense), net recorded a P\$22 million loss in 2007 compared to a P\$6 million gain in 2006.

**Petrochemicals**

*Operating income:* Operating income for the Petrochemicals business segment declined P\$70 million, or 43.2%, in 2007 to P\$92 million from P\$162 million in 2006. During 2007 our profitability in the Petrochemicals business segment was restrained by significant increases in industry costs, mainly in raw materials and labor, and, to a lesser extent, to increased costs for freight, logistics, storage and taxes.

*Net sales:* Net sales increased P\$573 million, or 23%, to P\$3,063 million in 2007 from P\$2,490 million in 2006 (net of eliminations in the amount P\$187 million and P\$308 million for styrenics operations in Argentina and Innova), mainly due to higher sales prices in line with the increase in international reference prices.

**Styrenics Argentina:**

In Argentina, styrenics sales increased P\$69 million, or 6.6%, to P\$1,108 million in 2007 from P\$1,039 million in 2006, due to a 14.1% improvement in average sales prices, partially offset by a 6.5% decline in sales volumes, mainly attributable to lower volumes of ethylbenzene sold to Innova.

In 2007 and in line with the move in international reference prices, average sales prices for the segment rose 16.6%, 15.6% and 12.9% in the polystyrene, synthetic rubber and styrene lines, respectively, compared to 2006. In the domestic market, our market share in 2007 remained at 100% for styrene and reached 81% for polystyrene.

Styrenics performance was as follows:

a) Styrene and propylene propane sales increased P\$28 million or 11.1% to P\$281 million in 2007. Volumes increased 2.2% to 75.7 thousand tons, due to a 9% rise in domestic sales, boosted by the growth in consumption and civil construction, and a 19.5% drop in exports, attributable to reduced sales to Chile.

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- b) Ethylbenzene sales decreased P\$44 million or 29.1% to P\$107 million in 2007. Volumes dropped 35.8% to 31.2 thousand tons compared to 2006, due to an increased internal use of ethylbenzene to produce styrene in our Petrochemical Complex at Puerto General San Martín in 2007. In 2006, as a result of the plant shutdown mentioned above, ethylbenzene surplus volumes were sold to Innova for processing and conversion into styrene and polystyrene.
- c) Polystyrene and BOPS sales increased P\$57 million, or 17.1%, to P\$390 million in 2007. Volumes increased 0.5% to 72.5 thousand tons compared to 2006. In order to supply growing domestic demand, we prioritized domestic sales accounting for a 10% increase over exports, which dropped 18%. The domestic polystyrene market grew 13% in 2007 due to the general economic growth and increased production of durable goods.
- d) Synthetic rubber sales increased P\$36 million, or 13.6%, to P\$300 million in 2007. Volumes slightly declined 1.8% to 54.8 thousand tons, with a 6% increase in domestic sales and a 9% decline in exports. A higher activity level in the tire, band and shoe segments boosted an increase in domestic sales, with the consequent lower availability of synthetic rubber for export purposes.

**Styrenics Brazil Innova:**

Innova sales increased P\$243 million, or 20%, to P\$1,457 million in 2007, from P\$1,214 million in 2006, mainly due to higher sales prices for styrene (14.6%) and polystyrene (23%) as a result of the increase in international reference prices.

Styrene average sales volumes slightly rose by 1% to 137.8 thousand tons due to the higher domestic demand in the polyester resin, acrylic resin and expandable polystyrene segments. In addition, polystyrene sales volumes rose 6.2% to 121.4 thousand tons, due to increased domestic sales as a result of a higher demand in the refrigeration and disposable products segments.

**Fertilizers:**

Fertilizers sales increased P\$140 million, or 25.7%, to P\$685 million in 2007 from P\$545 million, mainly due to a 39.5% improvement in average sales prices, as a result of higher international reference prices, mainly for urea and phosphate fertilizers. This improvement was partially offset by a 9.9% decline in sales volumes to 673 thousand tons, primarily attributable to a decrease in demand as a result of the high sales prices mentioned above.

*Gross profit:* Gross profit decreased P\$35 million, or 8.3%, to P\$387 million from P\$422 million in 2006, due to higher costs of raw materials and labor in the fertilizers segment, which could only be partially passed through to sales prices. Gross margin on sales decreased to 12.6% from 16.9%, mainly as a result of the impact of reduced margins in the fertilizers business.

**Styrenics Argentina:**

Gross profit increased P\$10 million, or 8.4%, to P\$129 million from P\$119 million in 2006, and gross margins on sales were 11.6% in 2007, reflecting a similar level to 2006.

In 2007, variable production costs increased as a result of higher prices of raw material, which were partially offset by lower imports of styrene and polystyrene, which were substituted with internally produced inputs due to the increase in the Puerto General San Martín Plant's production capacity from 110 thousand to 160 thousand tons per year since the third quarter of 2006.

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**Styrenics Brazil:**

Gross profit increased P\$12 million, or 5.6%, to P\$226 million from P\$214 million in 2006 mainly as a result of higher sales prices. Gross margin on sales slightly declined to 15.5% from 17.6%, as a consequence of higher raw material costs.

**Fertilizers:**

Gross profit decreased P\$57 million, or 64%, to P\$32 million in 2007 from P\$89 million in 2006, and gross margin on sales declined to 4.7% from 16.3%, as a consequence of higher raw material costs. In 2007 production of some of the inputs for the fertilizer business declined as a result of gas supply restrictions and a shutdown of the ammonia plant for scheduled maintenance works. As a result, we had to import those inputs with a consequent increase in production costs and a negative impact on gross margins.

*Administrative and selling expenses:* Administrative and selling expenses increased P\$59 million, or 20.2%, to P\$351 million in 2007 from P\$292 million in 2006. This rise was primarily attributable to higher labor costs and, to a lesser extent, to increased costs for freight, logistics, storage and taxes.

*Other operating income, net:* Other operating income, net recorded P\$56 million and P\$32 million gains in 2007 and 2006, respectively, mainly attributable to the collection of FUNDOPEM tax benefits.

**Gas and Energy**

*Operating income:* Operating income for the Gas and Energy segment decreased P\$54 million, or 19.3%, to P\$226 million in 2007 from P\$280 million.

*Net sales:* Net sales totaled P\$1,210 million in 2008 and P\$1,211 million in 2007. Sales in marketing and transportation of gas and electricity generation increased P\$40 million and P\$18 million, respectively. Intercompany sales totaled P\$155 million in 2007 and P\$95 million in 2007, which were attributable to gas deliveries to the Genelba Power Plant.

*Gross profit:* Gross profit decreased P\$37 million, or 13.2%, to P\$244 million from P\$281 million in 2007, mainly in electricity generation. See *Electricity*, below.

*Administrative and selling expenses:* administrative and selling expenses for the Gas and Energy segment increased P\$16 million, or 39%, to P\$57 million in 2007 from P\$41 million in 2006.

*Other operating income, net:* other operating income, net for the Gas and Energy segment totaled P\$39 million and P\$40 million in 2007 and 2006, respectively, basically due to technical assistance services provided to TGS.

***Marketing and Transportation of Gas***

*Operating income:* Operating income for the Marketing and Transportation of Gas operations increased P\$4 million to P\$13 million in 2007 from P\$ 9 million in 2006.

*Net sales:* Sales revenues increased P\$40 million, or 5%, to P\$834 million from P\$794 million, mainly due to the rise in gas and liquid fuel prices.

Revenues from the sale of gas produced by us and imported gas increased P\$43 million, or 8.9%, to P\$524 million from P\$481 million. Fiscal year 2006 included gas imports from Bolivia (P\$41 million) which, as a result of changes in the implementation of these operations, are shown under gas and LPG brokerage services as from October 2006.

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Excluding such gas import operations, revenues from the sale of gas produced by us increased P\$84 million, or 19.1%, to P\$524 million from P\$440 million, primarily as a result of improved sales prices and, to a lesser extent, increased sales volumes. Sales prices improved by 14.2%, as a result of the recovery of the gas price for industrial clients and electricity generation companies in line with the scheduled price increases determined by the Secretary of Energy and higher export prices derived from contract renegotiations and the rise in international reference prices. Sales volumes recorded a 4.3% increase to 301.3 million cubic feet per day in 2007 from 288.9 million cubic feet per day in 2006, primarily attributable to the increase in our own production from the Neuquén basin and the start up of production in El Mangrullo field, partially offset by reduced production from the Austral basin as a result of the strikes organized during the last quarter of 2007.

Revenues from the sale of liquid fuels decreased by P\$6 million, or 2%, to P\$298 million from P\$304 million, due to an 8.3% drop in sales volumes. The effect of the decline in sales volumes was partially offset by a 6.7% increase in sales prices, as a consequence of higher international reference prices. Sales volumes fell to 248 thousand tons in 2007 from 270.3 thousand tons in 2006, due to the combined effect of reduced liquid fuel production in the two refineries operated by us, as a result of changes in their production mix, and lower volumes processed at TGS's plant located at General Cerri, due to regulatory restrictions on gas supply as a consequence of higher residential demand resulting from low temperatures in winter 2007.

Sales revenues from gas and LPG brokerage services increased to P\$12 million in 2007 from P\$9 million in 2006.

*Gross profit:* Gross profit increased P\$20 million, or 58.8%, to P\$54 million from P\$34 million. The margins on sales were 6.5% in 2007 and 4.3% in 2006.

**Electricity**

*Operating income:* Operating income for the Electricity sector decreased P\$58 million, or 25.9%, to P\$166 million from P\$224 million, mainly due to a significant decline in the level of generation activities, mainly hydraulic generation operations.

*Net sales:* Net sales of electricity generation increased P\$18 million, or 3.6%, to P\$518 million in 2007 from P\$500 million in 2006, primarily due to a 26% increase in generation prices that allowed us to offset a 17.8% decline in sales volumes. The increase in average energy sales prices was mainly attributable to higher electricity demand in Argentina that resulted in energy deliveries by less efficient power plants and contract renewals at higher prices.

Net sales attributable to the Genelba Power Plant increased P\$47 million, or 11.8%, to P\$446 million from P\$399 million, primarily due to an increase in the average sales price, partially offset by a reduction in sales volumes. The average price increased 23.1% to P\$90.2 per MWh in 2007 from P\$73.3 per MWh in 2006. Energy delivered in 2007 dropped 9.2% to 4,944 GWh (5,446 GWh in 2006), mainly as a result of scheduled maintenance works in 2007. The power plant's availability decreased to 84% from 96%.

Net sales attributable to Pichi Picún Leufú Hydroelectric Complex dropped P\$29 million, or 28.7%, to P\$72 million in 2007 from P\$101 million, as a result of a strong decline in sales volumes, partially offset by an improvement in sales prices. Energy delivered decreased 48.5% to 777 GWh in 2007 from 1,510 GWh, mainly due to lower water supply at the Comahue basin. The average sales price increased 38.5% in 2007 to P\$92.7 per MWh, from P\$66.9 per MWh in 2006.

*Gross profit:* Gross profit for the electricity business sector decreased P\$58 million, or 23.8%, to P\$186 million in 2007 from P\$244 million. Gross margin rose to 35.9% from 48.8%, mainly due to lower generation volumes and higher thermal generation costs as a result of an increase in gas prices.



**Table of Contents****ANALYSIS OF EQUITY IN EARNINGS OF AFFILIATES**

In the following discussion, unless we specifically mention that a figure represents Petrobras Energía's share of the affiliate's results, the amounts attributed to each affiliate or company represents the total amount recorded by that affiliate or company.

**Mixed Companies in Venezuela:** Our equity in the earnings of mixed companies totaled P\$49 million and P\$42 million in 2007 and 2006, respectively. In 2007, our direct and indirect equity interest in the earnings of Petroritupano S.A., Petrowayú S.A., Petrokariña S.A. and Petroven-Bras S.A. totaled P\$55 million, P\$2 million, P\$(6) million and P\$(2) million, respectively. In 2006, our direct and indirect equity interest in the earnings of Petroritupano S.A., Petrowayú S.A. and Petroven-Bras S.A. totaled P\$15 million, P\$29 million and P\$(2) million, respectively, with no net income or loss for Petrokariña S.A.

Sales during 2007 for Petroritupano S.A., Petrowayu S.A., Petrocariña S.A. and Petroven-Bras S.A. totaled P\$253 million, P\$85 million, P\$24 million and P\$15 million, respectively. Daily sales volumes totaled 38.5 thousand barrels, 10.6 thousand barrels, 2.9 thousand barrels and 1.9 thousand barrels, respectively, at an average price per barrel of oil of US\$56.71, US\$68.74, US\$61.73 and US\$64.84, for each mixed company, respectively.

**CIESA/ TGS:** Our equity in the earnings of CIESA decreased P\$64 million to P\$7 million in 2007 from P\$71 million in 2006.

Total sales revenues decreased approximately P\$52 million, or 4%, to P\$1,257 million. Revenues from natural gas liquid ( NGL ) production and marketing activities dropped P\$59 million, or 8.1%, to P\$667 million, mainly due to a 20% decline in sales volumes resulting from unusually low temperatures in winter throughout Argentina, as a consequence of which production was interrupted to allow for an increased supply to residential users and power plants. This effect was partially offset by an increase in NGL international reference prices. Sales revenues from the gas transportation segment increased P\$17 million, or 3.5%, to P\$509 million. This rise was mainly attributable to the execution of new firm transportation agreements with an industrial client and gas producers, which allowed for an increase in committed transportation capacity by 1.6 million cubic meters per day.

CIESA's operating income decreased P\$80 million, or 14%, to P\$489 million, mainly due to a production drop and higher costs associated with maintenance of fixed assets and increased labor costs.

CIESA's income tax charge increased P\$124 million in 2007 basically due to the reversal of allowances on TGS's tax loss carryforwards recorded in 2006.

**Distrilec / Edesur:** Our equity in the earnings of Distrilec increased P\$88 million to P\$51 million from P\$(37) million in 2006.

Revenue from Edesur's services increased 30.5%, or P\$430 million, to P\$1,842 million, mainly due to a 22.8% rise in the energy average sales price (including toll), attributable to the implementation of Edesur's new tariff schedule and adjustments derived from cost monitoring, as provided under the MOA signed with UNIREN in August 2005. A 6.9% growth in electric power demand also had a positive impact on Edesur's results in 2007, as compared to 2006.

Edesur reported an operating income of P\$391 million in 2007, as compared to a P\$41 million loss in 2006, which principally reflects higher average sales prices and increased demand as described above.

In addition, during 2007 Edesur recognized a P\$52 million loss for adjustment of fines applied by ENRE, pursuant to the terms of the MOA.

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**PELSA:** Our equity in the earnings of PELSAs declined P\$3 million to P\$30 million from P\$33 million, mainly due to increases in production costs, which more than offset an improvement in sales from a 1.5% increase in oil sales volumes.

PELSAs operating income decreased P\$38 million, or 14%, to P\$233 million as a result of increased pulling and workover activities required to support production at mature fields and the greater incidence of depreciation and fixed costs. Increased expenses in terms of royalties, fees and easements also had an adverse impact.

**Refinor:** Our equity in the earnings of Refinor increased P\$12 million to P\$44 million in 2007 from P\$32 million in 2006.

Refinor's sales dropped 2%, or P\$31 million, to P\$1,485 million in 2007 from P\$1,516 million in 2006, mainly due to lower sales volumes.

Operating income grew 25.9%, or P\$51 million, to P\$248 million, mainly due to a significant rise in international reference prices for export products as well as higher prices for liquid fuels in the domestic market. In addition, holding gains increased as a result of the revaluation of raw material and finished product inventories in 2007, as compared to the decline recorded in 2006.

**Oleoductos del Valle S.A. ( Oldelval ):** Our equity in the earnings of Oldelval decreased P\$5 million to P\$3 million from P\$8 million.

Oldelval's sales increased 1%, or P\$1 million, to P\$150 million, due to the 1.4% rise in transported volumes to 71.7 million barrels.

**Table of Contents****CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with Argentine GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Changes in facts and circumstances or discovery of new information may result in revised estimates and actual results may differ from these estimates.

The following summary provides more information about the critical accounting policies that could have a significant impact on our results and should be read in conjunction with the Notes to our financial statements. Our accounting policies are more fully described in both Notes 2 and 4 to the financial statements of both Petrobras Energía and Petrobras Energía Participaciones.

***Estimates of Oil and Gas Reserves***

Evaluations of oil and gas reserves are important for the effective management of upstream assets. They are used to make investment decisions about oil and gas properties. Oil and gas reserve quantities are also used as the basis for calculation of unit-of-production rates for depreciation of the related oil and gas assets and evaluation for impairment of our investments in upstream assets. Oil and gas reserves are divided between proved and unproved reserves. Proved reserves are estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Unproved reserves are those with less than reasonable certainty of recoverability and are classified as either probable or possible. Probable reserves are reserves that are more likely to be recovered than not and possible reserves are less likely to be recovered than not.

Estimates of oil and gas reserves have been prepared in accordance with Rule 4-10 of Regulation S-X, promulgated by the SEC. The choice of method or combination of methods employed in the analysis of each reservoir was determined by the stage of development, quality and reliability of basic data, and production history.

The estimation of proved reserves is an ongoing process that takes into account engineering and geological information such as well logs, pressure data and fluid sample core data. Proved reserves can also be divided in two categories: developed and undeveloped. Developed proved reserves are expected to be recovered from existing wells, or when the costs necessary to put them in production are relatively low. For undeveloped proved reserves, significant investments are necessary, including drilling new wells and installing production or transportation facilities before these reserves can be exploited. Oil and natural gas reserves have a direct impact on the assessment of the recoverability of asset carrying values reported in the financial statements.

We use the successful efforts method of accounting for our exploration and production activities. Under this method, costs are accumulated on a field-by-field basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred. Exploratory wells that find oil and gas in an area requiring major capital expenditure before production can begin are evaluated annually to ensure that commercial quantities of reserves have been found or that additional exploration work is under way or planned in a timeframe reasonable for its development cycle. Exploratory well costs not meeting either of these criteria are charged to expenses. Costs of productive wells and development dry holes are capitalized and amortized on the unit-of-production method.

Downward revision in our reserves estimates may result in: (a) higher depreciation and depletion charges in future periods, and/or (b) an immediate write-down of an asset's book value. If, on the other hand, the oil and gas reserve quantities were revised upward, our per barrel depreciation and depletion expense would be lower. Changes in proved oil and gas reserves will also affect the standardized measure of discounted cash flows presented in Note 23 to our financial statements.

**Table of Contents*****Impairment of Long-Lived Assets***

At December 31, 2008, our property, plant and equipment, net of accumulated depletion, amounted to P\$12,556 million.

Our management assesses the recoverability of long-lived assets whenever events or changes in circumstances occur that could indicate that the value of an asset or of a group of assets might not be recoverable. The book value of a long-lived asset is adjusted to its recoverable value if its carrying amount exceeds the recoverable value in use.

From a regulatory standpoint, recoverable value is defined as the larger of net realizable value and discounted value in use, defined as the addition of the discounted expected net cash flows that arise as a direct result of the use and eventual disposition of the assets. Among other elements, the premises that represent the best estimate made by management of the economic conditions that will prevail throughout the useful life of the assets are considered.

With respect to future prices, in general, we do not view temporarily low prices as a trigger event for conducting impairment tests. The markets for crude oil and natural gas and oil related products have a history of significant price volatility. Although prices will occasionally drop precipitously, industry prices over the long term will continue to be driven by market supply and demand fundamentals. Significantly lower future prices could lead to impairments in the future, if such decreases were considered to be indicative of long-term trends. In the determination of the discounted value in use, we make use of our long-term price assumptions. These are the same price assumptions that are used in our planning and budgeting processes and our capital investment decisions, and they are considered to be reasonable, given market indicators and past experience.

Among other assumptions, we consider discount rates used by market participants to evaluate the time value of money and the specific risk of the asset.

Under Argentine GAAP, impairment charges can be reversed in subsequent years so that the reduced carrying amount does not represent the new cost basis of the long-lived assets should the facts and circumstances change in the future.

As an example of our accounting for the impairment of long-lived assets, in 2007, we recorded an impairment allowance of P\$759 to write the book value of Ecuador's assets down to zero, which is their probable recoverable value. This write down was a consequence of the Ecuadorian government's imposition in 2007 of major tax and regulatory amendments that adversely affected the profitability evaluation of our ongoing projects in Ecuador.

***Successful Efforts Method of Accounting***

We follow the successful efforts method of accounting for our oil and gas activities.

Occasionally, an exploratory well may determine the existence of oil and gas reserves but the reserves cannot be classified as proved when drilling is complete.

In those cases, incorporating prospectively the changes introduced by the interpretation FASB Staff Position No. FAS 19-1, *Accounting for Suspended Well Costs*, starting July 2005, such costs continue to be capitalized insofar as (i) the well has determined the existence of sufficient reserves to warrant its completion as a production well and (ii) the company is making sufficient progress in evaluating the economic and operating feasibility of the project.

Before such interpretation, Statement of Financial Accounting Standards No. 19 provided: (I) if the well found reserves in an area requiring major capital expenditures before production may start, classification of such reserves as proved is dependent upon whether any additional reserves are found justifying the aforementioned investment. In this case, the cost of the exploratory well continues to be capitalized as long as it meets the following two conditions: (a) reserves found are sufficient to justify completion of the well as producing if the capital investment is made, and (b) the drilling of additional exploratory wells is in progress or firmly planned for the near future. Otherwise, drilling costs are charged to expense; (II) if the reserves are not classified as proved for any other reason, drilling costs of exploratory wells should not remain capitalized for a period exceeding one year after the completion of the drilling. If after one year no reserves are classified as proved, exploratory well costs should be charged to expense.

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The application of the successful efforts method can cause material fluctuations between periods in exploration expenses if drilling results are different than expected or if we change our exploration and development plans. If we change our views, as a result of changed circumstances or otherwise, during a later period, we would expense the relevant exploratory drilling cost during such later period.

As of December 31, 2008 and 2007, we maintained capitalized exploratory well costs amounting to P\$303 million and P\$124 million, respectively.

***Fair Value***

We estimate fair value for the measurement of long-lived assets during certain impairment tests and the initial measurement of an Asset Retirement Obligations. When the Company is required to measure fair value, and there is not a market observable price for the asset or liability, or a market observable price for a similar asset or liability, we generally utilize an income valuation approach. This approach utilizes management's best assumptions regarding expectations of projected cash flows, and discounts the expected cash flows using a commensurate risk adjusted discount rate. Such evaluations involve a significant amount of judgment since the results are based on expected future events or conditions, such as sales prices; estimates of future oil and gas production or throughput; development and operating costs and the timing thereof; economic and regulatory climates and other factors. The Company's estimates of future net cash flows are inherently imprecise because they reflect management's expectation of future conditions that are often outside of management's control. The assumptions used for fair value measurement are consistent with the ones developed for our planning and budgeting processes and our capital investment decisions.

***Contingencies***

Certain conditions may exist as of the date of the financial statements, which may result in a loss to us, but which will only be resolved when one or more future events occur or fail to occur. We assess contingent liabilities based on the opinion of our legal counsel and available evidence. If the assessment of a contingency indicates that it is probable that a loss has been incurred and the amount can be estimated, a liability is accrued. If the assessment indicates that a potential loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the possibility of occurrence, is disclosed in a note to the financial statements. Loss contingencies considered remote are not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Changes in the facts or circumstances related to these types of contingencies, as well as the future outcome of these disputes, can have a significant effect on the amount of provisions for contingencies recorded. As of December 31, 2008 and 2007, contingent liabilities (including current and non-current) amount to P\$244 million and P\$210 million, respectively.

***Income Tax***

We estimate income tax on an individual basis under the deferred tax method. The deferred tax balance as of the end of each period has been determined on the basis of the temporary differences generated in certain items that have a different accounting and tax treatment.

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To book such differences, we use the liability method, which establishes the determination of net deferred tax assets and liabilities on the basis of temporary differences determined between the accounting measurement of assets and liabilities and the related tax measurement. Temporary differences determine the balance of tax assets and liabilities where its future reversal decreases or increases the taxes determined. In the event there are unused tax loss carry forwards that may be offset against future taxable income, we will evaluate the recoverability of a deferred tax asset, only to the extent that it is probable that some portion or all of the deferred tax asset will be realized. Judgment is required in determining the amounts of future income tax assets and liabilities and the related valuation allowance recorded against the net future income tax assets. In assessing the potential realization of future income tax assets, management considers whether it is probable that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon us generating sufficient future taxable income from operations during the period in which the future income tax assets are recoverable. Due to the fact that uncertainty exists surrounding our ability to generate sufficient taxable income from operations before the expiration of the loss carry forwards, we provided a valuation allowance of P\$1,028 million against tax loss carry forwards as at December 31, 2006, which to a large extent expired during 2007. In 2005, for example, after taking into consideration the profitability expectations arising from our business plan, we partially reversed an allowance for tax loss carry forwards and recognized a gain of P\$197 million.

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**LIQUIDITY AND CAPITAL RESOURCES**

Argentine companies seeking access to financial markets face significant limits on the amount of financing available, the terms and cost of such financing, and other conditions that limit access to capital. The default on the Argentine sovereign debt at the end of 2001, the more recent global financial crisis, and related decline in global stock markets as well as the insolvency of major financial institutions toward the end of 2008, have all significantly limited the ability of Argentine companies to access international financial markets at reasonable cost and conditions.

Our ability to execute and carry out our strategic business plan depends upon our ability to obtain financing at a reasonable cost and on reasonable terms.

In recent years, we have regularly obtained financing from the private pension fund system in Argentina, which has been a significant subscriber of issuances of our debt. However, in November 2008 the Argentine National Congress passed a law eliminating the private pension system, mandating that funds administered by the private Retirement and Pension Funds Administrators (the AFJP), be transferred to a new administrator, the National Social Security Administrative Office (*Administración Nacional de la Seguridad Social*, or ANSES). Because the private pension funds had until recently been major institutional investors in the Argentine capital markets, the nationalization of these funds and the transfer of their assets to a state-run administrator had led to a decline in liquidity in the local capital markets, and may further limit the sources of financing for Argentine companies, including us. As of October 31, 2008, these funds held 13% of the outstanding shares of Petrobras Energía Participaciones.

In response to the limited availability of financing for Argentine companies, we closely monitor our liquidity levels in order to ensure compliance with our financial obligations and achieve of our growth objectives. Along these lines, and as a guiding principle, financial solvency is the foundation on which sustainable development of our businesses is built. In our opinion, our working capital is sufficient to meet our present requirements.

Pursuant to these strategic guidelines, we seek to:

Design a capital structure in line with industry standards adaptable to the financial markets in which we operate, by establishing a debt maturity profile consistent with estimated cash generation.

Gradually reduce indebtedness cost.

Adhering to these guidelines will enable us to treat financial management as a key element in the value-creation process.

Financial management highlights for 2008 fiscal year include:

Strict compliance with all financial obligations, with a 1.6% decline in our annual average indebtedness, as measured in US dollars.

Continued implementation of the Capital Expenditures Plan.

In the short term, the most significant factors generally affecting our cash flow from operating activities are: (1) fluctuations in prices for crude oil, (2) fluctuations in production levels and demand for our products, (3) fluctuations in margins in the refining and distribution and petrochemicals business units, (4) changes in regulations, such as taxes, taxes on exports, changes in royalty payments and price controls and (5) fluctuations in exchange and interest rates.

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In the longer term, our ability to replace oil and gas reserves will affect future production levels, which, in turn, will affect cash flow provided by operating activities. Nonetheless, we do not believe that the risks associated with failure or delay of any single project would have a significant impact on our overall liquidity or ability to generate cash flows, since we have a diverse portfolio of development projects and exploration opportunities, which helps to mitigate the risks inherent to oil and gas exploration and production and the associated cash flow provided by operating activities.

**Analysis of Liquidity and Capital Resources**

Our management analyzes our results and financial condition separately from the results and financial condition of CIESA and Distrilec, affiliates under joint control with third parties. The discussion below, therefore, relates to our liquidity and capital resources, excluding the effects of the proportional consolidation of CIESA and Distrilec, and as a result may not be directly comparable to figures reflected in our financial statements.

The table below reflects our statements of cash flow for the fiscal years ended December 31, 2008, 2007 and 2006 under Argentine GAAP and, for comparative purposes, the pro forma results excluding the effect of proportional consolidation of CIESA and Distrilec. Amounts are stated in millions of pesos.

	With Proportional Consolidation			Without Proportional Consolidation of CIESA and Distrilec (Unaudited)		
	2008	2007	2006	2008	2007	2006
Cash and cash equivalent at the beginning of the year	1,167	1,350	790	898	1,044	474
Net cash provided by operations	2,155	1,853	2,884	1,709	1,325	2,513
Net cash used in investing activities	(1,252)	(1,697)	(2,029)	(1,016)	(1,450)	(1,895)
Net cash used in financing activities	(680)	(364)	(295)	(574)	(44)	(48)
Effect of exchange rate change on cash	81	25		78	23	
Cash and cash equivalent at the end of the year	1,471	1,167	1,350	1,095	898	1,044

**Cash**

As of December 31, 2008, 2007 and 2006, cash and cash equivalents, excluding proportional consolidation of CIESA and Distrilec, were P\$1,095 million, P\$898 million and P\$1,044 million, respectively.

Our goal is to maintain excess cash primarily in U.S. dollars and in short-term investments in order to ensure adequate liquidity levels. We predominately invest in money market mutual funds and overnight deposits.

**Operating Activities**

Net cash from operations, excluding proportional consolidation of CIESA and Distrilec, totaled P\$1,709 million in 2008, P\$1,325 million in 2007 and P\$2,513 million in 2006.

Net cash from operations in 2008 increased P\$384 million, or 29%, to P\$1,709 million from P\$1,325 million in line with the improvement in operating income.

Net cash from operations in 2007 decreased by P\$1,188 million, or 47.3%, to P\$1,325 million as a result of the decline in net income and increased working capital requirements by the higher level of operations.



**Table of Contents*****Investing Activities***

Cash used in investing activities, excluding proportional consolidation of CIESA and Distrilec, totaled P\$1,016 million in 2008, P\$1,450 million in 2007 and P\$1,895 million in 2006.

In 2008, net capital expenditures decreased P\$437 million to P\$1,049 million from P\$1,486 million in 2007. Capital expenditures increased P\$596 million to P\$2,488 million. In addition, cash from divestments totalled P\$1,439 million and P\$406 million, respectively. Sources of funds for 2008 mainly include the sale of the 40% interest in PVIE.

In 2007, net capital investments dropped P\$458 million to P\$1,486 million in 2007 from P\$1,944 million in 2006.

The table below reflects total net capital expenditures, net, in millions of pesos:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
- Oil and Gas Exploration and Production	1,833	1,359	1,544
- Petrochemical	144	305	195
- Refining and Distribution	235	141	249
- Gas and Energy	265	61	4
- Corporate	11	26	76
Total capital expenditures	2,488	1,892	2,068
- Divestments	(1,439)	(406)	(124)
Total net capital expenditures	1,049	1,486	1,944

***Oil and Gas Exploration and Production***

Capital expenditures in the Oil and Gas Exploration and Production segment totaled P\$1,833 million, P\$1,359 million and P\$1,544 million in 2008, 2007 and 2006, respectively.

Capital expenditures for 2008 include P\$665 million attributable to the acquisition of additional interests in El Tordillo, La Tapera Puesto Quiroga, Sierra Chata and Parva Negra assets.

In 2008, capital expenditures were mainly focused on improving the basic production curve. Expenditures primarily included well drilling, expansion of secondary recovery projects and expansion of surface facilities. In addition, exploration investment -the main driver for reserve replacement and production in the long-term significantly increased. Investments in Argentina were primarily directed to seismic surveys and drilling. We drilled twelve onshore exploration wells (including four extension wells), three of which were successful. The consortium operating the CGSJ Marina-1 block in the Golfo San Jorge basin in which the Company has a 33% interest drilled the first offshore exploration well, which was abandoned due to high water levels. In addition, 3D seismic surveys were also conducted over 415 square kilometers and 10,500 kilometers of 2D seismic surveys were conducted offshore from Argentina. In addition, airborne gravimetry, magnetometry and gradiometry surveys were conducted over 180 thousand kilometers: 160 thousand in the Noreste basin and the rest in the Enarsa 3 offshore block.

***Petrochemicals***

In the Petrochemicals segment, capital expenditures totaled P\$144 million, P\$305 million and P\$195 million in 2008, 2007 and 2006, respectively.

In 2008, our capital expenditures were focused on the construction of the new Innova ethylbenzene plant that started operations in September 2008. This plant, with a 540 thousand-ton-per year production capacity, is among the world's most modern plants in terms of technology, environmental and occupational health concerns.

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*Refining and Distribution*

Capital expenditures in the Refining and Distribution segment totaled P\$235 million, P\$141 million and P\$249 million in 2008, 2007 and 2006, respectively.

In 2008, investments focused on operative reliability. At the Bahía Blanca Refinery, the Light Reformate Unit was concluded and works in connection with the Refining Quality Adjustment project started, which involves construction of diesel oil and gasoline hydrotreatment plants, in order to meet future fuel quality specifications set by law in terms of sulfur content. In addition, in 2008 a US\$25 million payment was made in connection with the acquisition of a double-hulled vessel. In Distribution, we went forward with selective branding efforts in gas stations that still lacked Petrobras Energía's branding.

*Gas and Energy*

In the Gas and Energy segment, capital expenditures totaled P\$265 million, P\$61 million and P\$4 million in 2008, 2007 and 2006, respectively.

In 2008, works in connection with the new 164 MW Genelba Plus power plant continued at Genelba's site. This project has been approved by the Ministry of Federal Planning, Public Investment and Services, and commercial operations are scheduled to start in 2009 second quarter. In addition, construction works started in connection with Ecoenergía 14MW power plant. This plant is located at TGS's General Cerri complex, in Bahía Blanca, and commercial operations are scheduled to start by the end of 2009.

***Financing Activities***

Net cash used in financing activities totaled P\$574 million, P\$44 million and P\$48 million, in 2008, 2007 and 2006, respectively.

We paid long-term debt in the amount of P\$11 million, P\$1,024 million and P\$272 million in 2008, 2007 and 2006, respectively.

In 2008, we repaid bank loans and long-term lines of credit in the amount of P\$11 million.

In 2007, we paid at maturity Series G Notes and the Sixth Series under the US\$2.5 billion Notes Program in an aggregate amount of P\$891 million (US\$283 million). In addition, Petrobras Energía and Petrobras Energía Perú S.A repaid bank loans and long-term lines of credit in an amount of P\$29 million and P\$104 million, respectively.

In 2006, we paid at maturity Series B Notes under the US\$2.5 billion Notes Program in an aggregate amount of P\$15 million (US\$5 million). In addition, we and Petrobras Energía Perú S.A. repaid bank loans and long-term lines of credit in an amount of P\$129 million and P\$128 million, respectively.

Cash provided by long-term financing totaled P\$136 million, P\$1,299 million and P\$220 million in 2008, 2007 and 2006, respectively.

In 2008, Petrobras Energía and Innova S.A. received cash provided by bank financing in the amount of P\$79 million and P\$57 million, respectively.

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In 2007, we received P\$927 million from the issuance of US\$300 million Series S Notes under the US\$2.5 billion Notes Program. The Series S Notes mature in May 2017 and pay interest at a fixed rate of 5.875%. Payments under the Series S Notes are supported by a standby purchase agreement provided by our controlling shareholder, Petrobras. Under the terms of the Series S Notes, in the event of a change of control, Petrobras Energia will be required to offer to repurchase the Series S Notes at a repurchase price equal to 101% of the outstanding principal amount plus accrued interest to the date of repurchase. In addition, Innova S.A. and Petrobras Energía Perú S.A. received cash provided by other bank financing in the amount of P\$30 million and P\$342 million, respectively.

In 2006, we received P\$82 (US\$26 million) for foreign trade financing. In addition, Petrobras Energía Perú S.A. received cash provided by other bank financing in the amount of P\$138 million.

With respect to our short-term financing, in 2008 and 2007 we repaid short-term debt in the amount of P\$384 million and P\$133 million, respectively, mainly relating to export pre-financing facilities and short-term domestic loans. In 2006 net cash provided by short-term financing totaled P\$4 million primarily from foreign trade financing.

In addition, pursuant to the resolutions adopted at the General Shareholders Meetings held on March 28, 2008 and March 30, 2007, we paid cash dividends in the amount P\$315 million and P\$186 million in 2008 and 2007, respectively.

**Table of Contents****DESCRIPTION OF INDEBTEDNESS**

Most of our financial debt and a significant portion of the debt of our main affiliates are denominated in US dollars. The description that follows describes the indebtedness of Petrobras Energía, unless otherwise indicated.

As of December 31, 2008, total indebtedness, excluding the proportional consolidation of CIESA and Distrilec (companies under joint control with third parties) totaled P\$6,182 million, of which P\$4,317 million was long-term indebtedness. This compares to P\$5,925 million as of December 31, 2007, of which P\$4,482 was long-term debt. As of December 31, 2008, short-term indebtedness totaled P\$1,865 million, of which P\$697 million represents the current portion of long-term obligations and P\$1,168 million represents short-term indebtedness with financial institutions under loan agreements and foreign trade financing. For a description of CIESA's debt, see Item 5. Operating and Financial Review and Prospects Factors Affecting our Consolidated Results of Operations Regulation of the Energy Industry in Argentina CIESA's debt restructuring process.

As of December 31, 2008, notes in the aggregate principal amount of US\$1,119 million were outstanding under the Global Note Program due May 2008, which had a maximum principal amount of US\$2.5 billion (the Global Note Program). At the Petrobras Energía's General Regular Shareholders Meeting held on March 28, 2008, the shareholders approved a new global corporate note program for a maximum principal amount of US\$1.0 billion (or its equivalent in other currencies). The program will last five years or the maximum applicable term allowable under future regulations. This program was authorized by the CNV under Resolution No. 15,947 dated August 7, 2008, under which issuance of Corporate Notes during the 2008-2013 period is authorized.

The following represents our debt maturity profile as of December 31, 2008:

	1 year	2 years	3 years	4 years	5 years	6 or more years
Millions of pesos	1,865	1,345	419	92	717	1,744

On May 1, 2009, we paid at maturity the nonconvertible Class H bonds, issued under the Global Note Program, for a face value of US\$181.5 million.

On June 9, 2005, the Argentine federal executive branch issued Executive Order 616/05, requiring that any cash inflow to the domestic market derived from foreign loans to the Argentine private sector shall have a maturity for repayment of at least 365 days as from the date of the cash inflow. In addition, at least 30% of the amount must be deposited with domestic financial institutions. This deposit (1) must be registered, (2) must be non-transferable, (3) must be non-interest bearing, (4) must be made in U.S. dollars, (5) must have a term of 365 days and (6) cannot be used as security or collateral in connection with other credit transactions. Export and import financing and primary public offerings of debt securities listed on self-regulated markets are exempt from the foregoing provisions. This Executive Order may limit our ability to finance our operations through new intercompany loans or any other kind of foreign financial loans.

Under Communication A 4860, issued on October 30, 2008 by the Central Bank, export collections required to be transferred and settled in the local exchange market must be transferred within a 10 working day term to foreign offices of local financial institutions, except for export collections applied to the payment of export pre-financings granted by financial institutions outside of Argentina. Under this requirement, the time frame to bring foreign currency into Argentina from certain export collections is reduced, posing a restriction on the term and amount of some of our sources of financing.

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*Cross Default Provisions*

Our notes outstanding as of December 31, 2008 include cross default provisions whereby the Trustee under those notes, if instructed by the noteholders representing at least 25% of the relevant outstanding principal amount, may declare all the amounts owed due and payable if any debt of ours or our significant subsidiaries is not paid when due, provided that those due and unpaid amounts exceed the higher of US\$25 million or 1% of Petrobras Energía's shareholders' equity at the time such debt is due, and provided further that the default has not been eliminated or cured within 30 days after we have been served notice of the default.

In addition, our Series S notes contain cross default provisions that are triggered if the maturity of any indebtedness of Petrobras or of any of its material subsidiaries in a total aggregate principal amount of \$100 million or more is accelerated. The notes contain other customary event of default provisions relating to Petrobras. See *Liquidity and Capital Resources* *Financing Activities* .

As of the date of this annual report, we are in compliance with all covenants under our loan agreements and corporate notes.

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**FUTURE CAPITAL REQUIREMENTS**

We estimate our investments in Petrobras Energía and its subsidiaries for 2009 at approximately US\$380 million. This level of investments is part of our strategy for sustained growth, which we have pursued in accordance with growth and expansion targets contemplated in our business plan.

The General Regular Shareholders Meeting of Petrobras Energía held on March 27, 2009, approved the establishment of an optional reserve known as the Reserve for Future Dividends in an aggregate amount of P\$380 million and delegated to the Board of Directors the ability to determine the dividend distribution date and amount during the period between the admission of Petrobras Energía Participaciones S.A.'s shareholders as shareholders of Petrobras Energía S.A. and the date of the next Regular Shareholders Meeting to be held in connection with fiscal year ending December 31, 2009, taking into account the course of operations, operating results, investment programs, financial position and funds availability, among other factors deemed relevant to the development of the Company's business. We estimate that our capital expenditure requirements, debt payment obligations, dividends payments and working capital will be financed by cash from operations and, to a lesser extent, by new debt financings and possible divestments. Our level of investments will depend on a variety of factors, many of which are beyond our control. These include the future price evolution of the commodities we sell, the behavior of energy demand in Argentina and in regional markets, the existence and competitive impact of alternative projects, the enforcement of regulations and changes in applicable taxes and royalties and the political, economic and social situation prevailing in the countries where we operate.

*Oil and Gas Exploration and Production*

Our 2009 investment plan is in line with reserve replacement and production goals, as a crucial step in securing our sustainable growth.

*Argentina.* Efforts will continue in the Neuquen basin to develop oil reserves through well drilling, and expansion of secondary recovery projects and of relevant surface facilities. Development of El Mangrullo field will continue and we will move forward with implementation of a pilot project focused on low permeability gas reservoirs (non-conventional reservoirs) at the Punta Rosada formation in the Rio Neuquen field. In the Austral basin, investments will be focused on well drilling for the development and demarcation of oil reserves and on maintenance of the curve of injection to the gas pipeline.

In addition, we will continue with investment plans focused on exploration activities, particularly the CGSJ Marina 1 offshore block, in Golfo de San Jorge basin.

*Refining and Distribution*

In 2009, investments in our Refining and Distribution segment will focus on security, environmental sustainability, reliability of operations and adjustment to meet legal standards imposed with respect to fuel quality.

Investments in our retail operations will focus on the maintenance of Petrobras gas station network and the support of lubricant plant operations.

*Petrochemicals*

At the Puerto General San Martín plant, investments will continue with a focus on reducing variable costs. At the same time, investments will be made in reliability projects and maintenance associated with scheduled shutdowns, in order to achieve increased yield and safety in operating processes.

In the Fertilizers segment, investments will be made in operations reliability and production optimization.

*Gas & Energy*

In 2009, investments will focus on the completion of construction, and the start up of commercial operations at the Genelba Plus power plant. We plan to complete construction at Ecoenergía power plant around December 2009.

**Table of Contents****OFF-BALANCE SHEET TRANSACTIONS**

Other than the transactions described below, we do not have any off-balance sheet arrangements required to be disclosed by Item 5 of Form 20-F.

***OCP Investment s Letters of Credit***

In order to guarantee compliance with the Company's financial commitments under the Ship or Pay transportation agreement executed with OCP and a portion of OCP's contractual obligations, Petrobras Energía is required to procure letters of credit. These letters of credit are required to remain in effect until December 2018. As of December 31, 2008, Petrobras Energía had procured letters of credit for a total amount of about US\$100 million. As the letters of credit expire, we will be required to renew or replace them. Otherwise, we would have to deposit cash in amounts equal to our guarantee obligations, which would have a material adverse effect on our cash flows.

**CONTRACTUAL OBLIGATIONS**

The following table summarizes certain contractual obligations as of December 31, 2008. The table does not include accounts payable. Amounts in the table do not include interest.

	Payments due by period				More than 5 years
	Total	Less than 1 year	1-3 years	3-5 years	
	(in millions of pesos)				
<b>Debt Obligations</b>	5,036	1,416	1,205	690	1,725
<b>Purchase Obligations</b>					
Ship or pay agreement with OCP <sup>(1)</sup> <sup>(2)</sup> <sup>(6)</sup>	1,416	146	234	277	759
Long-term service agreement <sup>(6)</sup>	970	570	207	94	99
Petroleum services and materials <sup>(6)</sup>	3,856	2,206	537	292	821
Ethylene <sup>(4)</sup> <sup>(6)</sup>	1,642	215	634	514	279
Benzene <sup>(5)</sup> <sup>(6)</sup>	3,760	388	1,496	1,216	660
Oil purchase agreements for Refinery <sup>(6)</sup>	555	420	135		
Gas transportation capacity with TGS <sup>(3)</sup>	738	123	246	246	123
Gas purchase agreements for Genelba <sup>(6)</sup>	14	14			
<b>Pension Plan</b>	140	14	26	27	73
<b>Total</b>	18,127	5,512	4,720	3,356	4,539
<b>Sales Obligations</b>					
Natural gas	2,036	330	557	549	600
Styrene	492	166	202	124	
Electric power	846	156	224	362	104
LPG	276	86	97	62	31
Oil	771	771			
<b>Total</b>	4,421	1,509	1,080	1,097	735

(1) Net of transportation

capacity sold to  
third parties.

- (2) Estimated price  
US\$3.63 per  
barrel (6).
- (3) Estimated price  
P\$0.11 million  
per million  
cubic meters.
- (4) Estimated price  
US\$1,087 per  
ton (6).  
Contractual  
prices are in US  
dollars. Peso  
amounts  
translated using  
exchange rate as  
of December 31,  
2008.
- (5) Estimated price  
US\$895 per ton  
(6). Contractual  
prices are in US  
dollars. Peso  
amounts  
translated using  
exchange rate as  
of December 31,  
2008.
- (6) Prices are  
generally  
determined by  
formulas based  
on future market  
prices.  
Estimated prices  
used to calculate  
the monetary  
equivalent of  
these purchase  
obligations for  
purposes of the  
table are based  
on current  
market prices as



of December 31,  
2008 and may  
not reflect  
actual future  
prices of these  
commodities.  
Accordingly,  
the peso  
amounts  
provided in this  
table with  
respect to these  
obligations are  
provided for  
illustrative  
purpose only.

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The following table sets forth volume information with regards to our commitment under commercial contracts:

	<b>Obligations by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
<b>Purchase Obligations</b>					
Ship or pay agreement with OCP (in millions of barrels)	113	14	18	23	58
Ethylene (in thousands of tons)	438	72	144	144	78
Benzene (in thousands of tons)	1,218	201	400	400	217
Oil Purchase agreements for Refinery (in millions of barrels)	4	3	1		
Gas transportation capacity with TGS (in millions of cubic meters)	6,570	1,095	2,190	2,190	1,095
Gas purchase agreements for Genelba (in millions of cubic meters)	65	65			
<b>Sales Obligations</b>					
Natural gas (in millions of cubic meters)	11,678	2,249	3,276	3,276	2,877
Styrene (in thousands of tons)	237	84	102	51	
Electric power (in GWh)	3,526	1,155	1,071	1,091	209
LPG (in thousands of tons)	453	171	174	54	54
Oil (in millions of bbls)	5	5			

*Debt Obligations.* A description of our contractual obligations with respect to our debt obligations is given under Liquidity and Capital Resources Description of Indebtedness .

*Long Term Service Agreement.* We have entered into a long-term service agreement with Siemens S.A. for the maintenance and repair of Genelba.

*Ship or Pay Agreement with OCP.* We have executed an agreement with OCP whereby we acquired an oil transportation capacity of 80,000 barrels per day for a term of 15 years starting November 10, 2003, to facilitate the transport of our oil production in Ecuador. We, as well as the remaining producers that have entered into capacity agreements with OCP, are required to pay a ship or pay fee that will cover, among other items, OCP's operating costs and financial services. We have assigned part of our committed transportation capacity. See Item 4. Information on the Company Oil and Gas Exploration and Production Production outside of Argentina Ecuador Ship or Pay Contract with Oleoducto de Crudos Pesados (OCP) .

*Petroleum services and materials.* We have entered into several agreements with different oil and gas petroleum service providers in order to ensure the usual supply of services and materials in countries where we conduct oil and gas activities. The aforementioned contracts provide for the supply of services such as pulling services, work-over, in addition to perforation works, materials and others.

*Benzene and ethylene supply agreements.* These long-term agreements were subscribed by our Brazilian subsidiary (Innova) with Brasken, an affiliate of Petrobras formerly known as Copesul. The purpose of these agreements is to ensure the supply of a significant portion of benzene and ethylene, raw materials that are essential for Innova's production of styrene and polystyrene. These agreements expire in 2015.

*Gas Transportation Agreements with TGS.* We have entered into firm gas transportation agreements with TGS in order to provide gas transportation services to our thermal power plant, Genelba. These contracts include firm clauses, which require us to meet our contractual obligations for the entire volume hired, even if no gas is transported. These contracts expire in 2014.



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*Gas Purchase Agreement for Genelba.* Complementing the gas transportation agreements mentioned above, we have entered into natural gas supply agreements with Compañía General de Combustibles. Under these agreements, Compañía General de Combustibles will supply Genelba's natural gas requirements in the event that such supply is not met internally, ensuring Genelba's ability to meet its own contractual energy delivery commitments.

*Pension Plan.* A description of our contractual obligations with respect to our pension plans is given in Note 16 to the financial statements of Petrobras Energia and Note 14 to the financial statements of Petrobras Energía Participaciones.

*Oil purchase agreements for Refineries.* We have entered into several purchase agreements with major Argentine oil producers, in order to ensure the supply to our two refineries, the San Lorenzo and the Ricardo Elicabe refineries. These agreements were entered into due to the fact that our installed refining capacity exceeds our Argentine oil production.

*Sale of Styrene.* Our Brazilian subsidiary, Innova, a company involved in the petrochemical business segment, has entered into long-term sale agreements with customers in order to ensure the sale of a significant amount of its styrene production in the Brazilian market. The contract price included in such contracts depends on current international prices at the time of delivery.

*Sale of oil.* Petrobras Energía Perú has entered into oil sales commitments with Petroperu in order to ensure the sale of its oil production. This contract expires in 2009 and provides for the sale of a significant amount of its oil production. The sales price for this contract depends upon current international prices at the time of delivery of oil. In April 2009, we sold our indirect interest in Petrobras Energía Perú. See Factors affecting our consolidated results of operations Sale of Petrobras Energía's Interest in Petrobras de Valores Internacional de España S.L.

*LPG and Electric Power Sales.* These agreements correspond primarily to sale commitments in order to ensure the sale of LPG and electric power in Argentina.

*Natural Gas Sales.* These agreements correspond primarily to long-term sales commitments in order to ensure the sale of natural gas in Argentina and Peru. Approximately 90% of the amount presented in the table above corresponds to contracts in Argentina, while 10% corresponds to a contract subscribed by of our subsidiary in Peru, which, through this agreement sells a significant amount of its gas production to a thermal plant located in that country.

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**U.S. GAAP RECONCILIATION**

Petrobras Energía had net income under U.S. GAAP of P\$434 million in 2008, as compared to a net loss of P\$24 million in 2007 and a net income of P\$1.295 million in 2006. Under Argentine GAAP, Petrobras Energía reported net income of P\$776 million in 2008, P\$762 million in 2007 and P\$1,416 million in 2006.

There are several differences between Argentine GAAP and U.S. GAAP that significantly affect Petrobras Energía net income and shareholders' equity. The most significant differences in their effect on 2008 net income are mainly related to purchase price allocation's impact on depreciation of property, plant and equipment, impairment testing and deferred income taxes. See Notes 20 and 21 to the financial statements of both Petrobras Energía and Petrobras Energía Participaciones, which include the reconciliation from Argentine GAAP to U.S. GAAP, as well as an explanation of the main differences between such accounting standards.

**Table of Contents****RECONCILIATION TABLES**

The following tables reconcile Petrobras Energía results for the years ended December 31, 2008, 2007 and 2006 with proportional consolidation of CIESA and Distrilec (as required by Argentine GAAP), with Petrobras Energía results as adjusted to reflect the elimination of proportional consolidation of these companies:

**For the Year Ended December 31, 2008**

	<b>With Proportional Consolidation</b>	<b>CIESA<sup>(1)(2)</sup></b>	<b>Distrilec<sup>(1)</sup></b>	<b>Without Proportional Consolidation (Unaudited)</b>
		<b>(in millions of pesos)</b>		
Net sales	15,175	(605)	(993)	13,577
Cost of sales	(11,000)	342	743	(9,915)
Gross profit	4,175	(263)	(250)	3,662
Administrative and selling expenses	(1,756)	42	158	(1,556)
Exploration expenses	(238)			(238)
Other operating expenses net	(229)	16	17	(196)
Operating income	1,952	(205)	(75)	1,672
Equity in earnings of affiliates	305	(20)	26	311
Financial income (expenses) and holding gains (losses), net	(786)	175	(11)	(622)
Other expenses, net	(93)	(56)		(149)
Income (loss) before income tax and minority interest in subsidiaries	1,378	(106)	(60)	1,212
Income tax provision	(529)	56	34	(439)
Minority interest in subsidiaries	(73)	50	26	3
Net income	776			776

(1) Both the results of CIESA and Distrilec are proportionally consolidated in the Gas and Energy segment.

(2) Net of P\$34 million in intercompany sales.



**Table of Contents****For the Year Ended December 31, 2007**

	<b>With Proportional Consolidation</b>	<b>CIESA<sup>(1)(2)</sup></b>	<b>Distrilec<sup>(1)</sup></b>	<b>Without Proportional Consolidation (Unaudited)</b>
		<b>(in millions of pesos)</b>		
Net sales	13,458	(567)	(894)	11,997
Cost of sales	(10,111)	280	679	(9,152)
Gross profit	3,347	(287)	(215)	2,845
Administrative and selling expenses	(1,463)	38	116	(1,309)
Exploration expenses	(172)			(172)
Other operating expenses, net	(176)	(2)	(77)	(255)
Operating income	1,536	(251)	(176)	1,109
Equity in earnings of affiliates	176	7	51	234
Financial income (expense) and holding gains (losses)	(495)	139	30	(326)
Other expenses, net	131	3	6	140
Income (loss) before income tax and minority interest in subsidiaries	1,348	(102)	(89)	1,157
Income tax provision	(494)	57	44	(393)
Minority interest in subsidiaries	(92)	45	45	(2)
Net income	762			762

(1) Both the results of CIESA and Distrilec are proportionally consolidated in the Gas and Energy segment.

(2) Net of P\$35 million in intercompany sales.

**For the Year Ended December 31, 2006**

<b>With Proportional</b>	<b>Without Proportional Consolidation</b>
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	<b>Consolidation</b>	<b>CIESA<sup>(1)(2)</sup></b>	<b>Distrilec<sup>(1)</sup></b>	<b>(Unaudited)</b>
	<b>(in millions of pesos)</b>			
Net sales	11,745	(592)	(695)	10,458
Cost of sales	(8,062)	268	594	(7,200)
Gross profit	3,683	(324)	(101)	3,258
Administrative and selling expenses	(1,281)	35	94	(1,152)
Exploration expenses	(117)			(117)
Other operating expenses net	(135)	1	38	(96)
Operating income	2,150	(288)	31	1,893
Equity in earnings of affiliates	219	71	(37)	253
Financial income (expense) and holding gains (losses)	(504)	132	11	(361)
Other income, net	99		9	108
Income (loss) before income tax and minority interest in subsidiaries	1,964	(85)	14	1,893
Income tax provision	(465)	(6)	(6)	(477)
Minority interest in subsidiaries	(83)	91	(8)	
Net income	1,416			1,416

(1) Both the results of CIESA and Distrilec are proportionally consolidated in the Gas and Energy segment.

(2) Net of P\$40 million in intercompany sales.

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The following tables reconcile Petrobras Energía's statements of cash flow for the fiscal years ended December 31, 2008, 2007 and 2006 with proportional consolidation as required by Argentine GAAP to these statements as adjusted to reflect the elimination of proportional consolidation of CIESA and Distrilec.

**For the Year Ended December 31, 2008**

	<b>With Proportional Consolidation</b>	<b>CIESA</b>	<b>Distrilec</b>	<b>Without Proportional Consolidation (Unaudited)</b>
		<b>(in millions of pesos)</b>		
Cash and cash equivalent at the beginning of the year	1,167	(196)	(73)	898
Net cash provided by operations	2,155	(313)	(133)	1,709
Net cash used in investing activities	(1,252)	96	140	(1,016)
Net cash used in financing activities	(680)	103	3	(574)
Effect of exchange rate change on cash	81		(3)	78
Cash and cash equivalent at the end of the year	1,471	(310)	(66)	1,095

**For the Year Ended December 31, 2007**

	<b>With Proportional Consolidation</b>	<b>CIESA</b>	<b>Distrilec</b>	<b>Without Proportional Consolidation (Unaudited)</b>
		<b>(in millions of pesos)</b>		
Cash and cash equivalent at the beginning of the year	1,350	(239)	(67)	1,044
Net cash provided by operations	1,853	(304)	(224)	1,325
Net cash used in investing activities	(1,697)	117	130	(1,450)
Net cash used in financing activities	(364)	231	89	(44)
Effect of exchange rate change on cash	25	(1)	(1)	23
Cash and cash equivalent at the end of the year	1,167	(196)	(73)	898

**Table of Contents****For the Year Ended December 31, 2006**

	<b>With Proportional Consolidation</b>	<b>CIESA Distrilec (in millions of pesos)</b>	<b>Without Proportional Consolidation (Unaudited)</b>	
Cash and cash equivalent at the beginning of the year	790	(257)	(59)	474
Net cash provided by operations	2,884	(326)	(45)	2,513
Net cash used in investing activities	(2,029)	64	70	(1,895)
Net cash (used) provided by financing activities	(295)	280	(33)	(48)
Effect of exchange rate change on cash				
Cash and cash equivalent at the end of the year	1,350	(239)	(67)	1,044

**Table of Contents****Item 6. DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES****DIRECTORS AND SENIOR MANAGEMENT****Petrobras Energía Participaciones Board of Directors**

On January 1, 2009, the management operations of the Board of Directors of Petrobras Energía Participaciones were suspended automatically, and the Board of Directors of Petrobras Energía (the Board) assumed its duties and responsibilities. Following the adoption and approval of the merger by the shareholders of both companies, Petrobras Energía Participaciones and Petrobras Energía signed the definitive merger agreement. The dissolution of Petrobras Energía Participaciones and its merger into Petrobras Energía were authorized by the CNV pursuant to Resolution No. 16,130/09 and Resolution No. 16,131/08, respectively. Once the dissolution and merger are registered with the Public Registry of Commerce of the City of Buenos Aires, the Board shall assume full control of the surviving company.

**Petrobras Energía Board of Directors**

In accordance with the bylaws of Petrobras Energía, the company's Board is required to meet at least once every three months, and is composed of nine regular directors who are elected for a three-year term. One-third of Petrobras Energía's directors are elected each year. The Shareholders Meeting may appoint a number of alternate members that may be equal to or lower than the number of regular directors in order to fill any vacancy, in the order of their appointment.

The table below sets forth the current composition of the Board, as approved by Petrobras Energía's General Regular and Special Shareholders Meeting held on March 27, 2009.

<b>Name</b>	<b>Year of Appointment</b>	<b>Position</b>	<b>Term Expires (*)</b>
José Fernando de Freitas	2008	Chairman	2010
Daniel Lima de Oliveira	2006	Vice Chairman	2011
José Raimundo Brandão Pereira	2009	Director	2011
Antonio Eduardo Monteiro de Castro	2009	Director	2011
Cedric Bridger	2004	Director	2010
Roberto Luis Monti	2003	Director	2010
Roberto Fortunati	2006	Director	2010
Décio Fabrício Oddone da Costa	2005	Director	2010
Luis Miguel Sas	2003	Director	2010
		Alternate	
Carlos Alberto Pereira de Oliveira	2009	Director	2011
		Alternate	
Pedro Augusto Bonésio	2009	Director	2011
		Alternate	
Carlos Eduardo Sardenberg Bellot	2009	Director	2011
		Alternate	
André Lima Cordeiro	2009	Director	2011
		Alternate	
Carlos Alberto da Costa	2009	Director	2011
		Alternate	
Héctor Daniel Casal	2003	Director	2011
		Alternate	
Alejandro Poletto	2006	Director	2011

(\*)

At the Shareholders Meeting held on January 30, 2009 several temporary provisions were adopted relating to the creation of a Transitional Board of Directors in compliance with the amendments to the bylaws adopted at the same meeting. The Board as of January 30, 2009 is the first to which staggered terms and elections will apply. One third of the Transitional Board was elected at the Regular Shareholders Meeting held on March 27, 2009. One third of the Transitional Board will be elected at the Regular Shareholders Meeting to be held in connection with fiscal year commencing January 1, 2009. The final third of the Transitional Board will be elected at the Regular Shareholders Meeting to be held in connection with fiscal year commencing January 1, 2010.

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As approved by Petrobras Energía's General Regular and Special Shareholders Meeting held on March 27, 2009, alternate directors will fill any vacancy in the following order: Carlos Alberto Pereira de Oliveira to José Fernando de Freitas, Pedro Augusto Bonésio to Daniel Lima de Oliveira, Carlos Eduardo Sardenberg Bellot to José Raimundo Brandão Pereira, André Lima Cordeiro to Antonio Eduardo Monteiro de Castro, Carlos Alberto da Costa to Décio Fabricio Oddone da Costa, Héctor Daniel Casal to Luis Miguel Sas and Alejandro Poletto to Cedric Bridger, Roberto Luis Monti or Roberto Alejandro Fortunati.

In compliance with Resolution No. 368 of the CNV, Cedric Bridger, Roberto Luis Monti, Roberto Alejandro Fortunati and Alejandro Poletto qualify as independent directors, and the other directors are not independent in accordance with the CNV rules. Resolution No. 368 provides that a member of a corporate body shall not be considered independent if that member fits one or more of the following descriptions:

The member is also a member of management or an employee of shareholders who hold significant interests in the issuer, or of other entities in which these shareholders hold either directly or indirectly significant interests or over which these shareholders exercise a significant influence.

The member is an employee of the issuer or has been an employee during the last three years.

The member has professional relations or is part of a company or professional association that maintains professional relations with, or that receives remunerations or fees (other than directors' fees) from, the issuer or from its shareholders that hold either directly or indirectly significant interests in or exercise a significant influence over the issuer, or from which such shareholders hold either directly or indirectly significant interests or exercise a significant influence.

The member is either directly or indirectly a holder of significant interests in the issuer or in an entity that has significant interests in or exercises a significant influence over the issuer.

The member sells or provides either directly or indirectly goods or services to the issuer or to shareholders that hold either directly or indirectly significant interests in or exercise a significant influence over the issuer and receives compensation for such services that is substantially higher than that received as a director.

The member is married or is a family member, up to fourth degree by blood or up to second degree by affinity, to an individual who would not qualify as independent.

Significant interests mean shareholdings that represent at least 35% of the capital stock of the relevant entity, or a smaller percentage when the person has the right to elect one or more directors by class of shares or by having entered into agreements with other shareholders relating to the governance and the management of the relevant entity or of its controlling shareholders.

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The following is a brief summary of the principal business and academic experience of each of our directors:

*José Fernando de Freitas (52)* has served as a member of and Chairman of the Board of Directors of Petrobras Energía since 2008, and is currently a member of the Compensation Committee. He graduated in Mechanical Engineering in 1978 from the Catholic University of Petropolis. He joined Petrobras in 1979 and worked in the Production Department in offshore production facilities within the engineering area. Between 1994 and 1998 he served as General Manager of Petrobras Argentina S.A. Subsequently, he held the position of Executive Manager of Gas, Energy and Engineering within the International Business Area until August 2004, when he was appointed Chairman of Petrobras Bolivia S.A. Since January 2008 he has served as Petrobras Executive Manager for the Southern Cone and is responsible for Petrobras operations within the area.

*Daniel Lima de Oliveira (57)* has served as a member of and Vice Chairman of the Board of Directors of Petrobras Energía since 2006. He graduated in 1975 in Mechanical Engineering from the Industrial Engineering School, in S.J. dos Campos (Sao Paulo, Brazil). He joined Petrobras in 1976 as a Supply Engineer in the Commercial Department. In 1982 he moved to Petrobras's Financial Department where he worked in the Short-Term Credit Division and as Assistant to the General Manager. From 1984 to 1988 he served as Financial Manager of the Petrobras London office. From 1988 to 1992 he worked as Manager at PIB BV, responsible for insurance and financing for PIB BV's foreign operations. From 1992 to 1995 he served as head of the Medium and Long-Term Credit Division, responsible for raising funds for PIB BV's investment program. From 1995 to 1999 he was assigned to Petrobras's New York Office as Financial Manager, responsible for negotiating trading lines, supporting the Head Office in structured transactions, Investor Relations and liaising with U.S. and Canadian export agencies. From September 1999 to July 2005 he was designated Deputy Executive Manager of the Financial Department, responsible for coordinating financial activities among several subsidiaries. In this position he has served on the Board of Directors of the following subsidiaries: BRASOIL, CATLEIA, PIB BV, Petrobras Participaciones S.L., POG, PEMID, PEL and FRADE INVERSIONES. In March 2004, he was appointed member of the REFAP S.A.'s Board of Directors. From July 2005 to March 2006, he served as Executive Manager of Petrobras's Corporate Finance Department and from April 2006 he has served as Corporate Financial Executive Manager of Petrobras.

*José Raimundo Brandão Pereira (52)* has served as a member of the Board of Directors of Petrobras Energía since 2009. He graduated in 1979 in Civil Engineering from the Universidad Estadual do Maranhão (UEMA). He joined Petrobras in 1980, where he specialized in Oil Engineering. During his career at Petrobras, he has held different administrative and managing positions, including service as the Executive Manager for Marketing and Commercialization for the Supplying Direction and Petrobras International Finance Company Director, both of which he has held since June 2008. In September 2008, he was designated Director of PIB BV. He has attended courses on technical and managing training in Brazil and abroad, including a specialization training course in Managing Competencies at Fundación Dom Cabral (Brazil), a course on Strategic Negotiation and Competitive Decision at Harvard Business School (USA) and courses on Oil Well Perforation at the Universidad Petrobras and Universidad Federal de Ouro Preto (Brazil).

*Antonio Eduardo Monteiro de Castro (43)* has served as a member of the Board of Directors of Petrobras Energía since 2009. He graduated in Mechanical Engineering from the Universidad Federal de Rio de Janeiro ( UFRJ ), and holds a master's degree in Politics and Management, from Ecole du Petrole et des Moteurs (France). In 1987, he started his career in Petrobras's Energy Division, in the Refining Area, where he worked more than ten years in the assessment and development of energy generation and cogeneration projects. Since 2000, he has worked in the Gas and Energy Area, where he was General Manager, responsible for the Development of New Businesses and Gas Projects (gas pipelines and LPG) and Energy (thermoelectric power stations together with national and international companies). In 2006, he started leading Corporate Management and Planning activities as Executive Manager. One year later, he presided over the Transportadora Brasileira Gasoducto Bolivia-Brasil ( TBG ) Administrative Council. In 2008, he was designated the head of Petrobras's Gas and Energy Marketing and Commercialization area. He is currently the Executive Manager of Petrobras's Gas and Energy area.





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*Cedric Bridger (73)* has served as a member of the Board of Directors of Petrobras Energía since 2004, and is currently a member of the Audit Committee. He graduated in Public Accounting in London from the Association of Certified and Corporate Accountants, where he initiated his professional activities. He joined FADIP S.A. (later Hughes Tool Co. S.A.) in Buenos Aires in 1964, where he was a Financial Manager. Subsequently, he became General Manager of the company in Brazil and was ultimately appointed its Vice President of Operations for Latin America. From 1992 to 1998, he was Vice Chairman of the Finance Department at YPF S.A. In April 1998, he retired from YPF S.A. and took a position as a Director of Banco Hipotecario and since 2003 he has been a member of the Board of Directors of IRSA Inversiones y Representaciones S.A.

*Roberto Luis Monti (70)* has served as a member of the Board of Directors of Petrobras Energía since 2003, and is currently a member of the Audit Committee and of the Compensation Committee. He graduated in Electromechanical Engineering. He received a Master of Electronic Engineering from the Universidad de Buenos Aires, and an MBA from the American Management Association, New York. For 32 years he worked for Schlumberger, where he was Vice-Chairman of Wireline Operations, Chairman of Anadrill, Chairman of Wireline & Testing for Europe, Africa, Middle and Far East and Latin America, and Chairman of Dowell at a worldwide level during the period from 1981 to 1995. From 1995 to 1997 he served as Chairman and CEO of Maxus Energy Corporation. From 1997 to 1999 he served as Chairman and CEO of YPF S.A. In 2000, he served as Vice Chairman of Exploration and Production and Vice Chairman of the Board of Directors in YPF S.A. In addition, he currently serves as Chairman of Trefoil Limited and as member of the Board of Directors of Tenaris S.A. and Wood Group PLC.

*Roberto Alejandro Fortunati (53)* has served as a member of the Board of Directors of Petrobras Energía since 2006, and is currently a member of the Audit Committee. In 1979, he graduated in Law from Universidad de Buenos Aires, where he currently teaches the Oil and Gas Law postgraduate course. He is also a member of the Advisory Council of Universidad Torcuato Di Tella Law School. He worked as a lawyer for Amoco Argentina Oil Company. From 1986 to 2001, he was a partner of Beccar Varela law firm. In 2001-2002, he served as Vice-Chairman and Director of Legal Affairs for the Argentine Branch of Citibank. Since 2003, he has been part of the Fortunati & Asociados law firm, of which he is a founding partner.

*Décio Fabrício Oddone da Costa (48)* has served as a member of the Board of Directors of Petrobras Energía since 2005 and as Chief Executive Officer since 2008. He also serves on the Compensation Committee. He graduated in Electrical Engineering from Universidade Federal do Rio Grande do Sul, Brazil. He completed post-graduate courses in oil engineering promoted by Petrobras and attended the Advanced Management Program at Harvard University Business School and the Advanced Management Program at the Insead, France. He received an Honoris Causa Master Degree in Management and Administration from Alta Escuela de Dirección y Administración de Empresas in Madrid, Spain, and an Honoris Causa Doctoral Degree in Education from Aquino University, Bolivia. He has held several managerial positions within Petrobras in Brazil, Argentina, Angola, Libya, and Bolivia where he held the position of Chairman of Petrobras Bolivia S.A., and other companies of the group. He was responsible for Petrobras operations in the Southern Cone. Since 2008, he has also served as a member of the Board of Directors of Innova S.A. and Petrolera Entre Lomas S.A.

*Luis Miguel Sas (46)* has served as a member of the Board of Directors of Petrobras Energía since 2003, and as Chief Financial Officer since May 2004. He graduated in Public Accounting from the Universidad de Buenos Aires and holds an MBA from the Instituto de Altos Estudios Empresariales Universidad Austral. He joined Petrobras Energía in 1984. In 1990 he was appointed Head of the Financial Operations Department for Telecom. He worked as head of Petrobras Energía's money desk and in 1997 he was appointed Corporate Finance Manager, in charge of capital markets and project financing. In January 2000, he was appointed Chief Financial Officer of Edesur S.A. He served as Financial Manager at Petrobras Energía between May 2001 and May 2004. In addition, he currently serves as Chairman of Petrobras Hispano Argentina S.A. and Petrobras Energía Internacional S.A., and is member of the Board of Directors of Petrolera Entre Lomas S.A. and Petrobras Holding Austria AG.

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The following is a brief summary of the principal business and academic experience of each of our alternate directors: *Carlos Alberto Pereira de Oliveira (51)* has served as an alternate member of the Board of Directors of Petrobras Energía since 2009. In 1980 he graduated in Mechanical Engineering from the Instituto Militar de Ingenieria (Engineering Military Institute) in Rio de Janeiro and with a Bachelor's degree in Business Administration from UFRJ and in 1990 he received a Master Degree in Finance and Investment in Rio de Janeiro's Pontificia Universidad Catolica. In 1997, he completed a specialization in Oil Finances and Management at the University of Texas, Texas, USA. He joined Petrobras in 1981, and has worked in different operative areas and has held different executive positions. From 1999 to 2003, he served as Oil and Gas Exploration and Production Executive Manager. Between 2003 and 2008, he served as a member of the Board of Directors of Petrobras Energía, as Executive Director of Petrobras Energía's Oil and Gas Exploration and Production business segment, as a Chairman of the Board of Directors of Petrobras Energía Perú S.A., and as a member of the Board of Directors of Petrolera Entre Lomas S.A. In 2008, he became Executive Manager for Petrobras's International Businesses Technical Support division.

*Pedro Augusto Bonésio (54)* has served as an alternate member of the Board of Directors of Petrobras Energía since 2009. In 1978, he graduated in Mechanical Engineering from the Industrial Engineering School, São Bernardo dos Campos. In 1979, he joined Petrobras as Maritime, Terminal, and Pipeline Facilities Engineer. He designed basic and detailed Maritime Facilities, he developed Deep-Water Oil Production Technology, and worked as Land and Sea Production Development Project Manager. In 1999, he worked as CFO Assistant and in 2000 he was designed Project Financing Executive Manager. Since 2006, he has been the company's Corporate Finance and Treasury Executive Manager.

*Carlos Eduardo Sardenberg Bellot (54)* has served as an alternate member of the Board of Directors of Petrobras Energía since 2009. He graduated in Chemical Engineering from UFRJ in 1978. He joined Petrobras the same year. He also completed a postgraduate course in Processing Engineering from UFRJ, and a course in Corporate Management from Pontificia Universidad Catolica, Rio de Janeiro, Brazil. During his career within Petrobras, he has held important positions: Exploration and Production General Manager in Bolivia (2003-2005); Petrobras's president Assessor (2005-2008); Executive Manager, Supply Logistics (2008-present). In January 2008, he was elected member of Petrobras Transporte S.A.-Transpetro's Administrative Council, and in March 2008 he was appointed president of PMCC Proyectos de Transporte de Alcohol S.A.'s Administrative Council.

*André Lima Cordeiro (48)* has served as an alternate member of the Board of Directors of Petrobras Energía since 2009. In 1982, he graduated in Civil Engineering from the Instituto Militar de Ingenieria (Engineering Military Institute), Rio de Janeiro and in 1990, he graduated in Geology from Universidad Estadual de Rio de Janeiro. He joined Petrobras in 1983 and specialized in Oil Engineering. In 1995 he obtained an MBA Degree from UFRJ. From 1999 to 2003, he served as Chairman of TBG. From 2004 to 2006, he became Financial Director of CEG-RIO-a gas distribution company in Rio de Janeiro. In 2007 he worked as Petrobras's Oil Market Development General Manager. Since 2008, he has worked as Executive Manager for Petrobras's Natural Gas Logistics and Participations, Director of Gaspetro - Petrobras Gas S.A., and member of the Board of Directors of both TBG and Transportadora Asociada de Gas S.A.

*Carlos Alberto da Costa (55)* has served as an alternate member of the Board of Directors of Petrobras Energía and as Executive Director of Oil and Gas Exploration and Production business segment since 2009. He graduated in Geology from the Universidad Federal Rural de Rio de Janeiro and completed a Ph.D. in Geophysics from the Universidad Federal de Bahia, Brazil. He held different managing positions within Petrobras, among them: General Manager for Petrobras Argentina S.A., Vice-Chairman of MEGA S.A., Director of EG3 S.A., Business Coordinator of Venezuela, Exploration Manager of the International Area, and General Manager of Petrobras Uruguay's gas distributing companies. In addition, he is currently a member of the Board of Directors of Petrolera Entre Lomas S.A., Petrobras Energía Ecuador Ltd, Petrobras Energía de México S.A. de C.V., Petrobras Hispano Argentina S.A. and Petrobras Energía Colombia Ltd.

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*Héctor Daniel Casal (53)* has served as an alternate member of the Board of Directors of Petrobras Energía and since 2003 as Executive Director of Legal Affairs. He graduated in Law from the Universidad Católica Argentina in 1980. He joined Petrobras Energía in 1991. He also serves as Vice Chairman of the Board of Directors of Petrobras Energía Internacional S.A.; as a member of the Board of Directors of TGS, CIESA, Distrilec, Petrobras Energía Colombia Ltd, Petrobras Finance Bermuda and Petrobras Electricidad de Argentina S.A.; as Managing Director of Petrobras Financial Services Austria GMBH and Petrobras Holding Austria AG and as alternate Director of Edesur S.A. and Petrolera Entre Lomas S.A.

*Alejandro Poletto (36)* has served as an alternate member of the Board of Directors of Petrobras Energía since 2006. He graduated in Law from the Universidad Católica Argentina in 1998 and received a Master Degree in Law (LL.M.) from Cornell University Law School, Ithaca, New York. He has previous experience as an associate lawyer for the law firms Marval, O Farrell & Mairal, and Cárdenas, Cassagne & Asociados in Buenos Aires. He also worked as a foreign associate for Skadden, Arps, Slate, Meagher & Flom LLP's New York office. Since September 2007, he has been a partner with the law firm Fortunati & Asociados.

**Administration and Organization**

Petrobras Energía Participaciones's operations are conducted through Petrobras Energía. As such, Petrobras Energía Participaciones does not have any executive officers or independent management. Petrobras Energía's operations are divided into four business segments that are in turn supported by corporate functions. The four business segments are: Oil and Gas Exploration and Production, Refining and Distribution, Petrochemicals and Gas and Energy.

Petrobras Energía is managed by a committee made up of seven members: the Chief Executive Officer, the Chief Financial Officer, the Director of each business segment and the Director of Services. Operations are managed through standardized processes that facilitate and secure coordination between the different units and groups. Delegation of authority is encouraged for the purpose of promoting efficiency. In addition, the scope of the delegation of authority is clearly and expressly determined through systemized approval limits for risk minimization purposes. Our internal control system is supported by coordination among the areas responsible for managing businesses and administering them on a centralized basis, always within the framework of the policies established by the executive committee. Operating and administrative processes are jointly supported by administrative procedures, highly reliable information systems, production of periodic management control reports, performance appraisals and fluid communication.

**Petrobras Energía Executive Officers**

The table below sets out the names and positions of Petrobras Energía's executive officers:

<b>Name</b>	<b>Position</b>
Décio Fabrício Oddone da Costa	Chief Executive Officer
Luis Miguel Sas	Chief Financial Officer
Carlos Alberto da Costa	Director of Oil and Gas Exploration and Production Segment
Clóvis Corrêa de Queiroz	Director of Commercial Downstream Segment
Valdison Moreira	Director of Refining and Petrochemicals Segment
Claudio Fontes Nunes	Director of Gas and Energy Segment
Miguel Ángel Bibbó	Director of Services
Héctor Daniel Casal	Director of Legal Affairs
Juan Martín D Agostino	Executive Manager of Quality, Environmental and Safety Occupational Health
Pablo María Puíggari	Executive Manager of Communications
Alfredo Guía y Díaz	Executive Manager of Planning and Management Control
Juan Kranner	Executive Manager of Human Resources

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The following is a brief summary of the principal business and academic experience of Petrobras Energía's executive directors and executive officers of the Company (for the summary regarding those who are directors, see above).

*Clóvis Corrêa de Queiroz (57)* has served as Executive Director of the Commercial Downstream business segment since 2008. He graduated in Mechanical Engineering from UFRJ. He has participated in various executive training programs in several business schools, such as Cambridge University and Oxford University. He has held several managerial positions in Brazil, and more recently was Chairman of Petrobras Uruguay. He was also a member of the Board of Directors of Distribuidora de Gas de Montevideo S.A., Conecta S.A. and Petrobras Uruguay Distribución S.A. He is currently the Chairman of Eg3 Red S.A. and Eg3 Asfaltos S.A.

*Valdison Moreira (53)* has served as Executive Director of the Refining and Petrochemicals business segment since April 1, 2009. He graduated in Chemical Engineering in 1980 from UFRJ and obtained an MBA from the IBMEC of Sao Paulo, Brazil. He joined Petrobras in 1980 as a Petroleum Processing Engineer. He occupied several managerial positions for Petrobras in Brazil, such as Production Manager in the Henrique Lange Refinery (1985-1996) and General Manager in the Capuava Refinery (1996-1999), in the Gabriel Passos Refinery (1999-2000) and in the Paulinia Refinery (2001-2005). From 2008 to 2009, he served as Downstream Senior Vice Chairman in Petrobras America Inc. In addition, he serves as Vice Chairman at the Instituto Latinoamericano de Calidad. He is currently a member of the Board of Directors of Innova S.A. and Refinería del Norte S.A.

*Claudio Fontes Nunes (54)* has served as Executive Director of Gas and Energy business segment since 2008. He graduated in Civil Engineering specialized in Hydraulic Works from UFRJ. He specialized in Petroleum Engineering at Petrobras and he is a graduate of the Advanced Management Program from Harvard University. He joined Petrobras in 1980 and was in charge of Well Evaluation Operations, Projects Analysis, Contracts, Production Engineering, Engineering and Health, Safety and Environment. He is currently the Chairman of Petrobras Electricidad de Argentina S.A., Petrobras Finance Bermuda, CIESA, TGS and Edesur, the Vice Chairman of Distrilec, and an alternate member of the Board of Directors of Compañía Mega S.A.

*Miguel Angel Bibbó (53)* has served as Executive Director of the Services division since 2008. He graduated in Chemical Engineering in 1978 from Universidad Nacional del Sur (Bahía Blanca, Argentina) and in 1987 he received a Ph.D. in Chemical Engineering from the Massachusetts Technological Institute, Cambridge, USA. He taught as professor of the Universidad Nacional del Sur and Director of the Chemical Engineering Pilot Plant of Conicet Research Institute from 1987 to 1990. In 1990 he joined Petrobras Energía as Technical Assistance Manager of Petroquímica Cuyo S.A. He has participated in various executive training programs, such as: Executive Training Program (IDEA, 1994), Management Training Program (IAE, 1995), the Executive Program at the University of Michigan (1995) and the Executive Negotiation Workshop Bargaining for Advantage at the Wharton School of the University of Pennsylvania (1998). From 1996 to 2000 he served as General Manager of PASA Petroquímica Argentina S.A. Subsequently, he served as Country Manager for Petrobras Energía Venezuela S.A. until 2004. From November 2004 to March 2008 he served as Executive Manager of Petrochemicals and Fertilizers of Petrobras Energía and from December 2004 to February 2008 he served as Chairman of Innova S.A. From April 2006 to January 2008 he served as Director of Petroquímica Cuyo S.A. In addition, from 2005 to 2007 he represented Petrobras Energía as Director of APLA (Argentine Petrochemical Association) and IPA (Argentine Petrochemical Institute) and from 2005 to 2008 of CIQyP (Argentine Chamber of the Chemical and Petrochemical Industry).

*Juan Martín D Agostino (41)* has served as Executive Manager of Quality, Environmental and Safety Occupational Health since 2008. He graduated in Chemical Engineering from Universidad de Buenos Aires and obtained an MBA from the Graduate School of the Engineering Faculty at the Universidad de Buenos Aires. He joined Petrobras in 1992. In 2007, he served as Commercial Manager, Engineering Manager and Quality, Environmental and Safety Occupational Health Manager in the Commercial Downstream Business Unit.

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*Pablo María Puíggari (46)* has served as Executive Manager of Communications since 2005. He graduated in Law from Universidad de Buenos Aires. He completed postgraduate courses in Mass Communications at Boston University's College of Communications, where he received an Honorary Masters Degree. He has occupied several managerial positions in Petrobras Energía since joining the company in 2001, such as Institutional Relations Manager and Publicity Sponsorships Manager. From 1995 to 2000 he served as Institutional Relations and Communications Manager and Executive Manager for the Grupo Federal de Comunicaciones (including Telefé, Radio Continental and Telefé Internacional), ATA (Asociación de Teleradiodifusoras Argentinas) and Metro Red Telecomunicaciones S.R.L.

*Alfredo Sergio Guía y Díaz (52)* has served as Executive Manager of Planning and Management Control since 2008. He graduated in Economic Sciences with specialization in Business Administration from Universidad Nacional de La Plata. He joined Petrobras in 1997. He was responsible for the Planning and Management Control Department of the Refining and Petrochemicals business segment and for the Management Control Department of Oil and Gas Exploration and Production and Gas and Energy. He has served as a member of the Board of Directors of Petrobras Energía's controlled and related companies. He also has served as Performance Appraisal Manager for the Southern Cone Region within Petrobras International Area. He is currently a member of the Board of Directors of Petrolera Entre Lomas S.A., Petrobras Energía Internacional S.A., and Petrobras Holding Austria AG.

*Juan Kranner (55)* has served as the Executive Manager of Human Resources since December 2007. He obtained a degree in Human Resource Management and has completed postgraduate courses at the Executive Management Training Program at IAE Business School Austral University. He joined the Company in 2001 as Human Resources Manager at Petrobras Argentina, at the time the latter took over the assets and operations of Eg3 S.A.

**COMPENSATION**

Compensation of the members of the Board of Directors is determined at the Regular Shareholders Meeting in compliance with the Business Companies Law, No. 19,550. The maximum amount of compensation that the members of the Board of Directors may receive, including salaries and any other form of compensation for the performance of technical, administrative, or permanent functions, may not exceed 25% of our profits. Such amount is 5% in the event that no dividends are distributed to the shareholders and is increased pro rata on the basis of the dividend distribution, up to the 25% cap. In the event that one or more directors serve as members of a special committee or perform technical or administrative functions, and profits are reduced or non-existent, and, consequently, the preset limits are exceeded, compensation in excess of the limit may only be paid with the prior express approval by shareholders at a regular shareholders meeting.

In Petrobras Energía, the compensation policy for executive officers includes annual cash compensation and a benefits program. The annual cash compensation is determined based on the characteristics and responsibilities of the relevant position and the executive officer's qualifications and experience and benchmark information. Such compensation consists of a monthly fixed compensation and annual variable cash bonus dependent upon Petrobras Energía's results of operations and the achievement of individual goals and objectives. Benefits granted to executive officers are similar to those granted to employees generally, such as life insurance, health care plan, meal allowance and defined benefits pension plan, which are described in the Financial Statements.

No contracts for services were entered into between the directors and our company or any of our subsidiaries that provide for benefits after termination of their office, other than as provided by law.

In 2008, Petrobras Energía Participaciones and Petrobras Energía each paid an aggregate of approximately P\$0.4 million and P\$10.6 million, respectively, to their directors and executive officers. The members of the companies' respective Boards of Directors and Petrobras Energía's executives do not receive compensation in the form of stock or equity. For information related to amounts set aside for pension and retirement benefits, see Note 16 to the financial statements of Petrobras Energía and Note 14 to the financial statements of Petrobras Energía Participaciones.

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**BOARD PRACTICES**

**Audit Committee**

Pursuant to the Regime concerning Transparency in Public Offerings approved by Decree No. 677/01, Argentine public companies must have an Audit Committee composed of three or more members of the Board of Directors.

***Petrobras Energía Participaciones***

On May 21, 2003, the Petrobras Energía Participaciones Board of Directors approved the implementation process required under General Resolution No. 400/02 of the CNV, which sets forth the rules concerning the implementation and operation of the Audit Committee that must be provided for either in the company's internal regulations or bylaws. In compliance with the above resolutions, at the shareholders' ordinary meeting held on March 19, 2004, Petrobras Energía Participaciones approved an amendment to its bylaws adding a provision related to the structure and operation of the Audit Committee. On May 7, 2004, Petrobras Energía Participaciones Board of Directors created the Audit Committee. In addition, in compliance with its duties, the Audit Committee approved its Charter on May 14, 2004. As from January 1, 2009 and until the final dissolution without liquidation of Petrobras Energía Participaciones, Petrobras Energía's Board of Directors has taken over the management of Petrobras Energía Participaciones, with suspension of those in charge of the management until then. In this respect and as from the above referenced date, the members of Petrobras Energía's Audit Committee, exclusively composed of independent directors (three regular directors and one alternate director), assumed the Petrobras Energía Participaciones Audit Committee's responsibilities and duties.

***Petrobras Energía***

On May 21, 2003, the Petrobras Energía Board of Directors approved the implementation process required under General Resolution No. 400/02 of the CNV for Audit Committees. In compliance with these resolutions, at the shareholders' ordinary meeting held on March 19, 2004, Petrobras Energía approved an amendment to its bylaws adding a provision related to the structure and operation of the Audit Committee.

On May 7, 2004, the Board created the Audit Committee and, in compliance with its duties, the Audit Committee approved its Charter. At the Board of Directors meeting held on March 27, 2009, Cedric Bridger, Roberto Luis Monti and Roberto Alejandro Fortunati were appointed as regular members of the Audit Committee and Alejandro Poletto was appointed as an alternate member. Each of the members of the Audit Committee satisfies the independence requirements of Rule 10A-3 of the Exchange Act.

***Audit Committee Terms of Reference***

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities relating to (1) the company's financial statements, (2) compliance with applicable legal, regulatory and behavioral requirements, (3) qualification and independence of the independent external auditor that delivers an audit report on the company's financial statements (the Independent Auditor), and (4) the conduct of the internal audit and the Independent Auditor's performance.

The Audit Committee is composed of three regular directors and an equal or lower number of alternate members that are appointed by its respective Board of Directors from among its members. Directors having sufficient experience and ability in financial, accounting or business matters are eligible to become members of their respective Audit Committee. All members of the Audit Committee must be independent in accordance with applicable SEC standards and a majority must be independent in accordance with the standards of the CNV. See Directors and Senior Management Board of Directors. The Audit Committees may adopt their own internal regulations.

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Once per year the Audit Committee prepares a working plan with respect to the Audit Committee's goals and work schedule for the fiscal year to be reported to the Board of Directors. The remaining directors, members of the Statutory Syndic Committee, managers and external auditors may, at the Audit Committee's request, attend the Committee's meetings, assist the Committee and provide it with any information available to them. For a better performance of its duties, the Committee may retain, on the company's account, advisory services of counsel and other independent professionals. The Committee shall have access to the information and documentation deemed necessary for the fulfillment of its functions.

The Audit Committee has the following principal powers and responsibilities:

To supervise the performance of the internal control systems, the performance and reliability of the administrative and accounting system, the reliability of the financial statements and all the financial information and the disclosure of relevant events.

To establish and supervise the implementation of procedures for the reception, documentation and treatment of claims or reports on irregularities in connection with accounting, internal control or auditing matters, on a confidential and anonymous basis.

To issue founded opinions with respect to transactions with related parties as required by applicable law. To issue founded opinions whenever a conflict of interest exists or may arise for us and to communicate this opinion to self-regulated entities as required by the CNV.

To provide the market with complete information with respect to transactions where members of the corporate bodies and / or controlling shareholders of ours have conflicts of interests.

To opine with respect to the reasonableness of the compensation and stock option plans proposed by the Board of Director at the shareholders meetings.

To opine with respect to the compliance of legal requirements and on the reasonableness of proposals to issue shares or securities convertible into shares, in the case of capital increases that exclude or limit preemptive rights.

To issue at least once, at the time of submittal of the annual financial statements, a report on the treatment given during the year to the matters under its responsibility.

To issue an opinion on the proposal submitted by the respective Board of Directors for the appointment (or revocation) of the independent auditor and communicate it to the shareholders' meeting.

To evaluate the qualifications and independence of the independent auditors.

To issue and maintain pre-approval procedures in connection with any service (whether audit-related or not) to be provided by the independent auditor, under which the Committee will be exclusively authorized to pre-approve any service provided by the said Auditor.

To evaluate the quality of our accounting standards and the main changes to such accounting standards.

**Table of Contents****Compensation Committee**

In order to better supervise salary and compensation matters, the Board of Directors of Petrobras Energía created a Compensation Committee at its October 6, 2006 meeting. The main purpose of this committee is to assure the compliance with, and revise whenever necessary, policies relating to compensation that aim to provide the company with greater flexibility to make more effective decisions. The Committee meets monthly to approve matters relating to compensation policy, including compensation subject to our and the employee's performance. The Committee, composed of Directors Roberto Luis Monti, José Fernando de Freitas and Décio Fabrício Oddone da Costa, must report to the Board of Directors at least semiannually.

**Petrobras Energía Participaciones and Petrobras Energía Statutory Syndic Committee**

Both companies have a Statutory Syndic Committee that is comprised of three members and three alternate members. The composition of the Statutory Syndic Committee is the same for both companies.

The table below sets out the name, year of appointment and position of each person on the Petrobras Energía Participaciones and Petrobras Energía Statutory Syndic Committees, approved by the Ordinary Shareholders Meetings held on March 27, 2009:

<b>Name</b>	<b>First year of appointment</b>	<b>Position</b>
Juan Carlos Cincotta	2004	Member
Justo Federico Norman	2003	Member
Rogelio Norberto Maciel	2003	Member
Olga M. Morrone de Quintana	2004	Alternate
Mariana P. Ardizzone	2004	Alternate
María Laura Maciel	2004	Alternate

The members and alternate members of the Statutory Syndic Committee are elected by the shareholders at the annual shareholders meeting to serve for a renewable term of one year. The primary responsibilities of the Statutory Syndic Committee are to monitor the Board of Directors and management's compliance with the Business Companies Law, our by-laws and shareholders resolutions. The Statutory Syndic Committee also performs other functions, including: (1) attending meetings of the Board of Directors and shareholders, (2) calling special shareholders meetings when deemed necessary or when required by shareholders, in accordance with the Business Companies Law, No. 19,550, (3) presenting a report on the reports of the Board of Directors and the annual financial statements at regular shareholders meetings, and (4) investigating written complaints of shareholders representing not less than 2% of the capital stock. The Statutory Syndic Committee may not engage in any management control and, accordingly, may not evaluate business judgment and decisions on issues of administration, financing, sales and production, as these issues fall within the exclusive responsibility of the Board of Directors.

Justo Federico Norman, Rogelio Norberto Maciel, Mariana P. Ardizzone and María Laura Maciel are lawyers and work at Maciel, Norman & Asociados Law Office, which has professional relations with and charges fees to us, our controlling companies and other Petrobras Energía companies.

Olga M. Morrone de Quintana is a public accountant and works at Estudio Morrone de Quintana, Seoane & Quintana, which has professional relations with and charges fees to us and other Petrobras Energía companies.



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The following is a brief summary of the principal business and academic experience of the members of the Statutory Syndic Committee listed in the table above:

*Juan Carlos Cincotta (64)* graduated in Public Accounting from Universidad de Buenos Aires. He is currently a Head of Cincotta Asesores, Auditores y Consultores, and formerly a partner at Ernst & Young. He specializes in external audits of major public and private entities, and consulting in accounting, social and corporate governance issues. He is a member of the Special Commission on Accounting and Auditing Regulations (CENCyA) of the Federación Argentina de Consejos Profesionales de Ciencias Económicas and Member of the Developing Nations Committee of the International Federation of Accountants (IFAC). He is Vice President of the Public Accounting Professional Practice Commission of the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires. He is a frequent lecturer on topics within his special field of work in specialized entities in Argentina and overseas. He published several works on accounting, corporate and audit matters in different technical magazines.

*Justo Federico Norman (64)* earned his law degree from the Universidad Católica Argentina, and is a partner with the law firm of Maciel, Norman & Asociados in Buenos Aires. He has extensive experience in the general practice of law and in the fields of energy, natural resources, oil and gas regulations and environmental issues, and is renowned in the litigation and international arbitration fields. He is a member of the Association of International Petroleum Negotiators where he has served as Regional Secretary (2001-2004), the International Bar Association, and Rocky Mountain Mineral Law Foundation. He has represented and currently represents companies such as Anadarko Petroleum Corporation, ANR Pipeline Company (Coastal), Apache Corporation, BHP Petroleum (Americas) Inc., British Gas, Devon Energy Corporation, Parker Drilling, and Petroliam National Berhad (Petronas). He is a Regular Director of Petronas Argentina S.A. and Apache Petrolera Argentina S.A., among others.

*Rogelio Norberto Maciel (73)* earned his law degree from the Universidad de Córdoba, and is a founding partner of Maciel, Norman & Asociados Law Office. He is a renowned lawyer in the litigation and international arbitration fields. He was one of the members of the Argentine Aeronautical Code Drafting Committee and was a member of the Argentine delegation to the International Civil Aviation Association. He is a member of the Buenos Aires Oil Club, the Association of International Petroleum Negotiators, and the Rocky Mountain Mineral Law Foundation. He is Vice Chairman of Petronas Argentina S.A., a Regular Director of BHP Petroleum (Argentina) S.A. and an Alternate Director of Petrolera Rio Alto S.A., among others.

*Olga M. Morrone de Quintana (74)* is a partner of Morrone de Quintana, Seoane & Quintana. She graduated in Public Accounting from Universidad de Buenos Aires in 1965. She is currently a member of the Statutory Syndic Committee of Petrolera Entre Lomas S.A., Petrobras Energía Internacional S.A., World Energy Business S.A. and Propyme SGR.

*Mariana P. Ardizzone (37)* earned her law degree from the Universidad de Buenos Aires. She holds a Master of Laws from the University of Michigan a post-graduate degree in Business Administration and Electric Energy and Natural Gas Markets at the Instituto Tecnológico de Buenos Aires. She is a member of the Association of International Petroleum Negotiators and the Rocky Mountain Mineral Law Foundation. Since July 2001, she has been a lawyer with the law firm of Maciel, Norman & Asociados.

*María Laura Maciel (46)* earned her law degree from the Universidad Católica Argentina. She has completed postgraduate courses in Private International Law and in Aviation Law at American University in Washington D.C. (1986), and additional postgraduate courses with the International Association of Air Transportation, Montreal, Canada (2004). She is currently an associate attorney with the law firm of Maciel, Norman & Asociados.

Total compensation for the members of the Statutory Syndic Committee of Petrobras Energía Participaciones and Petrobras Energía in 2008 was P\$0.05 million and P\$0.3 million, respectively.

**Table of Contents****EMPLOYEES**

The following table sets forth the number of Petrobras Energía employees by business segment for the fiscal years ended December 31, 2008, 2007 and 2006.

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Oil and Gas Exploration and Production	856	813	959
Refining and Distribution	1,857	1,984	1,967
Petrochemical	1,197	1,272	1,278
Gas and Energy	119	118	111
Corporate	795	809	813
Total	4,824	4,996	5,128

As of December 31, 2008, approximately 41% of Petrobras Energía's workforce consisted of members of labor unions and had entered into collective bargaining agreements with the company and its subsidiaries. We have historically maintained good relations with our employees and labor unions. However, during 2008, we and other oil production companies in Argentina were engaged in collective bargaining with various unions representing workers engaged in production activities. Certain unions of private, senior and chemical oil workers were not subject to the general national framework governing conflict situations, which resulted in direct actions, such as strikes, that negatively affected the operations of many Argentine production companies, including us. Petrobras Energía actively participated in the bargaining and negotiation processes that led to the signing of new collective bargaining arrangements, which allowed us to carry out normal operations. During 2009, we have conducted different negotiations with unionized employees engaged in upstream operations in Argentina, which, in a scenario of economic contraction, were focused on maintaining jobs and workstreams.

Petrobras Energía maintains an employee defined contribution plan and two defined benefit pension plans. See Note 16 to the financial statements of Petrobras Energía and Note 14 to the financial statements of Petrobras Energía Participaciones.

**SHARE OWNERSHIP**

To our knowledge, none of our directors or members of our senior management owns more than 1% of either Petrobras Energía Participaciones or Petrobras Energía's outstanding shares.

**Table of Contents****Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****MAJOR SHAREHOLDERS OF PETROBRAS ENERGÍA PARTICIPACIONES**

Petrobras Energía Participaciones' s share capital consists of 2,132,043,387 Class B shares, which have a nominal value of P\$1.00 and are entitled to one vote per share.

On October 17, 2002, Petrobras Participaciones, S.L (formerly Petrobras Participações S.L.), a wholly owned subsidiary of Petrobras, acquired 58.6% of Petrobras Energía Participaciones' capital stock from the Perez Companc Family and Fundación Perez Companc. Prior to that date, the Perez Companc family, together with Fundación Perez Companc, had owned at least half of the share capital issued by Petrobras Energía Participaciones.

The table below sets forth certain information with respect to the ownership of Petrobras Energía Participaciones' s capital stock by each person who is known to us to be the owner of more than 5% of such shares.

Shareholder	Class B Shares	
	Number of Shares	% of the Total Outstanding Shares
Petrobras Participaciones S.L.	1,249,716,746	58.6% <sup>(1)</sup>
ANSES	198,232,018	9.3% <sup>(2)</sup>

(1) Holdings as of May 31, 2009.

(2) Holdings on the Buenos Aires Stock Exchange as of May 31, 2009. Does not reflect 101,519,540 Class B shares that were held by private pension funds in the form ADRs on the NYSE as of October 31, 2008, for which more recent statistics on holdings are unavailable. See the paragraph below for more information on these holdings.

On November 20, 2008, the Argentine Congress passed Law No. 26,425 unifying the Argentine pension and retirement system into a system publicly administered by the National Social Security Agency (*Administración Nacional de la Seguridad Social*), or ANSES, eliminating the retirement savings system previously administered by private pension funds under the supervision of a governmental agency. In accordance with the new law, private

pension funds transferred all of the assets administered by them under the retirement savings system to ANSES. These transferred assets included 280,247,075 Class B shares of Petrobras Energía Participaciones. ANSES is subject to the same investment rules, prohibitions and restrictions that were applicable to the Argentine private pension funds under the retirement savings system, including Sections 75 and 76 of Law 24,241, which limited the voting rights of private pension funds in shareholders' meetings to 5% of the relevant company's shares. ANSES's votes at the Shareholders Meetings on January 30, 2009 and March 27, 2009 were limited to 5% of the total outstanding votes of Petrobras Energía Participaciones.

On May 31, 2009, there were approximately 46.6 million ADSs outstanding, which represented approximately 21.9% of the total number of issued and outstanding Class B shares as of May 31, 2009. We have been informed by the depositary that there were approximately 58 U.S. holders of record in the United States, who held approximately 6.8% of the total number of issued and outstanding Class B shares, as of May 31, 2009.

#### **MAJOR SHAREHOLDERS OF PETROBRAS ENERGÍA**

Petrobras Energía's share capital consists of 1,009,618,410 Class B shares, which have a nominal value of P\$1.00, and are each entitled to one vote per share.

On January 25, 2000, PEPSA, at that time controlled by members of the Perez Companc family, acquired control of Petrobras Energía as a result of an exchange offer, increasing its ownership interest in Petrobras Energía to 98.21%. On October 17, 2002, Petrobras Participaciones, S.L., a wholly owned subsidiary of Petrobras, acquired from the Perez Companc family and Fundación Perez Companc their entire ownership interest, or 58.6%, in the capital stock of PEPSA.

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Petrobras' s proportional, direct and indirect ownership interest in Petrobras Energía increased to 67.2% in January 2005, when Petrobras' s Argentine subsidiaries, Eg3, PAR and PSF were merged into Petrobras Energía. In January 2009, the shareholders of Petrobras Energía and Petrobras Energía Participaciones approved the merger of these two companies, whereby Petrobras Energía Participaciones would be merged into and absorbed by the surviving company, Petrobras Energía. Immediately following this merger, Petrobras, through its subsidiary Petrobras Participaciones S.L., will continue to hold 67.2% of the outstanding shares of Petrobras Energía.

The table below sets forth certain information as of May 31, 2009 with respect to the ownership of Petrobras Energía' s capital stock by each person who is known to us to be the owner of more than 5% of such shares.

<b>Shareholder</b>	<b>Class B Shares</b>	
	<b>Number of</b>	<b>% of the Total</b>
	<b>Shares</b>	<b>Outstanding</b>
Petrobras Energía Participaciones S.A.	765,435,847	75.8%
Petrobras Participaciones S.L.	229,728,550	22.8%

As of May 31, 2009, there were no known U.S. holders of Petrobras Energía' s capital stock, except for those who held an indirect interest in such stock through their interest in Petrobras Energía Participaciones, as reported above.

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**RELATED PARTY TRANSACTIONS**

The following related party transactions relate solely to Petrobras Energía. Except for the financial agreement entered with Petrobras Energía, which is mentioned below, Petrobras Energía Participaciones has not entered into contracts with any related party.

Related party transactions are carried out in the ordinary course of our operations at market conditions. We believe that the terms of these transactions are comparable to those offered by or that could be obtained from non-related third parties.

We have entered into several financing arrangements with subsidiaries of Petrobras, as explained below.

In April 2009, we sold our 60% remaining equity interest in PVIE, a holding company whose main asset is the ownership of 99.79% of the capital stock of Petrobras Energía Perú S.A., to PIB BV, for total consideration of US\$619.4 million. As a result of this transaction, we recognized an income before income tax on the sale of approximately P\$1.6 billion.

In February 2008, we loaned US\$300 million to PIB BV, maturing in July 2008, accruing interest at the one-month LIBOR rate, plus 0.15%. The loan was partially renewed at maturity. In December 2008, the loan was renewed pursuant to two new loan agreements entered into between PIB BV, Petrobras Energía, and a Petrobras Energía subsidiary, Petrobras Holding Austria AG, both maturing in December 2009, which can be paid in advance at our request. As of December 31, 2008 the outstanding balance on the loans totaled US\$120 million.

In December 2007, we sold the initial 40% of our equity interest in PVIE to PIB BV for a sale price of US\$423.3 million plus a contingent compensation to be defined between the parties in the event of a commercial discovery in the Kinteroni prospect in Lote 57. This contingent compensation, if any, has not yet been determined. As a result of this transaction, we recognized a gain of P\$1,014 million as of December 31, 2007.

In November 2007, we sold 73.15% of our rights and obligations in the Bajada del Palo area to Petrolera Entre Lomas S.A.

In 2007, we issued US\$300 million Series S Notes under the US\$2.5 billion Global Note Program. Payments under the Series S Notes are supported by a standby purchase agreement provided by Petrobras.

In 2007, we acquired from Petrobras Transporte S.A. (Transpetro) a double-hulled vessel for a purchase price of US\$25 million. The purpose of the acquisition was to reduce our logistics costs, meet current and future logistical needs, enhance Quality, Safety, Environmental and Health standards in connection with vessel-related operations and reduce our vulnerability to limited market supply for transportation needs, in addition to the advantages represented by the technical management of vessels provided by Transpetro.

In 2005, we entered into a US\$200 million loan facility with PIB BV. This loan has a term of ten years and bears interest at an annual interest rate of 7.22%, plus taxes. The proceeds of this loan were used to prepay in part the Series K and M Notes. This loan can be prepaid at any time without penalties.

In addition, in the ordinary course of business, we enter into transactions with Petrobras subsidiaries to import and export crude oil and related oil products, at determinable market prices and terms, primarily with Petrobras International Finance Co. These sales are undertaken in the ordinary course of business and at determinable market terms and prices.

Brasken, an affiliate of Petrobras formerly known as Copesul, supplies Innova with the benzene and ethylene necessary for ethylbenzene production.

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As of December 31, 2008, Petrobras Energía maintains a loan facility with Petrobras Energía Participaciones, which totaled P\$46 million, accruing interest at a fixed rate of 7%.

The outstanding balances from transactions with related companies, (including companies under joint control) as of December 31, 2008, 2007 and 2006 are as follows (in millions of pesos):

Company	2008									
	Investments	Trade Receivables	Current Other Receivables	Accounts Payable	Other Liabilities	Loans	Other Receivables	Non-current Investments	Accounts payable	Loans
Oleoducto de Crudos Pesados Ltd.				2				136		
Transportadora de Gas del Sur S.A.		23	2	31						
Refinería del Norte S.A.		28	1	19						
Petrobras International Finance Co.		25	2	33						
Petróleo Brasileiro S.A. - Petrobras		8	1	60	12					
Petrolera Entre Lomas S.A.				18					26	
Propyme SGR								5		
Petrobras Internacional - Braspetro B.V.	414		194		31	18				688
Petrobras de Valores Internacional de España S.L.	5		59			58				
Petrobras Energía Participaciones S.A.	46									
Other		11	16	1	7		3		6	
<b>Total</b>	<b>465</b>	<b>95</b>	<b>275</b>	<b>164</b>	<b>50</b>	<b>76</b>	<b>3</b>	<b>147</b>	<b>26</b>	<b>688</b>

Company	2007									
	Investments	Trade Receivables	Current Other Receivables	Accounts Payable	Other Liabilities	Loans	Other Receivables	Non-current Investments	Accounts payable	Loans
Oleoducto de Crudos Pesados Ltd.								133		
Transportadora de Gas del Sur S.A.		4	4	5						
Refinería del Norte S.A.		9	5	10						
Petrobras International Finance Co.		85		28						
Petróleo Brasileiro S.A. - Petrobras		3	2	59	11		3			
Petrolera Entre Lomas S.A.				49					22	
Propyme SGR								6		
Petrobras Internacional - Braspetro B.V.			1,492			178				630
Compañía Mega S.A.			12							
Petrobras Transporte S.A. - Transpetro				79						
Petrobras de Valores Internacional de España S.L.			96			128				
Petrobras Energía Participaciones	38									
Other		5	10	3	4		2		4	
<b>Total</b>	<b>38</b>	<b>106</b>	<b>1,621</b>	<b>233</b>	<b>15</b>	<b>306</b>	<b>5</b>	<b>143</b>	<b>22</b>	<b>630</b>





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Company	2006									
	Investments	Current			Other Liabilities	Other Loans	Non-current			
		Trade Receivables	Other Receivables	Accounts Payable			Receivables	Investments payable	Accounts payable	Loans
Petroquímica Cuyo S.A.I.C.		11	2			6				
Oleoducto de Crudos Pesados Ltd.								138		
Petrobras Bolivia Refinación S.A.		6								
Transportadora de Gas del Sur S.A.		10	12	9						
Refinería del Norte S.A.		7	12	7						
Petrobras International Finance Co.		57								
Petróleo Brasileiro S.A. - Petrobras		4	5	33	11		3			
Petrolera Entre Lomas S.A.				51					20	
Propyme SGR Petrobras								6		
Internacional Braspetro B.V.			76	2		20			768	
Petrobras Energía Participaciones	33									
Other		1	10	5	16		2	3		
<b>Total</b>	<b>33</b>	<b>96</b>	<b>117</b>	<b>107</b>	<b>27</b>	<b>26</b>	<b>5</b>	<b>147</b>	<b>20</b>	<b>768</b>

The main transactions with related companies (including companies under joint control) for the fiscal years ended December 31, 2008, 2007 and 2006 are as follows (in million of pesos):

Company	2008		2007		2006	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
Oleoductos del Valle S.A.	18		21		23	
Transportadora de Gas del Sur S.A.	153	165	108	35	40	34
Refinería del Norte S.A.	93	43	91	5	132	53
Petrobras International Finance Co.	224	2,072	426	1,942	101	1,428
Petroquímica Cuyo S.A.		71		5		
Petrolera Entre Lomas S.A.	478	1	454	1	440	1
Petróleo Brasileiro S.A.	108	20	95	17	102	14
Petrobras Bolivia Refinación S.A.				10		33
Brasken (Copesul)	1,252		1,247		1,032	
Compañía Mega S.A.		5				

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Petrobras Uruguay Distribución S.A.		15				
Petroquímica Cuyo S.A.						33
Petrobras Transporte S.A. Transpetro			79			
Petrobras Paraguay Refinación Ltd.				95		42
Total	2,326	2,392	2,521	2,110	1,870	1,638

We have not entered into any other material related party transactions.

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**Item 8. FINANCIAL INFORMATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

See Item 18. Financial Statements .

**LEGAL PROCEEDINGS**

Petrobras Energía is involved in various litigation and regulatory proceedings arising in the ordinary course of its business. Petrobras Energía does not believe that any of these proceedings is material to its operations or financial condition. For information on litigation concerning its subsidiary, CIESA, see Item 5. Operating and Financial Review and Prospects Factors Affecting our Consolidated Results of Operations Regulation of the Energy Industry in Argentina CIESA's debt restructuring process.

Petrobras Energía Participaciones is not independently involved in any litigation or regulatory proceedings.

**DIVIDENDS**

Both Petrobras Energía and Petrobras Energía Participaciones may only pay dividends from their retained earnings that are reflected in their annual audited financial statements as approved at their respective annual general regular shareholders' meetings. Payment of cash dividends by Petrobras Energía depends upon the company's financial position, results of operations, cash requirements (including capital expenditures and payments of debt service), retained earnings minimum requirements and other requirements imposed by Argentine law and upon any other factors deemed relevant by its Board of Directors for the purpose of resolving upon the declaration of dividends. Petrobras Energía Participaciones, as a holding company, only pays dividends when these requirements are met and when it receives a dividend from Petrobras Energía.

While the Board of Directors of either company may declare interim dividends pursuant to an audited interim-period financial statement, the Board of Directors of either company or the Statutory Audit Committee would be jointly and severally liable for any payments made in excess of retained earnings at fiscal year closing. The declaration, amount and payment of dividends to shareholders are subject to approval by a regular shareholders' meeting.

Under the bylaws of both Petrobras Energía and Petrobras Energía Participaciones, net income shall be allocated as follows: a) 5% to a legal reserve, until it equals 20% of outstanding capital; b) to compensation of the members of the Board of Directors and Statutory Syndic Committee; c) to dividends on preferred stock, if any, and then to dividends on common stock or to a voluntary reserve, or to a new account, or as otherwise determined by the shareholders meeting. Dividends shall be paid within the year of their declaration and distributed pro rata to the number of common shares held by each shareholder.

Holders of American Depositary Shares, or ADSs, of either Petrobras Energía or Petrobras Energía Participaciones will be entitled to receive any dividends payable in respect of their respective underlying Class B shares. Both companies either pay or will pay cash dividends to the depositary in pesos, although either reserves the right to pay cash dividends in any other currency, including U.S. dollars. Both companies' deposit agreements provide that the depositary will convert cash dividends received by the depositary in pesos to U.S. dollars and, after a deduction or upon payment of fees and expenses of the depositary and any applicable taxes, will make payment to holders of the applicable ADSs in U.S. dollars.

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Under Law No. 25,063, any dividends distributed, in cash or in kind, in excess of the taxable income accumulated as of the year-end immediately prior to the respective payment or distribution date, will be subject to a thirty-five percent income tax withholding, as single and definitive payment. For this purpose, taxable income is deemed to be that resulting from adding the income as determined under the general provisions of the income tax law and the dividends or income obtained from other corporations not taken into account in determining the former for the same tax period or periods.

In compliance with the resolutions adopted at the General Shareholders Meetings held on March 28, 2008 and March 30, 2007, in 2008 and 2007 Petrobras Energía Participaciones paid interim cash dividends in the amount of P\$239 million and P\$141 million, respectively. The Regular Shareholders Meetings held on March 27, 2009 and March 28, 2008, respectively, confirmed such dividend.

The Petrobras Energía General Shareholders Meeting held on March 27, 2009, approved a Reserve for Future Dividends in an aggregate amount of P\$380 million, and delegated to the Board of Directors the ability to determine the dividend distribution date and amount during the period between the incorporation of Petrobras Energía Participaciones shareholders as shareholders of Petrobras Energía (after registration of the Merger of Petrobras Energía and Petrobras Energía Participaciones with the Public Registry of Commerce) and the date of the next Regular Shareholders Meeting to be held in connection with fiscal year ending December 31, 2009. This dividend distribution will be made taking into account our course of operations, operating results, investment programs, financial position and funds availability, among other factors deemed relevant to the development of Petrobras Energía's business.

In addition, pursuant to the resolutions adopted at the General Shareholders Meetings held on March 28, 2008 and March 30, 2007, Petrobras Energía paid cash dividends in the amount P\$315 million and P\$186 million in 2008 and 2007, respectively.

**Table of Contents****Item 9. OFFER AND LISTING****Petrobras Energía**

The Petrobras Energía American Depositary Shares (the ADSs), each representing ten Class B shares of Petrobras Energía, will be listed on the NYSE following the completion of the merger and exchange of shares between Petrobras Energía and Petrobras Energía Participaciones. This listing has not been completed as of the date of this annual report, pending the final completion of regulatory approvals in Argentina for the merger. Once the merger is complete, the Petrobras Energía Participaciones ADSs will be removed from listing with the NYSE and will be removed from registration with the SEC. It is anticipated that the Petrobras Energía ADSs will continue to trade on the NYSE under the trading symbol PZE following the merger, and that such ADSs will be issued by Citibank, N.A. as depository. No trading history is available for the Petrobras Energía ADSs in the United States. However, the Petrobras Energía Class B shares have been listed on the Buenos Aires Stock Market under the trading symbol PESA since 1956. The following table sets forth, for the periods indicated, the high and low closing sales price of the Petrobras Energía Class B shares on the Buenos Aires Stock Market:

	Class B share <sup>(1)</sup>	
	High	Low
<b>Full Year</b>		
<b>2004</b>	9.9	6.4
<b>2005</b>	10.4	6.8
<b>2006</b>	9.2	7.1
<b>2007</b>	10.1	7.0
<b>2008</b>	13.1	6.3
<b>Quarterly</b>		
<b>2007</b>		
First Quarter	8.5	7.2
Second Quarter	8.6	7.1
Third Quarter	9.1	7.0
Fourth Quarter	10.1	7.9
<b>2008</b>		
First Quarter	13.1	8.5
Second Quarter	11.6	9.0
Third Quarter	10.0	8.1
Fourth Quarter	8.4	6.3
<b>Monthly</b>		
January 2009	7.0	6.3
February 2009	6.7	6.3
March 2009	6.0	5.2
April 2009	6.4	6.0
May 2009	7.0	6.7
June 2009 <sup>(2)</sup>	6.5	6.0

(1) Amounts expressed in Argentine pesos.

(2) From June 1, 2009 through June 19, 2009.



**Table of Contents****Petrobras Energía Participaciones**

As of the date of filing of this annual report, PEPSA ADSs, each representing ten Class B shares of Petrobras Energía Participaciones are listed on the NYSE under the trading symbol PZE . The Petrobras Energía Participaciones ADSs were first listed on the NYSE on January 26, 2000. Class B shares of Petrobras Energía Participaciones were first listed on the Buenos Aires Stock Market on January 26, 2000, and trade under the symbol PBE . The following table sets forth, for the periods indicated, the high and low closing sales price of the ADSs on the NYSE and the Class B shares on the Buenos Aires Stock Market for Petrobras Energía Participaciones:

	ADS <sup>(1)</sup>		Class B share <sup>(2)</sup>	
	High	Low	High	Low
<b>Full Year</b>				
<b>2003</b>	11.25	6.52	3.34	1.99
<b>2004</b>	14.14	8.80	4.13	2.65
<b>2005</b>	16.28	10.95	4.64	3.20
<b>2006</b>	13.33	9.85	4.08	3.02
<b>2007</b>	14.75	8.27	4.09	2.61
<b>2008</b>	16.00	4.51	5.13	1.63
<b>Quarterly</b>				
<b>2007</b>				
First Quarter	12.12	9.90	3.70	3.02
Second Quarter	11.63	10.27	3.52	3.14
Third Quarter	12.14	8.27	3.69	2.61
Fourth Quarter	14.75	9.83	4.09	3.13
<b>2008</b>				
First Quarter	16.00	10.31	5.13	3.37
Second Quarter	14.54	11.65	4.73	3.69
Third Quarter	11.95	8.61	3.85	2.75
Fourth Quarter	10.35	4.51	3.25	1.63
<b>Monthly</b>				
December 2008	7.14	5.48	2.46	1.96
January 2009	7.50	6.22	2.61	2.27
February 2009	7.23	5.02	2.49	2.00
March 2009	6.15	4.57	2.31	1.81
April 2009	6.44	5.69	2.40	2.16
May 2009	6.94	5.08	2.60	2.08
June 2009 <sup>(3)</sup>	6.03	5.56	2.33	2.22

(1) Amounts expressed in U.S. dollars.

(2) Amounts expressed in Argentine pesos.

- (3) From June 1,  
2009 through  
June 19, 2009.



**Table of Contents****MARKETS****Buenos Aires Stock Market**

The Buenos Aires Stock Market, which is affiliated with the Buenos Aires Stock Exchange, is the largest stock market in Argentina. The Buenos Aires Stock Market is a corporation whose shareholder members are the only individuals and entities authorized to trade in the securities listed on the Buenos Aires Stock Exchange. Trading on the Buenos Aires Stock Exchange floor is conducted by continuous open outcry and a computer-based trading system called SINAC from 11:00 a.m. to 5:00 p.m. each business day. The Buenos Aires Stock Exchange also operates an electronic trading market system from 11:00 a.m. to 5:00 p.m. each business day.

To control price volatility, the Buenos Aires Stock Market operates a system by which the trading of a security is suspended for 15 minutes whenever the price of such security changes 15% from its last closing price. Once the 15 minutes have elapsed, trading is resumed. From that point on during a trading day, trading will be suspended for 10 minutes whenever the trading price changes 5% from the last suspended price.

Certain information regarding the Argentine equities market is set forth in the table below:

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Market capitalization (billions of pesos)	1,233	1,773	1,229	771	690	543.3	348.1
As percent of GDP <sup>(1)</sup>	122%	227%	183%	145%	152%	144%	111%
Volume (in millions of pesos)	21,049	23,001	16,089	19,938	14,113	8,844	4,117
Average daily trading volume (in millions of pesos)	85.22	93.12	64.89	79.12	56	35.52	17.5
Number of listed companies <sup>(1)</sup>	91	93	86	87	85	110	117

<sup>(1)</sup> End-of-period figures for trading on the Buenos Aires Stock Exchange.

Source: Bolsa de Comercio de Buenos Aires, CNV and Instituto Argentino de Mercado de Capitales.

**Table of Contents****Item 10. ADDITIONAL INFORMATION****MEMORANDUM AND ARTICLES OF ASSOCIATION****Petrobras Energía Participaciones*****Registration and Merger***

The bylaws (*estatutos sociales*) of Petrobras Energía Participaciones were registered with the General Board of Corporations (*Inspección General de Justicia*) ( IGJ ) on January 6, 1999 under N. 265, Book 4, Volume of Corporations. Amendments to the bylaws were authorized and registered as amended with the Public Registry of Commerce as follows: (1) November 4, 1999, under N. 16,283, Book 7, Volume of Corporations; (2) July 6, 2000 under N. 9,534, Book 11, Volume of Corporations; (3) July 31, 2000, under N. 11,102, Book 12, Volume of Corporations; (4) October 26, 2000 under N. 16,086, Book 13, Volume of Corporations; (5) February 14, 2003 under N. 2172, Book 20, Volume of Corporations; (6) July 4, 2003 under N. 9,190, Book 22, Volume of Corporations; (7) August 22, 2003 under N. 11893, Book 22, Volume of Corporations; (8) June 23, 2004, under N. 7632, Book 25, Volume of Corporations; and (9) August 17, 2005, under N. 8492, Book 28, Volume of Corporations.

The dissolution of Petrobras Energía Participaciones is currently under consideration by the IGJ, in connection with the merger by absorption of the company with Petrobras Energía. The merger was approved by the respective shareholder meetings of Petrobras Energía Participaciones and Petrobras Energía held on January 30, 2009, and authorized by the CNV pursuant to Resolution Nos. 16,130 and 16,131. On January 1, 2009, the management operations of the Board of Directors of Petrobras Energía Participaciones were suspended automatically, and the Board of Directors of Petrobras Energía assumed its duties and responsibilities. Upon registry of the merger with the Public Registry of Commerce, the Board of Directors of Petrobras Energía shall assume full control of the surviving company.

Upon effectiveness of the merger, which will occur upon registration of the merger and the dissolution of Petrobras Energía Participaciones by the IGJ, Petrobras Energía Participaciones shareholders will receive 0.359015136 Class B common shares of Petrobras Energía with par value of P\$1.00, entitled to one vote, for each share of Petrobras Energía Participaciones held. All Petrobras Energía shares outstanding at the effective time of the merger (other than those held by Petrobras Energía Participaciones) will remain outstanding following effectiveness of the merger. Based on the number of Petrobras Energía Participaciones shares issued, Petrobras Energía expects to issue 765,435,847 Petrobras Energía shares to Petrobras Energía Participaciones shareholders in the merger. Application has been made to the relevant authorities for the admission of the Petrobras Energía shares (including, if relevant, the existing issued Petrobras Energía shares) to trading on the Buenos Aires Stock Exchange ( BASE ). Application will be made to the NYSE to admit the Petrobras Energía shares for listing and trading in the form of American Depositary Shares. Immediately following the effectiveness of the merger and the capital reduction to cancel Petrobras Energía Participaciones shares of Petrobras Energía, former Petrobras Energía Participaciones shareholders are expected to hold Petrobras Energía shares representing approximately 75.8% of the then-issued Petrobras Energía shares.

***Objects and Purposes***

Section 3 of the Petrobras Energía Participaciones bylaws states that the purpose of the company is to do business as an investment company, either on the company's own account, or on account of or in association with third parties, investing money in its own securities transactions and/or making capital contributions to firms or business and industrial companies either existing at present or to be organized in the future, in order to agree on any present or future business, acquire and sell shares, bonds and debentures, act as guarantor, provide sureties, guarantees and bonds in favor of third parties, and make financial transactions granting loans and payment facilities whether or not secured by a real estate security interest, expressly excluding those activities prohibited under the Financial Entities Law (*Ley de Entidades Financieras*). To this effect, Petrobras Energía Participaciones has full legal capacity to acquire rights, incur obligations and perform any and all acts not prohibited by the law or its bylaws.

**Table of Contents*****Provisions of the Bylaws Relating to Directors***

Section 9 of the Petrobras Energía Participaciones bylaws states that the Board of Directors shall hold a meeting with the majority of its members present at the meeting, whether in person or remotely as long as they can each communicate among themselves through other means of simultaneous sound, image or word transmission, and shall adopt resolutions by the majority of the votes present thereat, including remote participants. According to the bylaws, in the event any member of the Board refrains from voting on account of having a conflict of interest or material interest in the matter at hand, the Board shall adopt resolutions by a majority of the members who did not refrain from voting for such reason. Participation and vote of remote participants as well as all transmission data shall be registered in the minutes of the meetings. Argentine Companies Law requires that directors refrain from voting on matters in which such director may have a conflict of interest.

**Petrobras Energía*****Registration and Merger***

The Petrobras Energía bylaws (*estatutos sociales*) were authorized by Decree N. 17105 of the Federal Executive Branch dated June 18, 1947, and registered with the IGJ on November 17, 1947 under No. 759, Page 569, Book 47, Volume A of Argentine Bylaws. Amendments to the bylaws were authorized as indicated below, and registered as amended with the Public Registry of Commerce as follows: (1) as amended and authorized by Decree N. 29,460 of the Federal Executive Branch dated September 24, 1948, and registered on May 27, 1949, under N. 369, Page 332, Book 48, Volume A, of Argentine Bylaws; (2) as amended and authorized by Decree N. 10,460 of the Federal Executive Branch dated June 24, 1954, and registered on October 4, 1954, under N. 1,323, Page 508, Book 49, Volume A, of Argentine Bylaws; (3) as amended and authorized by Decree N. 3,789 of the Federal Executive Branch dated February 28, 1956, and registered on September 5, 1956, under N. 1,686, Page 238, Book 50, Volume A, of Argentine Bylaws; (4) as amended and authorized by Decree N. 3,773 of the Federal Executive Branch dated August 11, 1958, and registered on March 2, 1959, under N. 289, Page 391, Book 51, Volume A of Argentine Bylaws; (5) as amended and authorized by Decree N. 5,405 of the Federal Executive Branch dated June 12, 1962, and registered on September 28, 1962, under N. 2,161, Page 347, Book 55, Volume A of Argentine Bylaws; (6) as amended and authorized by Resolution issued by PJ (Board of Legal Entities) N. 001129, Ministry of Education and Justice, dated June 19, 1963, and registered on September 24, 1963, under N. 1,656, Page 109, Book 58, Volume A of Argentine Bylaws; (7) as amended and authorized by IGJ Resolution N. 6,307, Ministry of Justice, dated March 13, 1970, and registered on May 14, 1970, under N. 1,782, Page 56, Book 72, Volume A of Argentine Stock Corporations Bylaws; (8) as amended and authorized by I.G.P.J. (Board of Legal Entities) Resolution N. 2,116, Superintendent of Legal Entities, dated April 29, 1971, and registered on July 7, 1971, under N. 2,286, Page 287, Book 74, Volume A of Argentine Stock Corporations Bylaws; (9) as amended and authorized by I.G.P.J. (Board of Legal Entities) Resolution N. 2,687, Superintendent of Legal Entities, dated August 28, 1972, and registered on December 28, 1972, under N. 4,555, Page 479, Book 77, Volume A of Argentine Stock Corporations Bylaws; (10) as amended and registered on November 16, 1976, under N. 3,917, Book 84, Volume A of Argentine Stock Corporations Bylaws; (11) as amended and registered on July 8, 1977, under N. 2,237, Book 87, Volume A of Argentine Stock Corporations Bylaws; (12) as amended and registered on December 21, 1978, under N. 4,912, Book 88, Volume A of Argentine Stock Corporations Bylaws; (13) as amended registered on December 6, 1979, under N. 4,401, Book 90, Volume A of Argentine Stock Corporations Bylaws; (14) as amended and registered on March 25, 1981, under N. 1,105, Book 97, Volume A of Stock Corporations; (15) as amended registered on February 21, 1983, under N. 545, Book 98, Volume A of Argentine Stock Corporations; (16) as amended and registered on March 21, 1984, under N. 1,551, Book 99, Volume A of Stock Corporations; (17) as amended and registered on March 31, 1986, under N. 1,739, Book 101, Volume A of Stock Corporations; (18) as amended and registered on January 22, 1992, under N. 372, Book 110, Volume A of Stock Corporations; (19) as amended and registered on October 3, 1995, under N. 9223, Book 117, Volume A of Stock Corporations; (20) as amended registered on November 11, 1996, under N. 11,209, Book 120, Volume A of Stock Corporations; (21) as amended and registered on May 15, 1997, under N. 4894, Book 121, Volume A of Stock Corporations; (22) as amended and registered on June 11, 1998 under N. 3812, Book 1, Volume of Corporations; (23) as amended and registered on July 14, 2000 under N. 10116, Book 11, Volume of Corporations; (24) as amended and registered on October 26, 2000 under N. 16073, Book 13, Volume of Corporations; (25) as amended and

registered on September 3, 2002, under N. 9737, Book 18, Volume of Corporations; (26) as amended and registered on February 12, 2003, under N. 2042, Book 19, Volume of Corporations; (27) as amended and registered on July 4, 2003, under N. 9191, Book 22, Volume of Corporations; (28) as amended and registered on August 22, 2003, under N. 11892, Book 22, Volume of Corporations; (29) as amended and registered on May 3, 2004, under N. 5377, Book 24, Volume of Corporations; (30) as amended and registered on November 29, 2004 under N. 15158, Book 26, Volume of Corporations; (31) as amended and registered on June 30, 2005 under N. 7618, Book 28, Volume of Corporations; (32) as amended and registered on January 26, 2009 under N. 1537, Book 43, Volume of Corporations; and (33) as adopted by the extraordinary and regular shareholder meeting held on January 30, 2009, and to be registered in the Volume of Corporations.

The company's respective shareholders and the CNV have approved the merger of Petrobras Energia and Petrobras Energía Participaciones, and the registration of the merger is under consideration by the IGJ, as discussed above.

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***Objects and Purposes***

Section 3 of the Petrobras Energía bylaws states that the objectives and purpose of the company are to do and engage in the following:

a) perform the following operations:

- 1) explore, exploit, prospect for, detect, bore and drill hydrocarbon and any other kind of wells, as well as carry out activities related to mining extraction in general;
- 2) purchase, sell, lease and operate drilling equipment, its spare parts and accessories and enter into any contract, to perform any act and carry out any operation related to mining extraction;
- 3) manufacture, process, industrialize, purchase, sell, import, export and transport its own or third parties hydrocarbons and their by-products, whether they be liquid, solid or gaseous;
- 4) enter into any kind of contracts for work and/or of service related to the aforementioned activities;

b) commercial transactions through the import, export, purchase and sale, transportation and distribution of products and goods related to electric power, mining, including the exercise or performance of representations, commissions, consignments and agencies;

c) financial transactions in general, including: loans and/or capital contributions to individuals or companies for present or future businesses; granting of bonds, guaranties and suretyships in favor of third parties; purchase and sale and management of shares, public bonds, debentures and other securities, except for the transactions stipulated in the limitations provided for in the Financial Entities Law and those transactions requiring public bidding;

d) real estate transactions through the acquisition, sale, barter, construction, fractionation, exploitation and lease of urban and rural real estate, including cooperative property transactions and the creation of rights *in rem*;

e) operation of navigation and maritime fluvial trade companies;

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f) power generation, transformation, transmission and distribution operations; and  
g) to render services or act as agent for itself or in favor of third parties.

In carrying out the aforementioned purposes and objectives, Petrobras Energía has full capacity to perform any act, enter into any contract and carry out any transaction directly or indirectly related thereto.

***Provisions of the Bylaws Relating to Directors***

Section 9 of the Petrobras Energía bylaws states that the Board of Directors shall hold a meeting with the majority of its members present at the meeting, whether in person or remotely as long as they can each communicate among themselves through other means of simultaneous sound, image or word transmission, and shall adopt resolutions by the majority of the votes present thereat, including remote participants. The Board of Directors meets formally at least once every three months, and is composed of nine members. All members of the Board of Directors have one vote for any matter decided upon. For more information on the election of Petrobras Energía Board of Directors, see Item 6. Directors, Senior Management, and Employees Directors and Senior Management Petrobras Energía Board of Directors.

In accordance with Petrobras Energía s bylaws, in the event any members of the Board refrain from voting on account of having a conflict of interest or material interest in the matter at hand, the Board shall adopt resolutions by a majority of the members who did not refrain from voting for such reason. Participation and vote of remote participants as well as all transmission of data shall be registered in the minutes of the meetings. Argentine Companies Law requires that directors refrain from voting on matters in which such director may have a conflict of interest.

**Petrobras Energía Participaciones and Petrobras Energía**

***Capital Stock***

The description that follows provides a summary of the material provisions of the capital stock of each of Petrobras Energía Participaciones and Petrobras Energía, in accordance with each of their bylaws and Argentine law and regulations. Unless otherwise noted, the description that follows applies equally to the capital stock of both companies.

***Petrobras Energía Participaciones Voting Rights***

Each PEPSA Class B share entitles the holder to one vote.

All existing PEPSA Class A shares were converted into PEPSA Class B shares on October 17, 2002, prior to the sale of Petrobras Energía Participaciones Class A shares from the Perez Compañía Family to Petrobras. There are no PEPSA Class A shares currently outstanding.

***Petrobras Energía Voting Rights***

Each PESA Class B share entitles the holder to one vote.

All existing PESA Class A shares were converted into PESA Class B shares on March 11, 2009. There are no PESA Class A shares currently outstanding.

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*Cumulative Voting*

Under Argentine law, a shareholder is entitled to cumulative voting procedures for the election of up to one-third of the directors being elected. If any shareholder notifies us of its decision to exercise its cumulative voting rights not later than three business days prior to the date of a meeting, all shareholders are entitled, but not required, to exercise their cumulative voting rights. Under cumulative voting, the aggregate number of votes that a shareholder may cast is multiplied by the number of vacancies to be filled in the election, and each shareholder may allocate the total number of its votes among a number of candidates not to exceed one-third of the number of vacancies to be filled. Shareholders not exercising cumulative voting rights are entitled to cast the number of votes corresponding to their shares for each candidate. The implementation of a staggered board does not impede or prohibit the exercise of cumulative voting in any manner.

*Preemptive Rights*

In the event of a capital increase, a holder of existing common shares of a given class has a preemptive right to subscribe for a number of shares of the same class sufficient to maintain the holder's existing proportionate holdings of shares of that class.

Preemptive rights also apply to the issuance of certain convertible securities (*obligaciones negociables*) but do not apply upon conversion of these securities. Holders of ADSs may be restricted in their ability to exercise preemptive rights if a prospectus under the Securities Act relating to those securities has not been filed or is not effective or an exemption from registration is not available. You should note that we are not obligated to file a registration statement with respect to the shares relating to preemptive or accretion rights. Preemptive rights are exercisable during the 30 days following the last publication of notice to the shareholders in the Official Gazette and an Argentine newspaper of wide circulation. Pursuant to Argentine companies law, the 30-day period may be reduced to ten days by a decision of our shareholders adopted at an extraordinary shareholders' meeting. Preemptive rights may be suspended or limited in extraordinary circumstances with the favorable vote of more than 50% of all outstanding voting shares at an extraordinary shareholders' meeting at which all shares will be entitled to exercise one vote regardless of whether there are shares with multiple votes where the purpose of the capital increases is to issue shares as consideration for a contribution of assets to the company or to repay outstanding obligations.

Shareholders who have exercised their preemptive rights and indicated their intention to exercise additional preemptive rights are entitled to accretion rights, pro rata to their respective subscriptions, with respect to any unsubscribed shares by other shareholders during the preemptive rights period, in accordance with the terms of Article 194 et seq. of the Argentine Companies Law. Shares not subscribed by the shareholders by virtue of their exercise of preemptive rights or accretion rights may be offered to third parties.

**Table of Contents***Appraisal Rights*

Whenever our shareholders approve (1) a spinoff or merger in which we are not the surviving corporation, (2) a change in our corporate legal status, (3) a fundamental change in our corporate purpose, (4) a change of our domicile to a location outside of Argentina, (5) a voluntary withdrawal from a public offering or delisting, (6) the continuation of our company in the case of a mandatory delisting or cancellation of the authorization for a public offering, (7) an increase of capital approved by an extraordinary shareholders' meeting which would imply a disbursement by a shareholder or (8) a total or partial recapitalization following a mandatory reduction of capital or liquidation, any shareholder that voted against this action may withdraw from our company and receive the book value of his shares, determined on the basis of our latest balance sheet prepared or that should have been prepared in accordance with Argentine laws and regulations, provided that this shareholder exercises his appraisal rights within the period set forth below. However, because of the absence of legal precedent directly on point, there is doubt as to whether holders of our ADSs will be able to exercise appraisal rights either directly or through the depositary with respect to Class B shares represented by our ADSs. Appraisal rights must be exercised within the five days following the adjournment of the meeting at which the resolution was adopted, in the event that the dissenting shareholder voted against such resolution, or within 15 days following such adjournment if the dissenting shareholder did not attend such meeting and can prove that he was a shareholder on the date of such meeting. In the case of a merger or spinoff, appraisal rights may not be exercised if the shares to be received as a result of such transaction are authorized for public offering or listed. Appraisal rights are extinguished if the resolution giving rise to such rights is revoked at another shareholders' meeting held within 60 days of the meeting at which the resolution was adopted.

Payment on the appraisal rights must be made within one year of the date of the shareholders' meeting at which the resolution was adopted, except when the resolution was to delist our stock or to continue our company following our mandatory delisting, in which case the payment period is reduced to 60 days from the date of the related resolution.

*Acquisition of Class B Shares by Class B Shareholders*

Section 18 of the Petrobras Energía Participaciones bylaws provides that if any person or group of persons acquires PEPSA Class B shares or securities convertible into PEPSA Class B shares representing at least three percent of the company's capital stock, then these persons must, within three days after the acquisition, give the company notice of the acquisition, irrespective of any additional notice requirements under applicable rules of any stock exchange or regulatory agency. The notice must state the acquisition dates and prices, the voting power acquired, the purpose of the acquisition and the intention of the acquiror (including, without limitation, whether it intends to increase its holding or to obtain control). This provision also applies to subsequent acquisitions involving a number of PEPSA Class B shares or securities convertible into PEPSA Class B shares representing at least three percent of the company's capital stock.

Under Argentina law, similar notice provisions apply to any acquisition of PESA shares.

*Capital Increases and Reductions*

Our capital stock may be increased by resolution of an ordinary shareholders' meeting. Capital increases do not require an amendment of the bylaws, but must be approved by the CNV, published in the Official Gazette and registered with the Public Registry of Commerce. Capital reductions may be voluntary or mandatory. Voluntary reductions of capital must be approved by an extraordinary meeting of shareholders and may take place only after notice is published and creditors are given an opportunity to obtain payment or collateralization of their claims or attachment. Reductions of capital are mandatory when losses have exceeded reserves or more than 50% of our stated capital.

Shares issued in connection with any increase in capital must be divided among the various classes in proportion to the number of shares of each class outstanding at the date of the issuance, provided that the number of shares of each class actually issued may vary based on the exercise of preemptive rights and additional preemptive rights in accordance with the procedure described in the preceding section.



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*Redemption and Repurchase*

Our shares are subject to redemption in connection with a reduction in capital by the vote of a majority of shareholders at an extraordinary shareholders meeting. Any shares so redeemed must be cancelled by us.

We may repurchase fully paid shares of our capital stock with retained earnings or freely available reserves, upon a determination of the board that this repurchase is necessary in order to avoid a material adverse effect to us. The board's determination must be explained to shareholders at the next annual shareholders meeting. We may also repurchase shares of our capital stock held by a company acquired by or merged with us. In either case, we are required to resell the shares purchased within one year and must give shareholders a preemptive right to purchase these shares. Any shares repurchased by us will not be considered in the determination of a quorum or a majority.

*Preferred Shares*

We may issue non-voting preferred shares or preferred shares with one vote per share. The economic preferences and rights of our preferred shares will be determined at the shareholders meeting authorizing the issue of the preferred shares. Non-voting preferred shares may vote one vote per share in the following circumstances: (1) if we are in default with respect to the payment of preferred share dividends, (2) if the events described under Meetings of Shareholders Quorum and Voting Requirements occur, and (3) if the preferred shares have been listed on a stock exchange and that listing is cancelled or suspended.

*Liquidation*

The liquidation of our company may be carried out by our Board of Directors or by one or more liquidators appointed by the shareholders to wind up its affairs. In the event of liquidation, our assets will be applied to satisfy our debts and liabilities including liquidation expenses. Any remaining amounts will be distributed as follows: (1) the amount of the preferred shares issued shall be reimbursed at its paid-in, nominal value; (2) the amount of common shares shall be reimbursed at their paid-in, nominal value; (3) cumulative dividends in arrears on preferred shares shall be paid; and (4) the remaining balance shall be distributed pro rata among all holders of common shares.

*Changes in Shareholder Rights*

See Meetings of Shareholders below.

*Audit Committee*

The respective bylaws of each of Petrobras Energía Participaciones and Petrobras Energía state that the companies shall have an Audit Committee composed of three regular directors and an equal or smaller number of alternate members. For more details on the respective Audit Committees of Petrobras Energía Participaciones and Petrobras Energía refer to Item 6. Directors, Senior Management and Employees Board Practices Audit Committee .

*Meetings of Shareholders*

*General*

Shareholders meetings may be ordinary or extraordinary. We are required to hold an ordinary shareholders meeting within four months of the close of each fiscal year to consider the approval of our annual financial statements, the allocation of net income for the fiscal year, the approval of the reports of the Board of Directors and the statutory audit committee and the election and remuneration of directors and members of the statutory audit committee. Other matters that may be considered at an ordinary meeting include the responsibility of directors and members of the statutory audit committee, capital increases and the issuance of certain corporate bonds. Extraordinary shareholders meetings may be called at any time to consider matters outside the scope of authority of an ordinary meeting, including amendment of the bylaws, issuance of debentures, early dissolution, merger, spinoff, reduction of capital stock and redemption of shares, changing our company from one type of legal entity to another and limitation of shareholders preemptive rights.

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*Notices*

Notice of shareholders' meetings must be published for five days in the Official Gazette of the Republic of Argentina, in an Argentine newspaper of wide circulation and in the publications of Argentine exchanges or securities markets in which our shares are traded, at least ten days prior to the date on which the meeting is to be held as per Argentine Companies Law, and at least 20 days prior to the meeting as per Executive Order 677/01. The notice must include information regarding the type of meeting to be held, the date, time and place of the meeting and the agenda. If there is no quorum at the meeting, notice for a meeting on second call must be published for three days, at least eight days before the date of the second meeting, and must be held within 30 days of the date for which the first meeting was called. The first call and second call notices may be effected simultaneously in order for the meeting on second call to be held on the same day as the meeting on first call, but only in the case of ordinary shareholders' meetings. Shareholders' meetings may be validly held without notice if all shares of our outstanding capital stock are present and resolutions are adopted by unanimous vote.

The Board of Directors will determine appropriate publications for notice outside Argentina in accordance with requirements of jurisdictions and exchanges where our shares are traded and our ADS Deposit Agreement.

*Quorum and Voting Requirements*

The quorum for ordinary meetings of shareholders on first call is a majority of the shares entitled to vote, and action may be taken by the affirmative vote of an absolute majority of the shares present that are entitled to vote on such action. If a quorum is not available, a second call meeting may be held at which action may be taken by the holders of an absolute majority of the shares present, regardless of the number of such shares. The quorum for extraordinary shareholders' meeting on first call is sixty percent of the shares entitled to vote, and if such quorum is not available, a second call meeting may be held, for which there is no quorum requirement.

Action may be taken at extraordinary shareholders' meetings by the affirmative vote of an absolute majority of shares present that are entitled to vote on such action, except that the approval of a majority of shares with voting rights is required in both first and second call for: (1) the transfer of our domicile outside Argentina, (2) a fundamental change of the corporate purpose set forth in the bylaws, (3) our anticipated dissolution, (4) the total or partial repayment of capital, (5) a merger of our company, if we are not the surviving entity, (6) a spinoff of our company, or (7) changing our corporate legal status.

Shareholders' meetings may be called by the Board of Directors or the members of the statutory syndic committee whenever required by law or whenever they deem it necessary. Also, the board or the members of the statutory syndic committee are required to call shareholders' meetings upon the request of shareholders representing an aggregate of at least five percent of our outstanding capital stock. If the board or the statutory audit committee fail to call a meeting following this request, a meeting may be ordered by the CNV or by the courts. In order to attend a meeting, a shareholder must deposit with us a certificate of book-entry shares registered in its name and issued by Caja de Valores at least three business days prior to the date on which the meeting is to be held. A shareholder may be represented by proxy. Proxies may not be granted to directors, members of the statutory audit committee or officers or employees of our company.

*Conflict of Interest*

A shareholder who votes on a matter involving our company in which its interest conflicts with ours may, under Argentine law, be liable for damages to us resulting from its decision, but only if the transaction would not have been approved without its vote.

**Table of Contents*****Limitations on Foreign Investment in Argentina***

Under the Argentine Foreign Investment Law, as amended ( FIL ), the purchase of stock by an individual or legal entity domiciled abroad or by a local company of foreign capital (as defined in the FIL) constitutes a foreign investment subject to the FIL. Foreign investments are generally unrestricted. However, foreign investments in certain industries are restricted to a certain percentage. No approval is necessary to purchase Class B shares. The FIL does not limit the right of non-resident or foreign owners to hold or vote Class B shares, and there are no restrictions in our bylaws limiting the rights of non-residents or non-Argentines to hold or vote our Class B shares.

However, General Resolution No. 7 passed in September 2003 by the IGJ and other related regulations set forth certain requirements for foreign entities registered with the IGJ. It requires, among other things, disclosure of information related to proprietary interests in assets located outside Argentina to be at least equivalent in value to those located inside Argentina. The entities must comply with these requirements in order to (1) perform activities on a regular basis through their Argentine branches (Section 118, Argentine Companies Law), or (2) exercise their ownership rights in Argentine Companies (Section 123, Argentine Corporate Law). In cases where the IGJ has concluded that the entities (a) do not have assets outside Argentina; or (b) have non-current assets that are not materially significant compared to those non-current assets which are owned by them and located in Argentina; or (c) the entity's address in Argentina becomes the place where this entity makes a majority of its decisions, corporate or otherwise, the entities may be required to amend and register their bylaws to comply with Argentine law, thereby becoming an Argentine entity subject to Argentine law according to Section 124 of Argentine Corporate Law. In addition, Argentine companies with shareholders consisting of such entities that fail to comply with these requirements may be subject to the following sanctions: (1) the IGJ may not register corporate decisions adopted by the Argentine Company when its offshore shareholder votes as a shareholder and when that vote is essential in attaining a majority and any decisions made pursuant to such vote related to the approval of its annual balance sheet may be declared null and void for administrative purposes; (2) whether or not the vote of the offshore entity is necessary for purposes of determining quorum or majority, the IGJ may register the decision without considering that vote; and (3) the directors of the Argentine Company may be held personally liable for actions taken by the Argentine Company.

***Change of Control***

In 2001, Argentina adopted Decree-Law No. 677/2001, which, among others, establishes an Optional Statutory System for Binding Public Offers, which regulates the change of control of a public company. According to this decree-law, if a person or entity, either directly or indirectly, acquires a determined percentage of the voting shares of a public company with the intention of obtaining control, then that person or entity must publicly tender to purchase all of the target company's outstanding shares. Companies are free to opt out of the decree-law's requirements, provided they do so expressly in their bylaws. We, with the approval of our shareholders, have opted out of the requirements of this decree-law. This does not prevent an acquiror from voluntarily commencing an offer for all our shares.

**MATERIAL CONTRACTS**

Petrobras Energía is party to a number of material financing agreements, including the underlying agreements for the company's Global Note Program, and letters of credit entered into to backstop certain financial commitments related to the company's commitment under the ship or pay contract with OCP. These agreements and other financing agreements are briefly described under Item 5. Operating and Financial Review and Prospects Off-Balance Sheet Transactions, Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Financing activities and Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Description of Indebtedness.

On September 1, 2005, CIESA, its current shareholders and creditors entered into a Restructuring Agreement relating to CIESA's debt. See Item 4. Information on the Company Gas and Energy Gas Transportation TGS Our interest in TGS and Corporate Developments and Exhibits 4.1 and 4.2 to this annual report.

Our agreements with related parties are described in Related Party Transactions under Item 7.



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**EXCHANGE CONTROLS**

For more information on exchange controls that have been imposed by the Argentine government and that have and may continue to impact our ability to import or export capital, including the availability of cash and cash equivalents for use in our business, see Item 3. Exchange Rates Exchange Controls, and Item 5. Description of Indebtedness.

**TAXATION**

The discussion in this section, Taxation describes tax matters relating to the acquisition, ownership and disposition of Class B shares of each of Petrobras Energía Participaciones and Petrobras Energía, as well as the ADSs of each company, pursuant to the respective Deposit Agreements entered into or to be entered into with Citibank, N.A. as Depositary. Unless otherwise indicated, all descriptions in this section apply equally to each of Petrobras Energía Participaciones and Petrobras Energía.

There is at present no income tax treaty between Argentina and the United States.

**Argentine Taxes**

*General*

The following discussion describes the material Argentine tax matters relating to the acquisition, ownership and disposition of our ADSs or Class B shares.

The discussion describes the principal Argentine tax consequences of the acquisition, ownership and disposition of our ADSs or Class B shares, but it does not purport to be a comprehensive description of all of the Argentine tax considerations that may be relevant to your decision to acquire our ADSs or Class B shares. For purposes of the following discussion of Argentine tax law, the purchase, sale or disposition of ADSs is treated as a purchase, sale or disposition of Class B shares.

The discussion is based upon tax laws of Argentina, regulations thereunder, and administrative and judicial interpretations thereof, as in effect on the date of this annual report and subject to change with possibly retroactive effect. In addition, the summary is based in part on representations of the depositary and assumes that each obligation provided for in, or otherwise contemplated by, the deposit agreement for our ADSs or any related document will be performed in accordance with its terms. Prospective purchasers of ADSs or Class B shares should consult their own tax advisors as to the Argentine or other tax consequences of the acquisition, ownership and disposition of our ADSs or Class B shares in their particular circumstances.

*Income Tax*

*Capital gains*

Sales or other dispositions of our Class B shares or ADSs by non-residents of Argentina or Argentine resident individuals or undivided estates located in Argentina are exempt from paying income tax on capital gains resulting from the sale. However, capital gains of legal entities domiciled in Argentina resulting from the sale or other disposition of our Class B shares or ADSs will be subject to income tax at a 35% rate. Some pension funds, investment funds and some foundations are not subject to income tax. There will be no withholding by us on account of this tax.

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*Dividends*

If any dividend is paid to you on Class B shares and ADSs that is from corporate earnings that have not already been subject to Argentine corporate income tax determined in accordance with general income tax regulations, we will be required to deduct and withhold Argentine income tax at a rate of 35% on the amount of the dividend paid by us.

Citibank, N.A. is our paying agent in the United States for each of Petrobras Energía Participaciones and Petrobras Energía. See Item 8. Financial Information Dividends and Item 9. Offering and Listing Details .

*Capital reductions and other distributions*

Capital reductions and redemptions of our Class B shares and ADSs are not subject to income tax up to an amount equivalent to the adjusted contributed capital corresponding to the Class B shares and ADSs to be redeemed plus accumulated taxable earnings after income taxes and dividends received. Any distribution exceeding this amount will be considered as a dividend for tax purposes and withholding tax would apply as described above.

*Tax on personal property*

Corporations, partnerships, establishments, financial trusts and other legal entities domiciled or located in Argentina are not subject to the personal assets tax.

Shareholdings or interests in companies governed by Law 19,550, that are held by individuals or undivided estates domiciled or located in Argentina or abroad, or by companies or other legal persons located abroad are subject to the personal assets tax. A company is liable for the personal assets tax payable by its shareholders in respect of their share ownership. A company liable for this tax payment will be entitled to seek reimbursement of the amount paid from the shareholders, by way of withholding or by foreclosing directly on the assets that gave rise to such payment. Consequently, we are liable to pay the personal assets tax in respect of our Class B shares and ADSs and we are entitled to seek reimbursement of the amount paid from the shareholders. We usually seek these reimbursements through a withholding on dividend payments. The applicable tax rate is 0.50% on the equity value of the shares, calculated as of December 31 of the year under consideration.

For purposes of the above paragraph, shareholdings or interests in companies governed by Argentine Companies Law held by companies or any other kinds of legal persons domiciled or located abroad, are presumed to indirectly belong to individuals domiciled abroad or to undivided estates located abroad. Contrary evidence is not accepted to rebut this presumption.

*Tax treaties*

There is currently no income tax treaty or convention between Argentina and the United States.

*Other taxes*

There is no inheritance, gift, succession or value-added taxes applicable to the ownership, transfer, exchange or disposition of our Class B shares or ADSs.

There is no Argentine gross revenue tax applicable on our Class B shares or ADSs or on income obtained from the disposition of our Class B shares or ADSs.

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Our Class B shares or ADSs owned by legal persons (corporations, partnerships, certain associations and non-financial trusts organized in Argentina and permanent establishments owned by foreign beneficiaries) are exempt from tax on minimum presumed income.

Commissions paid in brokerage transactions for the sale of our Class B shares on the Buenos Aires Stock Exchange are subject to a value-added tax at a rate of 21%.

**United States Federal Income Taxes**

*General*

The following discussion summarizes the United States federal income tax considerations relevant to the acquisition, ownership and disposition of ADSs or Class B shares by U.S. holders (as defined below). This discussion is based on the United States Internal Revenue Code of 1986, as amended (the Code), Treasury regulations promulgated or proposed under the Code, published rulings, and administrative and judicial interpretations of the Code and the Treasury regulations, all as of the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary is based in part on representations of the depositary and assumes that each obligation provided for in or otherwise contemplated by the deposit agreement for our ADSs or any related document will be performed in accordance with its terms. This discussion is addressed only to U.S. holders and does not address any United States federal income tax considerations that might be relevant to persons other than U.S. holders. Further, this discussion deals only with U.S. holders that hold ADSs as capital assets (generally, property held for investment) within the meaning of Section 1221 of the Code, and does not address the tax treatment of holders that may be subject to special tax rules, such as banks, insurance companies, tax-exempt organizations, financial institutions, brokers or dealers in securities or currencies, traders in securities or currencies that elect mark-to-market treatment, persons that hold the ADSs as part of a hedge, straddle, conversion transaction or other integrated investment, persons that hold ADSs or Class B shares through a partnership or other pass-through entity, U.S. holders who have a functional currency other than the U.S. dollar or U.S. holders that own or are treated as owning 10% or more of the voting power of our shares.

This discussion does not describe all aspects of United States federal income taxation that may be relevant to a particular investor in light of such investor's particular circumstances. U.S. holders should consult their own tax advisors as to the specific tax consequences of the acquisition, ownership and disposition of our ADSs or Class B shares, including the application and effect of United States federal, state, local, foreign and other tax laws and the possible effects of changes in United States federal or other tax laws.

In general, for United States federal income tax purposes, if you hold our ADSs, you will be treated as the beneficial owner of our Class B shares represented by those ADSs. For purposes of this discussion, you are a U.S. holder if you are a beneficial owner of our Class B shares and you are, for United States federal income tax purposes, (a) an individual who is a citizen or resident of the United States, (b) a corporation (or other business entity created or organized in or under the laws of the United States or of any state or the District of Columbia treated as a corporation), or (c) otherwise subject to United States federal income taxation on a net income basis with respect to the ADSs or the Class B shares.

The U.S. federal income tax consequences of a partner in a partnership holding our ADSs or Class B shares generally will depend on the status of the partner and the activities of the partnership. We recommend that partners in such a partnership consult with their own tax advisors.

**Table of Contents***Taxation of our ADSs**Distributions*

Distributions we make on our ADSs and Class B shares will be treated as taxable dividends to you to the extent of our current and accumulated earnings and profits as determined under United States federal income tax principles. A dividend, generally, will be included in the gross income of a U.S. holder when the dividend is actually or constructively received by the depository. Such dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) the ADSs are readily tradable on an established securities market in the United States and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (a PFIC). The ADSs are, or will be, listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for United States federal income tax purposes with respect to our 2007 or 2008 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2009 taxable year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the Class B shares will be treated as qualified dividends, because the Class B shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which U.S. holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. U.S. holders of ADSs and Class B shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

The amount of dividend income taxable to you generally will include the amount of Argentine taxes, if any, that we withhold (as described under Argentine Taxes). Thus, in the event such withholding taxes are imposed, you most likely will be required to report income in an amount greater than the cash you receive in respect of payments made in respect of the ADSs. Subject to various limitations, you may be eligible to claim the Argentine income tax withheld in connection with any distribution on ADSs as a credit or deduction for purposes of computing your United States federal income tax liability. Foreign tax credits will not be allowed for withholding taxes imposed with regard to certain short-term or hedged positions in securities and may not be allowed with regard to arrangements in which a U.S. holder's expected economic profit is insubstantial. Dividends we pay in respect of our ADSs generally will be treated as foreign source income and generally will constitute passive income for foreign tax credit purposes. Special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of United States federal income tax. U.S. holders should consult with their own tax advisors with regard to the availability of foreign tax credits and the application of the foreign tax credit limitations in light of their particular situation.

If a dividend is paid in pesos, the amount you must include in gross income will be the U.S. dollar value of the distributed pesos, as determined on the date of receipt by the depository, regardless of whether the payment is in fact converted into U.S. dollars at that time. You will have a tax basis in such pesos for United States federal income tax purposes equal to the U.S. dollar value on the date of such receipt. Any subsequent gain or loss in respect of such pesos arising from exchange rate fluctuations will be ordinary income or loss and will be treated as income from U.S. sources for foreign tax credit purposes.





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It is unlikely that you will be able to claim a foreign tax credit for any Argentine personal property tax (as described in Argentine Taxes ), but you may be able to deduct such tax in computing your United States federal income tax liability, subject to applicable limitations.

*Sale, exchange or other disposition*

Deposits and withdrawals of our Class B shares by U.S. holders in exchange for our ADSs will not result in the realization of gain or loss for United States federal income tax purposes.

Upon a sale, exchange or other disposition of our ADSs, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on such disposition (which, in the event of a redemption, will include any amount withheld by us in respect of Argentine taxes imposed on such redemption) and your adjusted tax basis in our ADSs (which, generally, is the U.S. dollar cost thereof). Any gain that you recognize generally will be treated as U.S. source income for United States foreign tax credit purposes. Consequently, if a withholding tax is imposed on such gain, you will not be able to use any corresponding tax credit unless you have other foreign source income of the appropriate type in respect of which the credit may be used. Long-term capital gains recognized by an individual holder are taxable at a maximum rate of 15%.

*Backup withholding*

The information reporting requirements of the Code generally will apply to distributions to you. Subject to certain exceptions, backup withholding may apply to payments of dividends on our ADSs and to payments of the proceeds of a sale or exchange of the ADSs that are made to a non-corporate U.S. holder if such holder fails to provide a correct taxpayer identification number or otherwise comply with applicable requirements of the backup withholding rules. The backup withholding tax is not an additional tax and may be credited against a U.S. holder's United States federal income tax liability, provided that correct information is provided to the Internal Revenue Service. U.S. holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such exemption, if applicable.

**DOCUMENTS ON DISPLAY**

Each of Petrobras Energía Participaciones and Petrobras Energía file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference rooms in Washington, D.C., at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Foreign private issuers, like Petrobras Energía Participaciones and Petrobras Energía, have been required to make filings with the SEC by electronic means since November 4, 2002. Any filings we make electronically are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

**Table of Contents****Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following qualitative and quantitative information discusses Petrobras Energía's exposure to market risks in the ordinary course of business. Petrobras Energía Participaciones is indirectly exposed to such risks through its interest in Petrobras Energía, and it does not face any additional market risks due to the fact that it has no independent operations. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of several factors including those set forth in Item 3. Key Information Risk Factors. Uncertainties that are either non-financial or non-quantifiable, such as political, economic, tax, other regulatory, or credit risks, are not included in the following assessment of our market risks.

**Qualitative Disclosures**

Our results of operations and financial condition are exposed to market risk from three principal areas: (1) commodity price risk, (2) foreign currency exchange rate risk, and (3) interest rate risk. We periodically review the risks associated with our businesses at a senior management level, based on an approach that has evolved from an independent analysis of each business unit to a risk management strategy that focuses on measuring and monitoring the risks that affect our overall portfolio of assets. We believe our risk management strategy, which is in line with our business integration strategy, allows for efficient growth in the vertical integration of our business, while balancing market risks in the business value chain.

Within this context, the Company's management evaluates from time to time the possibility of using hedging derivative instruments. These financial operations, when and if used by us, might expose us to credit risk of our counterparts. We apply strict requirements for the approval of lines of credit, and we also apply several procedures to assess such risks and seek to reduce our credit exposure in a variety of ways such as agreements for advance collateral payment or collection and the offset of collections and payments.

The boards of directors of our affiliates formulate their relevant risk management policies.

***Commodity price risk***

In the Oil and Gas Exploration and Production, Refining and Distribution, and Petrochemicals businesses we are affected by numerous factors outside of our control, including, but not limited to, market fluctuations, government regulations relating to prices, taxes, royalties, and certain other factors related to commodities, especially crude oil and by-products.

In Argentina, the series of regulations imposed by the Government, focused particularly on the energy sector, aimed at reducing the impact of inflationary pressures, has negatively limited our exposure to market risk in relation to price volatility, preventing us from profiting from higher prices for commodities. See Analysis of the Consolidated Results of Operations Factors Affecting our Consolidated Results of Operations Regulation of the Energy Industry in Argentina .

Historically, we have prioritized a risk strategy that, principally through swaps, producer collars and options, was designed to set crude oil sale prices at certain intervals. The use of derivative instruments depends on our management's perception of future economic events and developments. As of the date of this annual report, we do not have a position in any such derivative instruments, but we may decide to enter into derivative instruments in the future.

***Foreign exchange risk***

Our results of operations and financial condition are sensitive to changes in the exchange rate between the Argentine peso and other foreign currencies.

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As of December 31, 2008, a significant portion of our and our affiliates' debt was denominated either directly or indirectly in U.S. dollars. This exposes us to foreign exchange risks. Diversification of the Company's businesses with foreign operations having a cash flow primarily denominated in U.S. dollars, commodity prices that are sensitive to dollar price changes, in addition to our policy of maintaining a significant amount of our investments in U.S. dollars, help us mitigate our U.S. dollar-exposure. In line with this strategy, we decided to maintain the US\$619.4 million we received from the divestiture of our interest in PVIE in April 2009 as financial assets denominated in U.S. dollars.

**Interest rate risks**

Interest rate risk management mainly aims at reducing overall financial costs and adjusting our exposure to increasing interest rates.

In order to reduce interest rate volatility, we, by means of the application of mathematical models that incorporate historical volatility and correlation analyses, permanently evaluate the opportunity to enter into derivative instruments. As of December 31, 2008, approximately 81% our total financial debt was subject to fixed rates and 19% was subject to variable rates. The variable rate debt is mainly linked to the LIBO rate plus specified margins. This risk, however, is mitigated by the natural hedge provided by certain liquid financial assets or marketable securities with remuneration determined by LIBO or a similar rate.

**Quantitative Disclosure**

The following table provides information about our financial debt that is sensitive to foreign exchange rates and interest rates as of December 31, 2008.

## Foreign Currency Exchange Rate Risk and Interest Rate Risk

	Expected Maturity						Total	Estimated Fair Value
	2009	2010	2011	2012	2013	Thereafter		
	(in millions of pesos, except for interest rate information)							
<b>Short-and Long-Term Debt U.S. dollar:</b>								
Fixed Rate	1,402	1,192			690	1,726	5,010	4,514
Average interest rate (%)	7.75	8.13			9.38	7.28		
Variable rate	463	153	419	92	27	18	1,172	1,172
Average interest rate (%)	6.03	4.79	4.02	4.89	5.54	5.38		
Total	1,865	1,345	419	92	717	1,744	6,182	5,686

The estimated fair value of publicly traded long-term debt is based on quoted market prices, and for the remaining long-term debt estimated fair value was calculated based on the current rates available to the Company for debt of similar remaining maturities.

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A table reconciling the above figures to our financial statements, which include the proportional consolidation of jointly controlled companies with third parties, CIESA and Distrilec, is presented below:

	<b>Short-Term debt</b>	<b>Long-Term debt</b>	<b>Total</b>
	<b>(in millions of pesos)</b>		
Debt obligations <sup>(1)</sup> without proportional consolidation	1,865	4,317	6,182
PESA s interest in Distrilec s debt obligations	41	101	142
PESA s interest in CIESA s debt obligations	539	734	1,273
Debt obligations <sup>(2)</sup> with proportional consolidation	2,445	5,152	7,597

(1) As reported in tabular presentation.

(2) As reported in the consolidated balance sheet of our financial statements.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

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**PART II**

**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**Item 15. CONTROLS AND PROCEDURES**

**(a) Disclosure Controls and Procedures**

Each of Petrobras Energía and Petrobras Energía Participaciones carried out an evaluation under the supervision and with the participation of both companies' management, including their chief executive officer and chief financial officer, of the effectiveness of the design and operation of each company's disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of December 31, 2008. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, the chief executive officer and chief financial officer of Petrobras Energía and Petrobras Energía Participaciones concluded that the disclosure controls and procedures for each of Petrobras Energía and Petrobras Energía Participaciones, respectively, were effective to provide reasonable assurance that information required to be disclosed by each company in the reports that they file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to both company's management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

**(b) Management's Annual Report on Internal Control over Financial Reporting**

The management of Petrobras Energía and Petrobras Energía Participaciones is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The internal controls of each of Petrobras Energía and Petrobras Energía Participaciones are processes 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.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective 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.

The management of Petrobras Energía and Petrobras Energía Participaciones assessed the effectiveness of each company's internal controls over financial reporting as of December 31, 2008. In making this assessment, management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on their evaluations and those criteria, both companies management has concluded that the internal control over financial reporting for each of Petrobras Energía and Petrobras Energía Participaciones was effective as of December 31, 2008.

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The assessment of internal controls over financial reporting for each of Petrobras Energía and Petrobras Energía Participaciones excludes the internal control over financial reporting of CIESA and Distrilec, which are consolidated into the consolidated financial statements of each of Petrobras Energía and Petrobras Energía Participaciones as of December 31, 2008 and for the year then ended on the basis of the proportionate consolidation method required by the professional accounting principles in force in the City of Buenos Aires. Neither Petrobras Energía nor Petrobras Energía Participaciones has the ability to dictate or modify the controls of those entities, nor the ability, in practice, to assess those controls. Consequently, we have not included in the assessment for either Petrobras Energía or Petrobras Energía Participaciones the internal control over financial reporting of CIESA and Distrilec. The financial statements of CIESA and Distrilec proportionately consolidated represented assets constituting 19% as of December 31, 2008 and net sales constituting 11% for the year then ended of the respective consolidated totals of each companies. Under US GAAP, CIESA and Distrilec would be treated as equity investees.

**(c) Attestation Report of the Registered Public Accounting Firm**

Sibille, a member firm of KPMG International, an independent registered public accounting firm, has audited the effectiveness of internal controls over financial reporting for each of Petrobras Energía and Petrobras Energía Participaciones as of December 31, 2008. The reports on the audit of internal controls over financial reporting for both Petrobras Energía and Petrobras Energía Participaciones are included below, beginning on page F-5.

**(d) Changes in Internal Control over Financial Reporting**

There have been changes in our internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act during the period covered by this annual report on Form 20-F that have materially affected our internal control over financial reporting. Petrobras Energía, in collaboration with its controlling shareholder Petrobras, has developed an International Integration Process Program ( IIPP ), aimed at generating a single management model for Petrobras international business. In line with the IIPP, Petrobras Energía reviewed its business processes and controls with a view to making its operations more efficient, improving process management and decision-making, and strengthening its internal control system. As part of the IIPP, from January 2008 Petrobras Energía has successfully undertaken the implementation of a new integrated information system in Argentina to support its business processes. These internal controls have been applied to each of Petrobras Energía and Petrobras Energía Participaciones. Additionally, there have been no changes in internal controls over financial reporting for either Petrobras Energía or Petrobras Energía Participaciones, or other factors that have occurred subsequent to the balance sheet date and through the date of this annual report, that might materially and adversely affect internal controls over financial reporting for either company as of December 31, 2008.

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Petrobras Energía's Board of Directors has determined that Cedric Bridger is an audit committee financial expert, and that Mr. Bridger is independent, within the meaning of this Item 16A. See Item 6. Directors, Senior Management, and Employees Audit Committee . Since January 1, 2009 and until the final dissolution without liquidation of Petrobras Energía Participaciones, the members of Petrobras Energía's Audit Committee have assumed the Petrobras Energía Participaciones Audit Committee's responsibilities and duties.

**Table of Contents****Item 16B. CODE OF ETHICS**

Petrobras Energía and Petrobras Energía Participaciones have adopted a code of ethics, as defined in Item 16B of Form 20-F. As Petrobras Energía Participaciones does not have any executive officers or independent management, this code of ethics applies to Petrobras Energía's chief executive officer and chief financial officer, as well as to other executive officers and employees. The code of ethics is available on our web site at <http://www.petrobras.com.ar>, in the section "Corporate Governance", inside the section entitled "Investor Center".

**Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Audit and Non-Audit Fees**

Fees for professional services provided to Petrobras Energía Participaciones and Petrobras Energía by their independent auditors, during the fiscal years ended December 31, 2008 and 2007 in each of the following categories are discussed below:

The following table summarizes the fees for professional services provided to Petrobras Energía Participaciones on a consolidated basis, including Petrobras Energía:

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands of pesos)	
Audit fees	13,742	11,719
Audit-related fees	202	10
Tax fees		
<b>Total fees</b>	<b>13,944</b>	<b>11,729</b>

The following table summarizes the fees for professional services provided to Petrobras Energía, on a consolidated basis:

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands of pesos)	
Audit fees	13,076	11,134
Audit-related fees	202	10
Tax fees		
<b>Total fees</b>	<b>13,278</b>	<b>11,144</b>

*Audit fees.* Audit fees in the above tables are mainly for professional services rendered in connection with the audit of Petrobras Energía Participaciones and Petrobras Energía's consolidated annual financial statements and the review of their quarterly reports, statutory audits of the financial statements of certain subsidiaries, and the provision of comfort letters.

*Audit-related fees.* Audit related fees in the above tables are mainly for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not otherwise reported as Audit Fees.

*Independent Auditors.* For each of the years ended December 31, 2008 and December 31, 2007, Sibille, a member firm of KPMG International, served as Petrobras Energía Participaciones and Petrobras Energía's independent auditors and audited their financial statements.



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The Shareholders Meeting of Petrobras Energía held on March 27, 2009 designated Sibille, member firm of KPMG International, as Petrobras Energía's independent auditors for the year to be ended December 31, 2009.

**Audit Committee Pre-Approval Policies and Procedures**

The Audit Committees of both companies must pre-approve all services provided by the external auditors to ensure the auditors' independence and compliance with all applicable legal restrictions. Pre-approval is either general or specific in nature. All services that are predictable and recurrent in nature and can be performed in a reasonably foreseeable time frame and at a cost that can be reasonably estimated may be approved by the Audit Committee in a general fashion on an annual basis. Services to be pre-approved on a general basis must be described in sufficient detail so that their scope is readily apparent. This description must also include an estimate of the fees payable for such services. Specific pre-approval is required for any services not subject to general pre-approval and/or exceeding the estimated cost of those services. Detailed, written descriptions of any proposed services must be delivered to the administrative manager, who will determine whether such services have already been pre-approved and bring to the Audit Committee's attention those services that have not been pre-approved. Any doubts as to the scope of a pre-approved service must be resolved exclusively by the Audit Committee. Prior to Audit Committee meetings and at least three times a year, the administrative manager must provide a report on all services provided by the external auditor and related fees to the Audit Committee. The Audit Committee is also required to periodically discuss with the external auditors the services they provide to us and our affiliates and the compensation they receive for those services.

All services performed by the independent auditor during 2008 and 2007 were approved by the Audit Committee of Petrobras Energía Participaciones in accordance with this policy and the aforementioned procedures. These approvals applied to the audit of all Petrobras Energía Participaciones subsidiaries, including Petrobras Energía. The Audit Committee of Petrobras Energía has independently applied this pre-approval policy since the company's registration with the SEC in December 2008.

**Item 16D. EXEMPTION FROM THE LISTING STANDARD FOR AUDIT COMMITTEES**

Not applicable.

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATES PURCHASERS**

From January 1, 2008 to December 31, 2008, no purchases were made by us or on our behalf or by any affiliated purchaser of our ordinary shares or ADSs.

**Item 16G. CORPORATE GOVERNANCE**

**Comparison of New York Stock Exchange Corporate Governance Standards and Our Corporate Governance Practice**

On November 4, 2003, the NYSE established corporate governance rules applicable to listed companies. These rules, and the amendments thereto, are codified in Section 303A of the NYSE's Listed Company Manual.

Under these rules, foreign private issuers are subject to a more limited set of corporate governance requirements than U.S. domestic issuers. As a foreign private issuer, pursuant to Rule 303A.11 of the Listed Company Manual of the NYSE, we must provide a brief description of any significant difference between our corporate governance practices and those followed by U.S. companies in accordance with the NYSE listing standards. As required by the NYSE and Item 16G of Form 20-F, the table below discloses the significant differences between our corporate governance practices and the NYSE rules. Our corporate governance practices are described in further detail elsewhere in this annual report. See Item 6. Directors, Senior Management and Employees and Item 10. Additional Information Memorandum and Articles of Association .

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**Section of the  
NYSE Listed**

**Company  
Manual**

**New York Stock Exchange Corporate  
Governance Rules for Domestic Issuers**

**Our Practices\***

**Independent Director**

303A.01	Listed companies must have a majority of independent directors on their board of Directors. Controlled companies, which would include our company if it were a U.S. issuer, need not comply with this requirement. A controlled company is one in which more than 50% of the voting power is held by an individual, a group or another company, rather than the public.	Argentine law does not require that the majority of the board members be independent. Only the majority of the directors on the Audit Committee must be independent.
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**Independence Tests**

303A.02	<p>(a) This section establishes general standards to determine directors independence. No director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). The board of directors is also required to identify which directors are independent and disclose the basis for that determination.</p> <p>(b) In addition, a director is not independent if:</p> <p>(i) the director is or has been within the last three years , an employee, or an immediate family member is, or has been within the last three years , an executive officer, of the company, its parent or a consolidated subsidiary, other than employment as interim chairman or CEO or other executive officer;</p>	<p>At our annual shareholders meeting, our shareholders determine in accordance with Resolution No. 368 of the CNV and Decree No. 677/01 whether or not each of our directors is independent based on the following criteria. A director is not independent if such director is:</p> <p>(1) a member of management or an employee of shareholders who hold significant interests in the issuer, or of other entities in which these shareholders hold either directly or indirectly significant interests or over which these shareholders exercise a significant influence;</p> <p>(2) an employee of the issuer or was an employee of the issuer in the last three years;</p>
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(ii) the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than U.S.\$120,000 in direct compensation from the company, its parent or a consolidated subsidiary, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service), other than compensation for service as interim chairman or CEO or received by an immediate family member for service as a non-executive employee;

(3) a person who has professional relations or is part of a company or professional association that maintains professional relations with, or that receives remunerations or fees (other than directors' fees) from, the issuer or from its shareholders that hold either directly or indirectly significant interests in or exercise a significant influence over the issuer, or from which such shareholders hold either directly or indirectly significant interests or exercise a significant influence;

\* Our Practices refers to both Petrobras Energía Participaciones and Petrobras Energía, with respect to board practices and reporting (unless otherwise indicated), and to the executive management and employees of Petrobras Energía, as appropriate.

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**Our Practices\***

(iii) the director is a current partner or employee of a firm that is the company's internal or external auditor; the director has an immediate family member who is a current partner of such firm; the director has an immediate family member who is a current employee of such firm and personally works on the company's audit; or the Director or the immediate family member was within the last three years a partner or employee of such firm and personally worked on the company's audit within that time;

(4) a person who is either directly or indirectly a holder of significant interests in the issuer or in an entity that has significant interests in or exercises a significant influence over the issuer;

(iv) the director, or an immediate family member is, or has been with the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee;

(5) the member is married or is a family member, up to fourth degree by blood or up to second degree by affinity, to an individual who would not qualify as independent; and

(v) the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from the company, its parent or a consolidated subsidiary for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of U.S.\$1 million or 2% of such other company's consolidated gross revenues (charities are not included, but any such payments must be disclosed in the company's proxy or, if no proxy is prepared, its Form 10-K/ Annual Report-).

(6) a person who sells or provides either directly or indirectly goods or services to the issuer or to shareholders that hold either directly or indirectly significant interests in or exercise a significant influence over the issuer and receives compensation for such services that is substantially higher than that payable to a director.

Significant interests shall mean shareholdings that represent at least 35% of the capital stock of the relevant entity, or a smaller percentage when the person has the right to elect one or more directors by class of shares or by having entered into agreements with other shareholders relating

to the governance and management of the relevant entity or of its controlling shareholders.

There is a three-year look-back period before non-independent directors can be considered independent.

Cedric Bridger, Roberto Luis Monti and Roberto Alejandro Fortunati are currently members of our Board of Directors who qualify as independent directors pursuant to the factors listed above.

Immediate family member includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home. Individuals who are no longer immediate family members as a result of legal separation, divorce or death (or become incapacitated) are excluded.

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**Executive Sessions**

303A.03

The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

Under Argentine Law, a board of directors must meet at least once every three months.

Décio Fabrício Oddone da Costa and Luis Miguel Sas, in addition to serving on the Board of Petrobras Energía, have management positions. Our other seven directors are non-management directors. The non-management directors do not meet at regularly scheduled executive sessions without the presence of the managerial directors. See Item 6. Directors, Senior Management and Employees Directors and Senior Management Board of Directors .

**Nominating/Corporate Governance Committee**

303A.04

Listed companies must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers the committee's purpose and responsibilities and an annual performance evaluation of the committee. Exception for controlled companies, which would include our company if it were a U.S. issuer.

Argentine law does not require the establishment of a nominating committee or a corporate governance committee. Petrobras Energía does not have either of these committees. Instead, their functions are carried out by the Compensation Committee or by the Board of Directors, with the assistance of the Direction of Legal Affairs, the Executive Management of Human Resources and the General Corporative Secretary.

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**Compensation Committee**

303A.05

Listed companies must have a compensation committee composed entirely of independent directors, with a written charter that covers the committee's purpose and responsibilities and an annual performance evaluation of the compensation committee. Exception for controlled companies, which would include our company if it were a U.S. issuer.

Argentine regulations do not require the establishment of a compensation committee.

However, at its October 6, 2006 meeting, in order to better supervise salary and compensation matters, the Board of Directors of Petrobras Energía S.A. created a Compensation Committee, whose purpose is to assure the compliance with, and revise whenever necessary, policies relating to compensation that aim to provide the Company with greater flexibility to make more effective decisions. The Committee meets monthly to approve matters relating to compensation policy, including variable compensation practices. The Committee, composed of Directors Roberto Luis Monti, José Fernando de Freitas and Décio Oddone da Costa, must report to the Board of Directors at least semiannually.

**Audit Committee**

303A.06  
303A.07

Listed companies must have an Audit Committee with a minimum of three independent, financially literate members (at least one member must have accounting or related financial management expertise) that satisfy the independence requirements of Rule 10A-3 under the Exchange Act ( Rule 10A-3 ).

The Committee must have a written charter that addresses the committee's purpose, an annual performance evaluation of the audit committee, and the duties and responsibilities of the audit committee.

In addition, listed companies must maintain an internal audit function.

The Audit Committee is an advisory committee to the Board of Directors. Argentine law requires that the audit committee be composed of three members from the Board of Directors (with a majority of independent directors), all of whom are well-versed in business, financial or accounting matters. Petrobras Energía's Audit Committee is composed of three directors, who each satisfy the independence requirements of Rule 10A-3. One member of Petrobras Energía's audit committee, Mr. Cedric Bridger, qualifies as financial expert within the meaning of Item 16A of the Form 20-F. See Item 16A. Audit Committee Financial Expert .

Our Audit Committee is responsible for, among other things: (1) monitoring and evaluating the activities of the internal and external auditors, (2) supervising the process for preparation of our financial statements, (3) ensuring that our financial statements comply with applicable legal requirements, (4) providing the market with complete information with respect to transactions where members of corporate bodies or controlling shareholders of ours have conflicts of interest, and (5) opine on the reasonableness of compensatory plans for directors and managers. See Item 6. Directors, Senior Management and Employees Board Practices Audit Committee .



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Under Argentine law, the shareholders must appoint the external auditor. The Board of Directors may present a proposal regarding the appointment of the external auditor to the shareholders meeting. The Audit Committee must issue an opinion on any such proposal presented by the Board of Directors to the Shareholders.

We also have an internal audit department.

In accordance with Argentine law, we also have established a Statutory Syndic Committee that is comprised of three members and three alternate members, approved by our shareholders. Members of the Statutory Syndic Committee are not members of our Board of Directors. The primary responsibilities of the Statutory Syndic Committee are to monitor Board of Directors and management's compliance with the Argentine Companies Law, our by-laws and our shareholders' resolutions. The Statutory Syndic Committee also performs other functions, including: (1) attending meetings of the Board of Directors and shareholders, (2) calling extraordinary shareholders meetings when deemed necessary or when required by shareholders, in accordance with the Business Companies Law, No. 19550, (3) presenting a report on the reports of the Board of Directors and the annual financial statements at ordinary shareholders meetings, and (4) investigating written complaints of shareholders representing not less than 2% of the capital stock. See Item 6. Directors, Senior Management and Employees Board Practices Statutory Syndic Committee .

**Shareholder Approval of Equity Compensation Plans**

303A.08 Shareholders must be given the opportunity to vote on all equity-compensation plans and

Our Board of Directors approves the equity compensation plans for our executive

material revisions thereto, with limited exemptions set forth in the NYSE rules.

officers and senior management. For a description of our stock option programs for our executive officers and senior management see Item 6. Directors, Senior Management and Employees Compensation .

The Audit Committee issues an opinion on the reasonableness of the Board of Directors proposals regarding fees and executive equity compensation plans.

### **Corporate Governance Guidelines**

303A.09

Listed companies must adopt and disclose corporate governance guidelines.

Adoption of corporate governance guidelines is not required by Argentine law, but the CNV requires companies to publicly report annually on their adoption of certain recommended corporate governance practices. The company has nonetheless adopted the practice of issuing corporate governance policies, and publicly reports on these policies on an annual basis, as required by the CNV.

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**Our Practices\***

303A.10	Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	We have adopted a Code of Conduct and Business Ethics applicable to all employees. See Item 16B. Code of Ethics . Any amendment to the code will be disclosed on our web site at <a href="http://www.petrobras.com.ar">www.petrobras.com.ar</a> .
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**Certification Requirements**

303A.12	Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards.	Our CEO will promptly notify the NYSE in writing if an executive officer becomes aware of any material non-compliance with any applicable provision of the NYSE corporate governance rules.
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Not applicable.

**Item 18. FINANCIAL STATEMENTS**

Pages F-1 to F-206 of this annual report are incorporated herein by reference.

**Item 19. EXHIBITS**

Pursuant to the rules and regulations of the SEC, we have filed certain agreements as exhibits to this annual report on Form 20-F. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (1) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (2) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (3) may apply materiality standards different from what may be viewed as material to investors and (4) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof.

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Filed	Form	Date	No.	
1.1	English translation of bylaws ( <i>estatutos sociales</i> ) of Petrobras Energía Participaciones S.A.	PEPSA	20-F	6/30/05	1.1	
1.2	English translation of bylaws ( <i>estatutos sociales</i> ) of Petrobras Energía S.A.					X
2.1	Form of Deposit Agreement among Petrobras Energía Participaciones S.A. (formerly PC Holdings S.A.), Citibank, N.A., as depositary, and the Holders and Beneficial Owners of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt.	PEPSA	F-4	11/15/99	4.2	
2.2	Amended and Restated Indenture, dated August 1, 2002, amending and restating the Indenture dated May 1, 1998, between Petrobras Energía and Citibank, N.A.	PEPSA	20-F	6/30/03	2.11	
2.3	Form of Deposit Agreement among Petrobras Energía, Citibank, N.A., as Depositary, and the Holders and Beneficial Owners of American Depositary Shares issued thereunder.	PESA	F-4	11/02/08	4.1	

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<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference</b>				<b>Filed Herewith</b>
		<b>Filer</b>	<b>Form</b>	<b>Date</b>	<b>No.</b>	
4.1	Restructuring Agreement dated as of September 1, 2005 among Compañía de Inversiones de Energía S.A., Petrobras Energía S.A., Petrobras Hispano Argentina S.A., Enron Pipeline Company Argentina S.A., ABN AMRO BANK N.V. Sucursal Argentina, and the Creditors named therein.	PEPSA	20-F	6/29/06	4.4	
4.2	Third Amendment to the Restructuring Agreement dated as of March 25, 2008 among Compañía de Inversiones de Energía S.A., Petrobras Energía S.A., Petrobras Hispano Argentina S.A., Enron Pipeline Company Argentina S.A., ABN AMRO BANK N.V. Sucursal Argentina, and AEI.	PEPSA	20-F	6/27/08	4.2	
4.3	Loan Agreement Number 0088/2005, dated February 21, 2005, between Petrobras Energía, as borrower, and Petrobras International Braspetro BV., as lender (English translation).	PEPSA	20-F	6/30/05	2.16	
4.4	Loan Agreement, dated December 15, 2008, between Petrobras International Braspetro BV., as borrower, and Petrobras Energía S.A., as lender (English translation).					X
4.5	Loan Agreement, dated December 15, 2008, between Petrobras International Braspetro BV., as borrower, and Petrobras Holding Austria AG, as lender (English translation).					X
4.6	Stock Purchase Agreement, dated December 21, 2007, between Petrobras Energía, S.A., as seller, and Petrobras International Braspetro BV, as purchaser.	PEPSA	20-F	6/27/08	4.7	
4.7	Stock Purchase Agreement, dated April 27, 2009, between Petrobras Energía, S.A., as seller, and Petrobras International Braspetro BV, as purchaser.					X
8.1	List of significant subsidiaries of Petrobras Energía as defined in Rule 1-02(w) of Regulation S-X.					X
12.1						X

Petrobras Energía Participaciones CEO  
Certification pursuant to Section 302 of the  
Sarbanes-Oxley Act of 2002, dated June 30,  
2009.

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Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Filer	Form	Date	No.	
12.2	Petrobras Energía Participaciones CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.					X
12.3	Petrobras Energía CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.					X
12.4	Petrobras Energía CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.					X
13.1	Petrobras Energía Participaciones CEO Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.					X
13.2	Petrobras Energía Participaciones CFO Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.					X
13.3	Petrobras Energía CEO Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.					X
13.4	Petrobras Energía CFO Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 30, 2009.					X

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to Petrobras Energía's long-term debt, none of which authorizes securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements as the SEC requests.

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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.

PETROBRAS ENERGÍA PARTICIPACIONES  
S.A.

By: /s/ Décio Fabrício Oddone da Costa  
Name: Décio Fabrício Oddone da Costa  
Title: Chief Executive Officer

By: /s/ Luis Miguel Sas  
Name: Luis Miguel Sas  
Title: Chief Financial Officer

Date: June 30, 2009



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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.

PETROBRAS ENERGIA S.A.

By: /s/ Décio Fabrício Oddone da Costa  
Name: Décio Fabrício Oddone da Costa  
Title: Chief Executive Officer

By: /s/ Luis Miguel Sas  
Name: Luis Miguel Sas  
Title: Chief Financial Officer

Date: June 30, 2009

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The Board of Directors and Shareholders  
Petrobras Energía Participaciones S.A.

1. We have audited the accompanying consolidated balance sheets of Petrobras Energía Participaciones S.A. ( PEPSA ) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. 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 did not audit the consolidated financial statements of Distrilec Inversora S.A. ( Distrilec ) as of December 31, 2007 nor did we audit the consolidated financial statements of Compañía de Inversiones de Energía S.A. ( CIESA ) as of December 31, 2006, jointly-controlled affiliates proportionally consolidated by PEPSA. The financial statements of Distrilec incorporated by the proportional consolidation method, before considering the adjustments mentioned in Note 9 to the consolidated financial statements, reflect total assets constituting eight percent and total net revenues constituting seven percent of the related consolidated totals as of December 31, 2007 and for the year then ended. The financial statements of CIESA incorporated by the proportional consolidation method, before considering the adjustments mentioned in Note 9 to the consolidated financial statements, reflect total net revenues constituting six percent of the related consolidated revenues for the year ended December 31, 2006. The financial statements of Distrilec and of CIESA were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for Distrilec and CIESA, is based solely on the reports of the other auditors.
2. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.
3. The reports of the other auditors on the 2006 consolidated financial statements of CIESA, presented herein, was qualified because CIESA did not recognize the effects of the changes in the purchasing power of the Argentine peso from March 1 to September 30, 2003. In the opinion of the other auditors, the professional accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires, require the recognition of such effects, but this recognition is not allowed by the related regulations of the National Securities Commission of Argentina. The effect of such departure from generally accepted accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires is not material for the accompanying consolidated financial statements of Petrobras Energía Participaciones S.A. and subsidiaries.
4. In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petrobras Energía Participaciones S.A. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with generally accepted accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires.
5. Generally accepted accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Notes 20, 21, and 22 to the consolidated financial statements.

6. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Petrobras Energía Participaciones S.A.'s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 30, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Buenos Aires, Argentina

June 30, 2009

SIBILLE

(Member firm of KPMG International)

Gabriel E. Soifer

*Partner*

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The Board of Directors and Shareholders  
Petrobras Energía S.A.

1. We have audited the accompanying consolidated balance sheets of Petrobras Energía S.A. ( PESA ) and subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. 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 did not audit the consolidated financial statements of Distrilec Inversora S.A. ( Distrilec ) as of December 31, 2007 nor did we audit the consolidated financial statements of Compañía de Inversiones de Energía S.A. ( CIESA ) as of December 31, 2006, jointly-controlled affiliates proportionally consolidated by PESA. The financial statements of Distrilec incorporated by the proportional consolidation method, before considering the adjustments mentioned in Note 9 to the consolidated financial statements, reflect total assets constituting eight percent and total net revenues constituting seven percent of the related consolidated totals as of December 31, 2007 and for the year then ended. The financial statements of CIESA incorporated by the proportional consolidation method, before considering the adjustments mentioned in Note 9 to the consolidated financial statements, reflect total net revenues constituting six percent of the related consolidated revenues for the year ended December 31, 2006. The financial statements of Distrilec and of CIESA were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for Distrilec and CIESA, is based solely on the reports of the other auditors.
2. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.
3. The reports of the other auditors on the 2006 consolidated financial statements of CIESA, presented herein, was qualified because CIESA did not recognize the effects of the changes in the purchasing power of the Argentine peso from March 1 to September 30, 2003. In the opinion of the other auditors, the professional accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires, require the recognition of such effects, but this recognition is not allowed by the related regulations of the National Securities Commission of Argentina. The effect of such departure from generally accepted accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires is not material for the accompanying consolidated financial statements of Petrobras Energía S.A. and subsidiaries.
4. In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petrobras Energía S.A. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with generally accepted accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires.
5. Generally accepted accounting principles in Argentina, as approved by the Professional Council of Economic Sciences of the City of Buenos Aires vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Notes 20, 21 and 22 to the consolidated financial statements.

6. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Petrobras Energía S.A.'s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 30, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Buenos Aires, Argentina

June 30, 2009

SIBILLE

(Member firm of KPMG International)

Gabriel E. Soifer

*Partner*



**Table of Contents**

The Board of Directors and Shareholders

Petrobras Energía Participaciones S.A.:

1. We have audited Petrobras Energía Participaciones S.A.'s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Petrobras Energía Participaciones S.A.'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 Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.
2. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
3. 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.
4. 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.
5. In our opinion, Petrobras Energía Participaciones S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
6. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Petrobras Energía Participaciones S.A. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period then ended, and our report dated June 30, 2009 expressed an unqualified opinion on those consolidated financial statements.

Buenos Aires, Argentina

June 30, 2009

SIBILLE

(Member firm of KPMG International)

Gabriel E. Soifer  
*Partner*

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The Board of Directors and Shareholders

Petrobras Energía S.A.:

1. We have audited Petrobras Energía S.A.'s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Petrobras Energía S.A.'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 Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.
2. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
3. 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.
4. 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.
5. In our opinion, Petrobras Energía S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
6. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Petrobras Energía S.A. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three year period then ended, and our report dated June 30, 2009 expressed an unqualified opinion on those consolidated financial statements.

Buenos Aires, Argentina

June 30, 2009

SIBILLE

(Member firm of KPMG International)

Gabriel E. Soifer

*Partner*



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The Shareholders and Board of Directors of  
Petroritupano, S. A.:

1. We have audited the accompanying balance sheets of Petroritupano S.A. as of December 31, 2008 and 2007, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. During 2008, the Company did not comply with various formal tax duties which, pursuant to the current tax regulations, may give rise to the payment of sanctions and interest amounting to approximately \$24 million. The 2008 financial statements do not include any provision in this regard. Accordingly, the accruals and other liabilities captioned on the balance sheet as of December 31, 2008 and net income for the year then ended are understated and overstated by such amount, respectively.
4. In our opinion, except for the effects on the 2008 financial statements of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Petroritupano S.A. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards (IFRS).

ALCARAZ CABRERA VÁZQUEZ

Mario Pepe P.

Public Accountant

C.P.C. N° 18.226

June 26, 2009

Puerto La Cruz, Venezuela

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Report of independent registered public accounting firm of Distrilec Inversora S.A. as of December 31, 2007  
The Board of Directors and Shareholders

**DISTRILEC S.A.:**

We have audited the consolidated balance sheet of Distrilec Inversora S.A. (the Company ) and subsidiaries as of December 31, 2007, and the related consolidated statements of operations and cash flows for the year then ended, included as Exhibit I to the set of financial statements of the Company (none of which are presented herein). 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 audit.

We conducted our audit in accordance with 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 financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Distrilec Inversora S.A. and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year then ended (none of which are presented herein), in conformity with accounting principles generally accepted in Argentina.

Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for the year ended December 31, 2007, and the determination of shareholders equity at December 31, 2007, to the extent summarized in Note 14 to the consolidated financial statements.

**DELOITTE & Co. S.R.L.**

Carlos A. Lloveras

Buenos Aires, Argentina

March 5, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Compañía de Inversiones de Energía S.A.

We have audited the accompanying consolidated statements of income, of changes in shareholders' equity and of cash flows of Compañía de Inversiones de Energía S.A. and its subsidiaries for the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As indicated in Note 2.b., effective March 1, 2003, the Company has discontinued the restatement of financial statements into constant currency as required by resolutions issued by the Comisión Nacional de Valores ( CNV ). Since generally accepted accounting principles in Argentina require companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolutions represent a departure from generally accepted accounting principles in Argentina.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compañía de Inversiones de Energía S.A. and its subsidiaries at December 31, 2006, and the results of their operations and their cash flows for the period ended December 31, 2006 in conformity with accounting principles generally accepted in Argentina.

Accounting principles generally accepted in Argentina vary in certain significant respects from the accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F, information relating to the nature and effect of such differences is presented in Note 12 to the consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As indicated in Notes 6 and 7, the Company and its subsidiary, Transportadora de Gas del Sur S.A. ( TGS ), have been negatively impacted by the deterioration of the Argentine economy, the devaluation of the Argentine peso and the Argentine government's adoption of various economic measures including the violation of the contractually-agreed License terms of TGS. In view of these circumstances, the Company has suspended the payment of its financial debt since April 22, 2002. Notwithstanding, on September 7, 2005 a restructuring agreement between the Company, its financial creditors and its shareholders was signed. This agreement refinances US\$ 20 million of principal CIESA's outstanding debt and also establishes that the remainder financial debt (approximately US\$ 201 million of principal) will be settled, among other things, through a combination of transfer of assets and granting equity interest, subject to the prior authorization of Ente Regulador del Gas, Comisión Nacional de Valores and Comisión Nacional de Defensa de la Competencia, which have not yet been obtained. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's actions in regard to these matters are also described in Notes 6 and 7. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRICE WATERHOUSE & CO. S.R.L.

Rubén O. Vega (Partner)

City of Buenos Aires, Argentina

February 5, 2007 (except with respect to the matters discussed in

Note 12 to the consolidated financial statements, which is as of April 30, 2007)

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**PETROBRAS ENERGÍA PARTICIPACIONES S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**  
**(Stated in millions of Argentine pesos)**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net sales	15,175	13,458	11,745
Cost of sales (Note 25.c)	(11,000)	(10,111)	(8,062)
Gross profit	4,175	3,347	3,683
Administrative and selling expenses (Note 25.e)	(1,758)	(1,465)	(1,283)
Exploration expenses (Note 25.e)	(238)	(172)	(117)
Other operating expenses, net (Note 16.c)	(231)	(177)	(135)
Operating income	1,948	1,533	2,148
Equity in earnings of affiliates (Note 8.b)	305	176	219
Financial income (expenses) and holding gains (losses)			
Generated by assets:			
Interest	111	96	108
Exchange difference	227	110	49
Holding gains (Note 25.c)	(111)	86	25
Holding gains and income from the sale of listed shares and government securities	13	33	49
Other financial income (expenses), net	52	(34)	(6)
	292	291	225
Generated by liabilities:			
Interest	(539)	(587)	(611)
Exchange difference	(460)	(118)	(65)
Other financial expenses net	(75)	(81)	(55)
	(1,074)	(786)	(731)
Other (expenses) income, net (Note 16.d)	(96)	130	93
Income before income tax and minority interest in subsidiaries	1,375	1,344	1,954
Income tax (Note 11)	(529)	(494)	(465)
Minority interest in subsidiaries	(261)	(277)	(425)



Net income	585	573	1,064
Basic/diluted earnings per share Stated in Argentine pesos	0.276	0.270	0.501

The accompanying notes are an integral part of these consolidated financial statements.

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**PETROBRAS ENERGÍA PARTICIPACIONES S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2008 AND 2007**  
**(Stated in millions of Argentine pesos)**

	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash	492	98
Investments (Note 8.a)	989	1,094
Trade receivables	1,635	1,605
Other receivables (Note 16.a)	1,595	2,659
Inventories (Note 7)	1,536	996
Other assets	5	
Total current assets	6,252	6,452
<b>NON-CURRENT ASSETS</b>		
Trade receivables	154	228
Other receivables (Note 16.a)	522	657
Inventories (Note 7)	95	100
Investments (Note 8.a)	3,477	3,270
Property, plant and equipment (Note 25.a)	12,556	10,609
Other assets	35	41
Total non-current assets	16,839	14,905
Total assets	23,091	21,357
<b>CURRENT LIABILITIES</b>		
Accounts payable	1,873	1,728
Short-term debt (Note 9)	2,445	1,922
Payroll and social security taxes	351	261
Taxes payable	463	280
Reserves (Note 12)	125	124
Other liabilities (Note 16.b)	530	305
Total current liabilities	5,787	4,620
<b>NON-CURRENT LIABILITIES</b>		
Accounts payable	136	179
Long-term debt (Note 9)	5,152	5,430
Payroll and social security taxes	66	60
Taxes payable	1,508	1,428

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Reserves (Note 12)	119	86
Other liabilities (Note 16.b)	494	307
Total non-current liabilities	7,475	7,490
Total liabilities	13,262	12,110
<b>MINORITY INTEREST IN SUBSIDIARIES</b>	2,777	2,583
<b>SHAREHOLDERS EQUITY</b>	7,052	6,664
	23,091	21,357

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****PETROBRAS ENERGÍA PARTICIPACIONES S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL****STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006****(Stated in millions of Argentine pesos)**

	2008							2007	2006	
	Capital stock	Capital stock Adjustment to capital stock	Additional paid-in capital	Legal reserve	Retained earnings Unappropriated retained earnings	Treasury stock (a)	Deferred (loss) income (a)	Total	Total	Total
<b>Balances at the beginning of the year</b>	2,132	2,554	160	128	1,732	(33)	(9)	6,664	6,220	6,124
Adjustments to prior years (Note 2.f)										(969)
<b>Modified balances at the beginning of the year</b>	2,132	2,554	160	128	1,732	(33)	(9)	6,664	6,220	5,155
Shareholders Meeting decisions of March 28, 2008										
- Legal reserve				29	(29)					
Advanced cash dividends approved by the Board of Directors meetings held on August 5, 2008 and August 7, 2007					(239)			(239)	(141)	
Deferred income for the year							42	42	12	1
Net income					585			585	573	1,064

<b>Balances at the end of the year</b>	2,132	2,554	160	157	2,049	(33)	33	7,052	6,664	6,220
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(a) See Note 4.m).

The accompanying notes are an integral part of these consolidated financial statements.

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**PETROBRAS ENERGÍA PARTICIPACIONES S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**  
**(Stated in millions of Argentine pesos)**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Cash provided by (used in) operations:</b>			
Net income	585	573	1,064
<b>Reconciliation to net cash provided by (used in) operating activities:</b>			
Minority interest in subsidiaries	261	277	425
Equity in earnings of affiliates	(305)	(176)	(219)
Financial income and holding gains, net	215	51	(24)
Depreciation of property, plant and equipment	1,260	1,217	1,121
Impairment of unproved oil and gas wells	42	45	78
Disposal of property, plant and equipment		17	15
Gain from the sale of equity interest investments		(1,137)	
Net impairment of assests	33	1,014	6
Loss on return of Block 31	31		
Sale of oil and gas areas	28	(62)	(85)
Seniat Claim Venezuela			18
Reversal of the allowance for impairment of investments		(5)	(39)
Income tax expense	529	494	465
Income tax paid	(109)	(167)	(16)
Accrued interest	455	516	584
Interest paid	(457)	(519)	(491)
Edesur Memorandum of agreement		(85)	
Other	(19)	5	42
<b>Changes in assets and liabilities:</b>			
Trade receivables	78	(227)	150
Other receivables	(108)	114	(277)
Inventories	(596)	(271)	(136)
Other assets	5	6	8
Accounts payable	7	52	130
Payroll and social security taxes	75	13	110
Taxes payable	(252)	(182)	(176)
Dividends collected	150	264	116
Other liabilities	245	26	8
<b>Net cash provided by operations</b>	<b>2,153</b>	<b>1,853</b>	<b>2,877</b>
<b>Cash provided by (used in) investing activities:</b>			

Acquisition of property, plant and equipment, interests in companies and oil and gas areas	(2,739)	(2,124)	(2,175)
Sale of property, plant and equipment, interests in companies and oil and gas areas	1,440	406	124
Net decrease in investments other than cash and cash equivalents	51	31	56
Contributions and advances to unconsolidated affiliates	(2)	(6)	(27)
Other	3	(4)	
<b>Net cash used in investing activities</b>	<b>(1,247)</b>	<b>(1,697)</b>	<b>(2,022)</b>
<b>Cash provided by (used in) financing activities:</b>			
Net decrease in short term debt	(475)	(179)	(6)
Increase in long-term debt	136	2,095	300
Payments of long-term debt	(19)	(2,094)	(589)
Cash dividends paid	(322)	(186)	
<b>Net cash used in financing activities</b>	<b>(680)</b>	<b>(364)</b>	<b>(295)</b>
<b>Effect of exchange rate change on cash</b>	<b>83</b>	<b>25</b>	
<b>Increase (decrease) in cash</b>	<b>309</b>	<b>(183)</b>	<b>560</b>
<b>Cash and cash equivalents at the beginning of the year (a)</b>	<b>1,167</b>	<b>1,350</b>	<b>790</b>
<b>Cash and cash equivalents at the end of the year (a) (See Note 16.e)</b>	<b>1,476</b>	<b>1,167</b>	<b>1,350</b>

(a) Cash and cash equivalents include highly liquid temporary cash investments with original maturities of three months or less and those with higher terms and prepayment clauses

The accompanying notes are an integral part of these consolidated financial statements.





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**PETROBRAS ENERGÍA PARTICIPACIONES S.A.,  
SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006  
(Amounts stated in millions of Argentine pesos)**

**1. Business of the Company****a. The Company operations**

Petrobras Energía Participaciones S.A. (hereinafter Petrobras Energía Participaciones, PEPSA or the Company) is a holding Company that operates through Petrobras Energía S.A. (Petrobras Energía or PESA) and its subsidiaries. The Company's principal asset is 75.8% of the equity interest of Petrobras Energía, an integrated energy company, focused on oil and gas exploration and production, refining, petrochemical activities, generation, transmission and distribution of electricity and sale and distribution of hydrocarbons. Petrobras Energía has businesses in Argentina, Bolivia, Brazil, Ecuador, Perú, Venezuela, México and Colombia.

**b. Corporate reorganization of Petrobras Energía and Petrobras Energía Participaciones S.A.**

On September 2, 2008, the Boards of Directors of Petrobras Energía and of Petrobras Energía Participaciones approved the preliminary merger agreement that the companies had been negotiating. Under the terms of the preliminary merger agreement, PEPSA will merge into Petrobras Energía, by way of absorption by PESA of PEPSA. Petrobras Energía will assume, by universal succession, all of the assets and liabilities, and will succeed to all of the rights and obligations of PEPSA. The reorganization would be effective on January 1, 2009. According to the terms of the Preliminary Merger Agreement, as from the effective reorganization date and until the registration of the Definitive Merger Agreement with the Public Registry of Commerce and the dissolution without liquidation of Petrobras Energía Participaciones, PESA's Board of Directors will take over the administration of PEPSA's assets and liabilities, replacing those in charge of management until then.

The Special Shareholders' Meetings of Petrobras Energía and Petrobras Energía Participaciones held on January 30, 2009 approved the merger of both companies.

As a result of the corporate reorganization, after the registration of the merger with the Public Registry of Commerce, each shareholder of Petrobras Energía Participaciones will receive 0.359015136 Class B book-entry common shares of Petrobras Energía for each Class B book-entry common share of Petrobras Energía Participaciones. Following this exchange, Petrobras Energía's capital stock will increase by P\$765,435,847, through the issuance of 765,435,847 Class B book-entry common shares, which will be fully admitted to the public offering regime in Argentina and delivered to Petrobras Energía Participaciones's shareholders in exchange for their shares in Petrobras Energía Participaciones. Once the capital increase is effective, the 765,435,847 Class B book-entry common shares of Petrobras Energía representing Petrobras Energía Participaciones's main asset holding will be cancelled, respecting the principle of equality among shareholders.

Petrobras Energía will take all necessary steps to apply for listing the shares constituting its capital stock as American Depositary Shares on the New York Stock Exchange, under the same conditions to which Petrobras Energía Participaciones's shares are currently subject.

**2. Basis of presentation**

Petrobras Energía Participaciones' consolidated financial statements have been prepared in accordance with the regulations of the Argentine Securities Commission (CNV) and, except for the matters described in Note 3, with Generally Accepted Accounting Principles in Argentina, as approved by the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA, Professional Council in Economic Sciences of the City of Buenos Aires) applicable to consolidated financial statements (Argentine GAAP), which differ in certain significant respects from generally accepted accounting principles in the United States of America (US GAAP) – see Note 20. Such differences involve method of measuring the amounts shown in the financial statements, as well, as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission (SEC). Certain disclosures related to formal legal requirements for reporting in Argentina have been omitted for purposes of these consolidated financial statements.



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The preparation of financial statements in conformity with Argentine GAAP requires management to make estimates, judgments and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the value of purchase consideration, valuation of accounts receivable, inventories, and other long-lived assets, legal contingencies, guarantee obligations, indemnifications, and assumptions used in the calculation of income taxes, retirement and other post-employment benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets; foreign currency and energy markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Significant areas of uncertainty and critical judgments in the application of accounting principles that have most significant effects on the amounts recognized in the financial statements are as follows:

Notes 4.g) and 25.a)	- Depreciation
Notes 4.g) and 5	- Accrual for asset retirement obligations and Exploratory well costs
Notes 4.k) and 12	- Contingencies
Notes 4.g), 5, 8 and 12	- Impairment of long-lived assets
Notes 4.i) and 11	- Calculation of income taxes
Note 23	- Oil and Gas Supplementary Disclosures (Unaudited)

*a) Basis of consolidation*

In accordance with the procedure set forth in Technical Resolution No. 21 of the FACPCE (Argentine Federation of Professional Councils in Economic Sciences), the Company has consolidated line by line its financial statements with those of the companies in which it exercises control or joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of the votes, have resolved, on the basis of written agreements, to share the power to define and establish a company's operating and financial policies. Under the joint control of Petrobras Energía are Distrilec Inversora S.A. ( Distrilec ), Compañía de Inversiones de Energía S.A. ( Ciesa ) and as from December 31, 2007, Petrobras de Valores Internacional de España S.L. ( PVIE ).

In the consolidation of controlled companies, the amount of the investment in such subsidiaries and the interest in their income (loss) and cash flows are replaced by the aggregate assets, liabilities, income (loss) and cash flows of such subsidiaries, reflecting separately the minority interest. The related party receivables, payables and transactions within the consolidated group are eliminated. The unrealized intercompany gains (losses) from transactions within the consolidated group have been completely eliminated.

In the consolidation of companies over which Petrobras Energía exercises joint control, the amount of the investment in the affiliate under joint control and the interest in its income (loss) and cash flows are replaced by Petrobras Energía's proportional interest in the affiliate's assets, liabilities, income (loss) and cash flows. The related party receivables, payables and transactions within the consolidated group and companies under joint control have been eliminated in the consolidation pro rata to the shareholding of Petrobras Energía.

Considering that the sale of the 40% equity interest in PVIE was performed in December 2007 (Note 8.III), the consolidated statements of income and cash flows for the year ended December 31, 2007 and 2006 presented for comparative purposes show the participation in PVIE according to the procedure indicated for the consolidation of controlled companies.

The information about the companies in which the Company exercises control, joint control and significant influence are disclosed in [Note 25.f](#)).

*b) Foreign currency translation*

The Company applies the method established by the Technical Resolution No. 18 of the FACPCE for the translation of financial statements of foreign subsidiaries, affiliates, branches and joint ventures.

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In the opinion of the Company's Management, the transactions carried out abroad have been classified as not integrated; as such transactions are not considered to be an extension of the Company's transactions.

Upon applying the translation method, the foreign transactions are first remeasured into US dollars (functional currency for such transactions), as follows:

Assets and liabilities stated at current value are converted at the closing exchange rate.

Assets and liabilities measured at historical values and the income (loss) accounts are converted at historical exchange rates.

Remeasurement results are recognized in the statements of income as Financial income (expenses) and holding gains (losses).

After the transactions are remeasured into US dollars, they are translated into Argentine pesos as follows:

Assets and liabilities are translated by using the closing exchange rate.

Income (loss) is translated at the historical exchange rates.

The effect arising from the translation of the financial statements of foreign operations is disclosed in the Shareholders equity as Deferred (loss) income.

Exchange gains and losses arising from the Company's liabilities in foreign currency assumed to hedge the Company's net investments in foreign entities are also recorded in the Deferred (loss) income account (Note 4.m). This net investment hedge resulted in lower losses in the amount of 352, 112 and 51 for the years ended on December 31, 2008, 2007 and 2006, respectively, before the effect of income taxes and minority interest.

*c) Consideration of the effects of inflation*

The Company presents its consolidated financial statements in constant currency following the restatement method established by Technical Resolution No. 6 of the FACPCE and in accordance with CNV General Resolutions No. 415 and 441.

Under such method, the consolidated financial statements recognize the effects of the changes in the purchasing power of the Argentine peso through August 31, 1995. Starting September 1, 1995, under CNV General Resolution No. 272, the Company has stopped the use of this method and maintained the restatements made through such date. This method has been accepted by professional accounting standards through December 31, 2001.

On March 6, 2002, the CPCECABA approved Resolution MD No. 3/2002 providing, among other things, the reinstatement of the adjustment-for-inflation method for the interim periods or years ended after March 31, 2002, allowing for the accounting measurements restated based on the change in the purchasing power of the Argentine peso through the interruption of adjustments, such as those whose original date is within the stability period, to be stated in Argentine pesos as of December 2001. Through General Resolution No. 415 dated July 25, 2002, the CNV requires that the information related to the financial statements that are to be filed after the date on which the regulation became effective be disclosed adjusted for inflation.

The restatement method is applied to the accounting cost values immediately preceding the capitalization of the exchange differences, which represent an anticipation of the effects of variances in the purchasing power of the Argentine peso, which will be subsequently absorbed by the restatement in constant pesos.

On March 25, 2003, the Executive Branch of Government issued Decree No. 664 establishing that the financial statements for years ending as from such date be filed in nominal currency. Consequently, and under CNV Resolution No. 441, the Company no longer applied inflation accounting as from March 1, 2003. This method was not in accordance with professional accounting standards effective in the City of Buenos Aires, which through Resolution No. 287/03 of the CPCECABA discontinued the application of the restatement method starting October 1, 2003. The effects thereof do not significantly affect the Company's financial position.

**Table of Contents***d) Accounting for the operations of oil and gas exploration and production joint ventures and foreign branches*

The oil and gas exploration and production joint ventures have been proportionally consolidated. Under this method, the Company recognizes its proportionate interest in the joint ventures' assets, liabilities, revenues, costs and expenses on a line-by-line basis in each account of its financial statements.

Foreign branches have been fully consolidated.

*e) Financial statements used*

The financial statements of the subsidiaries and companies under joint control as of December 31, 2008, 2007 and 2006, or the best available accounting information at such dates were used for consolidation purposes and adapted to an equal period of time in respect to the financial statements of the Company. Additionally, the adjustments to adapt the valuation methods to those applied by the Company have been also considered.

*f) Changes in professional accounting standards*

On August 10, 2005 the CPCECABA approved the Resolution CD No. 93/2005, which introduced a series of changes to professional accounting standards. Through General Resolutions Nos. 485 and 487 dated December 29, 2005, and January 26, 2006, the CNV approved the abovementioned changes, which were effective for years beginning as from January 1, 2006.

The effects of these changes on the shareholders' equity as of December 31, 2005 are described below:

Comparison with recoverable values (i)	(143)
Deferred tax (ii)	(804)
Total effect on unappropriated retained earnings	(947)
Deferred (loss) income	(22)
Total effect on shareholders' equity	(969)

- (i) In calculating the recoverability of Property, Plant & Equipment and certain intangible assets, the recoverable value is considered to be the higher of the net realizable value and the discounted value of the expected cash flows, eliminating the first comparison with the nominal value of expected

cash flows.

- (ii) The difference between the inflation-adjusted book value of Property, Plant & Equipment and other non-monetary assets and their tax basis is considered to be a temporary difference that gives rise to the recognition of a deferred tax liability, which as provided by CNV General Resolution No. 487 can either be booked or disclosed in notes to financial statements. The Company's Management opted to book this effect in order to be consistent with the International Financial Reporting Standards (IFRS).
- (iii) The effects of the measurement of the derivative instruments considered to be an effective hedge and the effects of the translation of foreign operations net of the foreign-exchange differences generated by the debt denominated

in foreign  
currency  
designated as  
hedge for net  
investment abroad  
are no longer  
disclosed as an  
item between  
liabilities and  
shareholders  
equity ( mezzanine  
account ) and,  
instead, are  
disclosed in the  
shareholders  
equity.

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**3. Accounting standards**

These consolidated financial statements have been prepared in accordance with the applicable CNV regulations. The CNV regulations differ from Argentine GAAP as follows:

*a) The date of discontinuance of the application of inflation accounting provided for in FACPCE Technical Resolution No. 6, as described in Note 2.c).*

*b) The possibility of capitalizing the financial costs of financing with the Company's own capital may not be applied.*

*c) The alternative treatment prescribed in the professional accounting standards in connection with the capitalization of financial costs attributable to certain assets is considered mandatory.*

**4. Valuation methods**

The main valuation methods used in the preparation of these consolidated financial statements are as follows:

*a) Accounts denominated in foreign currency:*

At the prevailing exchange rates at each balance sheet date.

The summary of accounts denominated in foreign currency is presented in Note 25.d).

*b) Inventories:*

Crude oil stock: at reproduction cost.

Raw materials and materials: of high -turnover, at replacement cost; of low -turnover, at the latest purchase price, restated according to [Note 2.c](#)).

Work in progress and finished products relating to refining, distribution, petrochemical and gas and energy businesses: at replacement or reproduction cost, as applicable, applied proportionally to the degree of completion of the related good in the case of work in progress.

Advances to suppliers: based on the amounts of money delivered.

The carrying amount of these assets does not exceed their recoverable value.

*c) Investments:*

Publicly traded Government Securities: at market value at each balance sheet date. Any gain or loss due to market fluctuations is reflected in the Financial income (expenses) and holding gains (losses) account.

Certificates of deposit and loans granted to group companies and to affiliates in which significant influence is exercised: at nominal value plus accrued interest, according to the specific clauses of each transaction. The carrying amount of these assets does not exceed their recoverable value.

Investments in mutual funds: at market value at each balance sheet date.

Shares Participation in affiliates in which the Company exercises significant influence: at the equity method calculated using the affiliates' financial statements as of December 31, 2008 and 2007 or the best available financial information, adapted to an equal period of time.

For the determination of the Company's equity investments in affiliates, consideration has been given to the adjustments to adapt the valuation methods of some affiliates to those of the Company, irrevocable contributions made by others, elimination of reciprocal investments, intercompany profits and losses and the difference between acquisition cost and book value of affiliates at the time of the acquisition.

Investments are stated at recoverable value if such value is exceeded using the equity method.

Interest in affiliates in which the Company does not exercise significant influence: at acquisition cost restated according to [Note 2.c](#)).

**Table of Contents***d) Trade receivables and accounts payable:*

Trade receivables and accounts payable have been recognized at cost plus accrued financial components, net of collections or payments, respectively. The principal amount is equal to the cash price, if available, or the nominal price less implicit interest calculated at the prevailing interest rate on the date of the original transaction.

Trade receivables include both outstanding billed services and services rendered but not yet billed as of each balance sheet date.

The total amount of receivables is net of an allowance for doubtful accounts. In providing such allowance, the Company evaluates different factors, including the customers' credit risks, historical trends and other relevant information. Such evaluation may require future adjustments if economic conditions substantially differ from the assumptions made.

*e) Financial receivables and payables:*

Financial receivables and payables have been valued according to the amounts rendered and received, respectively, net of transaction costs, plus accrued financial gains (losses) on the basis of the explicit or estimated rate at such time, net of payments or collections.

*f) Other receivables and payables:*

Other receivables and payables have been valued on the basis of the best estimate of the amount to be collected or paid, respectively, discounted, when applicable, using the estimated rate at the time of initial measurement, except for the deferred tax assets and liabilities which are stated at nominal value.

*g) Property, plant and equipment:*

Property, plant and equipment, except as indicated below, have been valued at acquisition cost restated according to [Note 2.c](#)), less accumulated depreciation. Any expenditure subsequent to the original recognition of the asset is added as a component of the asset only when the expenditure improves its condition and it is probable that future economic benefits, in excess of the originally assessed ones, will flow to the enterprise or when the expenditure relates to a major repair or overhaul of the asset made to allow the continued use of the asset provided (i) such expenditure is allocated to the replacement of the component parts of the asset, (ii) the useful life of such component parts has been calculated based on their own wear and tear or depletion and (iii) it is probable that future economic benefits will flow as a result of the expenditure.

Property, plant and equipment related to foreign operations were converted into US dollars (functional currency) at their historical exchange rates, and they have been translated into Argentine pesos at the exchange rate effective at closing date in accordance with the method for converting foreign operations described in [Note 2.b](#)).

The Company uses the successful efforts method of accounting for its oil and gas exploration and production activities, in accordance with the Statement of Financial Accounting Standard No. 19 (SFAS No.19), issued by the United States Financial Accounting Standard Board. This method involves the capitalization of: (i) the cost of acquiring properties in oil and gas exploration and production areas; (ii) the cost of drilling and equipping exploratory wells that result in the discovery of commercially recoverable reserves; (iii) the cost of drilling and equipping development wells, and (iv) the estimated future costs of abandonment and restoration.

In accordance with SFAS No.19, exploration costs, excluding exploratory well costs, are expensed during the year in which they are incurred. Drilling costs of exploratory wells are capitalized until determination is made on whether the drilling resulted in proved reserves that justify the commercial development. If reserves are not found, such drilling costs are expensed. Occasionally, an exploratory well may determine the existence of oil and gas reserves but they cannot be classified as proved when drilling is complete. In those cases, in accordance with the interpretation FASB Staff Position 19-1, such costs continue to be capitalized insofar as the well has allowed to determine the existence of sufficient reserves to warrant its completion as a production well and the Company is making sufficient progress in evaluating the economic and operating feasibility of the project.

The cost of Transportadora de Gas del Sur S.A. s ( TGS ) property, plant and equipment was determined based on the price paid for the acquisition of 70% of TGS s common stock. This price was the basis to determine a total value of common stock, to which was added the value of the debts assumed under the Transfer Agreement, in order to determine the initial value of property, plant and equipment. Such value has been restated as explained in [Note 2.c](#)).



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The cost of work in progress, whose construction will extend over time, includes, if applicable, the computation of financial costs accrued on loans granted by third parties and the costs related to setting up the facilities, net of any income obtained from the sale of commercially valuable production during the process.

The Company depreciates productive wells, machinery and camps in the production areas according to the units of production method, by applying the ratio of oil and gas produced to the proved developed oil and gas reserves. The acquisition cost of property with proved reserves is depreciated by applying the ratio of oil and gas produced to estimated proved oil and gas reserves. Acquisition costs related to properties with unproved reserves is valued at cost and its recoverability is periodically assessed on the basis of geological and engineering estimates of possible and probable reserves that are expected to be proved over the life of each concession.

Estimated future restoration and well abandonment costs in hydrocarbons areas, discounted at an estimated rate at the time of their initial measurement, are included in the cost of the assets and depreciated using the units of production method. Additionally, a liability at the estimated value of the discounted amount payable is recognized.

The Company estimates its reserves at least once a year. The Company's reserves estimation as of December 31, 2008 and 2007 was audited by DeGolyer and MacNaughton. The technical revision covered approximately 70% and 71% respectively, of the Company's estimated reserves. The audit covered approximately 90% of the estimated reserves located in areas operated by the Company. As of December 31, 2006, the Company's reserves estimation were audited by Gaffney, Cline & Associates Inc. The technical revision covered approximately 93% of the Company's estimated reserves.

The Company's remaining property, plant and equipment are depreciated by the straight-line method based on their existing concession terms and their estimated useful lives as the case may be, which ranges from three to forty years.

The value of property, plant and equipment does not exceed its recoverable value. Company's Management assesses the recoverability of property, plant and equipment items whenever there occur events or changes in circumstances (including significant decreases in the market value of assets, in the prices of the main products sold by the Company or in oil and gas reserves, as well as changes in the regulatory framework for the Company's activities, significant increases in operating expenses, or evidence of obsolescence or physical damage) that could indicate that the value of an asset or of a group of assets might not be recoverable. The book value of a long-lived asset is adjusted to its recoverable value if its carrying amount exceeds such value.

From a regulatory standpoint, recoverable value is defined as the larger of net realizable value and the discounted value in use, defined as the addition of the discounted expected net cash flows that arise as a direct result of the use and eventual disposition of the assets. To such end, among other elements, the premises that represent the best estimation made by Management of the economic conditions that will prevail throughout the useful life of the assets are considered.

In subsequent periods, the reversal of the impairment is analyzed if changes in the assumptions used to determine the asset recoverable value arise. In such a case, the book value of the asset or group of assets is raised to the smaller of: a) the book value that the asset or group of assets would have had if the impairment had never been recognized; and b) its recoverable value.

*h) Environmental costs:*

The costs incurred to limit, neutralize or prevent environmental pollution are only capitalized if at least one of the following conditions is met: (a) such costs relate to improvements in safety; (b) the risk of environmental pollution is prevented or limited; or (c) the costs are incurred to prepare the assets for sale and the book value of such assets together with the additional cost do not exceed their respective recoverable value.

Liabilities related to future remediation costs are recorded when environmental assessments are probable, and the costs can be reasonably estimated. The timing and magnitude of these accruals are generally based on the Company's commitment to a formal plan of action, such as an approved remediation plan or the sale or disposal of an asset. The accrual is based on the probability that a future remediation commitment will be required.

The Company records the related liabilities based on its best estimation of future costs, on a discounted basis, using currently available technology and applying current environmental regulations as well as the Company's own internal environmental policies. The environmental liabilities recorded mainly correspond to our Argentine operations.



**Table of Contents***i) Income tax, minimum presumed income tax, withholdings on exports of hydrocarbons and hydroelectric royalties:*

The Company and its subsidiaries estimate income tax on an individual basis under the deferred tax method.

To book the deferred tax balance, the Company uses the liability method, which establishes the determination of net deferred tax assets and liabilities on the basis of temporary differences determined between the accounting and tax measurement of assets and liabilities. Temporary differences determine tax assets and liabilities when their future reversal decreases or increases the taxes to be determined, without affecting the compensation of the respective amounts. The Company recognizes a deferred tax asset for an unused tax loss carryforward if, and only if, it is considered probable that there will be sufficient future taxable profit against which the tax loss could be used.

The deferred tax assets and liabilities have been valued at their nominal value.

Prevailing income tax rates at year end in Argentina, Venezuela, Brazil, Perú, Ecuador, Bolivia, Austria, Colombia and Spain are 35%, 50%, 34%, 30%, 36.25%, 25%, 25%, 33% and 35%, respectively. Additionally, payment of Bolivian-source income to beneficiaries outside Bolivia is levied with 12.5% withholding income tax.

The minimum presumed income tax (applicable in Argentina ) is supplementary to income tax, since while the latter is levied on the year's taxable income, the minimum presumed income tax is a minimum tax levied on the potential income of certain productive assets at the rate of 1%, so that the Company's final liability will be equal to the higher of both taxes. However, should the minimum presumed income tax exceed the calculated income tax in any given year, such excess may be applied to reduce any excess of income tax over the minimum presumed income tax in any of the ten succeeding years. The minimum presumed income tax asset has been valued at its discounted value.

For the operation of Pichi Picún Leufú Hydroelectric Complex, the Company pays since 2002 hydroelectric royalties of 1%, increasing at a rate of 1% per year up to the maximum percentage of 12% of the amount resulting from applying the rate for the bulk sale to the power sold under the terms of Section No. 43 of Law No. 15,336, as amended by Law No. 23,164. As of December 31, 2008, we paid hydroelectric royalties at a rate of 7%. In addition, the Company is subject to a monthly license fee payable to the Federal Government for the use of the power source equivalent to 0.5% of the same basis used for the calculation of the hydroelectric royalty.

The Public Emergency and Exchange System Reform Law No. 25,561 established the creation of a system of withholdings on exports of hydrocarbons for five years from March 1, 2002, which was subsequently extended for five years from January 2007 pursuant to Law No. 26,217. The effect of such withholdings is deducted from the respective selling prices.

Effective November 2007, Resolution No. 394/07 issued by the Ministry of the Economy and Production established a new method for calculating withholdings on exports of crude oil, and gave equivalent treatment to certain oil related products as that of crude oil. This amendment results in the application of a variable export withholding based on a formula that considers the international price of crude oil and a cut-off price by product.

Under this method, when the international (quoted) price of crude oil exceeds US\$ 60.90 per barrel, an increasing withholding rate is set for crude oil exports that results in a price cap of US\$ 42 received by the producer per barrel of standard-quality crude oil. When the international price of crude oil ranges between US\$ 45.00 and US\$ 60.90 per barrel, a 45% withholding rate is applied. When the international price of crude oil dips below US\$ 45 per barrel, the regulations call for the authorities to determine a new applicable withholding rate within 90 days. The same rules apply to exports of refined products such as gasoline, fuel oil and lube oils, for which different cut-off and reference prices were defined.

Previously, the withholding rate was 5% for refined products and 20% for LPG, and a special regime was applied on crude oil exports, starting at 25% when the price per barrel was equal to or lower than US\$ 32 and contemplating increasing rates ranging between 3% and 20% when the price per barrel ranged between US\$32.01 and US\$45, with a cap set at 45% when the price exceeded US\$ 45.

In March 2008, the Ministry of Economy and Production issued Resolution No.127/08 which, in connection with natural gas, amended Resolution No. 534/2006, whereby a 45% withholding rate was established on the price of the gas imported from Bolivia, and imposed a 100% withholding on natural gas exports, considering for valuation purposes the highest price set for natural gas under the applicable agreements for natural gas imports into Argentina. In addition, pursuant to such resolution, the methodology for calculating withholdings on exports of crude oil was also applied to LPG.



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*j) Labor costs liabilities:*

Labor costs liabilities are accrued in the years in which the employees provide the services that trigger the consideration.

The cost of defined contribution plans is periodically recognized in accordance with the contributions made by Petrobras Energía.

For purposes of determining the estimated cost of post-retirement benefits granted to employees, the Company has used actuarial calculation methods, making estimates with respect to the applicable demographic and financial variables. The amount recognized as liability attributable to such benefits represents the addition of the present value of the obligation, net of any actuarial result not recognized and the present value of the assets of the plan, with which the obligations will be canceled.

*k) Contingencies:*

Contingencies relate to conditions that exist as of the date of the financial statements that may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. Such contingent liabilities are assessed by the Company's management based on the opinion of its legal counsel and the remaining available evidence.

Such contingencies include outstanding lawsuits or claims for possible damages to third parties in the ordinary course of the Company's business, as well as third party claims arising from disputes concerning the interpretation of legislation.

If the assessment of a contingency indicates that it is probable that a loss has been incurred and the amount of the loss can be estimated, a liability is accrued in the Reserves account, at the best estimate of the expenditure required to settle the present obligation at the balance sheet day. The company evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, they are included in the accrual. If the assessment indicates that a potential loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the possibility of occurrence, is disclosed in a note to the financial statements. Loss contingencies considered remote are not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Movements of reserves are disclosed in Note 12.

*l) Basic/diluted earnings per share:*

Earnings per share for the years ended December 31, 2008, 2007 and 2006 was calculated on the basis of shares outstanding during each year. Since the Company does not have preferred shares or debt convertible into shares, basic and diluted earnings per share are the same.

*m) Shareholders' equity accounts:*

The equity accounts were restated according to Note 2.c), except for Capital stock that represents subscribed and paid-in capital. The adjustment arising from the restatement of the Capital stock is disclosed under the caption

Adjustment to capital stock .

The account Treasury stock relates to shares of the Company owned by Petrobras Energía, and is deducted from the shareholders' equity at acquisition cost, representing 9,431,210 Class B shares for a face value of P\$1, with a cost and book value of 33 and a listed price of 21.

The Deferred (loss) income account comprises the changes in the accounting measurement of derivative financial instruments designated as cash flows hedges to the extent that they are effective hedges, and the gain (loss) resulting from the translation of foreign operations, net of the exchange differences from the Company's liabilities denominated in foreign currency designated as hedge of the net foreign investment.



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The activity of the deferred (loss) income is the following:

	<b>Total (a)</b>
Balances at 12/31/2005	(22)
Activity for the year	1
Balances at 12/31/2006	(21)
Activity for the year	12
Balances at 12/31/2007	(9)
Activity for the year	42
Balances at 12/31/2008	33

(a) See Note 2.b

*n) Revenue recognition:*

Revenues from the sale of crude oil, natural gas and petroleum, electric power generation, petrochemical and refined products are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured.

Revenues from oil and natural gas production in which the Company has a joint interest with other producers are recognized on the basis of the net working interest, regardless of actual assignment. Any imbalance between actual and contractual assignment will result in the recognition of an amount payable or receivable according to the actual share in production, whether above or below the production resulting from the Company's contractual interest in the consortium. As of December 31, 2008 and 2007 gas imbalance liabilities were 6 and 5, respectively, attributable to 135 and 118 million cubic meters, respectively.

Revenues from natural gas transportation under firm agreements are recognized based on contracted capacity hired, regardless of the volumes carried. Revenues generated by interruptible gas transportation and by certain liquid natural gas (LNG) production and transportation contracts are recognized at the time the natural gas and the liquids are delivered to the customers. For other LNG production contracts and other services, revenues are recognized when the services are rendered.

Revenues from electric power distribution are recognized on the basis of the actual supply of the service, considering the billed portion resulting from periodic power measurements and an estimated amount accrued and not billed for the services supplied from the last measurement to year end. Services accrued and not billed as of year end are determined on the basis of the estimated daily power consumption for the days following the last measurement, based on users historical consumption, and adjusted by seasonality or other measurable factors that may have an impact on consumption.

*o) Accounting for derivative financial instruments:*

Derivative financial instruments are measured at their fair value, determined as the amount of cash to be collected or paid to settle the instrument as of the date of measurement, net of any obtained or paid advances.

Changes in the accounting measurement of derivative financial instruments designated as cash flows hedges, which have been designated as effective hedges, are recognized under Deferred (loss) income in Shareholders equity. Changes in the accounting measurement of derivative financial instruments that do not qualify for hedge accounting are recognized in the statement of income under Financial income (expense) and holding gains (losses).

A hedge is considered to be effective when at its inception, as well as during its life, its changes offset from eighty to one hundred and twenty five percent the opposite changes of the hedged item. In this respect, the Company excludes

the specific component attributable to the time-value of an option when measuring the effectiveness of instruments that qualify for hedge accounting.

Hedge accounting must cease upon occurrence of any of the following events: (a) the hedge instrument has matured or has been settled; (b) the hedge transaction is no longer effective; or (c) the projected transaction does not have a high likelihood of occurrence. Should that be the case, the income (loss) arising from the hedge instrument that would have been allocated to Deferred (loss) income should remain there until the committed or projected transactions occurs in the case of (a) and (b) are charged to the statement of income in the case of (c).

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As of December 31, 2008 and 2007 the Company does not hold any derivative instruments. As of December 31, 2006, the Company made forward sales of US dollars in exchange for Argentine pesos, the face value of effective contracts amounted to US\$ 18 million, at the average exchange rate of 3.26 Argentine pesos per US dollar.

*p) Changes in presentation criteria:*

For comparative purposes, all the necessary reclassifications were made in the consolidated financial statements of prior periods in order to present them on a consistent basis. These reclassifications do not imply changes in the decisions based on them.

**5. Oil and gas areas and participation in joint ventures**

As of December 31, 2008, Petrobras Energía and its affiliates were part of the oil and gas consortiums, joint-ventures and areas indicated in Note 25.g). The aggregate joint ventures and consortium assets, liabilities and results in which Petrobras Energía is a party, included in each account of the balance sheet and the statement of income utilizing the proportionate consolidation method, are disclosed in Note 25.h).

The Company is jointly and severally liable with the other participants for meeting the contractual obligations under these arrangements.

The production areas in Argentina and Perú are operated pursuant to concession production agreements with free crude oil availability.

According to Law No.17,319, royalties equivalent to 12% of the wellhead price of crude oil and natural gas are paid in Argentina. The wellhead price is calculated by deducting freight and other sales related expenses from the sale prices obtained from transactions with third parties, or from the product prices prevailing in the domestic market in case the product is subject to industrialization processes.

In Perú, royalties paid for the production of crude oil are determined on the basis of the price of a basket of varieties of crude oil, starting at a rate of 13% for prices of up to US\$ 23.9 per barrel. The royalty rate applicable as of December 31, 2008 was 18.7%. Production of natural gas is subject to a fixed royalty of 24.5%.

In Ecuador, production agreements relating to Block 18 provide for the free availability of the crude oil output and a working interest in favor of the Ecuadorian State of 40% and 60% in Pata and Palo Azul fields, respectively. In addition, under the Tax Equity Law, the Ecuadorian State will receive 70% of the revenues when prices exceed the base price of US\$45.43 per barrel (see Operations in Ecuador).

In Venezuela, mixed companies (see Operations in Venezuela) are subject to royalty payments of 33.33% and, in addition, they are required to pay an amount equivalent to any difference between 50% of the value of oil & gas sales during each calendar year and the royalty payments made during such year plus income tax and any other tax or duty calculated on the basis of the sales revenues. Mixed companies have to sell to Petróleos de Venezuela S.A. ( PDVSA ) all liquid hydrocarbons and the associated natural gas (when so provided in the agreement), produced in the delimited area, according to a price formula associated with international benchmarks such as WTS and WTI.

Additionally in Venezuela, since April 2008, with the enactment of the Special Tax Law on Extraordinary Prices of the International Hydrocarbon Market, a special tax payable by companies exporting or transporting abroad liquid hydrocarbons and oil by-products will be applicable when the average Venezuelan basket price of crude oil exceeds, in any month, US\$70 per barrel. The special tax per barrel will be 50% of the difference between the above mentioned monthly average price and the US\$70 threshold price. In addition, when such average price exceeds US\$100, the special tax per barrel, applicable to any difference in excess of the US\$100 threshold, will be 60%.

In December 2008, Petrobras Energía executed a Memorandum of Agreement for a ten-year extension of the production concessions Aguada de la Arena, Río Neuquén, Veta Escondida and Rincón de Aranda, all of them located in the province of Neuquén, with a related payment of 56 (Note 16.b).

Petrobras Energía's branch in Bolivia performs at its own risk and for its own account, in the name and on behalf of YPFB exploration and production activities within the Colpa Caranda area. Pursuant to the agreement, YPFB owns the hydrocarbons, pays royalties and direct tax on hydrocarbons, which in the aggregate amount to 50% of the production valued on the basis of sales prices, and applies the 80% of the surplus amount to pay, in the first place, the costs and depreciations associated to the development and operation of Petrobras Energía's branch, being the rest shared between YPFB and the branch on the basis of an index calculated based on production volumes, depreciation rate, prices and taxes paid, among other items.



**Table of Contents****Investment commitments**

In Argentina, on account of its interest in the joint ventures in charge of the exploration of the areas Chirete, Hickmann, Río Colorado and Río Atuel, the Company maintains investment commitments for approximately US\$ 58 million, which mainly include the execution of seismic surveys and exploratory wells perforation.

In Colombia, the Company has a 30% interest in the consortium Tibú, which has committed investments for US\$ 13 million up to December 2009.

**Asset retirement obligations**

In accordance with the regulations enacted in the countries in which we perform oil and gas operations, the Company (directly or indirectly through its subsidiaries) has the obligation to incur in costs related to the abandonment of oil and gas wells. The Company does not have assets legally restricted for purposes of settling the obligation.

The following table summarizes the activity in asset retirement obligations for the years ended December 31, 2008, 2007 and 2006.

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Beginning balance	170	146	126
Accretion	15	14	9
Additions	59	16	19
Estimated cash flow changes	52	(3)	41
Decreases		(3)	(48)
Foreign currency translation / other	12		(1)
Ending balance (Note 16.b)	308	170	146

Estimated cash flow changes principally relates to: (a) changes in the Company's expectations as to the number of wells to be abandoned before the end of the concession period, and (b) an increase in restoration and abandonment well costs as a consequence of general price increases in the industry.

**Exploratory well costs**

The following table provides the year-end balances and activity for exploratory well costs.

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Beginning balance	124	106	61
Translation effect	2		
Additions (1)	233	85	123
Transferred to development	(14)	(22)	
Charged to expense (Note 25.e) (1)	(42)	(45)	(78)
Ending balance	303	124	106
Number of wells at year end	38	21	26

(1) Additions shown in 2008 include 36 that were charged to expense during the year.

**Changes in oil and gas areas and participation in joint ventures**

In December 2008, Petrobras Energía entered into a joint undertaking agreement with Repsol-YPF for the exploration of CGSJ Marina-1 block in the Golfo San Jorge basin for a 33% interest. In addition, Petrobras Energía entered into a joint undertaking agreement with Repsol-YPF and Pan American for the exploration of CAA-40 and CAA-46 exploration blocks in the Malvinas basin for a 33% interest.

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In March 2008, once all the formalities concerning regulatory matters were completed, Petrobras Energía acquired from Energy Development Corporation (Argentina), Inc. Argentina Branch a 13.72% equity interest in El Tordillo and La Tapera Puesto Quiroga areas paying US\$117.5 million.

On January 11, 2007 the Ministry of Energy and Mines of Ecuador approved the preliminary agreement entered into with Teikoku Oil Co. Ltd. in January 2005, whereby the Company assigned 40% of its rights and obligations under the Block 18 Participation Agreement to Teikoku Oil Co. Ltd. On October 24, 2008, Petroecuador incorporated Teikoku Oil Ecuador, a subsidiary of Teikoku Oil Co. Ltd, as a partner in Block 18 agreements. On October 27, 2008, Petroecuador registered the Assignment Agreement with the National Hydrocarbons Board. As of the date of these financial statements, the parties are negotiating the final economic terms of the respective assignment agreements. During the year ended December 31, 2008 the Company recognized a loss estimated at 28 derived from this transaction in Other (expenses) income, net (Note 16.d)

In February 2007, Petrobras Energía through its subsidiary Petrobras Bolivia Internacional S.A. acquired from ConocoPhillips, its 25.67% and 52.37% interests in Sierra Chata and Parva Negra, respectively. The acquisition was structured through the purchase of the company Burlington Resources Argentina Holdings Limited, indirect holder of such interest. The acquisition cost was agreed in US\$ 77.6 million plus adjustments based in the working capital variations as of the agreement date. The applicable regulatory authorities approved this transaction in September 2008, and it was recorded at that moment.

In November 2007, Petrobras Energía sold 76.15% of its rights and obligations in the Bajada del Palo area. As a result of this transaction the Company recognized a gain of 62 in Other (expenses) income, net (Note 16.d).

In October 2006 Petrobras Energía sold 100% of its rights and obligations in Refugio Tupungato and Ataminsqui concession areas. As a result of this transaction, the Company recognized a gain of 85 in Other (expenses) income, net (Note 16.d).

***Operations in Ecuador******Amendatory Agreements relating to Block 18 Participation Agreement***

On October 31, 2008, EcuadorTLC S.A., Teikoku Oil Ecuador, Petroecuador and others entered into the Amendatory Agreements which, among other things, will govern the operation of Block 18 for one year as from that date. During that period, negotiations will be conducted to determine whether such agreements will be converted into a new contractual modality. Under these Amendatory Agreements, the Ecuadorian Government's share in Pata and Palo Azul fields production increased to 40% and 60%, respectively. In addition, the Tax Equity Law becomes applicable upon the execution of the mentioned agreements.

***Amendment to Ecuador's Hydrocarbons Law***

In April 2006, Ecuadorian authorities approved the Amendment to the Hydrocarbons Law (Law No. 42/2006), which recognizes at least a 50% increment of extraordinary revenues in favor of the State, generated from the increases in crude's Ecuadorian oil price (average monthly price in cash of FOB sales) in comparison with their respective average monthly sales, with the corresponding agreement approval, in constant price of the settlement month.

On October 18, 2007, the President of the Republic of Ecuador issued an Amendment to the Regulating Provisions of Law No.42/2006, whereby as from that date the Government's interest in the extraordinary revenues from crude oil price was increased to 99%, reducing the oil companies' interest to 1%.

Since the approval of Law No. 42/2006, EcuadorTLC S.A. and Petroecuador adopted significant opposing interpretations as to its applicability and scope in connection with the Palo Azul operating agreement in which Ecuador's share in extraordinary revenues resulting from any increase in crude oil prices was already established. In the Company's opinion, the application of the law according to Petroecuador's interpretation was confiscatory in respect of the investment and put its economic viability at risk. As from January 2008 EcuadorTLC S.A did not make any payments of royalties as calculated by Petroecuador under Law No. 42/2006.

Following the negotiations conducted with the Ecuadorian Government, which resulted in the execution of the Amendatory Agreements for Block 18, and considering the Attorney General's opinion, the parties reached an agreement on the scope of Law No. 42/2006. Under this agreement, EcuadorTLC S.A. made a payment of US\$44 million, which is to be considered as the settlement of any differences that may arise from the application of the foregoing law until the execution date of the above amendatory agreements, at which date the Tax Equity Law

became applicable.



**Table of Contents***Recoverability of investments*

As from 2006, and with special emphasis during 2007, the Ecuadorian Government implemented major tax and regulatory amendments, which particularly focused on the hydrocarbons industry. The Law No. 42/2006 is among them.

The combination of these changes have materially modified the conditions set forth at the time of execution of the respective participation agreements, adversely affecting the profitability evaluation of ongoing projects in Ecuador, with the ensuing negative impact on the assessment of their recoverability. Accordingly, in the year ended December 31, 2007, the Company recorded an impairment allowance of 759 to write the book value of Ecuador's assets down to their probable recoverable value (Note 16.d). In estimating the related recoverable value, the Company included the impact of the estimated net deficit of production from the transportation capacity contract with Oleoducto de Crudos Pesados Ltd.

**Block 31**

On December 31, 2008, Petrobras Energía Ecuador and Petroecuador executed the Termination Agreement relating to Block 31 Participation Agreement for the return of Block 31 to the Ecuadorian State. As a result, the Company recognized a loss of 31 in Other (expenses) income, net (Note 16.d).

*Crude Oil Transportation Agreement with Oleoductos de Crudos Pesados Ltd. (OCP)*

The Company has executed an agreement with OCP, whereby it has secured an oil transportation capacity of 80,000 barrels per day for a 15-year term starting November 10, 2003.

The type of transportation agreement is Ship or Pay. Therefore, the Company should meet its contractual obligations for the entire volume hired, although no crude oil is transported, paying, like the other producers, a rate that covers OCP operating costs and financial services, among others. As of December 31, 2008 such rate amounted to US\$ 2.075 per barrel.

The costs for the transportation capacity are billed by OCP and charged to expenses monthly. Hence, the costs related to the crude oil volume effectively transported are charged to Administrative and selling expenses line, whereas the surplus, related to transportation capacity hired but not used, is recorded in the Other operating expenses, net line (Note 16.c).

The Company estimates that during the effective term of the Ship or Pay transportation agreement the volume of crude oil produced will be lower than the committed transportation capacity. This presumption is based on the current assessment of the Company's reserves. For the purpose of mitigating the Company's financial exposure for the capacity contracted, the Company periodically negotiates committed transportation capacity volumes. On December 31, 2008, the Company and Petroecuador entered into an agreement for the utilization of the oil transportation capacity committed under the agreement entered into with Oleoducto de Crudos Pesados, under which the Ecuadorian State undertook the commitment that the transportation as from January 1, 2009 of its crude oil through the OCP will be charged to the transportation capacity committed under the agreement entered into between the Company and OCP, up to a maximum of 70,000 barrels per day. In addition, as of December 31, 2008, the Company sold a portion of this transportation capacity (at an average amount of 8,000 barrels per day from July 2004 to January 2012 and 16,000 barrels per day during the two years starting in May 2006). The impact of the net production deficit is considered for the purpose of analyzing the recoverability of the assets in Ecuador.

In order to guarantee the compliance with the Company's financial commitments related to the Ship or Pay transportation agreement and OCP's related business obligations, the Company issued letters of credit. These letters of credit, with maturity date of December 2018, are required to remain effective until the abovementioned commitments expire. As of December 31, 2008 the Company issued letters of credit for a total amount of about US\$100 million. As the letters of credit expire, the Company will be required to renew or replace them. Otherwise, the amounts due must be deposited in cash.

**Table of Contents*****Operations in Venezuela***

In April 2005, the Venezuelan Energy and Oil Ministry ( MEP ) ordered PDVSA to review the thirty-two operating agreements signed from 1992 through 1997 by PDVSA s affiliates with oil companies, including the agreements signed with Petrobras Energía, through its subsidiaries and affiliates in Venezuela, to operate the Oritupano Leona, La Concepción, Acema and Mata production areas. These instructions given by the MEP established that all the necessary measures should be taken by PDVSA to migrate all operating agreements effective at that time to mixed companies, in which the Venezuelan Government would hold a share of over 50% through PDVSA.

In August 2006, the conversion operating agreements were signed. These agreements provided that the equity interest of private partners in such mixed companies would be of 40%, with the remaining 60% to be held by the Venezuelan Government. As a consequence of the foregoing, the direct and indirect equity interest of Petrobras Energía in the mixed companies operating the areas Oritupano Leona, La Concepción, Acema and Mata (Petroritupano S.A., Petrowayú S.A., Petroven-Bras S.A. y Petrokariña S.A., respectively) amount to 22%, 36%, 34.5% and 34.5%, respectively. Additionally, CVP recognized a divisible and transferable credit in favor of the private companies participating in the mixed companies in the amount of US\$ 88.5 million for Petrobras Energía s equity interest, which does not accrue interest and could be applied to the payment of acquisition bonds to be used in any new mixed ownership project for oil exploration and production activities, or licenses for gas exploration and production operations in Venezuela. Since the requirements for the recognition of such credit had been met as of December 31, 2006, the Company recognized the related receivable at its estimated recoverable value, which amounted to 180.

In accordance with the corporate and governance structure established for the mixed companies, as from April 1, 2006, the Company discontinued the consolidation of assets, liabilities, income and cash flows of the Venezuelan operations on a line by line basis. Accordingly, the Company s interest in the shareholders equity and related net income are now presented as a long -term investment and equity in earnings of subsidiaries, respectively.

The new operating conditions prevailing as from the conversion of the operating agreements had an adverse impact on the recoverable value of the Company s assets in Venezuela. The recoverability of the referred investments is highly sensitive to crude oil price volatility, to economic, social and regulatory changes and, particularly, to the resulting business plans. As a result of the changes in the foregoing variables, in the years ended December 31, 2008, 2007 and 2006, the Company recorded writedowns of 154, 33 and 186, respectively related to its assets in Venezuela.

In addition, since projects for the use of the credit recognized by CVP had not been materialized, the efforts to transfer such credit to third parties had not been successful, and other alternative uses of the credit was not anticipated, as of December 31, 2007 the Company wrote down the carrying value of the credit to zero, resulting in an impairment charge.

As of December 31, 2008, 2007 and 2006, the carrying value of the Company s direct and indirect interest in the mixed companies, net of writedown allowances, amounts to 2,751, 2,564 and 2,633, respectively.

**6. Credit risk**

The Company provides credit lines in the normal course of business to refiners, petrochemical companies, marketers of petroleum products, crude oil exporting companies, electrical power generation companies, retail customers, natural gas distributors, large electrical power users and power distribution companies, among others.

As a result of the Company s business and sales locations, the portfolio of receivables is well diversified, and, therefore, the Company s Management considers the credit risk moderate based on such diversification. The Company constantly performs credit evaluations of the financial capacity of its clients, which minimizes the potential risk of bad debt losses.

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The breakdown of current and non-current inventories is as follows:

	2008		2007	
	Current	Non-current	Current	Non-current
Crude oil stock	348		186	
Raw materials and materials	387	95	221	101
Work in progress and finished products	794		560	
Advances to suppliers	9		6	
Other	2		23	
Allowance for inventories obsolescence (Note 12)	(4)			(1)
	1,536	95	996	100

**8. Investments, equity in earnings of affiliates and dividends collected**

The breakdown of current and non-current investments, the equity in earnings of affiliates and dividends collected, are as follows:

## a) Investments

Name and issuer	2008		2007
	Cost	Book value	Book value
Current:			
Government securities			5
Certificates of deposit	515	515	757
Mutual funds	53	53	331
Related companies (Note 17)	419	419	
Other	2	2	1
	989	989	1,094
Non-current:			
Government securities			1
Loans to joint venture partners in Venezuela	262	262	239
Related companies (Note 17)	147	147	143
Equity in affiliates (Note 25.b)	2,984	3,682	3,306
Allowance for impairment of investments (Note 12)		(614)	(419)
	3,393	3,477	3,270

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## b) Equity in earnings of affiliates

	2008	2007	2006
Petroritupano S.A.	132	55	15
Petrokariña S.A.	40	1	(3)
Petrowayú S.A.	107	2	29
Petroven-Bras S.A.	3	(1)	(2)
Petrolera Entre Lomas S.A.	25	30	33
Inversora Mata S.A.	8	(7)	3
Oleoductos del Valle S.A.	1	3	8
Oleoducto de Crudos Pesados Ltd.	(5)	(1)	6
Refinería del Norte S.A.	(6)	44	32
Petroquímica Cuyo S.A.I.C. (1)		21	15
Petrobras Bolivia Refinación S.A.(1)		31	82
Other		(2)	1
	305	176	219

(1) See Note 8.III

## c) Dividends collected

	2008	2007	2006
Petrobras Bolivia Refinación S.A.		60	76
Petroquímica Cuyo S.A.I.C.		6	5
Petrolera Entre Lomas S.A.	10	19	22
Oleoductos del Valle S.A.		5	7
Refinería del Norte S.A.		19	
Oleoductos de Crudos Pesados Ltd.		6	6
Petroritupano S.A.	119	82	
Petrowayú S.A.	21	67	
	150	264	116

*I. Investment in companies in which joint control or significant influence is exercised and which are subject to transfer restrictions:**a) Distrilec:*

Petrobras Energía, through Petrobras Finance Bermudas and Petrobras Electricidad de Argentina S.A ( PEDASA ), holds an indirect shareholding of 48.50% in Distrilec.

Distrilec is able to change its equity interest and sell its shares in Edesur S.A. ( Edesur ) only with the approval of ENRE (Federal Power Regulation Authority).

In addition, over the entire term of the concession, the Class A shares in Edesur shall remain pledged to guarantee the compliance with the obligations undertaken in the Concession Agreement. This pledge in no way limits the exercise of financial and voting rights associated with the Edesur s shares.

*b) CIESA:*

Shareholders of CIESA, parent company of TGS, may not sell their Class A shares representing 51% of TGS s capital stock, without the prior authorization of the regulatory agency and the approval of the shareholders of CIESA.

As of December 31, 2008 the book value of the equity interests in CIESA and in Distrilec amounted to 198 and 585, respectively (net of adjustments of (216) and (82) made to adapt Ciesa's and Distrilec's valuation methods to those of the Company, respectively, and 43 corresponding to the purchase price allocated to Distrilec's Property, Plant and Equipment recorded by the Company at the time of the acquisition of a portion of its interest).

As of December 31, 2007 the book value of the equity interests in CIESA and in Distrilec amounted to 218 and 560, respectively (net of adjustments of (227) and (90) made to adapt Ciesa's and Distrilec's valuation methods to those of the Company, respectively, and 50 corresponding to the purchase price allocated to Distrilec's Property, Plant and Equipment recorded by the Company at the time of the acquisition of a portion of its interest).

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As of December 31, 2008 and 2007, the valuation of CIESA includes 110 from the transfer to Enron of its interest in TGS.

The book value of these interests does not exceed their recoverable value.

*II. Tariff situation of the public utility companies*

The scenario after the enactment of the Public Emergency Law significantly changed the financial equation of the public utility companies. Particularly, the tremendous effect of the devaluation, within a context of revenues that have remained fixed, as a consequence of de-dollarization of rates, has affected the financial and cash flow position of such companies, as well as their ability to comply with certain loan agreement clauses.

The Public Emergency Law provided for the conversion into Argentine pesos and the elimination of indexation clauses on public service rates, thus fixing them at the exchange rate of ARS 1 = US\$ 1. In addition, the Executive Branch was empowered to renegotiate those agreements entered into to provide public services, along the following criteria: (i) rates impact on economic competitiveness and revenue allocation, (ii) service quality and investment plans, to the extent that they were contractually agreed upon, (iii) users interest and access to services, (iv) the safety in the system involved, and (v) companies' profitability.

On February 12, 2002, the Executive Branch of Government issued Decree No. 293/02 whereby it recommended that the Ministry of the Economy and Production renegotiate the agreements executed with public utility companies. UNIREN (public service agreement renegotiation and analysis unit) was created in July 2003. This agency reports to the Ministries of Economy and Production, and of Federal Planning, Public Investment and Services. UNIREN took over the work of the Renegotiation Commission and its aim is, among others, to provide assistance in the public works and services renegotiation process, to execute comprehensive or partial agreements, and to submit regulatory projects related to transitory rate adjustments.

On October 9, 2008, after UNIREN had submitted to TGS several proposals for the tariff adjustment as provided for in the concession contract that TGS had deemed insufficient, TGS executed a provisional agreement with UNIREN, which provides for a 20% tariff increase to be retroactively applied as from September 1, 2008 and for the application of the cash from such increase to an investment plan in the gas transportation system devised under the same agreement. The tariff increase will become effective after the ratification of the provisional agreement by the Argentine Executive Branch. This provisional agreement will be valid until the effective date of an agreement for the comprehensive renegotiation of the transportation license to be entered into with the National Government. In this respect, in early October 2008, TGS received from UNIREN a proposal for a comprehensive renegotiation agreement (including the 20% initial tariff increase), aimed at renegotiating the license terms and starting an overall tariff review process. As of the date of these financial statements, TGS is evaluating such proposal. As set forth in the provisional agreement, TGS should reach an agreement with UNIREN on the modalities, terms and dates for the execution of the comprehensive agreement before the date the Public Emergency Law expires. If no agreement is reached, UNIREN will submit a report to the Executive Branch recommending what future actions to take, if any.

In December 2008, the Law No. 26,456 was issued, which extended the public works and services renegotiation term to December 2009.

In June 2005, Edesur signed a letter of understanding with the UNIREN as part of the renegotiation process involving the related concession contract. Based on this letter of understanding, in August 2005, the parties signed a memorandum of understanding that included, among other matters, the terms and conditions that, once the procedures established by regulations are fulfilled, would be the basis for amending the concession agreement.

The document established that as from the execution of the letter of understanding through June 30, 2006, a complete rate review would be performed, which lead to a new rate system effective August 1, 2006, and for the following five years. Also, it established a transition period for which the following was agreed upon: (i) a transitional rate system as from November 1, 2005, with an increase in the average service rate not exceeding 15%, applicable to all rate categories, except for residential rates; (ii) a mechanism to monitor costs, which allows for reviewing rate adjustments; (iii) restrictions on dividends distribution and debt interest payment during 2006; (iv) investment commitments for 2006; (v) service provision quality standards; and (vi) restrictions on Distrilec's ability to modify its equity interest or sell its shares in Edesur. Subsequently, Resolution No. 864/2008 issued by the Secretary of Energy put off the effectiveness of the new rate system until February 2009.



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As a preliminary condition for the Executive Branch to ratify the Memorandum of Understanding, Edesur and its shareholders suspended all pending claims based on the measures taken as from the emergency situation established by Public Emergency Law in connection with the concession agreement.

The Memorandum of Agreement (MOA) was ratified by the Executive Branch on December 28, 2006. According to ENRE's Resolution No. 50/2007 published in the Official Gazette on February 5, 2007, the values stated in Edesur's Rate Schedule and resulting from the Interim Rate Schedule provided for in the MOA became effective as from February 1, 2007.

As a consequence, a 23% increase was applied on the company's own distribution costs (not affecting T1R1 and T1R2 residential rates), connection costs and the reconnection service charged by Edesur, and an additional average increase of 5% is also applied on such distribution costs for the execution of a work plan. In addition, ENRE authorized to apply to such costs, effective May 1, 2006, the 9.962% positive variation in the cost monitoring system indexes provided under the MOA.

Subsequently, Resolutions No. 1,838/2007 issued by the Secretary of Energy and No. 867/2007 of ENRE approved a 9.75% adjustment for the period from May 2006 to April 2007 under the cost monitoring method set forth in the Memorandum of Agreement applicable as from May 2007.



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On July 31, 2008 ENRE issued Resolution No 324/2008 in relation to the Interim Tariff Scheme, approving a new tariff schedule for Edesur applicable as from July 1, 2008, which imposes gradual increases between 10% and 30% on residential users with bimonthly consumption levels over 650 kilowatts as well as a 10% increase on commercial or industrial users. In addition, it provides for the application of the new tariff to the Program for the Rational Use of Energy and the partial recognition of the cost monitoring system for subsequent periods.

*III. Equity interest sales**- Hidroneuquén S.A.*

On January 17, 2007, Petrobras Energía entered into a stock purchase agreement with a consortium composed of Merrill Lynch, Pierce, Fenner & Smith Inc. and Sociedad Argentina de Energía S.A., for the sale of its 9.19% equity interest in Hidroneuquén S.A., a company holding 59% of Hidroeléctrica Piedra del Aguila S.A.'s capital stock. The stock purchase price provided under the terms and conditions of the agreement was US\$ 15 million, implying a gain of 23, recorded in Other (expenses) income, net (Note 16.d).

*- Petrobras Bolivia Refinación S.A.*

In May 2006, the Bolivian Government issued Supreme Decree No. 28,701, thus establishing what it calls the nationalization of oil and gas of the country.

The abovementioned decree also provided that the Bolivian Government shall recover full participation in the entire oil & gas production chain, and for this purpose provided, among others, the necessary actions to be taken for YPFB to control at least 50% plus one share in a group of companies, among which was Petrobras Bolivia Refinación S.A.

Within this framework, on June 25, 2007, Petrobras Energía S.A., through its subsidiary Petrobras Energía Internacional S.A., signed an agreement for the sale to YPFB of its interest in Petrobras Bolivia Refinación S.A. The sale price amounted to US\$ 55 million, resulting in a gain of 44 recorded in Other (expenses) income, net (Note 16.d).

*- Compañía Inversora en Transmisión Eléctrica S.A. (Citelec)*

In compliance with the commitment to divest Citelec assumed by Petrobras Energía S.A. upon the approval on July 19, 2007- by the Comisión Nacional de Defensa de la Competencia (the Argentine antitrust authorities) of the purchase by Petrobras Participaciones S.L. of the shares representing the majority of the capital stock of Petrobras Energía Participaciones, Petrobras Energía entered into an agreement to transfer its 50% equity interest in Citelec to Energía Argentina S.A. ( Enarsa ) and Electroingeniería S.A., with each transferee assuming 25% of the equity of Citelec. In December 2007 the pertinent approvals were granted by the regulatory agencies and authorities and all other terms and conditions to which the transaction was subordinated were fulfilled.

The sale was carried out at a price of US\$ 54 million and did not result in any significant profit and loss effects.

*- Yacylec S.A.*

On July 19, 2007, Petrobras Energía signed with Electroingeniería S.A. a stock purchase agreement for the sale of its 22.22% equity interest in Yacylec S.A., which was approved by ENRE in December 2007. The sale was performed at a fixed price of US\$ 6 million, giving rise to a gain included in Other (expenses) income, net of 16 (Note 16.d).

*- Petroquímica Cuyo S.A.I.C.*

On December 31, 2007, Petrobras Energía entered into a stock purchase agreement with Admire Trading Company S.A. and Grupo Inversor Petroquímica S.L. for the sale of its 40% equity interest in Petroquímica Cuyo S.A.I.C. The selling price was US\$ 32 million, resulting in a gain of 40 included in Other (expenses) income, net (Note 16.d).

*- Petrobras de Valores Internacional de España S.L. (PVIE)*

In December 2007, Petrobras Energía sold 40% of its equity interest in PVIE, a holding company whose main asset is the 99.79% interest in the capital stock of Petrobras Energía Perú S.A., to Petrobras Internacional Braspetro B.V. in the amount of US\$ 423.3 million, plus a contingent consideration to be defined by the parties if a commercially viable discovery is made at the Kinteroni prospect in Lote 57. The transaction resulted in a gain of 1,014 included in Other (expenses) income, net (Note 16.d).

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In January 2008, Petrobras Energia announced a discovery of gas and condensed gas at the Kinteroni prospect, which it is still in the evaluation phase. Currently, the operator is conducting reservoir analysis and other preparation activities in order to assess the potential of the field.

Pursuant to the terms and conditions of the stock purchase agreement, the parties agreed to share the power and authority to define and direct PVIE's operating and financial policies (Note 2.a).

For Further information on PVIE, see Note 24.a).

**9. Financing**

The detail of the financial debt as of December 31, 2008 and 2007 is as follows:

	2008		2007	
	Current	Non-current	Current	Non-current
Financial institutions	1,136	477	1,071	428
Notes	1,233	3,987	545	4,372
Related companies (Note 17)	76	688	306	630
	2,445	5,152	1,922	5,430

*I. Petrobras Energía's Global Programs of nonconvertible bonds*Global program of US\$ 2.5 billion:

As of December 31, 2008 under this program, which matured on May 4, 2008 the following classes of bonds remained outstanding:

Class H, for a face value of US\$181.5 million, maturing in May 2009, at a 9% annual rate (Note 24.b).

Class I, for a face value of US\$349.2 million, maturing in July 2010, at a 8.125% annual rate.

Class N, for a face value of US\$ 97 million, with principal amortized in two installments, the first equivalent to 9.9099% of face value settled on the same day of issuance, January 24, 2003, and the remaining due in June 2011, accruing interest at the 9 month Libor rate plus 1%.

Class R, for a face value of US\$ 200 million, maturing in October 2013, at a 9.375 % annual rate.

Class S, for a face value of US\$ 300 million, maturing in May 2017, at a 5.875% annual rate. Class S bonds are supported by a Standby Purchase Agreement provided by Petrobras, pursuant to which, in the event of failure to pay principal, interest and any other amount owed by Petrobras Energía in connection with Class S bonds, Petrobras shall purchase the rights of bondholders to receive payments.

The proceeds from the issuances of the bonds were used to refinance liabilities, increase working capital, make capital expenditures in Argentina or capital contributions to affiliates.

Debt from the issuances is disclosed net of the unaccrued portion of the issuance discounts and the incurred costs for such issuances.

Global program of US\$ 1 billion:

The Annual Shareholders Meeting of Petrobras Energía held on March 28, 2008 approved the creation of a global program for the issuance of bonds for an outstanding maximum principal amounting to US\$1 billion or its equivalent in any other currency, maturing within a 5-year term, or the maximum term that may be established by any applicable regulation in the future, under terms and conditions identical to those of the global program of US\$2.5 billion. On August 8, 2008, the program was authorized by Resolution No. 15,947 of the CNV.

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*II. Cross default clauses*

Outstanding bonds include cross default clauses, whereby the Trustee, as instructed by the bondholders representing at least 25% of the related outstanding capital, shall declare all the amounts owed due and payable, if any debt of Petrobras Energía or its significant subsidiaries is not settled upon the maturity date, provided that those due and unpaid amounts exceed the higher of US\$ 25 million or 1% of Petrobras Energía's shareholders' equity upon those maturities, and that the default has not been defeated or cured within 30 days after Petrobras Energía has been served notice of the default.

As of the date of these consolidated financial statements, Petrobras Energía has complied with all the terms and conditions related with its financial indebtedness.

*III. Edesur indebtedness*

Edesur maintains a global corporate bond program maturing on October 14, 2013, or the maximum term that may be allowed under any new regulations that might become applicable in the future, for up to a maximum principal amount outstanding at any time during the effectiveness of the program up to US\$ 450 million or its equivalent in other currency.

As of December 31, 2008, only Class 7 is outstanding under such global program for a face value of 165, with five semiannual principal repayments of 33 as from June 2010, at an annual interest rate of 11.75%.

Proceeds from the issuances have been applied to refinancing liabilities and improving working capital.

In addition, Edesur has signed loan agreements with banks. Some of Edesur's loan agreements contain cross-default clauses, whereby lending banks may declare all owed amounts as due and payable in the event that any debt was not settled in due time, provided that such amounts due and payable exceeded those stipulated in the agreements.

Some of these agreements also contain cross-acceleration clauses, whereby lending banks may declare all owed amounts as due and payable in the event that Edesur was required to pre-pay any other debt stipulated in the agreements.

As of the date of these consolidated financial statements Edesur has complied with all the terms and conditions contained in the loan agreements.

*IV. CIESA and TGS indebtedness*

Due to the Argentine macroeconomic situation, starting with the enactment of the Public Emergency Law (see Note 8.II Tariff Situation of the public utility companies), CIESA did not pay at maturity, in April 2002, either the principal and the last interest installment, or the cap and collar of its interest rate agreements. Consequently, CIESA's indebtedness included in the Company's consolidated financial statements pursuant to the proportional consolidation method, in the amount of US\$ 296 million, has been disclosed in the Short-term debt line.

In April 2004, the shareholders of CIESA entered into a master settlement agreement whereby Petrobras Energía and Enron would reciprocally waive any claiming right arising from or related to certain agreements executed by such groups in connection with their interests in CIESA and TGS. The terms of the Master Agreement included the transfer of the technical assistance agreement to Petrobras Energía, which was finalized in July 2004. In addition, to provide the necessary flexibility to make progress in restructuring CIESA's financial debt, the Master Agreement established certain share transfers in two successive steps.

Initially, after the relevant regulatory authorities' approvals, on August 29, 2005, Enron transferred 40% of CIESA's shares to a trust fund and, at the same time, Petrobras Energía and its subsidiary, Petrobras Hispano Argentina S.A., transferred Class B shares of TGS (representing 7.35% of TGS's capital stock). The Company considered the book value of the shares transferred as part of the valuation of its interest in CIESA in non-current investments.

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Subsequently, pursuant to the terms of the Restructuring Agreement entered into on September 1, 2005 by CIESA, Petrobras Energía S.A., Petrobras Hispano Argentina S.A., Enron Pipeline Company Argentina S.A., ABN AMRO BANK N.V. Argentine Branch and all its financial creditors, CIESA refinanced the debt for an amount of about US\$ 23 million at a 10-year term. Once approvals were obtained from the Argentine Gas Regulatory Agency and the Argentine anti-trust authorities, CIESA would provide its financial creditors with about 4.3% of TGS's Class B common shares as partial settlement of the financial debt. These shares were to be transferred to Enron in exchange for its remaining 10% shareholding in CIESA and the creditors would then capitalize the financial debt balance.

Once the debt restructuring was completed, and considering that in addition to the foregoing share transfers: a) the fiduciary ownership of the shares held in CIESA by the trust fund would be transferred to Petrobras Energía and Petrobras Hispano Argentina S.A. and b) new shares would be issued for the benefit of the entity's creditors, CIESA's capital structure would be as follows: (i) Class A shares directly and indirectly held by Petrobras Energía S.A., representing 50% of the capital stock and votes in CIESA; and (ii) Class B shares held by the financial creditors of CIESA, representing the remaining 50% of the capital stock and votes in CIESA.

The Restructuring Agreement, as amended, would remain valid through December 31, 2008. As from such date, any party was entitled to unilaterally terminate the agreement.

CIESA's financial statements were prepared using the going concern basis of accounting and therefore such financial statements do not include any adjustments or reclassifications that may derive from the resolution of the uncertainties affecting its debt restructuring process.

Between May and June 2007, TGS successfully concluded the refinancing of its debt through the issuance of US\$ 500 million bonds under the 2007 Global Program, and the prepayment of its previous debt through a bond repurchase offer, the redemption of bonds not subject to the repurchase offer and the prepayment of the loans from the Inter-American Development Bank.

Bonds are due May 14, 2017 and bear interest at an annual fixed rate of 7.875%. Principal will be repaid in four annual, equal and consecutive installments of US\$125 million each, as from May 14, 2014. In 2008, TGS repurchased bonds in an amount equivalent to a face value of US\$ 95 million, recognizing a gain of 57 in Other (expenses) income, net (Note 16.d).

As of December 31, 2008, TGS's financial debt mainly results from the issuance of bonds in the amount of US\$405 million under the 2007 Global Program, for an amount of up to US\$650 million, authorized by the CNV on January 18, 2007.

Pursuant to the financing agreements executed in connection with the debt restructuring, TGS is required to comply with a series of covenants, which include, among others, restrictions on debt issuance, new investments, sale of assets, payment of technical assistance fees and dividend distributions. As of the date of these financial statements, TGS has complied with the above mentioned covenants.

**Table of Contents***V. Detail of long-term debt*

Long-term debt as of December 31, 2008 is made up as follows:

<b>Type</b>	<b>Amount</b>	<b>Currency</b>	<b>Annual interest rate</b>
Financial institutions			
	119	US\$	Libo+1.19%
	35	US\$	4.41% (*)
	41	US\$	Libo+0.925%
	21	US\$	4.22%
	9	US\$	Libo+1.65%
	68	US\$	Libo+1.44%
	121	US\$	Libo+1%
	63	US\$	Libo+2%
Related companies (Note 17)	688	US\$	7.22%
Bonds			
Class I	1,204	US\$	8.125%
Class S	1,028	US\$	5.875%
2007 Global Program (TGS)	699	US\$	7.875%
Class R	687	US\$	9.375%
Class N	289	US\$	Libo+1%
Class 7 (Edesur)	80	\$	11,75%
	5,152		

(\*) Average rate.

The maturities of long-term debt as of December 31, 2008, are as follows:

From 1 to 2 years	1,387
From 2 to 3 years	461
From 3 to 4 years	110
From 4 to 5 years	717
Over 5 years	2,477
	5,152

### **10. Fund for the investments required to increase the electric power supply in the electric wholesale market (FONINVEMEM)**

Through Resolution No. 712/04, the Energy Department created the FONINVEMEM I for the purpose of granting creditors and incentive to invest in wholesale electricity market (WEM) for increasing the supply of electrical power generation in Argentina. Through Resolution No.564/07, the Secretary of Energy requested WEM agents to participate in FONINVEMEM II, with the purpose of complementing financing of FONINVEMEM I.

The financing of FONINVEMEM I and II was made through the contribution of 65% and 50% of the credit balances recorded in 2004-2006 and in 2007, respectively, resulting from the spread between the selling price of energy and the variable generation cost. The total contribution by all wholesale electric market private creditors is estimated at US\$ 816 million for all periods, of which Petrobras Energía contributed US\$ 55 million, dedicating US\$ 39 million to FONINVEMEM I and US\$ 16 million to FONINVEMEM II.

On October 17, 2005 and under the terms of Resolution No. 1,193 issued by the Secretary of Energy, Petrobras Energía and other WEM creditors formally announced their decision to participate in the construction, operation and maintenance of two power plants of at least 800 MW each. Construction costs of both plants are estimated at approximately US\$1.3 billion and are to be funded with the contributions to FONINVEMEM I and II, with an additional specific charge imposed to users and with contributions from the Argentine Government.

For the purposes of purchasing of equipment and the construction, operation and maintenance of the power plants, two trusts funds were created within the scope of CAMESA. The funds related to FONINVEMEM and the specific charge will be deposited with the trusts funds. Procurement of the equipment, construction, operation and maintenance of each power plant will be performed by Termoeléctrica José de San Martín S.A. and Termoeléctrica Manuel Belgrano S.A., which will act as agents of the respective trusts funds. These power plants will enter into electricity supply agreements with CAMESA for a term of 10 years for the 80% of the energy generated, at a price that will allow for the covering of costs and FONINVEMEM reimbursements, the companies being able to freely dispose of the remaining 20% of the energy generated. Upon expiration of the supply agreements, ownership of the assets held in trust will be transferred to the power generation companies.

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As of December 31, 2008, gas turbines of the power plants Central Termoeléctrica Manuel Belgrano and Central Termoeléctrica José de San Martín are already fully operational. It is also expected that both powers plants will operate in combined cycles, in the fourth quarter of 2009 or the first quarter of 2010.

Petrobras Energía, as well as the other WEM creditors, will be reimbursed the amounts contributed to FONINVEMEM I, converted into US dollars and adjusted at a rate of LIBO + 1% p.a., in 120 monthly installments out of the funds received from the trusts during the effective term of the electricity supply agreement entered into with CAMMESA and funds contributed to FONINVEMEM II will be recovered through their application to additional energy generation as it is established by Resolution No. 1,281/2006 of the Secretary of Energy under the condition of, at least, multiplying four-fold this contribution with the new investment. On April 18, 2008, the Secretary of Energy considered the project of construction of a new thermoelectric plant of 170 mega watts to be constructed next to Genelba Plant to be covered by the terms of Resolution No.1,281/2006. Following the Secretary of Energy instruction to CAMMESA to refund Petrobras Energía the funds contributed to FONINVEMEM II in accordance with Resolution No. 564/07, whereby, as of December 31, 2008, Petrobras Energía received US\$ 4.5 million.

**11. Current and deferred income tax**

The Company's income tax expense and deferred tax balances are comprised as follows:

	2008	2007	2006
<b>Income tax for the year</b>			
Current	(538)	(414)	(296)
Deferred	9	(80)	(169)
<b>Total income tax</b>	<b>(529)</b>	<b>(494)</b>	<b>(465)</b>

	2008	2007
<b>Deferred tax</b>		
<b>Deferred tax assets</b>		
Tax loss carryforwards	502	361
Property, plant and equipment	208	266
Reserves and provisions	126	95
Pension plan obligations	23	19
Equity interest in affiliates	38	34
Inventories	33	
Other	131	134
Valuation allowance (Note 12) (3)	(803)	(702)
<b>Deferred tax liabilities</b>		
Property, plant and equipment	(1,076)	(1,073)
Prepaid expenses	(5)	(6)
Equity interest in affiliates	(386)	(322)
Other	(33)	(26)
	<b>(1,242)(1) (4)</b>	<b>(1,220)(2)</b>

(1) 258 are included  
in the non-current  
Other receivables

line and 1,500 in  
the non-current  
Taxes payable  
line.

(2) 207 are included  
in the non-current  
Other receivables  
line and 1,427 in  
the non-current  
Taxes payable  
line.

(3) Management  
evaluates the  
recoverability of  
tax loss  
carryforwards  
and the remaining  
temporary  
differences taking  
into  
consideration,  
among other  
elements, the  
projected  
business profits,  
tax planning  
strategies,  
temporariness of  
future taxable  
income,  
considering the  
term of expiration  
of the tax loss  
carryforwards,  
the future  
reversals of the  
existing  
temporary  
differences and  
the recent year  
tax history. All  
the evidence  
available, both  
positive and  
negative, is duly  
weighted and  
considered in the  
analysis.  
Management



believes that it is more likely than not that the Company will realize the benefits of the above-mentioned deductible differences and tax loss carryforwards, net of the existing valuation allowance as of December 31, 2008.

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- (4) The change in 2008 includes 11 related to the acquisition of the interests in Sierra Chata and Parva Negra (Note 5) and 20 attributable to the revaluation of deferred tax liabilities in foreign affiliates in the Deferred (loss) income account within shareholders equity. Deferred (loss) income showed no significant changes in 2007 and 2006 so, therefore, the activity was not presented separately.

The reconciliation of the income tax at the statutory rate of 35% to the tax provision (before taxes and the minority interest in the subsidiary's income) is as follows:

	2008	2007	2006
Income before income tax and minority interests in subsidiaries	1,375	1,344	1,954
Statutory tax rate	35%	35%	35%
Income for the year at statutory tax rate	481	470	684
Permanent differences at income tax rate			
- Equity in earnings of affiliates	(127)	233	(146)
- Asset impairment			2
- Deconsolidation of companies		(103)	110
- Permanent differences in foreign subsidiaries	4	(67)	29
- Other	70	19	19
- Statute of limitation of tax loss carryforwards		449	
- Net movement in the valuation allowance	101	(507)	(233)
	529	494	465

Deferred tax assets related to tax loss carryforwards may be used through the dates indicated below:

<b>Use up to</b>	2008	2007	2006
2007			1,006
2009	327	238	194
2010 onwards	175	123	104
	502	361	1,304

**Table of Contents****12. Contingencies, allowances and environmental matters**

Movements of reserves for contingencies and allowances are as follows:

Account	Balances at the beginning of the year	Increase	Decrease	Balances at the end of the year
<b>Deducted from assets:</b>				
Current				
For doubtful accounts	114	14	(32)	96
For other receivables (Note 16.a)	279		(279)	
For inventories obsolescence (Note 7)		4		4
	393	18(1)	(311) (2)	100
Non-current				
For doubtful accounts		32(2)		32
For other receivables (Note 16.a)				
Deferred tax assets (Note 11)	702	101(3)		803
For other tax credits	51		(51) (4)	
Other				
For impairment of investments (Note 8.a)	419	195(6)		614
For property, plant and equipment	1,062	86(7)	(874) (8)	274
For inventories obsolescence (Note 7)	1		(1) (1)	
	2,235	719	(926)	2,028
<b>TOTAL 2008</b>	2,628	737	(1,237)	2,128
<b>TOTAL 2007</b>	2,200	1,414	(986)	2,628

**Included in liabilities:**

Current				
For contingencies				
Labor and commercial contingencies	124	32	(31)	125
	124	32	(31)	125
Non-current				
For contingencies				
Labor and commercial contingencies	86	34	(1)	119
	86	34	(1)	119

<b>TOTAL 2008</b>	210	66(9)	(32) (10)	244
<b>TOTAL 2007</b>	180	142	(112)	210

- (1) Recorded in Financial income (expenses) and holding gain (losses)
- (2) Reclassified from current to non-current
- (3) The net effect was recorded in the Income tax caption
- (4) Relating to the return of Block 31 (Note 5)
- (5) It includes 279 reclassified from current to non-current and 26 recorded in Deferred (loss) income
- (6) It includes 154 recorded in Other (expenses) income, net (Note 16.d) and 41 recorded in Deferred (loss) income
- (7) Recorded in Deferred (loss) income
- (8) It includes 157 recorded in Cost of sales as Depreciation of property, plant and equipment, 596 for the sale of the 40%

of Block 18 and the  
return of Block 31  
and 121 for the  
reversal of the  
allowance for  
impairment of  
assets in Argentina  
(Note 16.d).

(9) It includes 42  
recorded in Other  
operating expenses  
net , 13 in Financial  
income (expenses)  
and holding gain  
(losses) and 11 in  
Costs of sales

(10) Used during the  
year

**Table of Contents****a) Environmental matters**

The Company and its subsidiaries, including Petrobras Energía, are subject to extensive environmental regulations in Argentina and in the other countries in which they operate. Petrobras Energía's management believes that its current operations are in material compliance with applicable environmental requirements, as currently interpreted and enforced, including remediation commitments assumed. The Company has not incurred any material pollution liabilities as a result of its operations to date. The Company undertakes environmental impact studies for new projects and investments and, to date, environmental requirements and restrictions imposed on these new projects have not had any material adverse impact on Petrobras Energía's business. Additionally, neither the Company nor any of its subsidiaries is a party to any significant lawsuits related to environmental issues.

**b) Other issues**

The Company maintains interpretative differences with the AFIP (Argentine Federal Public Revenues Administration), provincial tax authorities and foreign tax authorities about taxes applicable on oil and gas activity. Company's Management and its legal advisors estimate that the outcome of these differences will not have significant adverse effects on the Company's financial position or results of operations.

**13. Contractual commitments, warranty bonds, sureties and guarantees granted**

The warranty bonds, sureties and guarantees as of December 31, 2008 and 2007, which are not disclosed in the remaining notes, amount to 79 and 61, respectively.

Innova S.A. has agreements with certain financial institutions whereby it may request cash advances on accounts receivable from clients that comply with a certain credit status for a maximum amount of approximately US\$40 million with recourse. Pursuant to the terms and conditions of the agreements, Innova S.A. bears the credit risk for the amounts received in the event of default of the debtor, the relevant amount must be paid by Innova S.A. As of December 31, 2008, amounts advanced totaled US\$18 million.

The following table summarizes certain contractual commitments of Petrobras Energía as of December 31, 2008. The table does not include accounts payable. Amounts in the table do not include interest.

	Total	Payments due by period				Until
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	
<b>Debt Obligations</b>	5,036	1,416	1,205	690	1,725	2017
<b>Purchase Obligations</b>						
Ship or pay agreement with OCP (1) (2) (6)	1,416	146	234	277	759	2018
Long-term service agreement (6)	970	570	207	94	99	2010
Petroleum services and materials (6)	3,856	2,206	537	292	821	2019
Ethylene (4)(6)	1,642	215	634	514	279	2015
Benzene (5)(6)	3,760	388	1,496	1,216	660	2015
Oil Purchase agreements for Refinery (6)	555	420	135			2010
Gas transportation capacity with TGS (3)	738	123	246	246	123	2014
Gas purchase agreements for Genelba (6)	14	14				2009
<b>Pension Plan</b>	140	14	26	27	73	

<b>Total</b>	18,127	5,512	4,720	3,356	4,539	
<b>Sales Obligations</b>						
Natural gas	2,036	330	557	549	600	2018
Styrene	492	166	202	124		2013
Electric power	846	156	224	362	104	2014
LPG	276	86	97	62	31	2015
Oil sale agreement	771	771				2009
<b>Total</b>	4,421	1,509	1,080	1,097	735	

(1) Net of transportation capacity sold to third parties

(2) Estimated average price US\$3.63 per barrel.

(3) Estimated price P\$0.11 million per million of cubic meters.

(4) Estimated average price US\$1,087 per ton. Contractual prices are in US Dollars. Peso amounts translated using exchange rate as of December 31, 2008.

(5) Estimated price US\$895 per ton. Contractual prices are in US Dollars. Peso amounts translated using exchange rate as of December 31,



2008.

- (6) Prices are generally determined by formulas based on future market prices. Estimated prices used to calculate the monetary equivalent of these purchase obligations for purposes of the table are based on current market prices as of December 31, 2008 and may not reflect actual future prices of these commodities. Accordingly, the peso amounts provided in this table with respect to these obligations are provided for illustrative purposes only.

Estimated prices used to calculate the monetary equivalent of these purchase obligations for purposes of the table are based on current market prices as of December 31, 2008 and may reflect actual future prices of these commodities.

Accordingly,  
the peso  
amounts  
provided in this  
table with  
respect to these  
obligations are  
provided for  
illustrative  
purpose only.

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The following table sets forth volume information with regard to the commitments under commercial contracts, for the years indicated below, as of December 31, 2008.

	<b>Obligations by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>More than 5 years</b>
<b>Purchase Obligations</b>					
Ship or pay agreement with OCP (in million of barrels)	113	14	18	23	58
Ethylene (in thousands of tons)	438	72	144	144	78
Benzene (in thousands of tons)	1,218	201	400	400	217
Oil Purchase agreements for Refinery (in million of barrels)	4	3	1		
Gas transportation capacity with TGS (in million of cubic meters)	6,570	1,095	2,190	2,190	1,095
Gas purchase agreements for Genelba (in million of cubic meters)	65	65			
<b>Sales Obligations</b>					
Natural gas (in millions of cubic meters)	11,678	2,249	3,276	3,276	2,877
Styrene (in thousands of tons)	237	84	102	51	
Electric power (in GWh)	3,526	1,155	1,071	1,091	209
LPG (in thousands of tons)	453	171	174	54	54
Oil sale agreement (in millions of barrels)	5	5			

**14. Petrobras Energía's social benefits and other payroll benefits****a. Defined contribution plan****Supplementary pension plan**

In November 2005, Petrobras Energía's Board of Directors approved the implementation of a defined voluntary contribution plan for the employees who fulfill certain conditions. Through this plan, Petrobras Energía makes contributions to a trust fund in an equal amount to the contributions made by the employees adhered to the plan, in conformity with a scheme defined for each salary level. The participating employees may make voluntary contributions exceeding those established in the mentioned scheme, which will not be considered for purposes of the contributions to be made by Petrobras Energía.

In the years ended December 31, 2008, 2007 and 2006, Petrobras Energía recorded losses of 8, 7 and 3, respectively, attributable to such benefits.

**b. Defined benefit plan****Indemnity plan**

This is a defined benefit plan for employees who fulfill certain conditions, and consists of granting, upon retirement, a one-month salary per year working at Petrobras Energía, in conformity with a decreasing scale considering the years of effectiveness of the plan.

**Compensatory fund**

This is a defined benefit plan for employees of Petrobras Energía who take part in the defined contribution plan effective at each opportunity that joined Petrobras Energía prior to May 31, 1995, and have reached a certain number of years of service. The benefit is based on the last computable salary and years of service of each employee included in the plan.

The plan is of a supplemental nature, so that the benefit received by the employee is represented by the amount determined under the provisions of this plan, after deducting benefits payable to the employee under the contribution plan and the public retirement system, in order to that the aggregate benefit to each employee equals the one stipulated in this plan.

The plan calls for a contribution to a fund exclusively by Petrobras Energía and without any contribution by the employees. The assets of the fund are contributed to a trust fund and invested in US dollar-denominated money market instruments in order to preserve the accumulated capital and obtain a return in line with a moderate risk profile. Accordingly, funds are mainly invested in US government bonds, commercial papers rated A1 or P1, AAAM-rated mutual funds and time deposits in banks rated A+ or higher in the United States of America. The Bank of New York Mellon is the trustee and Watson Wyatt is the managing agent. Should there be an excess (duly certified by an independent actuary) of the funds to be used to settle the benefits granted by the plan, Petrobras Energía will be entitled to choice to use it, in which case it would have to notify the trustee thereof.

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As of December 31, 2008, 2007 and 2006 the most relevant actuarial information on the defined-benefits pension plans are as follows:

<b>Change in benefit obligation</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Benefit obligation at the beginning of the year	176	161	99
Service cost	4	3	2
Interest cost	23	21	16
Actuarial loss	(3)	1	15
Benefits paid	(9)	(10)	(7)
Unrecognized prior service cost			36
Benefit obligation at the end of the year	191	176	161
<b>Change in plan assets</b>			
Fair value of plan assets at the beginning of the year	31	35	40
Return on plan assets	3	3	2
Contributions made	17		
Benefits paid	(7)	(7)	(7)
Fair value of plan assets at the end of the year	44	31	35
<b>Reconciliation of funded (unfunded) status</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Unfunded status at the end of the year	(147)	(145)	(126)
Unrecognized prior service cost	36	38	41
Unrecognized actuarial loss	45	52	53
Net liability recognized	(66)	(55)	(32)
<b>Components of net periodic benefit cost</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Service cost	4	3	2
Interest cost	23	21	16
Return on plan assets	(3)	(3)	(2)
Amortization of actuarial gain and losses and unrecognized prior service cost	5	4	2
Net periodic benefit cost	29	25	18
<b>Weighted-average assumptions</b>			
Discount rate	4%	4%	4%
Rate of return on plan assets	6%	6%	6%
Rate of compensation increase	2%	2%	2%

**c. Stock option plan**

The Board of Directors of Petrobras Energía approved the establishment of a long-term incentive program for the purpose of aligning the interests of officers and shareholders.

As part of this program, Petrobras Energía's Board of Directors approved Plans for the year 2001 ( 2001 Plan ) and 2000 ( Plan 2000 ) focused on senior officers of Petrobras Energía. Both plans consisted in granting the right to exercise certain options to receive Petrobras Energía Participaciones S.A. shares or its cash equivalent, as described below:

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**Table of Contents****2001 Plan**

- i. 5,364,125 options to receive the value arising from the positive difference between the average listed price of Petrobras Energía Participaciones shares on the New York Stock Exchange during the 20 days prior to exercising the option and 1.64 Argentine pesos per share, for the same number of shares ( appreciation rights ).
- ii. 596,014 options to receive the same number of shares at no cost for the beneficiary. These options may be exercised as from March 5, 2005 ( full value ).

The term to exercise both options expired on March 5, 2007. The options exercised corresponding to the appreciation right amounted to 5,163,657 and those corresponding to full value totaled 569,124, cancelled in both cases primarily in cash.

**2000 Plan**

- i. 3,171,137 options to receive the value arising from the positive difference between the average listed price of Petrobras Energía Participaciones shares on the New York Stock Exchange during the 20 days prior to exercising the option and 1.48 Argentine pesos per share, for such number of shares ( appreciation rights ).
- ii. 352,347 options to receive the same number of shares at no cost to the beneficiary. These options may be exercised as from May 29, 2004 ( full value ).

The term to exercise both options expired on May 29, 2006. The options exercised corresponding to the appreciation right amounted to 2,873,037 and those corresponding to full value totaled 343,596, cancelled in both cases primarily in cash.

The cost of these plans was allocated on a proportional basis within the vesting years and adjusted in accordance with the listed price of the share. Accordingly, during the years ended December 31, 2007 and 2006, 1 and 3 were charged to operating expenses.

The following table presents a summary of the status of Petrobras Energía s stock option plans:

	<b>2007</b>		<b>2006</b>	
	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price
Outstanding at the beginning of the year	654,697	1.59	1,198,803	1.59
Exercised	(427,339)	1.64	(237,255)	1.60
Prescribed	(227,358)		(306,851)	
Outstanding at the end of the year			654,697	1.59
Exercisable at the end of the year			654,697	1.59

**15. Capital stock and restrictions on unappropriated retained earnings**

As of December 31, 2008 the Company s capital stock totaled 2,132,043,387 Class B shares fully subscribed, issued, paid-in, registered and authorized for public trading. The following table presents the changes in capital stock in the last three years:

	<b>2008</b>	<b>December 31, 2007</b>	<b>2006</b>
Common shares of 1 vote and nominal value of P\$1 per share	2,132	2,132	2,132

Since January 26, 2000, the Company Class B shares have been listed on the Buenos Aires Stock Exchange and with in the form of American Depositary Shares on the New York Stock Exchange.



**Table of Contents****16. Other receivables, other liabilities, other operating expenses, net, other (expenses) income, net and supplemental cash flow information**

	2008		2007	
	Current	Non-current	Current	Non-current
a) Other receivables				
Joint ventures	44		33	
Related companies (Note 17)	275	3	1,621	5
Dividends receivable	60			
Tax credits	907	206	482	447
Deferred tax assets		1,061		909
Advisory services to other companies			3	
Receivables from the sale of companies (Note 8.III)	33		133	
Expense refunds	55	8	65	7
Prepaid expenses	140	11	255	25
Credit for new projects in the mixed companies in Venezuela (Note 5)		305	279	
Guarantee deposits	12	16	7	
Commercial agreements				
Allowance for other receivables and tax credits (Note 12)		(1,108)	(279)	(753)
Other	69	20	60	17
	1,595	522	2,659	657

	2008		2007	
	Current	Non-current	Current	Non-current
b) Other liabilities				
Related companies (Note 17)	50		15	
Advanced collections	101	103	64	55
Expenses allowance Environmental remediation	46	66	38	64
Joint ventures	9		35	
Extension of production concessions (Note 5)	56			
Litigation and fines accrual	118		101	
Third party collection	15		12	
Asset retirement obligation (Note 5)		308		170
Other	135	17	40	18
	530	494	305	307

	2008	2007	2006
c) Other operating expenses, net			
Advisory services to other companies	40	46	48
Environmental remediation expenses		(17)	(5)
Taxes on bank transactions	(146)	(121)	(98)
Contingencies	(42)	(24)	(24)
Oil transportation agreement with OCP	(174)	(155)	(178)

Fundopem (1)	80	70	46
Edesur Memorandum of agreement (Note 8.II)		85	
Commercial claims resolution			75
Amendment to Ecuador's Hydrocarbons Law		(44)	
Allowance for other tax credit		(15)	(1)
Other	11	(2)	2
	(231)	(177)	(135)

(1) Tax benefits earned by Innova S.A. consisting in a partial reduction of certain taxes in accordance with an incentive program that the Brazilian state of Rio Grande do Sul provides to companies located there.

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	2008	2007	2006
d) Other (expenses) income, net			
Gain from the financial debt repurchase (Note 9.IV)	57		
Reversal of the allowance for impairment of fixed assets in Argentina (Nota 25.a)	121		
Termination Agreement of Block 31 (Note 5)	(31)		
Gain from the sale of the 40% of Block 18 (Note 5)	(28)		
Gain from the sale of Hidroneuquén S.A. (Note 8.III)		23	
Gain from the sale of Petrobras de Valores de España S.L. (Note 8.III)		1,014	
Gain from the sale of Yacylec S.A. (Note 8.III)		16	
Gain from the sale of Petroquímica Cuyo S.A.I.C. (Note 8.III)		40	
Gain from the sale of Petrobras Bolivia Refinación S.A. (Note 8.III)		44	
Allowance for advances to partners in Venezuela		(41)	
Net impairment of assets in Ecuador (Note 5)		(759)	
Net impairment of assets in Venezuela (Note 5)	(154)	(214)	(6)
Seniat claim - Venezuela			(18)
Sales of oil and gas areas (Note 5)		62	85
Disposals of property, plant and equipment		(17)	(15)
Reversal of the allowance for impairment of investments Hidroneuquén S.A.			10
Reversal of the allowance for impairment of investments Enecor S.A.		5	6
Reversal of the allowance for impairment of investments Citelec S.A.			23
Other, net	(61)	(43)	8
	(96)	130	93
	2008	2007	2006
e) Supplemental cash flow information			
Cash	492	98	86
Time deposits and mutual funds	984	1,069	1,264
Cash and cash equivalent at the end of the year	1,476	1,167	1,350

**17. Balances and transactions with related companies**

Related party transactions are carried out in the ordinary course of our operations at market conditions. We believe that the terms of these transactions are comparable to those offered by or that could be obtained from non-related third parties.

Petrobras Energía has entered into several financing arrangements with subsidiaries of Petrobras.

In February 2008, Petrobras Energía loaned US\$ 300 million to Petrobras Internacional Braspetro BV, a subsidiary of Petrobras, maturing in July 2008 and accruing interest at the one month LIBOR rate plus 0.15%. The loan was partially renewed at maturity. As of December 31, 2008 the outstanding balance on the loan totaled US\$120 million.

In December 2007, Petrobras Energía sold 40% of its equity interest in PVIE, a holding company whose main asset is the ownership of 99.79% of the capital stock of Petrobras Energía Perú S.A., to Petrobras Internacional Braspetro B.V. in the amount of US\$423.3 million plus a contingent compensation to be defined between the parties in the event

of a commercial discovery in the Kinteroni prospect in Lote 57. As a result of this transaction, Petrobras Energía recognized a gain of P\$1,014 million as of December 31, 2007. In accordance with the terms and conditions of the relevant stock purchase agreement, the parties agreed to share control over defining and establishing the operating and financial policies of PVIE. (see Notes 8.III and 24.a).

In November 2007, Petrobras Energía sold 73.15% of its rights and obligations in the Bajada del Palo area to Petrolera Entre Lomas S.A. (see Note 5)

In 2007, Petrobras Energía issued US\$300 million Class S Bonds under the US\$2.5 billion Global Program. Payments under the Class S Bonds are supported by a standby purchase agreement provided by Petrobras (See Note 9.I).

In 2007, Petrobras Energía acquired from Petrobras Transporte S.A. (Transpetro) a double-hulled vessel for a purchase price of US\$25 million. The purpose of the acquisition was to reduce Petrobras Energía's logistics costs, meet current and future logistical needs, enhance Quality, Safety, Environmental and Health standards in connection with vessel-related operations and reduce Petrobras Energía's vulnerability to limited market supply for transportation needs, in addition to the advantages represented by the technical management of vessels provided by Transpetro.

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In 2005, Petrobras Energía entered into a US\$200 million loan facility with Petrobras Internacional Braspetro BV. This loan has a term of ten years and bears interest at an annual interest rate of 7.22%, plus taxes. The proceeds of this loan were used to partially prepay Classes K and M Bonds. This loan can be prepaid at any time without penalties.

In addition, during the course of business, Petrobras Energía imports and exports crude oil and related oil products with Petrobras subsidiaries, mainly with Petrobras International Finance Co.

Brasken, an affiliate of Petrobras, formerly known as Copesul, supplies Innova with the benzene and ethylene necessary for ethylbenzene production.

Outstanding balances with related parties as of December 31, 2008 and 2007, are as follows:

Company	Investments	2007			2008			Investments	Payable	Loans
		Trade Receivables	Other Receivables	Current Accounts Payable	Other Liabilities	Other Loans	Non-current Accounts Payable			
Oleoducto de Crudos Pesados Ltd.				2			136			
Transportadora de Gas del Sur S.A.		23	2	31						
Refinería del Norte S.A.		28	1	19						
Petrobras International Finance Co.		25	2	33						
Petróleo Brasileiro S.A. -Petrobras		8	1	60	12					
Petrolera Entre Lomas S.A.				18					26	
Propyme SGR Petrobras Internacional							5			
Braspetro B.V.	414		194		31	18				688
Petrobras de Valores Internacional de España S.L. (1)	5		59			58				
Other		11	16	1	7		3	6		
<b>Total</b>	<b>419</b>	<b>95</b>	<b>275</b>	<b>164</b>	<b>50</b>	<b>76</b>	<b>3</b>	<b>147</b>	<b>26</b>	<b>688</b>

(1) It corresponds to the balance generated by proportional consolidation of Petrobras de Valores Internacional de

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España S.L.  
(Nota 8.III)

Company	2007								
	Trade Receivables	Other Receivables	Current Accounts Payable	Other Liabilities	Loans receivable	Other Investments	Non-current Accounts Payable	Loans	
Oleoducto de Crudos Pesados Ltd.							133		
Transportadora de Gas del Sur S.A.	4	4	5						
Refinería del Norte S.A.	9	5	10						
Petrobras International Finance Co.	85		28						
Petróleo Brasileiro S.A. -Petrobras	3	2	59	11		3			
Petrolera Entre Lomas S.A.			49					22	
Propyme SGR Petrobras							6		
Internacional Braspetro B.V.		1,492			178			630	
Compañía Mega S.A.		12							
Petrobras Transporte S.A.									
Transpetro			79						
Petrobras de Valores Internacional de España S.L. (1)		96			128				
Other	5	10	3	4		2	4		
<b>Total</b>	<b>106</b>	<b>1,621</b>	<b>233</b>	<b>15</b>	<b>306</b>	<b>5</b>	<b>143</b>	<b>22</b>	<b>630</b>

(1) It corresponds to the balance generated by proportional consolidation of Petrobras de Valores Internacional de España S.L. (Nota 8.III)

Main transactions with affiliates for the years ended December 31, 2008, 2007 and 2006 are as follows:

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Company	2008		2007		2006	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
Oleoductos del Valle S.A.	18		21		23	
Transportadora de Gas del Sur S.A.	153	165	108	35	40	34
Refinería del Norte S.A.	93	43	91	5	132	53
Petrobras International Finance Co.	224	2,072	426	1,942	101	1,428
Petroquímica Cuyo S.A.I.C.		71		5		
Petrolera Entre Lomas S.A.	478	1	454	1	440	1
Petróleo Brasileiro S.A. -Petrobras	108	20	95	17	102	14
Petrobras Bolivia Refinación.S.A.				10		33
Brasken (Ex Copesul)	1,252		1,247		1,032	
Compañía Mega S.A.		5				
Petrobras Uruguay Distribución S.A.		15				
Petroquímica Cuyo S.A.						33
Petrobras Transporte S.A. - Transpetro			79			
Petrobras Paraguay Refinación Ltd.				95		42
Total	2,326	2,392	2,521	2,110	1,870	1,638

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The Company's business, operated through its subsidiary Petrobras Energía, is mainly concentrated in the energy sector, especially through its activities in exploration and production of oil and gas, refining and distribution, petrochemical and gas and energy. Accordingly, the identified business segments are as follows:

- a) Oil and Gas Exploration and Production, composed of the Company's participation in oil and gas blocks and its interest in Oleoductos del Valle S.A. and Oleoducto de Crudos Pesados Ltd.
- b) Refining and Distribution, including the Company's operations in Refinería San Lorenzo and Bahía Blanca, its own gas station network, the Company's equity interests in Refinería del Norte S.A. and Petrobras Bolivia Refinación S.A. (Note 8.III) and, as from this year, the commercialization of the oil produced in Argentina.
- c) Petrochemicals, comprising the Company's own fertilizer and styrenics operations developed in Argentina and Brazil plants and its equity interest in Petroquímica Cuyo S.A.I.C. (Note 8.III).
- d) Gas and Energy, comprising the Company's operations of sale of the gas produced in Argentina and the liquefied petroleum gas brokerage and trading activities, its interest in Transportadora de Gas del Sur S.A., the operations of electricity generation in the Genelba plant and in the Pichi Picún Leufú Hydroelectric Complex, and its interest in Edesur S.A., Enecor S.A., Citelec S.A. and Yacylec S.A. (Note 8.III).

Assets and results of operations related to the Central Services Structure, those not attributable to any given business segment, discontinued operations and intercompany eliminations are disclosed together.

The applicable valuation methods to report business segment information are those described in Note 4 to these consolidated financial statements. The inter-segments transaction prices are made at market value.

As from the current fiscal year, the commercialization of products among the different business units has been subject to a series of changes. As a result, the Refining and Distribution business segment commercializes the oil produced in Argentina, which is transferred at market prices from the Oil and Gas Exploration and Production business segment.

The following information shows total assets, total liabilities and net income (loss) for each of the business segments identified by the Company's management:

	2008					
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	Total
Total assets	10,185	3,066	2,257	5,985	1,598	23,091
Total liabilities	2,509	1,344	858	3,124	5,427	13,262
	2007					
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	Total
Total assets	8,354	2,937	2,059	5,314	2,693	21,357
Total liabilities	2,283	1,060	803	2,805	5,159	12,110





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	2008					Total
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	
Consolidated Statement of Income						
Net sales						
To third parties	2,233	6,684	3,420	2,838		15,175
Inter-segment	2,507	258	55	155	(2,975)	
	4,740	6,942	3,475	2,993	(2,975)	15,175
Cost of sales	(2,478)	(6,649)	(2,762)	(2,108)	2,997	(11,000)
Gross profit	2,262	293	713	885	22	4,175
Administrative and selling expenses	(237)	(475)	(439)	(275)	(332)	(1,758)
Exploration expenses	(238)					(238)
Other operating (expenses) income, net	(207)	11	65	10	(110)	(231)
Operating income (loss)	1,580	(171)	339	620	(420)	1,948
Equity in earnings of affiliates	311	(6)				305
Other	(861)	(13)	(218)	(361)	(215)	(1,668)
Net income (loss)	1,030	(190)	121	259	(635)	585

	2007					Total
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	
Consolidated Statement of Income						

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Net sales						
To third parties	2,381	5,535	3,018	2,524		13,458
Inter-segment	2,243	291	45	147	(2,726)	
	4,624	5,826	3,063	2,671	(2,726)	13,458
Cost of sales	(2,482)	(5,744)	(2,676)	(1,925)	2,716	(10,111)
Gross profit (loss)	2,142	82	387	746	(10)	3,347
Administrative and selling expenses	(284)	(374)	(351)	(211)	(245)	(1,465)
Exploration expenses	(172)					(172)
Other operating (expenses) income, net	(206)	(22)	56	118	(123)	(177)
Operating income (loss)	1,480	(314)	92	653	(378)	1,533
Equity in earnings of affiliates	80	75	21			176
Other	(640)	96	62	(407)	(247)	(1,136)
Net income (loss)	920	(143)	175	246	(625)	573

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	2006					
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	Total
Statement of income						
Net sales						
To third parties	2,653	4,262	2,447	2,383		11,745
Inter-segment	2,128	269	43	115	(2,555)	
	4,781	4,531	2,490	2,498	(2,555)	11,745
Cost of sales	(2,094)	(4,692)	(2,068)	(1,792)	2,584	(8,062)
Gross profit (loss)	2,687	(161)	422	706	29	3,683
Administrative and selling expenses	(313)	(313)	(292)	(170)	(195)	(1,283)
Exploration expenses	(117)					(117)
Other operating (expenses) income, net	(78)	6	32	1	(96)	(135)
Operating income (loss)	2,179	(468)	162	537	(262)	2,148
Equity in earnings of affiliates	89	114	15	1		219
Other	(860)	97	(49)	(298)	(193)	(1,303)
Net income (loss)	1,408	(257)	128	240	(455)	1,064

The following information shows total assets, net sales and operating income (loss) by geographic area.

	2008								
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Long lived assets	11,633	2,816	276	1,000	641	127	64		16,557
Rest of assets	5,688	107		63	360	154	162		6,534
Total assets	17,321	2,923	276	1,063	1,001	281	226		23,091
Net sales	11,453		139	965	1,645	1,089	35	(151)	15,175
	796	(12)	84	392	98	623	(33)		1,948

Operating income  
(expenses)

	<b>2007</b>								
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Long lived assets	10,400	2,624	251	764	511	120	10		14,680
Rest of assets	5,073	118		88	468	318	612		6,677
Total assets	15,473	2,742	251	852	979	438	622		21,357
Net sales	10,063		127	1,101	1,457	873	25	(188)	13,458
Operating income (expenses)	778	(8)	31	500	67	166	(1)		1,533

  

	<b>2006</b>								
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Net sales	8,751	312	207	902	1,215	652	14	(308)	11,745
Operating income (expenses)	1,130	186	45	446	54	287	1	(1)	2,148

**19. Controlling Group**

Petróleo Brasileiro S.A. PETROBRAS, through Petrobras Participaciones, S.L., a wholly-owned subsidiary, is the controlling shareholder of the Company. As of December 31, 2008 Petrobras Participaciones S.L. owns 58.6% of Petrobras Energía Participaciones capital stock.

Petrobras is a Brazilian company, whose business is concentrated on exploration, production, refining, sale and transportation of oil and its byproducts in Brazil and abroad.

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**20. Summary of significant differences between accounting principles followed by the Company and US GAAP and summary of new US GAAP accounting pronouncements not yet adopted**

The Company's financial statements have been prepared in accordance with Argentina GAAP, which differ in certain respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements (which are the amounts included in the reconciliation from Argentina GAAP to US GAAP, in Note 21), as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission. The main differences relate to the items described below.

***A Explanation of the main differences included in the reconciliation from Argentina GAAP to US GAAP, corresponding to Petrobras Energía Participaciones, subsidiaries and companies under joint control***

*1) Deferred charges*

Under Argentina GAAP, costs such as organizational and pre-operating expenses may be deferred and amortized over the resulting period of benefit, under certain circumstances.

For US GAAP purposes these amounts are expensed as incurred.

*2) Debt refinancing costs*

Under Argentina GAAP, unamortized deferred costs related to debt issuance are charged to expense when such debt is restructured, while costs related to the new debt are capitalized and amortized on a straight line basis.

Under US GAAP, SFAS No. 15, SFAS No. 140 and related EITF issues require the Company to continue amortizing the costs related to the old debt, if the debt restructuring is not considered to be an extinguishment, as is the case of the debt restructuring of the Company, and charge the restructuring direct costs to expense.

*3) Pension plan obligations*

Recognition of pension plan obligations under Argentina and US GAAP is essentially the same, except for the fact that under Argentina GAAP the recognition of the over or under funded status is not required.

*4) Foreign currency translation*

Under both Argentina GAAP and US GAAP, all foreign operations are remeasured into U.S. dollars, which is the functional currency of our foreign subsidiaries. Assets and liabilities stated at current values are to be converted at the closing exchange rates, assets and liabilities measured at cost and revenues, expenses, gains and losses are converted at the historical exchange rates. Once the transactions are remeasured into U.S. dollars, assets and liabilities are translated into pesos at the closing exchange rate, and revenues, expenses, gains and losses are translated at historical exchange rates.

The resulting remeasurement gain or loss is recognized in the Financial income (expenses) and holding gain (losses) account. The effects of the translation of foreign operations net of the foreign-exchange differences generated by the debt denominated in foreign currency designated as hedge for net investment abroad are disclosed, as in US GAAP, in shareholders' equity.

The remaining exchange differences recognized in earnings differ from Argentina GAAP to US GAAP; as a result of differences in the book value of foreign subsidiaries' net assets and resulting designated debt.

*5) Discounting of certain receivables and liabilities*

Under Argentina GAAP, certain receivables and liabilities which are valued on the basis of the best possible estimate of the amount to be collected or paid, are required to be discounted using an estimated rate at the time of the initial measurement.

Under US GAAP, receivables and liabilities arising from transactions with customers and suppliers in the normal course of business, which are done in customary trade terms not exceeding one year, are generally accounted for at their nominal value, including accrued interest, if applicable.

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*6) Guarantor's accounting for guarantees*

Under US GAAP, FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee.

Under Argentina GAAP the recognition of an initial liability is not required.

*7) Accounting for inventories*

Under Argentina GAAP, inventories must be accounted for at reproduction or replacement cost or, in other words, at the price the Company would pay at any given time to replace or reproduce such inventory, whereas under US GAAP, inventories are accounted for at the lower of cost or market value.

*8) Accounting for business combinations*

a) Petrobras Energía share exchange offer

Petrobras Energía Participaciones acquired control of Petrobras Energía on January 25, 2000 as a result of an exchange offer pursuant to which Petrobras Energía Participaciones issued 1,504,197,988 Class B shares, with one vote per share, in exchange for 69.29% of Petrobras Energía's outstanding capital stock, thereby increasing its ownership interest in Petrobras Energía to 98.21%.

Under Argentina GAAP, the accounting practice enforced in 2000 fiscal year for non-monetary exchange of shares was to recognize net assets at book value. Accordingly, issued shares of Petrobras Energía Participaciones were subscribed and accounted for at the book value of Petrobras Energía's shares exchanged.

Under US GAAP, the exchange offer was accounted for under the purchase method. The purchase price of 6,766, calculated based upon the market price of Petrobras Energía's common stock, has been allocated to the identifiable assets acquired and liabilities assumed based upon their fair value as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired has been reflected as goodwill. Therefore, the US GAAP shareholders' equity reconciliation reflects the additional purchase price of Petrobras Energía's capital stock, and the net income reconciliation reflects the incremental depreciation, depletion, amortization, effective interest rate of liabilities, and when applicable, the relevant impairment charges, and the related effects on the deferred income tax. Beginning in 2003, pursuant to CNV Resolution No. 434, Argentina GAAP adopted the purchase method or the pooling of interests method, depending on the circumstances. However, such new standards were not applied on a retroactive basis.

b) Purchase price allocation of Eg3 S.A. and Petrolera Santa Fe S.R.L.

On January 21, 2005, the Special Shareholders' Meeting of Petrobras Energía, Eg3 S.A. ( *Eg3* ) and Petrobras Argentina S.A. ( *PAR* ), and the Special Partners' Meeting of Petrolera Santa Fe S.R.L. ( *PSF* ), in their respective meetings, approved the merger of Eg3, PAR, and PSF with and into Petrobras Energía, with the former companies being dissolved without being liquidated. The effective merger date was set as January 1, 2005, as from when all assets, liabilities, rights and obligations of the absorbed companies were considered incorporated into Petrobras Energía. On March 3, 2005, the final merger agreement was subscribed. On June 28, 2005, the CNV (Argentine Securities Commission) approved the merger and authorized the public offering of Petrobras Energía's shares. On September 16, 2005, the merger was registered in the Public Registry of Commerce.

As the result of the merger, (a) Petrobras, owner of a 99.6% equity interest in EG3 and 100% equity interest in PAR and PSF through its subsidiary Petrobras Participaciones SL, received, through such subsidiary, 229,728,550 new shares of class B stock in Petrobras Energía, with a nominal value of P\$1 each and entitled to one vote per share, representing 22.8% of Petrobras Energía's capital stock, and (b) Petrobras Energía Participaciones' ownership interest in Petrobras Energía decreased from 98.21% to 75.82%. After the merger, the new capital stock of Petrobras Energía was set at 1,009,618,410 Class B shares.

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Petrobras Energía recorded the effects of the corporate reorganization in accordance with the pooling-of-interest method. According to this method, the assets, liabilities and components of the shareholders' equity of the transferring entities were recognized in the combined entity based on their carrying amounts as of the effective merger date.

As a result of the merger between Petrobras Energía, Petrolera Santa Fé S.R.L, Eg3 S.A. and Petrobras Argentina S.A., the reconciliation to US GAAP includes adjustments to Property, plant and equipment as of December 31, 2008 and 2007, respectively, that corresponds to the purchase price allocation derived from the excess of the acquisition price over the book values (allocated values) that were originally recorded in Eg3 S.A. and Petrolera Santa Fé S.A. as push down accounting when such companies were acquired by Petrobras, the Company's controlling shareholder, in 2001 and 2002.

Under Argentina GAAP, push down accounting (as the term is defined by US GAAP) is not required.

*9) Impairment of goodwill, property, plant and equipment and equity in affiliates*

- a) As described above in 8.a), the purchase price of Petrobras Energía has been allocated under US GAAP (but not under Argentina GAAP) to the identifiable assets acquired and liabilities assumed, based upon their fair values as of acquisition date, being the excess reflected as goodwill.

Impairment of goodwill, property, plant and equipment recorded under US GAAP in the year ended December 31, 2006:

The company performs the impairment test of goodwill, following the method established under SFAS 142. In the year ended December 31, 2006, under US GAAP, the Company recorded an impairment charge of 70 (before the effect of income taxes) to write off the allocated purchase price of goodwill, and equity in affiliates (43 and 27, respectively) originated in the business combination described in 8.a) above.

The impairment of goodwill in the US GAAP Summarized Consolidated data in Note 21 was allocated to the Other Operating expenses, net caption.

- b) Under US GAAP, once an impairment loss is allocated to the carrying value of the long-lived assets, the reduced carrying amount represents the new cost basis of the long-lived assets. As a result, SFAS 144 prohibits entities from reversing the impairment loss should facts and circumstances change in the future. Under Argentina GAAP, impairment charges can be reversed in future years due to changes in the above-mentioned facts and circumstances.

- c) Method of calculating impairment related to property, plant and equipment

Under Argentina GAAP the book value of a long-lived asset is adjusted to its recoverable value if its carrying amount exceeds the recoverable value in use. From a regulatory standpoint, recoverable value is defined as the larger of net realizable value and discounted value in use, defined as the addition of the discounted expected net cash flows that arise as a direct result of the use and eventual disposition of the assets.

Under US GAAP the book value of a long-lived asset is adjusted to its fair value if its carrying amount exceeds the undiscounted value in use.

Following this guidance, in the reconciliation to US GAAP, impairment charges and the related effect on depreciation of property, plant and equipment recorded under Argentina GAAP were reversed since under US GAAP the carrying amount did not exceed the undiscounted value in use.

The reconciliation of net income from Argentina GAAP to US GAAP for the year ended December 31, 2008 includes a loss of 352 mainly related to: (i) the write-off of the remaining carrying value under US GAAP (higher than the Argentina GAAP figure as it had not been affected by an impairment charge in 2007) of the property, plant & equipment related to Block 31, returned to Ecuador during the year (See Note 5, Operations in Ecuador), and (ii) the elimination of the gain recorded under Argentina GAAP to reverse an impairment charge recorded in prior years on assets located in Argentina that, considering the difference in the calculation method described above, was not recorded for US GAAP purposes.

The reconciliation of net income from Argentina GAAP to US GAAP for the year ended December 31, 2007 includes a gain of 210 related to the difference between both GAAPs in the book value of the property, plant & equipment related to Block 31, which, considering the difference in the calculation method described above, was impaired in 2007 for Argentina GAAP purposes but not under US GAAP.





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The above mentioned adjustments were allocated to the Other Operating expenses, net caption in the US GAAP Summarized Consolidated data included in Note 21.

*10) Income taxes*

Represents the effect of deferred income tax over each US GAAP adjustment, when applicable.

*11) Proportional consolidation*

Under Argentina GAAP, an investor is required to proportionally consolidate line by line its financial statements with the financial statements of the companies in which it exercises joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of votes, share the power to define and establish a company's operating and financial policies on the basis of written agreements. In the consolidation of companies over which an investor exercises joint control, the amount of the investment in the company under joint control and the interest in its income (loss) and cash flows are replaced by the investor's proportional interest in the company's assets, liabilities, income (loss) and cash flows. Under the joint control of the Company, through Petrobras Energía, are Distrilec, CIESA, and, as from December 31, 2007, PVIE.

Under US GAAP, interests in companies over which the investor exercises joint control are accounted for by the equity method and no proportional consolidation is allowed. However, pursuant to the SEC's rules, differences in classification or presentation that result from using proportionate consolidation in the reconciliation to US GAAP, may be omitted if certain requirements are met. Such requirements are met by Distrilec and since December 31, 2007 by PVIE but not by CIESA. The proportional consolidation of CIESA for the years ended December 31, 2008, 2007 and 2006 under Argentina GAAP has been reversed for purposes of the US GAAP reconciliation and in the additional disclosures included in Notes 21 and 22.

*12) Sale of non-current assets to related parties*

Under US GAAP, results on sales of non-current assets to related parties under common control are considered as a capital (dividend) transaction. Under Argentina GAAP, results on sales of non-current assets are recognized in the statement of income.

Consequently, in the year ended December 31, 2007, the reconciliation to US GAAP includes the reversal of gains recorded under Argentina GAAP, which were recorded as an increase in Additional Paid in Capital for US GAAP purposes.

These transactions with related parties under common control correspond to the following transactions (i) sale of 73.15% of Petrobras Energía's rights and obligations in the Bajada del Palo area to Petrolera Entre Lomas S.A., and (ii) sale of 40% of Petrobras Energía's equity interest in PVIE to Petrobras Internacional Braspetro B.V. (See Notes 5, 8.III and 17).

*13) Minority interest*

An adjustment to record the effect of all US GAAP adjustments attributable to minority interests has been recorded.

***B Explanation of the main differences included in the reconciliation from Argentina GAAP to US GAAP, applicable to our equity in affiliates***

*1) Capitalization of exchange differences*

Under Argentina GAAP, during the period January 2002 to July 2003, exchange differences resulting from the peso devaluation on liabilities denominated in foreign currencies, which were directly related to the acquisition, construction or production of property, plant and equipment, intangibles and long-term investments in other companies incorporated in Argentina, were allowed to be capitalized to the cost values of such assets, subject to a number of conditions.

As of December 31, 2008 and 2007 the Company recorded capitalized foreign exchange differences losses of CIESA.

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Under US GAAP, foreign currency exchange gains or losses are recognized in the statement of income.

*2) Minority Interest*

An adjustment to record the effect of all US GAAP adjustments attributable to minority interests in consolidated subsidiaries of our equity in affiliates has been recorded.

*3) Income taxes*

Represents the effect of deferred income tax over each US GAAP adjustment, when applicable.

In addition, the recognition of a deferred tax asset or liability for differences related to assets and liabilities that, under FAS 52 Foreign Currency Translation, are remeasured from the local currency into the functional currency using historical exchange rates and that result from change in exchange rates or indexing for tax purposes is not allowed for US GAAP purposes. However, under Argentina GAAP recognition of a deferred tax liability or asset for those temporary differences is allowed.

*4) Troubled debt restructuring of TGS and Transener.*

On December 15, 2004 and on June 30, 2005, TGS and Transener respectively concluded their debt restructuring processes.

Under Argentina GAAP, Transener and TGS concluded that their respective debt restructuring constituted an exchange of debt instruments with substantially different terms, which must be treated as an extinguishment of the original debt instrument, with a gain or loss recognized on the de-recognition of that instrument. Argentina GAAP clarifies that from a debtor's perspective, an exchange of debt instruments, or a modification of a debt instrument, between a debtor and a creditor is deemed to have been accomplished with debt instruments that are substantially different if the discounted present value of the cash flows under the terms of the new debt instrument varies by at least 10 percent from the discounted present value of the remaining cash flows under the terms of the original instrument. In this case the new debt instrument should be initially recorded at fair value, and that amount should be used to determine the gain or loss to be recognized on the extinguishment of the original debt instrument. Fair value should equal the present value of the future cash flows to be paid under the terms of the new debt instrument, discounted at a rate commensurate with the risks of the debt instrument and the time value of money.

Under US GAAP, Transener and TGS are required to perform an analysis under SFAS No.15, Accounting by Debtors and Creditors for Troubled Debt Restructurings and EITF 02-04, Debtors Accounting for a Modification or an Exchange of Debt Instruments in accordance with SFAS 15, to assess whether the debt restructurings constituted troubled debt restructurings involving a cash payment and a modification of terms. Transener and TGS concluded that the debt restructurings in fact constituted troubled debt restructurings pursuant to the conditions defined in EITF 02-04, as Transener and TGS were undergoing financial difficulties and creditors had made concessions to both entities. The concessions involved primarily the forgiveness of principal amounts and defaulted interest.

SFAS 15 requires an assessment of the total future cash payments specified by the new terms of the debt, including principal, interest and contingent payments. A debtor shall reduce the carrying amount of the payable by the total fair value of the assets or equity transferred and no gain on restructuring is recognized unless the remaining carrying amount of the debt exceeds the undiscounted total future cash payments specified by the new terms, considered on a payable by payable basis. The differences between the fair value and the carrying amount of any assets or equity transferred is recognized as gain or loss. SFAS 15 also requires that the restructuring of each payable, including those negotiated and restructured jointly, be accounted for individually. The carrying value of these loans will be reduced as payments are made. Interest expense is computed on the basis of the discount rate that equates the present value of the future cash payments specified by the new debt with the remaining carrying amount of the original loans.

Under Argentina GAAP, we recorded a net gain of 27 in 2004 on the debt restructuring of TGS. This number reflects a 48 financial gain, net of 21 corresponding to the minority interest of Petrobras Energía in TGS.

Under US GAAP, TGS reconciliation adjustment to our shareholders' equity as of December 31, 2005 included a loss of 42 which represents the effect of the reversal of the 48 gain on restructuring recorded under Argentina GAAP in 2004, which was reduced in 2005 and 2006 by 6 and 11 due to the lower interest expense recorded under US GAAP. As the debt was cancelled in June 2007, the remaining unamortized amounts were recorded in the income statement for the year ended December 31, 2007. These amounts are presented before the effect of minority interests.



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With respect to Transener, our Argentina GAAP financial statements include a 165 gain on its debt restructuring in 2005, which was significantly offset by a 145 valuation allowance to adjust the carrying amount of our equity in Compañía Inversora en Transmisión Citelec S.A. ( Citelec ), which controls Transener, to its recoverable value. The debt restructuring gain of Transener is comprised of: (i) a gain for the forgiveness of principal, compensatory and punitive interest of 266; (ii) a loss as a result of the write-off of capitalized debt issuance costs of 1 ; (iii) a gain on restructuring of 48 as a result of accounting for the issuance of debt at its fair value instead of at its face value; and (iv) a loss of 148 corresponding to the minority interest of Petrobras Energía in Transener.

With respect to Transener, the US GAAP reconciliation adjustment to our shareholders' equity as of December 31, 2005 amounted to 262. This amount is the net effect of: (i) the reversal of the 266 gain due to the forgiveness of principal and defaulted interest recorded under Argentina GAAP as of June 30, 2005; (ii) the reversal of the 48 gain recorded under Argentina GAAP due to the valuation of debt at fair value as of June 30, 2005; (iii) a 69 gain recognized under US GAAP as of June 30, 2005 because carrying amounts exceeded future payments in respect of some specific payables; (iv) a 7 loss recorded under US GAAP as of June 30, 2005 due to the effect of the lower market value of new shares issued to cancel debt; and (v) a loss of 10 for the effect of lower interest expense recorded under US GAAP and foreign exchange loss results from June 30, 2005 to December 31, 2005. These amounts are presented before the effect of minority interests.

As our interest in Citelec was sold in December 2007, the above-mentioned reconciling items were charged against Sale of Companies in the Reconciliation of net income to US GAAP for the year ended December 31, 2007.

**C Presentation**

Major reclassifications to adjust the Argentina GAAP presentation to conform to U.S.GAAP, are as follows:

*1) Classification of impairment losses*

Under Argentina GAAP, impairment losses on property, plant and equipment are generally presented in the income statement as non-operating expenses.

US GAAP requires such losses to be presented as operating expenses. Therefore, impairment losses recognized under Argentina GAAP and additional impairment losses recognized under US GAAP are included in the Operating income (loss) subtotal of the US GAAP Consolidated income data presented in Note 21.

*2) Balance sheet classification differences related to deferred income tax assets (liabilities)*

Under Argentina GAAP, net deferred tax assets (liabilities) are to be classified as non-current assets (liabilities).

Under US GAAP, the Company applied the provisions contained in SFAS No. 109, Accounting for income taxes . Such statement states that in a classified statement of financial position, an enterprise should separate deferred tax liabilities and assets into a current amount and a non-current amount. To such extent, deferred tax liabilities and assets should be classified as current or non-current based on the classification of the related asset or liability for financial reporting. In addition, a deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to tax loss carryforwards, shall be classified according to the expected reversal date of the temporary difference.

*3) Accounting for purchases and sales of inventory with the same counterparty*

Under Argentina GAAP, purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are not required to be combined for reporting purposes.

Under US GAAP, EITF No. 04-13 states that purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another should be combined and recorded as exchanges measured at the book value of the item sold.

**Table of Contents****D Other****1) Restatement of financial statements for the effects of inflation**

The reconciliation to US GAAP does not include any adjustment to eliminate the effects of inflation required under Argentina GAAP (see Note 2.c), as they are also permitted by Regulation S-X of the SEC.

**E New accounting standards and developments under US GAAP not yet adopted****FASB Statement No. 141 (revised 2007), Business Combinations ( SFAS 141-R )**

In December 2007, the FASB issued SFAS 141-R, which will become effective for business combination transactions having an acquisition date on or after January 1, 2009. This standard requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date to be measured at their respected fair values. SFAS 141-R changes the accounting treatment for the following items: acquisition-related costs and restructuring costs to be generally expensed when incurred; in process research and development to be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; changes in deferred tax asset valuation allowance and income tax uncertainties after the acquisition to be generally recognized in income tax expense; acquired contingent liabilities to be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies. SFAS 141-R also includes a substantial number of new disclosure requirements. The impact of the application of SFAS 141-R on the consolidated financial statements will depend on new business combinations arising during 2009 and thereafter.

**FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ( SFAS 160 )**

In December 2007, the FASB issued SFAS 160 that establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in the consolidated net income on the face of the income statement. Certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary is to be initially measured at fair value. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company's presentation of the consolidated statement of income and balance sheet will be significantly changed by the application of SFAS 160.

**FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 )**

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133 and is intended to provide users of financial statements with an enhanced understanding of (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations. The Company does not expect any material impact derived from the application of this pronouncement, other than additional disclosures.

**Codification of GAAP**

On July 1, 2009, FASB is expected to issue *FASB Accounting Standards Codification* (ASC) as authoritative. At this time, it will become the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC).

On March 27, 2009, FASB released an exposure draft to replace FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. The comment period ended May 8, 2009 and the effective date of the standard is expected to be July 1, 2009, which coincides with the effective date of FASB ASC. The proposed statement establishes FASB ASC as the source of authoritative GAAP to be applied by nongovernmental entities. All guidance contained in FASB ASC carries an equal level of authority.

Once the proposed statement is effective, the GAAP hierarchy is essentially reduced to two levels, one that is authoritative and one that is not. Exceptions include rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered

guidance having an effective date before March 15, 1992.

**Table of Contents*****FASB Statement No. 165, Subsequent Events ( SFAS 165 )***

In June 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165 establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 will be effective for interim or annual financial periods ending after June 15, 2009.

***FASB Staff Position FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-than-Temporary Impairments***

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2. This new guidance requires that credit-related other-than-temporary impairment (OTTI) on securities not expected to be sold be recognized in earnings and noncredit-related OTTI be recognized in other comprehensive income. These pronouncements are effective for reporting periods ending after June 15, 2009. The Company does not expect the adoption of these pronouncements to have a material effect on its consolidated financial statements.

***Modernization of Oil and Gas Reporting***

In December 2008, the SEC released the final rule for *Modernization of Oil and Gas Reporting* (the *Modernization Rule* ). A significant change as a result of the *Modernization Rule* relates to the calculation of reserves. The *Modernization Rule* disclosure requirements will permit reporting of oil and gas reserves using an average price based upon the prior 12-month period rather than year-end prices, and the use of new technologies to determine proved reserves, if those technologies have been demonstrated to result in reliable conclusions about reserves volumes. Companies will also be allowed to disclose probable and possible reserves in SEC filed documents. In addition, companies will be required to report the independence and qualifications of its reserves preparer or auditor and file reports when a third party is relied upon to prepare reserves estimates or conduct a reserves audit. The *Modernization* disclosure requirements will become effective for the Company's Form 20-F for the year ended December 31, 2009.

***FASB Statement No. 166, Accounting for Transfers of Financial Assets ( SFAS 166 )***

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* an amendment of Statement No. 140, which improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This Statement must be applied to transfers occurring on or after the effective date. We are currently evaluating the impact of adoption of SFAS 166 on our consolidated financial position or results of operations.

***FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) ( SFAS 167 )***

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which improves financial reporting by enterprises involved with variable interest entities. The Board developed this pronouncement to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, *Accounting for Transfers of Financial Assets*, and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This Statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently evaluating the impact of adoption of SFAS 167 on our consolidated financial position or results of operations.



**Table of Contents*****F Recently adopted accounting pronouncements******FASB Statement No. 157, Fair Value Measurements ( SFAS 157 )***

In September 2006, the FASB issued SFAS 157, which became effective on January 1, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards.

In February 2008, the FASB issued FSP 157-1. This FSP excludes FASB Statement No. 13, Accounting for Leases, and its related interpretative accounting pronouncements from the provisions of SFAS 157, except for leasing transactions arising from business combinations. FSP 157-1 became effective on January 1, 2008, with no impact on the consolidated financial statements of the Company.

Also in February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157, which became effective on January 1, 2008. This FSP delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until January 1, 2009.

In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. FSP 157-3 clarifies the application of SFAS 157, which the Company adopted as of January 1, 2008, in cases where a market is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

The Company implemented SFAS 157 as from January 1, 2008 with no material impact on the financial statements, other than additional disclosures that were incorporated in Note 22 to these consolidated financial statements.

***FASB Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 )***

In February 2007, the FASB issued SFAS 159, that permits the measurement of certain financial instruments at fair value. Entities may choose to measure eligible items at fair value at specified election dates, reporting unrealized gains and losses on such items at each subsequent reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. SFAS 159 became effective for the Company on January 1, 2008 with no impact on its consolidated financial statements.

**21. Reconciliation of net income and shareholders' equity to US GAAP**

The following is a summary of the significant adjustments to net income for the years ended December 31, 2008, 2007 and 2006, and the shareholders' equity as of December 31, 2008 and 2007, which would be required if US GAAP had been applied instead of Argentina GAAP in the Company's financial statements.

**Table of Contents****Reconciliation of net income to US GAAP**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Net income under Argentina GAAP</b>	585	573	1,064
<b>US GAAP adjustments:</b>			
Foreign currency translation adjustment (Note 20.A.4)	26	9	7
Amortization of deferred charges (Note 20.A.1)			7
Debt refinancing costs (Note 20.A.2)	3	2	3
Depreciation of Property Plant & Equipment			
Business combination (Note 20.A.8)	(27)	(33)	(14)
Impairment (Note 20.A.9)	(23)	(12)	(19)
Other	(5)	(4)	(4)
Impairment of property plant & equipment (Note 20.A.9.c)	(352)	210	
Fair value of liabilities (Note 20.A.8.a)			(1)
Impairment of goodwill (Note 20.A.9.a)			(43)
Discounted value of assets and liabilities (Note 20.A.5)	(35)	35	2
Effects of the sale of noncurrent assets to related parties (Note 20.A.12)		(1,072)	
Minority interest (Note 20.A.13)	86	193	27
Guarantees (Note 20.A.6)		4	
Inventories (Note 20.A.7)	91	(69)	10
Deferred income taxes (Note 20.A.10)	66	52	71
Other	(10)	(20)	
US GAAP adjustments applicable to equity in earnings of affiliates			
Deferred income taxes (Note 20.B.3)	(97)	(14)	(2)
Depreciation of property plant and equipment	(3)	(19)	(13)
Capitalized exchange losses (Note 20.B.1)	1	1	1
Impairment of Property Plant & Equipment (Note 20.A.9.a)			(27)
Minority interest (Note 20.B.2)	2	(6)	(1)
Reversal of equity in earnings of CIESA and Citelec (i) (Note 20.A.11)	18	(15)	(100)
Sale of companies (Note 8.III)		135	
Debt restructuring (Note 20.B.4)		31	11
Other		(4)	(7)
<b>Total US GAAP adjustments</b>	<b>(259)</b>	<b>(596)</b>	<b>(92)</b>
<b>Net income (loss) under US GAAP</b>	<b>326</b>	<b>(23)</b>	<b>972</b>

- i) This adjustment reverses the equity in earnings accounted for under Argentina GAAP and complements the effects of other US GAAP adjustments recognized in items listed above with respect to CIESA (2008, 2007 and 2006) and CITELEC (2006). As of December 31, 2008, 2007 and 2006, CIESA presented a deficit in shareholders equity under US GAAP, and therefore it was valued at zero. As of December 31, 2006 CITELEC was valued at 28 under US GAAP, which represents its book value as of the date when it was

classified as held for sale. In the year ended December 31, 2007 our interest in CITELEC was sold (see Note 8.III) and as a result, a gain of 135 was recognized in the reconciliation of net income under US GAAP.

***Earnings per share***

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Basic / Diluted earnings (loss) per share under US GAAP</b>	0.154	(0.011)	0.458
<b>Basic / Diluted earnings per share under Argentine GAAP</b>			
Class B	0.276	0.270	0.501
Number of shares -in millions (1)	2,132	2,132	2,132

(1) Earnings (loss) per share are calculated based on the weighted average number of shares outstanding during the years ended December 31, 2008, 2007 and 2006.

**Table of Contents*****Consolidated statement of comprehensive income and accumulated comprehensive income***

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net income (loss) under US GAAP	326	(23)	972
Foreign currency translation (Note 20.A.4)			
Net change during the year	55	18	17
Deferred pension plan obligations (Note 20.A.3)			
Decrease (increase), net of tax	4	2	(6)
Total comprehensive income	385	(3)	983
Accumulated Other Comprehensive income (loss):			
Amounts not recognized as net periodic pension costs, net of tax (Note 20.A.3)	(26)	(30)	(32)
Foreign currency translation (Note 20.A.4)	83	28	10
Adjustment to initially apply SFAS 158, net of tax	(21)	(21)	(21)
Total Accumulated Other Comprehensive Income (Loss)	36	(23)	(43)

***Reconciliation of shareholders equity to US GAAP***

	<b>2008</b>	<b>2007</b>
<b>Shareholders equity under Argentina GAAP</b>	7,052	6,664
<b>US GAAP adjustments:</b>		
Debt refinancing costs (Note 20.A.2)	(2)	(5)
Pension plan obligations (Note 20.A.3)	(82)	(90)
Foreign currency translation (Note 20.A.4)	(47)	(53)
Property plant and equipment		
Business combination (Note 20.A.8)	247	262
Impairment (Note 20.A.9.c)	(30)	325
Other	(1)	16
Other	(9)	(10)
Goodwill (Note 20.A.8.a and 20.A.9.a)	101	101
Discounted value of assets and liabilities (Note 20.A.5)	50	85
Inventories (Note 20.A.7)	(11)	(101)
Guarantees (Note 20.A.6)	(5)	(5)
Minority interest (Note 20.A.13)	39	(42)
Deferred income taxes (Note 20.A.10)	(1)	(61)
US GAAP adjustments applicable to equity in affiliates		
Deferred income taxes (Note 20.B.3)	(140)	(43)
Property plant and equipment (Note 20.A.9.a)	1	(5)
Capitalized exchange losses (Note 20.B.1)	(26)	(29)

Minority interest (Note 20.B.2)	(18)	(20)
Reversal of equity in affiliates of CIESA (i) (Note 20. A. 11)	(90)	(108)
Other	(8)	(7)
<b>Total US GAAP adjustments</b>	(32)	210
<b>Shareholders equity under US GAAP</b>	7,020	6,874

- i) This adjustment reverses the equity in earnings accounted for under Argentina GAAP and complements the effects of other US GAAP adjustments recognized in items listed above with respect to CIESA. As of December 31, 2008 and 2007, CIESA presented a deficit in shareholders equity under US GAAP, and therefore it was valued at zero.

**Table of Contents*****Description of changes in shareholders equity under US GAAP***

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Shareholders equity under US GAAP as of beginning of the year	6,874	6,195	5,233
Additional paid-in capital (Note 20.A.12)		823	
Cash dividends	(239)	(141)	
Other comprehensive income	59	20	11
Net income (loss) under US GAAP	326	(23)	972
Adjustment to initially apply SFAS 158			(21)
<b>Shareholders equity under US GAAP as of the end of the year</b>	<b>7,020</b>	<b>6,874</b>	<b>6,195</b>

***US GAAP summarized consolidated data***

The consolidated income data and the consolidated cash flows for the years ended December 31, 2008, 2007 and 2006 and the consolidated balance sheets as of December 31, 2008 and 2007, presented below have been adjusted to reflect the differences between US GAAP and Argentina GAAP discussed above, giving effect to differences in measurement methods and disclosures as previously discussed.

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>US GAAP consolidated income data</b>			
Sales	14,928	12,974	11,303
Less taxes on sales and services	(543)	(262)	(218)
Net sales	14,385	12,712	11,085
Cost of sales	(10,417)	(9,651)	(7,713)
Gross profit	3,968	3,061	3,372
Administrative and selling expenses	(1,714)	(1,427)	(1,260)
Exploration expenses	(238)	(172)	(117)
Other operating expenses, net	(728)	(785)	(61)
Operating income	1,288	677	1,934
Equity in earnings of affiliates	208	164	151
Financial expenses and holding losses, net	(634)	(439)	(406)
Income before income taxes and minority interest	862	402	1,679
Income tax expense	(407)	(386)	(398)
Minority interest in subsidiaries	(129)	(39)	(309)
Net income (loss) for the year	326	(23)	972



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	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>US GAAP condensed consolidated balance sheet data</b>		
Other receivables	1,651	2,693
Other current assets	4,259	3,395
Current assets	5,910	6,088
Investments	3,262	3,141
Property, plant and equipment	10,692	9,130
Other non-current assets	638	947
Total non-current assets	14,592	13,218
Total assets	20,502	19,306
Short-term debt (a) (b)	1,908	1,452
Other liabilities	3,161	2,551
Total current liabilities	5,069	4,003
Long-term debt	4,419	4,613
Other non-current liabilities	1,768	1,664
Total non-current liabilities	6,187	6,277
Total liabilities	11,256	10,280
Minority interest in subsidiaries	2,226	2,152
Shareholders' equity	7,020	6,874
	20,502	19,306

a) The weighted average annual interest rates for outstanding short-term borrowings were 5.22% and 5.84% as of



December 31,  
2008 and 2007,  
respectively.

- b) Includes 785  
and 78 relating  
to current  
portion of  
long-term debt  
for the fiscal  
years ended  
December 31,  
2008 and 2007,  
respectively.

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>US GAAP condensed consolidated cash flow data</b>			
Net cash provided by operations	1,840	1,549	2,551
Net cash used in investing activities	(1,151)	(1,581)	(1,958)
Net cash used in financing activities	(577)	(133)	(15)
(Decrease) Increase in cash	112	(165)	578
Effect of the exchange rate on cash	83	25	
Cash and cash equivalent at the beginning	971	1,111	533
Cash and cash equivalent at the end under US GAAP	1,166	971	1,111

**Table of Contents****22. Additional financial statement disclosures required by US GAAP and the SEC****a) Income taxes**

The tax effect of the significant differences between the book value under US GAAP and the tax value of the Company's assets and liabilities and tax loss carryforwards is as follows:

	<b>2008</b>	<b>2007</b>
<b>Deferred tax assets</b>		
Tax loss carryforwards	416	301
Inventories	28	39
Property, plant and equipment	224	211
Reserve for contingencies	112	95
Equity interest in affiliates	83	83
Pension plan obligations	52	51
Other deferred tax assets, not individually significant	146	130
Total gross deferred tax assets	1,061	910
Less-Valuation allowance (2)	(779)	(636)
<b>Total net deferred tax assets</b>	<b>282</b>	<b>274</b>
<b>Deferred tax liabilities</b>		
Prepaid expenses	(5)	(6)
Property, plant and equipment	(783)	(827)
Equity interest in affiliates	(349)	(319)
Other deferred tax liabilities, not individually significant	(28)	(24)
<b>Total deferred tax liabilities</b>	<b>(1,165)</b>	<b>(1,176)</b>
<b>Net deferred tax liabilities</b>	<b>(883)(1)</b>	<b>(902)</b>

(1) The change in 2008 includes 11 related to the acquisition of the interests in Sierra Chata and Parva Negra (Note 5), and 24 and 3 attributable to the foreign exchange revaluation of deferred tax

liabilities in  
foreign affiliates  
and Pension Plan  
adjustments,  
respectively, that  
were recorded in  
Other  
Comprehensive  
Income .

- (2) Management evaluates the recoverability of tax loss carryforwards and the remaining temporary differences taking into consideration, among other elements, the projected business profits, tax planning strategies, temporariness of future taxable income, considering the term of expiration of the tax loss carryforwards, the future reversals of the existing temporary differences and the recent year tax history. All the evidence available, both positive and negative, is duly weighted and considered in the analysis. Management believes that it is more likely than not that the

Company will realize the benefits of the above-mentioned deductible differences and tax loss carryforwards, net of the existing valuation allowance as of December 31, 2008.

Net deferred tax liabilities as of December 31, 2008 and 2007 consist of :

	<b>2008</b>	<b>2007</b>
Current deferred income tax assets	61	66
Non-current deferred income tax assets	11	32
Non-current deferred income tax liabilities	(955)	(1,000)
Net deferred tax liabilities	<b>(883)</b>	<b>(902)</b>

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The reconciliation of tax provision at the statutory rate to the tax provision for the years ended December 31, 2008, 2007 and 2006, computed in accordance with US GAAP, is as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Income before income tax and minority interest in subsidiaries	862	402	1,679
Statutory tax rate	35%	35%	35%
Statutory tax rate applied to pre-tax income	302	141	588
Equity in earnings of affiliates	(129)	233	(150)
Impairment, amortization and other decreases of goodwill			17
Deconsolidation of companies		(103)	110
Permanent differences in foreign subsidiaries	4	(67)	29
Other, net	87	(2)	23
Statute of limitation of tax loss carryforwards		366	
Net movement in the valuation allowance	143	(182)	(219)
Tax expense	407	386	398

The Company's provision for income taxes under US GAAP comprised the following:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current			
Argentina	88	51	6
Foreign	377	353	290
	465	404	296
Deferred			
Argentina	(113)	32	109
Foreign	55	(50)	(7)
	(58)	(18)	102
Total tax expense	407	386	398

As of December 31, 2008, the tax loss carryforwards amounting to 925 may be used until the dates indicated below:

2009	636
------	-----

2010 and thereafter	289
	925

**Effect of adopting FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes**

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides guidance on recognition, classification and disclosure concerning uncertain income tax liabilities. The evaluation of a tax position requires recognition of a tax benefit if it is more likely than not it will be sustained upon examination. The Company adopted FIN 48 on January 1, 2007. The adoption did not have a material impact in our consolidated financial statements.

As of January 1, 2008 and 2007 and for the years ended December 31, 2008 and 2007, the Company did not have any unrecognized tax benefits. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months. Furthermore, the Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of financial and operating expenses, respectively, in the consolidated statements of income. As of January 1, 2008 and 2007 and for the years ended December 31, 2008 and 2007, the Company has not accrued interest and penalties related to unrecognized tax benefits.

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The Company and its subsidiaries file income tax returns in Argentina and in other foreign jurisdictions. The Argentine tax returns are open to examination by the respective tax authorities for the years beginning in 2002. In addition, tax returns of foreign jurisdictions in which we operate are open to examination for the years beginning in 2004 in Venezuela, Bolivia, Spain and Peru, 2003 in Colombia, Brazil, Austria and Mexico and 2002 in Ecuador.

**b) Fair value of financial instruments**

US GAAP requires disclosure of the estimated fair value of the Company's financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

The carrying amounts of cash, cash equivalents, accounts receivables and short-term obligations approximate their fair value, because of the short-term maturities of these instruments.

The fair value of publicly traded long-term debt is based on quoted market prices, and for the remaining long-term debt fair value was estimated based on the current rates available to the Company for debt of similar remaining maturities. Fair values of derivative financial instruments represent the estimated amount that would have been required to terminate the contracts. The fair value of performance bonds and other guarantees approximate the notional amount of these instruments.

The estimated fair values of financial instruments are as follows, except for those financial instruments noted above for which the carrying values approximate fair values:

	<b>2008</b>		<b>2007</b>	
	<b>Carrying amount under US GAAP</b>	<b>Fair Value</b>	<b>Carrying amount under US GAAP</b>	<b>Fair Value</b>
<b>Financial liabilities:</b>				
Long-term debt	4,419	3,932	4,613	4,662

**c) Fair value disclosures**

SFAS 157 requires disclosures that categorize assets and liabilities measured at fair value on a recurring basis into one of three different levels depending on the observability of the inputs applied in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting the Company's assumptions about pricing by market participants.

The disclosure requirements of SFAS 157 were applied to holdings in mutual funds recognized in accordance with SFAS 115.

The fair value of the Holdings in Mutual Funds was recognized on the basis of exchange quoted prices as the balance sheet date for identical assets in active markets and, therefore, were classified as Level 1.

The fair value hierarchy for the Holdings in Mutual Funds financial assets and liabilities accounted for at fair value on a recurring basis at December 31, 2008, was:

	<b>As of December 31, 2008</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Holdings in Mutual Funds	48			48
<b>Total assets</b>	<b>48</b>			<b>48</b>





**Table of Contents****d) Summarized financial information of unconsolidated affiliates**

The following table provides summarized financial information on a 100% basis, for the main affiliates accounted for by the equity method, combined per business unit, under Argentina GAAP.

Each business unit includes the following companies as of December 31, 2008, 2007 and 2006.

- *Oil and Gas Exploration and Production*: Petrolera Entre Lomas S.A., Inversora Mata S.A., Coroil S.A., Petroritupano S.A. (1), Petrowayú S.A. (1), Petrovenbras S.A. (1), Petrokariña S.A. (1), Oleoductos del Valle S.A. and Oleoducto de Crudos Pesados Ltd.

- *Refining and Distribution*: Refinería del Norte S.A. and Petrobras Bolivia Refinación S.A. (2)

- *Petrochemical*: Petroquímica Cuyo S.A.I.C. (2)

- *Gas and Energy*: Citelec S.A. (2), Yacylec S.A. (2) and Uruguá S.A.

(1) These companies were added in 2006.

(2) Companies sold in the year ended December 31, 2007 (see Note 8.III)

	<b>2008</b>				
	<b>Oil and Gas</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy Marketing and Transportation</b>	
	<b>Exploration and Production</b>			<b>of Gas</b>	<b>Electricity</b>
	<b>Production</b>			<b>Distribution</b>	<b>Petrochemical</b>
Current Assets	6,185	645			
Non Current Assets	8,543	405			
Current Liabilities	4,156	517			
Non Current Liabilities	4,184	44			
Shareholders Equity	6,388	489			
Sales	6,545	1,238			
Gross profit	4,087	186			
Net income	1,216	(21)			

	<b>2007</b>				
	<b>Oil and Gas</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy Marketing and Transportation</b>	
	<b>Exploration and Production</b>			<b>of Gas</b>	<b>Electricity</b>
	<b>Production</b>			<b>Distribution</b>	<b>Petrochemical</b>
Current Assets	5,988	553			
Non Current Assets	7,322	422			
Current Liabilities	3,726	416			
Non Current Liabilities	4,657	49			
Shareholders Equity	4,927	510			
Sales	4,049	1,485			
Gross profit	2,628	411			
Net income	899	154			

**2006**

	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy Marketing and Transportation of Gas</b>	<b>Electricity</b>
Sales	3,308	4,229	470		501
Gross profit	1,582	605	80		168
Net income	377	272	35		34

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**Table of Contents*****e) Summarized financial information of proportionally consolidated jointly controlled companies***

The following table provides summarized financial information on a proportional basis, for jointly controlled companies, which are proportionally consolidated under Argentina GAAP:

	2008				2007				2006		
	CIESA (a)	Distrilec	PVIE	Total	CIESA (a)	Distrilec	PVIE (b)	Total	CIESA (a)	Distrilec	Total
Current Assets	429	298	243	970	343	252	372	967			
Non Current Assets	2,187	1,545	1,073	4,805	2,224	1,407	789	4,420			
Current Liabilities	721	514	293	1,528	617	383	298	1,298			
Non Current Liabilities	1,184	333	342	1,859	1,259	330	297	1,886			
Shareholders Equity	199	585	678	1,462	218	560	564	1,342			
Minority Interest	512	411	3	926	473	386	2	861			
Sales	639	993	965	2,597	602	894	1,101	2,597	632	695	1,327
Gross Profit	263	251	428	942	287	215	573	1,075	312	101	413
Net Income (loss)	(18)	26	241	249	7	51	839	897	71	(37)	34
Cash provided by (used in):											
Operating activities	313	133	319	765	304	224	312	840			
Investing activities	(96)	(140)	(214)	(450)	(116)	(131)	71	(176)			
Financing activities	(103)	(3)	(27)	(133)	(231)	(89)	(375)	(695)			

(a) For US GAAP reporting purposes, CIESA was not proportionally consolidated, as explained in Note 20 A.11)

(b) Considering that the sale of the 40% equity interest in PVIE was executed in December 2007 (Note 8.III), the consolidated statements of income and cash flows for the year ended December 31, 2007 presented

for comparative purposes show the participation in PVIE according to the procedure indicated for the consolidation of subsidiaries.

**f) Pension plan**

**Defined benefit plan:**

The information for Petrobras Energía's defined benefit plans is as follows (see Note 14.b):

	2008	2007	2006
<b>Change in projected benefit obligation</b>			
Projected Benefit Obligation at beginning of the year	176	161	99
Service cost	4	3	2
Interest cost	23	21	16
Actuarial (income) loss	(3)	1	15
Benefits paid	(9)	(10)	(7)
Unrecognized prior service cost			36
Projected benefit obligation at the end of the year (1)	191	176	161
Accumulated benefit obligation at the end of year	190	176	161
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of the year	31	35	40
Return on plan assets	3	3	2
Contributions	17		
Benefits paid	(7)	(7)	(7)
Fair value of plan assets at the end of the year (2)	44	31	35
<b>Status of the plans</b>			
Unfunded status at year end	(147)	(145)	(126)

(1) As of December 31, 2008, 2007 and 2006 the Projected Benefit Obligation is

comprised of  
135, 124 and  
118  
corresponding  
to the  
Compensatory  
Fund, and 56,  
52 and 43  
corresponding  
to the indemnity  
plan,  
respectively.

- (2) Both for  
December 31,  
2008 and 2007,  
assets  
contributed  
correspond to  
the  
Compensatory  
Fund (Note  
14.b)

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	<b>2008</b>	<b>2007</b>
<b>Amounts recorded in the consolidated balance sheet consists of:</b>		
Total liabilities	(147)	(145)
<b>Cumulative amounts recorded in Accumulated other comprehensive income consists of:</b>		
Unrecognized prior service cost	36	38
Unrecognized actuarial loss	46	52
Total recorded in Accumulated other comprehensive income at year end, before tax	82	90

	<b>2008</b>	<b>2007</b>
<b>Reconciliation of amounts recognized in Accumulated other comprehensive income</b>		
Amounts recorded before tax at beginning of year	90	93
Change in unrecognized actuarial loss	(6)	1
Amortization of actuarial loss recognized in net periodic benefit cost	(2)	(4)
Amounts recorded before tax at end of year:	82	90

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Components of net periodic pension benefit cost</b>			
Service cost	4	3	2
Interest cost	23	21	16
Return on plan assets	(3)	(3)	(2)
Amortization of actuarial gain and losses and unrecognized prior service cost	5	4	2
Net periodic benefit cost	29	25	18

**Weighted-average assumptions**

Discount rate	4%	4%	4%
Rate of return on plan assets	6%	6%	6%
Rate of compensation increase	2%	2%	2%

The compulsory discount rate of 4% was established by the National Insurance Control Entity (Superintendencia de Seguros de la Nación), which is based on the historical analysis of fixed income investments.

As of the date of the issuance of these financial statements, the Board of Directors did not approve contributions to its Defined Benefit pension plan funds in 2009.

Benefit obligations for the period 2009-2018 are expected to be paid as follows:

2009	14
2010	12

2011	14
2012	15
2013	13
2014-2018	73

**Adoption of SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans**

Effective December 31, 2006 for US GAAP reporting purposes, the Company implemented FASB Statement No. 158,

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), which requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income, a separate component of the shareholders' equity.

In 2008, 2007 and 2006, the amounts recorded in other comprehensive income for net actuarial losses and prior service costs are required by FAS 158.

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The following table presents the effect of adopting SFAS No. 158 on the Company's December 31, 2006 consolidated balance sheet:

	<b>Balances prior to</b>		<b>Balances after to</b>
	<b>SFAS No. 158 Adoption</b>	<b>Adjustments</b>	<b>SFAS No. 158</b>
Intangible assets	40	(40)	
Accumulated other comprehensive loss	53	40	93
Liabilities	126		126
Deferred tax assets	30	14	44

As of December 31, 2008, the amounts expected to be recognized in 2009 as net periodic benefit cost, before the effect of income taxes and minority interests, are as follows:

**Pension Benefits**

Prior service cost	2
Net actuarial loss	2

**g) Business segment consolidated information**

The following information shows additional disclosures under Argentina GAAP about the Company's business segments, as operated by Petrobras Energía and its subsidiaries, and as defined by its management.



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	<b>2008</b>					<b>Total</b>
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas &amp; Energy</b>	<b>Corporate and Eliminations</b>	
Unaffiliated revenues	2,233	6,684	3,420	2,838		15,175
Intersegment revenues	2,507	258	55	155	(2,975)	
<b>Total revenues</b>	<b>4,740</b>	<b>6,942</b>	<b>3,475</b>	<b>2,993</b>	<b>(2,975)</b>	<b>15,175</b>
Depreciation, depletion and amortization	(798)	(89)	(108)	(241)	(24)	(1,260)
Equity in earnings of unconsolidated affiliates	311	(6)				305
Interest expense	(53)	(26)	(21)	(103)	(336)	(539)
Interest revenue	6		5	31	69	111
Dividends received from unconsolidated affiliates	150					150
Additions to property, plant and equipment	2,098	140	175	519	18	2,950
Identifiable assets	7,194	2,926	2,257	5,961	1,598	19,936
Investments in and advances to unconsolidated affiliates	2,991	140		24		3,155
<b>Total assets</b>	<b>10,185</b>	<b>3,066</b>	<b>2,257</b>	<b>5,985</b>	<b>1,598</b>	<b>23,091</b>

	<b>2007</b>					<b>Total</b>
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas &amp; Energy</b>	<b>Corporate and Eliminations</b>	
Unaffiliated revenues	2,381	5,535	3,018	2,524		13,458

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Intersegment revenues	2,243	291	45	147	(2,726)	
Total revenues	4,624	5,826	3,063	2,671	(2,726)	13,458
Depreciation, depletion and amortization	(782)	(56)	(100)	(253)	(26)	(1,217)
Equity in earnings of unconsolidated affiliates	80	75	21			176
Interest expense	(134)	(4)	(20)	(151)	(278)	(587)
Interest revenue	33		9	27	27	96
Dividends received from unconsolidated affiliates	179	79	6			264
Additions to property, plant and equipment	847	250	279	300	17	1,693
Identifiable assets	5,568	2,791	2,059	5,290	2,693	18,401
Investments in and advances to unconsolidated affiliates	2,786	146		24		2,956
Total assets	8,354	2,937	2,059	5,314	2,693	21,357

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	<b>2006</b>					<b>Total</b>
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas &amp; Energy</b>	<b>Corporate and Eliminations</b>	
Unaffiliated revenues	2,653	4,262	2,447	2,383		11,745
Intersegment revenues	2,128	269	43	115	(2,555)	
<b>Total revenues</b>	<b>4,781</b>	<b>4,531</b>	<b>2,490</b>	<b>2,498</b>	<b>(2,555)</b>	<b>11,745</b>
Depreciation, depletion and amortization	(720)	(62)	(80)	(232)	(27)	(1,121)
Equity in earnings of unconsolidated affiliates	89	114	15	1		219
Interest expense	(221)	(4)	(25)	(153)	(208)	(611)
Interest revenue	35		5	33	35	108
Dividends received from unconsolidated affiliates	35	76	5			116

**h) Exploratory well costs**

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of the drilling:

**Aging of capitalized exploratory well costs**

	<b>2008</b>		<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>Wells</b>	<b>Amount</b>	<b>Wells</b>	<b>Amount</b>	<b>Wells</b>
Drilling not finished or capitalized for less than one year	178	22	94	20	91	24
Capitalized for more than one year	125	16	30	1	15	2
<b>Total</b>	<b>303</b>	<b>38</b>	<b>124</b>	<b>21</b>	<b>106</b>	<b>26</b>

Capitalized exploratory well costs as of December 31, 2008 for more than one year correspond to 15 wells located in the Austral Basin (Argentina), and 1 in Peru in which progress is being made on contractual arrangements that will permit future development and costs are being incurred to assess the reserves and their potential development.

**23. Oil and Gas Supplementary Disclosures (Unaudited)**

The following information for the oil and gas producing activities has been prepared in accordance with the methodology prescribed by Statement of Financial Accounting Standards No 69 Disclosures about Oil and Gas

Producing Activities and includes the Company and its subsidiaries oil and gas production activities as well as the equity shares in its affiliates valued by the equity method. The Company has oil and gas properties in Argentina and other countries in Latin America.

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Amounts are stated in millions of pesos as mentioned in Note 2.c. to the financial statements.

**Capitalized costs**

The following table presents the capitalized costs as of December 31, 2008 and 2007, for proved and unproved oil and gas properties, and the related accumulated depreciation and allowances, which reduce the value of assets.

	2008		2007	
	Argentina GAAP	US GAAP	Argentina GAAP	US GAAP
	(in millions of constant pesos - note 2.c.)			
<b>Consolidated companies:</b>				
Proved properties:				
Equipment, camps and other facilities	4,436	4,326	3,180	3,070
Mining properties and wells	8,024	7,172	7,456	6,434
Unproved properties	307	307	92	92
Total capitalized costs	12,767	11,805	10,728	9,596
Accumulated depreciation and allowances which reduce the value of assets	(7,000)	(6,078)	(6,470)	(5,006)
Subtotal of consolidated companies	5,767	5,727	4,258	4,590
<b>Company's share in capitalized costs by unconsolidated affiliates</b>	2,304	2,328	2,275	2,290
Total net capitalized costs	8,071	8,055	6,533	6,880

**Table of Contents****Costs incurred**

The following table presents those costs capitalized as well as expensed that were incurred during each of the years ended as of December 31, 2008, 2007 and 2006. The acquisition of properties includes the cost of acquisition of proved or unproved oil and gas properties. Exploration costs include geological and geophysical costs, costs necessary for retaining undeveloped properties, and drilling costs and exploratory well equipment. Development costs include drilling costs and equipment for developmental wells, costs incurred in improved recovery, the construction of facilities for extraction, treatment and storage of hydrocarbons and all necessary costs to maintain facilities for the existing developed reserves.

	<b>2008</b>			<b>2007</b>		
	<b>Argentina and US GAAP</b>			<b>Argentina and US GAAP</b>		
	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total
<b>Consolidated companies:</b>						
Acquisition of properties:						
- Proved	735		735			
- Unproved	3		3			
Exploration costs	345	96	441	127	49	176
Development costs	859	334	1,193	820	614	1,434
Subtotal costs incurred by consolidated companies	1,942	430	2,372	947	663	1,610
<b>Company's share in costs incurred by unconsolidated affiliates</b>						
	41	208	249	17	205	222
Total costs incurred	1,983	638	2,621	964	868	1,832

	<b>2006</b>		
	<b>Argentina and US GAAP</b>		
	Argentina	Rest of Latin-America	Total

**Consolidated companies:**

Acquisition of properties:

- Proved

- Unproved

Exploration costs	130	60	190
Development costs	665	589	1,254
Subtotal costs incurred by consolidated companies	795	649	1,444
<b>Company's share in costs incurred by unconsolidated affiliates</b>	9	55	64
Total costs incurred	804	704	1,508

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**Table of Contents****Results of operations**

The breakdown of results of the operations shown below summarizes revenues and expenses directly associated with oil and gas-producing activities for the years ended December 31, 2008, 2007 and 2006. These activities are a part of the Oil and Gas Exploration and Production segment. This breakdown does not include any allocation of financial costs or expenses from Corporate, nor the effect of the minority interest in Petrobras Energía and therefore it is not necessarily an indicator of the contribution in operations for oil and gas producing activities to the net income of the Company. Income tax for the years presented was calculated utilizing the deferred income tax criteria.

	<b>2008</b>					
	<b>Argentine GAAP</b>			<b>US GAAP</b>		
	Argentina	Rest of Latin- America	Total	Argentina	Rest of Latin- America	Total
	(in millions of constant pesos - note 2.c)					
<b>Results of operations of consolidated companies:</b>						
Net sales:						
- to third parties	11	2,222	2,233	11	2,222	2,233
- transfers to other operations	2,507		2,507	2,507		2,507
Total net sales	2,518	2,222	4,740	2,518	2,222	4,740
Production costs:						
- Operating costs	(978)	(161)	(1,139)	(978)	(161)	(1,139)
- Royalties and other	(128)	(882)	(1,010)	(138)	(882)	(1,020)
Total production costs	(1,106)	(1,043)	(2,149)	(1,116)	(1,043)	(2,159)
Exploration costs	(179)	(59)	(238)	(179)	(59)	(238)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(574)	(102)	(676)	(725)	(346)	(1,071)
Results of operations before income tax	659	1,018	1,677	498	774	1,272
Income tax	(230)	(423)	(653)	(225)	(419)	(644)
	429	595	1,024	273	355	628



Results of operations consolidated  
companies

<b>Company's share in results of operations by unconsolidated affiliates</b>	25	128	153	23	33	56
Total Results of oil and gas operations	454	723	1,177	296	388	684

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	<b>2007</b>					
	<b>Argentina GAAP</b>			<b>US GAAP</b>		
	Argentina	Rest of Latin- America	Total	Argentina	Rest of Latin- America	Total
	(in millions of constant pesos - note 2.c)					
<b>Results of operations of consolidated companies:</b>						
Net sales:						
- to third parties	260	2,121	2,381	260	2,121	2,381
- transfers to other operations	2,243		2,243	2,243		2,243
Total net sales	2,503	2,121	4,624	2,503	2,121	4,624
Production costs:						
- Operating costs	(569)	(192)	(761)	(569)	(192)	(761)
- Royalties and other	(469)	(910)	(1,379)	(469)	(910)	(1,379)
Total production costs	(1,038)	(1,102)	(2,140)	(1,038)	(1,102)	(2,140)
Exploration costs	(121)	(51)	(172)	(121)	(51)	(172)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(576)	(965)	(1,541)	(606)	(753)	(1,359)
Results of operations before income tax	768	3	771	738	215	953
Income tax	(269)	(249)	(518)	(256)	(255)	(511)
Results of operations consolidated companies	499	(246)	253	482	(40)	442
<b>Company's share in results of operations by unconsolidated affiliates</b>	30	29	59	25	29	54
Total Results of oil and gas operations	529	(217)	312	507	(11)	496



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	<b>2006</b>					
	<b>Argentina GAAP</b>			<b>US GAAP</b>		
	Argentina	Rest of Latin- America	Total	Argentina	Rest of Latin- America	Total
	(in millions of constant pesos - note 2.c)					
<b>Results of operations of consolidated companies:</b>						
Net sales:						
- to third parties	566	2,087	2,653	566	2,087	2,653
- transfers to other operations	2,128		2,128	2,128		2,128
Total net sales	2,694	2,087	4,781	2,694	2,087	4,781
Production costs:						
- Operating costs	(484)	(218)	(702)	(484)	(218)	(702)
- Royalties and other	(359)	(684)	(1,043)	(359)	(684)	(1,043)
Total production costs	(843)	(902)	(1,745)	(843)	(902)	(1,745)
Exploration costs	(68)	(49)	(117)	(68)	(49)	(117)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(485)	(225)	(710)	(523)	(223)	(746)
Results of operations before income tax	1,298	911	2,209	1,260	913	2,173
Income tax	(454)	(308)	(762)	(441)	(309)	(750)
Results of operations consolidated companies	844	603	1,447	819	604	1,423
<b>Company's share in results of operations by unconsolidated affiliates</b>	33	40	73	27	40	67
Total Results of oil and gas operations	877	643	1,520	846	644	1,490



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***Estimated oil and gas reserves***

Proved reserves represent estimated quantities of oil (including crude oil, condensate and natural gas liquids) and natural gas, which available geological and engineering data demonstrates with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods. The choice of method or combination of methods employed in the analysis of each reservoir was determined by the stage of development, quality and reliability of basic data, and production history.

The Company believes that its estimates of remaining proved recoverable oil and gas reserve volumes are reasonable and such estimates have been prepared in accordance with Rule 4-10 of Regulation S-X of the Securities and Exchange Commission (SEC) of the United States of America.

The Company estimates its reserves at least once a year. The Company's reserves estimation as of December 31, 2008 and 2007 was audited by DeGolyer and MacNaughton. The technical revision covered approximately 70% and 71% respectively, of the Company's estimated reserves. DeGolyer and MacNaughton have concluded that the audited proved oil and natural gas reserve volumes are reasonable. We resolved all questions that arose during the course of the audit process to the auditor's satisfaction.

As of December 31, 2006, the Company's reserves estimation were audited by Gaffney, Cline & Associates Inc. The technical revision covered approximately 93% of the Company's estimated reserves.

Reserves engineering is a subjective process of estimation of hydrocarbon accumulation, which cannot be accurately measured, and the reserve estimation depends on the quality of available information and the interpretation and judgment of the engineers and geologists. Therefore, the reserves estimations, as well as future production profiles, are often different than the quantities of hydrocarbons which are finally recovered. The accuracy of such estimations depends, in general, on the assumptions on which they are based.

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The following table sets forth the estimated proved reserves of oil (includes crude oil, condensate and natural gas liquids) and natural gas as of December 31, 2008, 2007 and 2006:

	<b>CRUDE OIL, CONDENSATE AND NATURAL GAS LIQUIDS IN THOUSANDS OF BARRELS</b>					<b>NATURAL GAS IN MILLION OF CUBIC FEET</b>				
	<b>CONSOLIDATED COMPANIES</b>		<b>UNCONSOLIDATED COMPANIES</b>			<b>CONSOLIDATED COMPANIES</b>		<b>UNCONSOLIDATED COMPANIES</b>		
	<b>REST OF LATIN - ARGENTINA</b>		<b>REST OF LATIN - AMERICA</b>			<b>REST OF LATIN - ARGENTINA</b>		<b>REST OF LATIN - AMERICA</b>		
<b>Proved reserves (developed and undeveloped)</b>	<b>ARGENTINA</b>	<b>AMERICA</b>	<b>ARGENTINA</b>	<b>AMERICA</b>	<b>TOTAL</b>	<b>ARGENTINA</b>	<b>AMERICA</b>	<b>ARGENTINA</b>	<b>AMERICA</b>	<b>TOTAL</b>
<b>Reserves as of December 31, 2005*</b>	138,180	386,346	5,653	8,251	538,430	937,943	379,809	12,920		1,330,672
Increase (Decrease) originated in:										
Revisions of previous estimates	(2,522)	(257,027)	(114)	70,303	(189,360)	26,198	(175,162)	(934)	79,120	(70,778)
Improved recovery	(426)	4,705	464		4,743	156	6,830	568		7,554
Extensions and discoveries	5,510	6,900			12,410	63,595				63,595
Sale of proved reserves in place	(4,541)				(4,541)					
Year's production	(19,124)	(13,391)	(671)	(4,560)	(37,746)	(90,133)	(18,155)	(1,128)	(1,802)	(111,218)
<b>Reserves as of December 31, 2006*</b>	117,077	127,533	5,332	73,994	323,936	937,759	193,322	11,426	77,318	1,219,825
Increase (Decrease) originated in:										
Revisions of previous estimates	(8,524)	18,198	(242)	(8,818)	614	(4,104)	86,034	(1,244)	(6,130)	74,556
Improved recovery		8,864			8,864		2,027			2,027
Extensions and discoveries	2,716	299	397		3,412	167,962		364		168,326

Sale of proved reserves in place	(1,231)	(39,330)		(109)	(40,670)		(41,245)		(350)	(41,595)
Year's production	(16,353)	(9,118)	(693)	(5,090)	(31,254)	(94,631)	(16,406)	(827)	(4,212)	(116,076)
<b>Reserves as of December 31, 2007 (*)</b>	93,685	106,446	4,794	59,977	264,902	1,006,986	223,732	9,719	66,626	1,307,063
Increase (Decrease) originated in:										
Revisions of previous estimates	3,048	(15,704)	197	(6,335)	(18,794)	(78,921)	(15,906)	(514)	11,508	(83,833)
Extensions and discoveries	1,505				1,505	39,195				39,195
Purchase of proved reserves in place	12,296				12,296	123,125				123,125
Sale of proved reserves in place		(10,677)			(10,677)					
Year's production	(15,027)	(7,384)	(717)	(4,603)	(27,731)	(96,673)	(16,073)	(863)	(2,867)	(116,476)
<b>Reserves as of December 31, 2008 (*)</b>	95,507	72,681	4,274	49,039	221,501	993,712	191,753	8,342	75,267	1,269,074

(\*) Includes proved developed reserves:

As of December 31, 2005	93,980	174,227	4,113	2,000	274,320	447,161	203,255	10,217		660,633
As of December 31, 2006	77,826	66,033	4,019	36,702	184,580	488,585	136,771	9,095	43,113	677,564
As of December 31, 2007	68,326	46,098	3,601	33,432	151,457	499,270	144,566	7,870	43,976	695,682
As of December 31, 2008	72,054	36,223	3,579	27,497	139,353	531,807	115,145	7,579	47,034	701,565

The amounts of proved reserves disclosed herein as of December 31, 2008 include 53,563 thousand of barrels of crude oil condensate and natural gas liquids and 306,887 million of cubic feet of natural gas corresponding to the minority interest in Petrobras Energía which include 33,698 thousand of barrels of crude oil condensate and natural gas liquids and 169,652 million of cubic feet of natural gas correspond to the minority interest in Petrobras Energía of proved developed reserves.



The reserve volumes in Bolivia for years ended in 2008 and 2007, and 2006 were calculated using the economic method, according to the terms of the new operating agreements signed in October 2006.

The estimated reserves were subjected to economic evaluation to determine their economic limits. Such estimated reserves in Argentina and Peru for years ended in 2008, 2007 and 2006 are stated prior to the payment of any royalties as they have the same attributes as taxes on production and, therefore, are treated as operating costs. In Ecuador, due to the type of contract in which the Government has the right to a percentage of production and takes it in kind, the reserves are stated after such percentage.

In Venezuela, as of December 31, 2008 and 2007 and 2006, estimated reserves were calculated on the basis of the contractual structure in force, and are stated before royalties and are computed by multiplying our ownership in each mixed company by the proved reserve volumes of the relevant mixed company.

***Standardized measure of discounted future net cash flows***

The following table discloses estimated future net cash flows from future production of proved developed and undeveloped reserves of crude oil, condensate, natural gas liquids and natural gas. As prescribed by Statement of Financial Accounting Standards No. 69, such future net cash flows were estimated using each year-end prices and costs held constant for the life of the reserves and using a 10% annual discount factor. Future development and abandonment costs include estimated drilling costs, development and exploitation installations and abandonment costs. These future development costs were estimated based on evaluations made by the Company and the operators of the fields in which the Company has an interest. The future income tax was calculated by applying the tax rate in effect as of the date this supplementary information was filed.

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This standardized measure is not intended to be and should not be interpreted as an estimate of the market value of the Company's reserves. The purpose of this information is to give standardized data to help the users of the financial statements to compare different companies and make certain projections. It is important to point out that this information does not include, among other items, the effect of future changes in prices, costs and tax rates, which past experience indicates that are likely to occur, as well as the effect of future cash flows from reserves which have not yet been classified as proved reserves, of a discount factor more representative of the value of money over the lapse of time and of the risks inherent to the production of oil and gas. These future changes may have a significant impact on the future net cash flows disclosed below. For all these reasons, this information does not necessarily indicate the perception the Company has on the discounted future net cash flows derived from the reserves of hydrocarbons.

	<b>2008</b>			<b>2007</b>			<b>2006</b>		
	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total
	(in millions of pesos - note 2.c.)								
<b>Consolidated companies:</b>									
Future cash flows	21,210	9,495	30,705	18,655	21,327	39,982	17,264	20,460	37,724
Future production costs	(7,928)	(3,631)	(11,559)	(6,550)	(8,387)	(14,937)	(6,381)	(6,954)	(13,335)
Future development and abandonment costs	(3,482)	(1,774)	(5,256)	(2,199)	(2,024)	(4,223)	(2,383)	(2,230)	(4,613)
Future income tax	(2,699)	(1,191)	(3,890)	(2,875)	(3,541)	(6,416)	(2,310)	(3,644)	(5,954)
Undiscounted future net cash flows	7,101	2,899	10,000	7,031	7,375	14,406	6,190	7,632	13,822
10% annual discount	(2,381)	(1,524)	(3,905)	(2,344)	(3,643)	(5,987)	(2,040)	(3,497)	(5,537)
Subtotal of consolidated companies	4,720	1,375	6,095	4,687	3,732	8,419	4,150	4,135	8,285
<b>Company's share in standardized measure by unconsolidated affiliates</b>	198	827	1,025	217	2,492	2,709	194	1,450	1,644

Standardized measure of discounted future net cash flows	4,918	2,202	7,120	4,904	6,224	11,128	4,344	5,585	9,929
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The amounts of the standardized measure of discounted future net cash flows herein for the year ended December 31, 2007 include 1,722 that correspond to the minority interest in Petrobras Energía.

***Changes in the standardized measure of discounted future net cash flows***

The following table discloses the changes in the standardized measure of discounted future net cash flows for the years ended December 31, 2008, 2007 and 2006:

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	<b>CONSOLIDATED AND UNCONSOLIDATED COMPANIES</b>								
	2008			2007			2006		
	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total
	(in millions of pesos - note 2.c.)								
<b>Standardized measure at beginning of year</b>	4,904	6,224	11,128	4,344	5,585	9,929	7,522	9,900	17,422
Changes related to oil & gas activities:									
Hydrocarbons sales net of production costs	(1,475)	(1,729)	(3,204)	(1,526)	(1,500)	(3,026)	(1,916)	(1,563)	(3,479)
Net change in sales prices, net of future production costs	(456)	(6,199)	(6,655)	1,076	2,655	3,731	(4,114)	(488)	(4,602)
Changes in future development costs	(1,446)	(614)	(2,060)	(555)	(937)	(1,492)	(756)	(334)	(1,090)
Extensions, discoveries and improved recovery, net of future production and associated costs	238		238	728	12	740	326	505	831
Development costs incurred	900	542	1,442	837	819	1,656	674	644	1,318
Revisions of quantity estimates	(64)	(124)	(188)	(301)	2,365	2,064	(155)	(750)	(905)
Purchase of reserves in place	984		984						
		(292)	(292)	(51)	(2,790)	(2,841)	(323)		(323)

Sale of reserves in place									
Net change in income taxes	281	3,206	3,487	(307)	(636)	(943)	2,000	3,132	5,132
Accretion of discount	768	1,111	1,879	626	902	1,528	1,138	1,636	2,774
Changes in production rates	(145)	(262)	(407)	8	(82)	(74)	100	178	278
Effect of the ending of old contracts and the signing of the new ones before tax (Bolivia and Venezuela)								(7,084)	(7,084)
Other changes	429	339	768	25	(169)	(144)	(152)	(191)	(343)
<b>Standardized measure at end of year</b>	<b>4,918</b>	<b>2,202</b>	<b>7,120</b>	<b>4,904</b>	<b>6,224</b>	<b>11,128</b>	<b>4,344</b>	<b>5,585</b>	<b>9,929</b>

The amounts of the standardized measure of discounted future net cash flows herein for the year ended December 31, 2008 include 1,722 that correspond to the minority interest in Petrobras Energía.

## 24. Subsequent events

### a) Sale of 60% interest in PVIE

In April 2009, Petrobras Energía sold its 60% remaining equity interest in PVIE to PIB BV, for a total consideration of US\$619.4 million. As a result of this transaction, Petrobras Energía recognized an income before income tax of approximately P\$1.6 billion for Argentina GAAP purposes.

For US GAAP purposes, the above-mentioned transaction qualifies as a capital transaction, and, as a result, the difference between total consideration received and the book value of assets sold will be recorded directly in shareholder's equity, as additional paid in capital.

### b) Nonconvertible bonds payment

On May 1, 2009, Petrobras Energía paid at maturity the nonconvertible bonds Class H, issued under the global program of US\$ 2.5 billion, for a nominal value of US\$ 181.5 million.

### c) CIESA's indebtedness (See Note 9.IV)

On January 9, 2009 Ashmore Energy International Limited (now AEI) -the only self declared holder of the Corporate Bonds (Obligaciones Negociables) issued by CIESA in 1997- announced its decision to terminate the Restructuring Agreement, to which AEC, Ciesa and others were a party.

On January 28, 2009, CIESA brought an action before the Supreme Court of the State of New York, County of New York, USA (the New York Court), seeking a declaratory judgment that any claim brought by AEI against CIESA in connection with the Corporate Bonds was time-barred, due to the fact that the statute of limitations pertaining to any such claim had expired.

On April 2, 2009, CIESA filed an amended complaint including new causes of action of CIESA against AEI. In the amended complaint filed in the New York Court, CIESA seeks (i) a declaration that all claims under the Corporate Bonds are time-barred because the six-year New York statute of limitation period to seek recovery thereunder has expired, (ii) on a subsidiary basis to the first claim, that CIESA be paid damages in an amount not to exceed US\$300 million for breach of the Restructuring Agreement, (iii) on a subsidiary basis to the first and second claims,

that the strict performance of the Restructuring Agreement be ordered, and (iv) that AEI be ordered to refrain from filing any claim against CIESA under the Corporate Bonds.

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On April 21, 2009, AEI filed a motion before the New York Court to dismiss CIESA's amended complaint, or in the alternative, for a stay of the action. AEI argued in its motion that the complaint by CIESA should be dismissed on comity grounds, for failure to state a claim, or in the alternative, in favor of pending proceedings in Argentina.

On May 4, 2009, CIESA filed its reply to the motion to dismiss the complaint rebutting the arguments of AEI and requesting of the New York Court that CIESA's complaint be sustained. On May 14, 2009, CIESA and AEI appeared in the New York Court for oral argument regarding AEI's motion to dismiss. As of the date of these financial statements, the New York Court has not rendered a decision on the motion to dismiss.

Separately, on April 6, 2009, CIESA was given notice of a petition in bankruptcy filed in Argentine bankruptcy court by AEI in relation to the recovery of part of the Corporate Bonds for a total nominal value of US\$127 million. On April 16, 2009 CIESA answered the notice to the petition in bankruptcy and objected to it on the following grounds, among others: (i) failure to meet the admissibility requirements for a petition in bankruptcy considering that there is no enforceable claim because the claims under the Corporate Bonds are time-barred under the New York law governing them, (ii) CIESA is not in a state of insolvency, and (iii) abusive and improper use by AEI of the petition in bankruptcy to get out of the statute of limitations action previously brought in the courts of competent jurisdiction in the State of New York, and unlawfully seek the individual recovery of an alleged claim by means of proceedings designed for a very different purpose.

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***d) March 27, 2009 Shareholders meeting of Petrobras Energía***

The Petrobras Energía General Regular and Special Shareholders Meeting held on March 27, 2009 adopted, among other things, the following resolutions:

1) The establishment of an optional reserve known as the Reserve for Future Dividends in an aggregate amount of P\$380 million and delegated to the Board of Directors the ability to determine the dividend distribution date and amount during the period between the admission of Petrobras Energía Participaciones S.A.'s shareholders as shareholders of Petrobras Energía S.A. and the date of the next Regular Shareholders Meeting to be held in connection with fiscal year ending December 31, 2009, taking into account the course of operations, operating results, investment programs, financial position and funds availability, among other factors deemed relevant to the development of the Company's business.

2) The change of Petrobras Energía S.A.'s corporate name to Petrobras Argentina S.A. With regards to the above-mentioned, as of the date of these financial statements, Petrobras Energía is handling all formalities required for registration of the corporate name change before the relevant controlling bodies.

***e) Suspension of dividend distribution at Edesur (subsidiary of Distrilec)***

On June 1, 2009, Edesur received a notice from ENRE demanding the suspension of the dividend distribution in the amount of P\$65 million that had previously been approved at the Shareholders Meeting held on March 16, 2009, on the grounds of non-compliance with the formal request for dividend distribution according to the MOA

The Board of Directors of Edesur resolved, on grounds of prudence and without any acknowledgment of rights or facts, to abide by the terms of the notice sent by ENRE and requested that ENRE reconsider its demand.

**25. Other consolidated information**

The following tables present additional consolidated financial statements disclosures required under Argentine GAAP.

**a) Property, plant and equipment.**

**b) Equity in affiliates.**

**c) Cost of sales.**

**d) Foreign currency assets and liabilities.**

**e) Detail of expenses.**

**f) Information about ownership in subsidiaries and affiliates.**

**g) Oil and gas areas and participation in joint-ventures.**

**h) Combined joint-ventures and consortium assets and liabilities and statements of income.**



**Table of Contents****a) Property, plant and equipment as of December 31, 2008, 2007 and 2006**

(Stated in millions of Argentine Pesos)

	<b>2008</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemicals</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Net book value at the beginning of the year	4,258	1,317	1,009	3,897	128	10,609
Translation effect	88		48			136
Net increase	2,098	140	175	519	18	2,950
Reversal of the allowance for impairment of assets in Argentina (Note 16.d)	121					121
Depreciation (Note 25.e)	(798)	(89)	(108)	(241)	(24)	(1,260)
Net book value at the end of the year	5,767	1,368	1,124	4,175	122	12,556

	<b>2007</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Net book value at the beginning of the year	4,907	1,123	821	3,850	137	10,838
Translation effect	45		9			54
Net increase	847	250	279	300	17	1,693
Impairment of assets in Ecuador (Note 5)	(759)					(759)
Depreciation (Note 25.e)	(782)	(56)	(100)	(253)	(26)	(1,217)

Net book value at the end of the year	4,258	1,317	1,009	3,897	128	10,609
	<b>2006</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Net book value at the beginning of the year	6,913	947	702	3,932	163	12,657
Translation effect	47		5			52
Net increase	1,327	238	194	150	1	1,910
Migration of operations in Venezuela (Note 5)	(2,660)					(2,660)
Depreciation (Note 25.e)	(720)	(62)	(80)	(232)	(27)	(1,121)
Net book value at the end of the year	4,907	1,123	821	3,850	137	10,838

**Table of Contents****b) Equity in affiliates as of December 31, 2008 and 2007**

(Stated in millions of Argentine Pesos)

Name and issuer	2008			2007	
	Description of securities Face Value	Amount	Cost	Book value	Book value
Coroil S.A.	Bs 1,000	490	48	41	38
Inversora Mata S.A.	Bs 1,000	490	61	107	90
Oleoducto de Crudos Pesados Ltd.	US\$0.01	31,500	98	96	95
Oleoductos del Valle S.A.	\$10	2,542,716	61	63	62
Petrolera Entre Lomas S.A.	\$1	96,050	2	81	66
Refinería del Norte S.A.	\$10	2,610,809	63	140	146
Petroritupano S.A.	Bs 1,000	483,263	1,109	1,252	1,128
Petroven-Bras S.A.	Bs 1,000	97,163	129	145	130
Petrowayú S.A.	Bs 1,000	382,202	957	1,069	950
Petrokariña S.A.	Bs 1,000	153,869	456	552	466
Cost related with CIESA's debt restructuring (Note 8.I)				110	110
TGS S.A. goodwill in CIESA S.A.				23	23
Other				3	2
			2,984	3,682	3,306

US\$ Millions of  
United States  
Dollars

BS Millions of  
Bolívares

**Table of Contents****c) Cost of sales for the years ended December 31, 2008, 2007 and 2006**

(Stated in millions of Argentine Pesos)

	2008					Total
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	
Inventories at the beginning of the year	98	683	422	61	(168)	1,096
Translation effect	5		14			19
Costs (Note 25.e)	2,433	237	314	665		3,649
Holding (losses) gains		(49)	(86)	6	18	(111)
Purchases, consumptions and other	94	6,660	2,719	1,532	(3,027)	7,978
Inventories at the end of the year	(152)	(882)	(621)	(156)	180	(1,631)
Cost of sales	2,478	6,649	2,762	2,108	(2,997)	11,000

	2007					Total
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	
Inventories at the beginning of the year	159	524	318	47	(124)	924
Translation effect	2		2			4
Costs (Note 25.e)	2,338	181	269	554		3,342
Holding gains (losses)	8	29	84	(2)	(33)	86
Purchases, consumptions and other	73	5,693	2,425	1,387	(2,727)	6,851

Inventories at the end of the year	(98)	(683)	(422)	(61)	168	(1,096)
Cost of sales	2,482	5,744	2,676	1,925	(2,716)	10,111

**2006**

	<b>Oil and Gas Exploration and Production</b>	<b>Refining</b>	<b>Petrochemical</b>	<b>Electricity</b>	<b>Corporate, Other Discontinued Investments and Eliminations</b>	<b>Total</b>
Inventories at the beginning of the year	165	527	263	52	(146)	861
Translation effect	2	1				3
Costs (Note 25.e)	2,003	181	229	471		2,884
Holding gains (losses)	(1)	17	18	(2)	(7)	25
Purchases, consumptions and other	84	4,490	1,876	1,318	(2,555)	5,213
Inventories at the end of the year	(159)	(524)	(318)	(47)	124	(924)
Cost of sales	2,094	4,692	2,068	1,792	(2,584)	8,062

**Table of Contents****d) Foreign currency assets and liabilities as of December 31, 2008 and 2007**

(Stated in millions of Argentine Pesos)

		<b>Foreign currency and amount</b>	<b>Exchange rate</b>	<b>Book value in local currency</b>
<b>CURRENT ASSETS</b>				
Cash	US\$	119	3.4500	410
	Rs	10	1.4763	15
	BS	6	1.6040	10
				<b>435</b>
Investments	US\$	228	3.4500	785
	Rs	52	1.4763	77
				<b>862</b>
Trade receivables	US\$	160	3.4500	552
	Rs	75	1.4763	111
				<b>663</b>
Other receivables	US\$	70	3.4500	243
	EU	1	4.8697	4
	Rs	15	1.4763	22
				<b>269</b>
<b>TOTAL 2008</b>				<b>2,229</b>
<b>TOTAL 2007</b>				<b>3,519</b>
<b>NON-CURRENT ASSETS</b>				
Trade receivables	US\$	12	3.4500	40
Other receivables	US\$	12	3.4500	40
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	Rs	22	1.4763	33
				<b>73</b>
Investments	US\$	41	3.4500	<b>142</b>
<b>TOTAL 2008</b>				<b>255</b>
<b>TOTAL 2007</b>				<b>254</b>
<b>TOTAL ASSETS</b>				
<b>2008</b>				<b>2,484</b>
<b>2007</b>				<b>3,773</b>

	Foreign currency and amount		Exchange rate	Book value in local currency
<b>CURRENT LIABILITIES</b>				
Accounts payable	US\$	168	3.4500	580
	Rs	10	1.4763	15
	BS	3	1.6040	5
	Sol	3	1.0982	3
	EU	2	4.8697	9
				<b>612</b>
Short-term debt	US\$	642	3.4500	2,216
	Rs	112	1.4763	165
				<b>2,381</b>
Payroll and social security taxes	Sol	3	1.0982	3
	Rs	7	1.4763	10
	US\$	6	3.4500	19
				<b>32</b>
Taxes payable	US\$	43	3.4500	150
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	Rs	39	1.4763	57
				<b>207</b>
Other liabilities	Rs	4	1.4763	6
	US\$	70	3.4500	241
				<b>247</b>
<b>TOTAL 2008</b>				<b>3,479</b>
<b>TOTAL 2007</b>				<b>3,229</b>
<b>NON-CURRENT LIABILITIES</b>				
Accounts payable	US\$	39	3.4500	<b>133</b>
Long-term debt	US\$	1,470	3.4500	<b>5,072</b>
Taxes payable	Sol	196	1.0982	215
	Rs	17	1.4763	25
				<b>240</b>
Other liabilities	US\$	55	3.4500	189
				<b>189</b>
<b>TOTAL 2008</b>				<b>5,634</b>
<b>TOTAL 2007</b>				<b>5,898</b>
<b>TOTAL LIABILITIES</b>				
<b>2008</b>				<b>9,113</b>
<b>2007</b>				<b>9,127</b>

(Stated in millions of Argentine Pesos)



US\$ Millions of  
United States  
Dollars

BS Millions of  
Bolívares

Rs Millions of  
Reales

Sol Millions of  
Peruvian Soles

EU Millions of  
Euros

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**Table of Contents****e) Detail of expenses for the years ended December 31, 2008, 2007 and 2006**

(Stated in millions of Argentine Pesos)

Accounts	2006	2007	2008			
	Total	Total	Total	Costs	Administrative and selling expenses	Exploration expenses
Salaries and wages	627	719	892	390	502	
Other benefits to personnel	166	182	164	52	112	
Taxes, charges and contributions	209	259	328	22	306	
Fees and professional advisory	110	113	150	35	115	
Depreciation of property, plant and equipment (Note 25.a)	1,121	1,217	1,260	1,151	109	
Amortization of other assets	8	8	6		6	
Oil and gas royalties	716	920	902	902		
Spares and repairs	158	161	276	247	29	
Geological and geophysical expenses	32	103	188			188
Abandoned and non-productive well write-downs	78	45	42			42
Transportation and freights	338	393	446	98	348	
Construction contracts and other services	520	604	793	576	217	
Fuel, gas, energy and other	71	93	77	65	12	
Other operating costs and consumptions	228	261	229	141	80	8
Expense reimbursements	(98)	(99)	(108)	(30)	(78)	
Total 2008			5,645	3,649	1,758	238
Total 2007		4,979		3,342	1,465	172
Total 2006	4,284			2,884	1,283	117

**Table of Contents****f) Information about ownership in subsidiaries and affiliates as of December 31, 2008**

<b>Subsidiaries</b>	<b>% OF OWNERSHIP AND VOTES</b>		<b>BUSINESS SEGMENT</b>
	<b>DIRECT</b>	<b>INDIRECT</b>	
Corod Producción S.A. (Venezuela)		75.82	Oil and Gas Exploration and Production
EcuadorTLC S.A. (Ecuador)		75.82	Oil and Gas Exploration and Production
Enecor S.A.		53.07	Gas and Energy
EG3 Asfaltos S.A.		75.82	Refining and Distribution
EG3 Red S.A.		75.82	Refining and Distribution
Innova S.A. (Brasil)		75.82	Petrochemicals
Petrobras Energía de México S.A. de C.V. (México)		75.82	Oil and Gas Exploration and Production
Petrobras Finance Bermuda (Islas Bermudas)		75.82	Corporate
Petrobras Holding Austria AG (Austria)		75.82	Corporate
Petrobras Energía S.A.	75.82		Corporate
Petrobras Energía Internacional S.A.		75.82	Corporate
Petrobras Energía Operaciones Ecuador S.A. (Ecuador)		75.82	Oil and Gas Exploration and Production
Petrobras Electricidad de Argentina S.A.		75.82	Gas and Energy
Petrobras Financial Services Austria GMBH (Austria)		75.82	Corporate
Petrobras Hispano Argentina S.A. (España)		75.82	Corporate
Petrobras Bolivia Internacional S.A. (Bolivia)		75.82	Corporate
Petrobras Energía Ecuador (Gran Cayman)		75.82	Oil and Gas Exploration and Production
Petrolera San Carlos S.A. (Venezuela)		75.82	Oil and Gas Exploration and Production
Transporte y Servicios de Gas en Uruguay S.A. (Uruguay)		48.94	Gas and Energy
World Energy Business S.A.		75.82	Gas and Energy
Electricidade Com S.A. (Brasil)		75.82	Gas and Energy
Petrobras Energía Colombia (Gran Cayman)		75.82	Oil and Gas Exploration and Production
World Fund Financial Services (Gran Cayman)		75.82	Corporate
Burlington Resources Argentina Holdings Limited (Islas Bermudas)		75.82	Corporate
Atalaya Energy S.R.L.		75.82	Oil and Gas Exploration and Production
Canadian Hunter Argentina S.R.L.		75.82	Oil and Gas Exploration and Production

**Affiliates under joint control**

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Cía. de Inversiones de Energía S.A.	37.91	Gas and Energy
Distrilec Inversora S.A.	36.77	Gas and Energy
Edesur S.A.	20.72	Gas and Energy
Transportadora de Gas del Sur S.A.	20.96	Gas and Energy
Petrobras de Valores Internacional de España S.L. (España)	45.49	Corporate
Petrobras Energía Perú S.A. (Perú)	45.55	Oil and Gas Exploration and Production
Petrobras Energía Venezuela S.A. (Venezuela)	45.49	Oil and Gas Exploration and Production

**Main affiliates in which significant influence is exercised**

Coroil S.A. (Venezuela)	28.36	Oil and Gas Exploration and Production
Oleoducto de Crudos Pesados Ltd. (Gran Cayman)	8.66	Oil and Gas Exploration and Production
Oleoducto de Crudos Pesados S.A. (Ecuador)	8.66	Oil and Gas Exploration and Production
Inversora Mata S.A. (Venezuela)	37.15	Oil and Gas Exploration and Production
Oleoductos del Valle S.A.	17.51	Oil and Gas Exploration and Production
Propyme S.G.R	37.91	Corporate
Petrolera Entre Lomas S.A.	14.56	Oil and Gas Exploration and Production
Refinería del Norte S.A.	21.61	Refining and Distribution
Urugua-í S.A.	22.24	Gas and Energy
Petroven-Bras S.A.	25.20	Oil and Gas Exploration and Production
Petrokariña S.A.	26.15	Oil and Gas Exploration and Production
Petrowayú S.A.	27.30	Oil and Gas Exploration and Production
Petroritupano S.A.	16.68	Oil and Gas Exploration and Production

**Other subsidiaries**

Ternoeléctrica José de San Martín S.A.	7.58	Gas and Energy
Ternoeléctrica Manuel Belgrano S.A.	7.58	Gas and Energy

**Table of Contents****g) Oil and gas areas and participation in joint-ventures as of December 31, 2008**

NAME	LOCATION	WORKING INTEREST	OPERATOR	DURATION THROUGH
<b>Production Argentina</b>				
25 de Mayo Medanita S.E.	La Pampa y Río Negro	100.00%	Petrobras Energía	2016
Jagüel de los Machos	La Pampa y Río Negro	100.00%	Petrobras Energía	2015
Puesto Hernández	Mendoza y Neuquén	38.45%	Petrobras Energía	2016
Bajada del Palo	Neuquén	17.90%	Petrolera Entre Lomas	2015
Santa Cruz II	Santa Cruz	100.00%	Petrobras Energía	2017 / 2028
Río Neuquén	Neuquén y Río Negro	100.00%	Petrobras Energía	2017 / 2027
Entre Lomas	Neuquén y Río Negro	17.90%	Petrolera Entre Lomas	2016
Aguada de la Arena	Neuquén	80.00%	Petrobras Energía	2036
Veta Escondida y Rincón de Aranda	Neuquén	55.00%	Petrobras Energía	2027
Santa Cruz I	Santa Cruz	71.00%	Petrobras Energía	2017 / 2035
Sierra Chata (5)	Neuquén	45.55%	Petrobras Energía	2023
El Mangrullo	Neuquén	100.00%	Petrobras Energía	2025
Atuel Norte	Mendoza	33.33%	Tecpetrol	2015
La Tapera Puesto Quiroga (5)	Chubut	35.67%	Tecpetrol	2017
El Tordillo (5)	Chubut	35.67%	Tecpetrol	2016
Aguaragüe	Salta	15.00%	Tecpetrol	2017 / 2023
Estancia Agua Fresca	Santa Cruz	50.00%	Petrobras Energía	2033
Gobernador Ayala	Mendoza	22.51%	Petro Andina Resources Ltd	(1)
Agua Amarga	Río Negro	17.90%	Petrolera Entre Lomas	2013
<b>Foreign</b>				
Colpa Caranda	Bolivia	100.00%	Petrobras Energía	2029
Oritupano Leona	Venezuela	22.00%	PDVSA (4)	2025
Acema	Venezuela	33.24%	PDVSA (4)	2025
La Concepción	Venezuela	36.00%	PDVSA (4)	2025
Mata	Venezuela	34.49%	PDVSA (4)	2025
Lote X	Perú	60.08%	Petrobras Energía Perú	2024
Bloque 18 (3)	Ecuador	30.00%	Ecuadortlc	2022
Tibu	Colombia	30.00%	Ecopetrol	
<b>Exploration Argentina</b>				
Glencross	Santa Cruz	87.00%	Petrobras Energía	2033
Puesto Oliverio	Santa Cruz	50.00%	Petrobras Energía	(1)
Cerrito Oeste	Santa Cruz	50.00%	Petrobras Energía	(1)
El Campamento	Santa Cruz	50.00%	Petrobras Energía	(1)
Cerro Hamaca Norte	Mendoza	39.64%	Petro Andina Resources Ltd	(1)
Cañadón del Puma	Neuquén	50.00%	Chevron San Jorge	2009
Parva Negra (5)	Neuquén	100.00%	Petrobras Energía	(1)
Cerro Manrique	Río Negro	50.00%	Petrobras Energía	(2)
Estancia Chiripá	Santa Cruz	87.00%	Petrobras Energía	2032
	Plataforma Continental		YPF	2020
Enarsa 1 (E1)	Argentina	25.00%		
Enarsa 3 (E3)		35.00%	Petrobras Energía	2020

	Plataforma Continental			
	Argentina			
Chirete	Salta	100.00%	Petrobras Energía	2012
Hickmann	Salta	50.00%	Tecpetrol	2015
Río Colorado	Salta	30.00%	Tecpetrol	2013
Río Atuel	Mendoza	33.33%	Tecpetrol	2014
	Plataforma Continental		YPF	2009
Bloque CAA 40	Argentina	33.00%		
	Plataforma Continental		YPF	2010
Bloque CAA 46	Argentina	33.00%		
	Plataforma Continental		YPF	2009
CGSJ Marina I	Argentina	33.00%		
<b>Foreign</b>				
Lote 57	Perú	27.73%	Petrobras Energía Perú	2011
Lote 58	Perú	60.08%	Petrobras Energía Perú	2012
Lote 103	Perú	18.02%	Petrobras Energía Perú	2013
Lote 110	Perú	60.08%	Petrobras Energía Perú	2013
Lote 117	Perú	60.08%	Petrobras Energía Perú	2013

- (1) The granting of the concession is under progress and the term will be 25 years from such granting.
- (2) The granting of the exploration concession has not been yet obtained.
- (3) See Note 5 Operations in Ecuador.
- (4) See Note 5 Operations in Venezuela.
- (5) See Note 5 Changes in Oil and gas areas and participation in joint ventures in Argentina.



**Table of Contents****h) Combined joint-ventures and consortium assets and liabilities as of December 31, 2008 and 2007 and statements of income for the years then ended December 31, 2008, 2007 and 2006.**

(Stated in millions of Argentine Pesos)

	<b>2008</b>	<b>2007</b>	
<b>Assets and liabilities</b>			
Current assets	226	935	
Non-current assets	1,864	1,415	
Total assets	2,090	2,350	
Current liabilities	455	538	
Non-current liabilities	143	74	
Total liabilities	598	612	
 <b>Statements of income</b>			
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net sales	2,400	1,719	1,686
Cost of sales	(1,094)	(895)	(634)
Gross profit	1,306	824	1,052
Administrative and selling expenses	(92)	(67)	(102)
Exploration expenses	(127)	(49)	(42)
Other operating expenses	(194)	(226)	(93)
Financial income (expenses) and holding gain (losses)	(16)	(22)	(49)
Other expenses, net	(8)	(569)	
Income tax	(272)	(130)	(146)
Net income (loss)	597	(239)	620



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**PETROBRAS ENERGÍA S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**  
**(Stated in millions of Argentine pesos)**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net sales	15,175	13,458	11,745
Cost of sales (Note 25.c)	(11,000)	(10,111)	(8,062)
Gross profit	4,175	3,347	3,683
Administrative and selling expenses (Note 25.e)	(1,756)	(1,463)	(1,281)
Exploration expenses (Note 25.e)	(238)	(172)	(117)
Other operating expenses, net (Note 15.c)	(229)	(176)	(135)
Operating income	1,952	1,536	2,150
Equity in earnings of affiliates (Note 8.b)	305	176	219
Financial income (expenses) and holding gains (losses)			
Generated by assets:			
Interest	102	94	110
Exchange difference	227	110	49
Holding gains (Note 25.c)	(111)	86	25
Holding gains and income from the sale of listed shares and government securities	12	32	49
Other financial income (expenses), net	52	(34)	(6)
	282	288	227
Generated by liabilities:			
Interest	(537)	(587)	(611)
Exchange difference	(456)	(117)	(65)
Other financial expenses, net	(75)	(79)	(55)
	(1,068)	(783)	(731)
Other (expenses) income, net (Note 15.d)	(93)	131	99
Income before income tax and minority interest in subsidiaries	1,378	1,348	1,964
Income tax (Note 11)	(529)	(494)	(465)
Minority interest in subsidiaries	(73)	(92)	(83)
Net income	776	762	1,416

Basic/diluted earnings per share	Stated in Argentine pesos	0.769	0.755	1.403
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The accompanying notes are an integral part of these consolidated financial statements.

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**PETROBRAS ENERGÍA S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2008 AND 2007**  
**(Stated in millions of Argentine pesos)**

	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash	492	98
Investments (Note 8.a)	1,030	1,132
Trade receivables	1,635	1,605
Other receivables (Note 15.a)	1,593	2,658
Inventories (Note 7)	1,536	996
Other assets	5	
Total current assets	6,291	6,489
<b>NON-CURRENT ASSETS</b>		
Trade receivables	154	228
Other receivables (Note 15.a)	522	657
Inventories (Note 7)	95	100
Investments (Note 8.a)	3,477	3,270
Property, plant and equipment (Note 25.a)	12,556	10,609
Other assets	35	41
Total non-current assets	16,839	14,905
Total assets	23,130	21,394
<b>CURRENT LIABILITIES</b>		
Accounts payable	1,873	1,728
Short-term debt (Note 9)	2,445	1,922
Payroll and social security taxes	351	261
Taxes payable	454	274
Reserves (Note 12)	125	124
Other liabilities (Note 15.b)	530	305
Total current liabilities	5,778	4,614
<b>NON-CURRENT LIABILITIES</b>		
Accounts payable	136	179
Long-term debt (Note 9)	5,152	5,430
Payroll and social security taxes	66	60
Taxes payable	1,508	1,428
Reserves (Note 12)	119	86

Other liabilities (Note 15.b)	494	307
Total non-current liabilities	7,475	7,490
Total liabilities	13,253	12,104
<b>MINORITY INTEREST IN SUBSIDIARIES</b>	930	860
<b>SHAREHOLDERS EQUITY</b>	8,947	8,430
	23,130	21,394

The accompanying notes are an integral part of these consolidated financial statements.

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**PETROBRAS ENERGÍA S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**  
(Stated in millions of Argentine pesos)

	2008				2007				2006				
	Capital stock		Additional paid-in capital		Retained earnings		Unappropriated retained earnings		Deferred income		Total	Total	Total
	Capital stock	Adjustment to capital stock	paid-in capital from merger	on sales of stock of parent	Legal reserve	Treasury stock (a)	earnings	(a)	Total	Total	Total	Total	Total
<b>Balances at the beginning of the year</b>	1,010	1,230	960	56	411	(33)	4,789	7	8,430	7,836	7,681		
Adjustment to prior years (Note 2.f)													(1,264)
<b>Modified balances at the beginning of the year</b>	1,010	1,230	960	56	411	(33)	4,789	7	8,430	7,836	6,417		
Deferred income for the year								56	56	18	3		
Shareholders Meeting decisions of March 28, 2008 and March 30, 2007													
- Legal reserve					37		(37)						
- Distribution of unappropriated retained earnings							(315)		(315)	(186)			
Cash													

dividends

Net income							776		776	762	1,416
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**Balances at  
the end of the  
year**

<b>1,010</b>	<b>1,230</b>	<b>960</b>	<b>56</b>	<b>448</b>	<b>(33)</b>	<b>5,213</b>	<b>63</b>	<b>8,947</b>	<b>8,430</b>	<b>7,836</b>
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(a) See Note 4.m).

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****PETROBRAS ENERGÍA S.A., SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL  
CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006****(Stated in millions of Argentine pesos)**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Cash provided by (used in) operations:</b>			
Net income	776	762	1,416
<b>Reconciliation to net cash provided by (used in) operating activities:</b>			
Minority interest in subsidiaries	73	92	83
Equity in earnings of affiliates	(305)	(176)	(219)
Financial income and holding gains, net	215	51	(24)
Depreciation of property, plant and equipment	1,260	1,217	1,121
Impairment of unproved oil and gas wells	42	45	78
Disposal of property, plant and equipment		17	15
Gain from the sale of equity interest investments		(1,137)	
Net impairment of assests	33	1,014	6
Loss on return of Block 31	31		
Sale of oil and gas areas	28	(62)	(85)
Seniat Claim Venezuela			18
Reversal of the allowance for impairment of investments		(5)	(39)
Income tax expense	529	494	465
Income tax paid	(109)	(167)	(16)
Accrued interest	455	516	584
Interest paid	(457)	(519)	(491)
Edesur Memorandum of agreement		(85)	
Other	(24)	(2)	37
<b>Changes in assets and liabilities:</b>			
Trade receivables	78	(227)	150
Other receivables	(106)	114	(277)
Inventories	(596)	(271)	(136)
Other assets	5	6	8
Accounts payable	7	52	130
Payroll and social security taxes	75	13	110
Taxes payable	(255)	(179)	(175)
Dividends collected	150	264	116
Other liabilities	250	26	9
<b>Net cash provided by operations</b>	<b>2,155</b>	<b>1,853</b>	<b>2,884</b>
<b>Cash provided by (used in) investing activities:</b>			

Acquisition of property, plant and equipment, interests in companies and oil and gas areas	(2,739)	(2,124)	(2,175)
Sale of property, plant and equipment, interests in companies and oil and gas areas	1,440	406	124
Net decrease in investments other than cash and cash equivalents	46	31	49
Contributions and advances to unconsolidated affiliates	(2)	(6)	(27)
Other	3	(4)	
<b>Net cash used in investing activities</b>	<b>(1,252)</b>	<b>(1,697)</b>	<b>(2,029)</b>
<b>Cash provided by (used in) financing activities:</b>			
Net decrease in short term debt	(475)	(179)	(6)
Increase in long-term debt	136	2,095	300
Payments of long-term debt	(19)	(2,094)	(589)
Cash dividends paid	(322)	(186)	
<b>Net cash used in financing activities</b>	<b>(680)</b>	<b>(364)</b>	<b>(295)</b>
<b>Effect of exchange rate change on cash</b>	<b>81</b>	<b>25</b>	
<b>Increase (decrease) in cash</b>	<b>304</b>	<b>(183)</b>	<b>560</b>
<b>Cash and cash equivalents at the beginning of the year (a)</b>	<b>1,167</b>	<b>1,350</b>	<b>790</b>
<b>Cash and cash equivalents at the end of the year (a) (See Note 15.e)</b>	<b>1,471</b>	<b>1,167</b>	<b>1,350</b>

(a) Cash and cash equivalents include highly liquid temporary cash investments with original maturities of three months or less and those with higher terms and prepayment clauses

The accompanying notes are an integral part of these consolidated financial statements.



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**PETROBRAS ENERGIA S.A.,  
SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006  
(Amounts stated in millions of Argentine pesos)**

**1. Business of the Company**

**a. The Company operations**

Petrobras Energía S.A. (hereinafter *Petrobras Energía* or the Company ) is an integrated energy company, focused on oil and gas exploration and production, refining, petrochemical activities, generation, transmission and distribution of electricity and sale and distribution of hydrocarbons. It has businesses in Argentina, Bolivia, Brazil, Ecuador, Perú, Venezuela, México and Colombia.

**b. Corporate reorganization of Petrobras Energía and Petrobras Energía Participaciones S.A.**

On September 2, 2008, the Boards of Directors of Petrobras Energía and of Petrobras Energía Participaciones (hereinafter *Petrobras Energía Participaciones* or *PEPSA* ) approved the preliminary merger agreement that the companies had been negotiating. Under the terms of the preliminary merger agreement, PEPSA will merge into Petrobras Energía, by way of absorption by PESA of PEPSA. Petrobras Energía will assume, by universal succession, all of the assets and liabilities, and will succeed to all of the rights and obligations of PEPSA. The reorganization would be effective on January 1, 2009. According to the terms of the Preliminary Merger Agreement, as from the effective reorganization date and until the registration of the Definitive Merger Agreement with the Public Registry of Commerce and the dissolution without liquidation of Petrobras Energía Participaciones, PESA's Board of Directors will take over the administration of PEPSA's assets and liabilities, replacing those in charge of management until then. The Special Shareholders' Meetings of Petrobras Energía and Petrobras Energía Participaciones held on January 30, 2009 approved the merger of both companies.

As a result of the corporate reorganization, after the registration of the merger with the Public Registry of Commerce, each shareholder of Petrobras Energía Participaciones will receive 0.359015136 Class B book-entry common shares of Petrobras Energía for each Class B book-entry common share of Petrobras Energía Participaciones. Following this exchange, Petrobras Energía's capital stock will increase by P\$765,435,847, through the issuance of 765,435,847 Class B book-entry common shares, which will be fully admitted to the public offering regime in Argentina and delivered to Petrobras Energía Participaciones's shareholders in exchange for their shares in Petrobras Energía Participaciones. Once the capital increase is effective, the 765,435,847 Class B book-entry common shares of Petrobras Energía representing Petrobras Energía Participaciones's main asset holding will be cancelled, respecting the principle of equality among shareholders.

Petrobras Energía will take all necessary steps to apply for listing the shares constituting its capital stock as American Depositary Shares on the New York Stock Exchange, under the same conditions to which Petrobras Energía Participaciones's shares are currently subject.

**2. Basis of presentation**

Petrobras Energía's consolidated financial statements have been prepared in accordance with the regulations of the Argentine Securities Commission ( *CNV* ) and, except for the matters described in Note 3, with Generally Accepted Accounting Principles in Argentina, as approved by the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* ( *CPCECABA* , Professional Council in Economic Sciences of the City of Buenos Aires) applicable to consolidated financial statements ( *Argentine GAAP* ), which differ in certain significant respects from generally accepted accounting principles in the United States of America ( *US GAAP* ) see Note 20. Such differences involve method of measuring the amounts shown in the financial statements, as well, as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission ( *SEC* ).

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Certain disclosures related to formal legal requirements for reporting in Argentina have been omitted for purposes of these consolidated financial statements.

The preparation of financial statements in conformity with Argentine GAAP requires management to make estimates, judgments and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the value of purchase consideration, valuation of accounts receivable, inventories, and other long-lived assets, legal contingencies, guarantee obligations, indemnifications, and assumptions used in the calculation of income taxes, retirement and other post-employment benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets; foreign currency and energy markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. Illiquid credit markets; foreign currency and energy markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Significant areas of uncertainty and critical judgments in the application of accounting principles that have most significant effects on the amounts recognized in the financial statements are as follows:

Notes 4.g) and 25.a)	- Depreciation
Notes 4.g) and 5	- Accrual for asset retirement obligations and Exploratory well costs
Notes 4.k) and 12	- Contingencies
Notes 4.g), 5, 8 and 12	- Impairment of long-lived assets
Notes 4.i) and 11	- Calculation of income taxes
Note 23	- Oil and Gas Supplementary Disclosures (Unaudited)
a) Basis of consolidation	

In accordance with the procedure set forth in Technical Resolution No. 21 of the FACPCE (Argentine Federation of Professional Councils in Economic Sciences), the Company has consolidated line by line its financial statements with those of the companies in which it exercises control or joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of the votes, have resolved, on the basis of written agreements, to share the power to define and establish a company's operating and financial policies. Under the joint control of Petrobras Energía are Distrilec Inversora S.A. ( Distrilec ), Compañía de Inversiones de Energía S.A. ( Ciesa ) and as from December 31, 2007, Petrobras de Valores Internacional de España S.L. ( PVIE ).

In the consolidation of controlled companies, the amount of the investment in such subsidiaries and the interest in their income (loss) and cash flows are replaced by the aggregate assets, liabilities, income (loss) and cash flows of such subsidiaries, reflecting separately the minority interest. The related party receivables, payables and transactions within the consolidated group are eliminated. The unrealized intercompany gains (losses) from transactions within the consolidated group have been completely eliminated.

In the consolidation of companies over which the Company exercises joint control, the amount of the investment in the affiliate under joint control and the interest in its income (loss) and cash flows are replaced by the Company's proportional interest in the affiliate's assets, liabilities, income (loss) and cash flows. The related party receivables, payables and transactions within the consolidated group and companies under joint control have been eliminated in the consolidation pro rata to the shareholding of the Company.

Considering that the sale of the 40% equity interest in PVIE was performed in December 2007 (Note 8.III), the consolidated statements of income and cash flows for the year ended December 31, 2007 and 2006 presented for comparative purposes show the participation in PVIE according to the procedure indicated for the consolidation of controlled companies.



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The information about the companies in which the Company exercises control, joint control and significant influence are disclosed in [Note 25.f](#)).

### b) Foreign currency translation

The Company applies the method established by the Technical Resolution No. 18 of the FACPCE for the translation of financial statements of foreign subsidiaries, affiliates, branches and joint ventures.

In the opinion of the Company's Management, the transactions carried out abroad have been classified as not integrated; as such transactions are not considered to be an extension of the Company's transactions.

Upon applying the translation method, the foreign transactions are first remeasured into US dollars (functional currency for such transactions), as follows:

Assets and liabilities stated at current value are converted at the closing exchange rate.

Assets and liabilities measured at historical values and the income (loss) accounts are converted at historical exchange rates.

Remeasurement results are recognized in the statements of income as Financial income (expenses) and holding gains (losses).

After the transactions are remeasured into US dollars, they are translated into Argentine pesos as follows:

Assets and liabilities are translated by using the closing exchange rate.

Income (loss) is translated at the historical exchange rates.

The effect arising from the translation of the financial statements of foreign operations is disclosed in the Shareholders equity as Deferred income.

Exchange gains and losses arising from the Company's liabilities in foreign currency assumed to hedge the Company's net investments in foreign entities are also recorded in the Deferred income account (Note 4.m). This net investment hedge resulted in lower losses in the amount of 352, 112 and 51 for the years ended on December 31, 2008, 2007 and 2006, respectively, before the effect of income taxes.

### c) Consideration of the effects of inflation

The Company presents its consolidated financial statements in constant currency following the restatement method established by Technical Resolution No. 6 of the FACPCE and in accordance with CNV General Resolutions No. 415 and 441.

Under such method, the consolidated financial statements recognize the effects of the changes in the purchasing power of the Argentine peso through August 31, 1995. Starting September 1, 1995, under CNV General Resolution No. 272, the Company has stopped the use of this method and maintained the restatements made through such date. This method has been accepted by professional accounting standards through December 31, 2001.

On March 6, 2002, the CPCECABA approved Resolution MD No. 3/2002 providing, among other things, the reinstatement of the adjustment-for-inflation method for the interim periods or years ended after March 31, 2002, allowing for the accounting measurements restated based on the change in the purchasing power of the Argentine peso through the interruption of adjustments, such as those whose original date is within the stability period, to be stated in Argentine pesos as of December 2001. Through General Resolution No. 415 dated July 25, 2002, the CNV requires that the information related to the financial statements that are to be filed after the date on which the regulation became effective be disclosed adjusted for inflation.

The restatement method is applied to the accounting cost values immediately preceding the capitalization of the exchange differences, which represent an anticipation of the effects of variances in the purchasing power of the Argentine peso, which will be subsequently absorbed by the restatement in constant pesos.

On March 25, 2003, the Executive Branch of Government issued Decree No. 664 establishing that the financial statements for years ending as from such date be filed in nominal currency. Consequently, and under CNV Resolution No. 441, the Company no longer applied inflation accounting as from March 1, 2003. This method was not in accordance with professional accounting standards effective in the City of Buenos Aires, which through Resolution No. 287/03 of the CPCECABA, discontinued the application of the restatement method starting October 1, 2003. The effects thereof do not significantly affect the Company's financial position.



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d) Accounting for the operations of oil and gas exploration and production joint ventures and foreign branches  
The oil and gas exploration and production joint ventures have been proportionally consolidated. Under this method, the Company recognizes its proportionate interest in the joint ventures' assets, liabilities, revenues, costs and expenses on a line-by-line basis in each account of its financial statements.

Foreign branches have been fully consolidated.

e) Financial statements used

The financial statements of the subsidiaries and companies under joint control as of December 31, 2008, 2007 and 2006, or the best available accounting information at such dates were used for consolidation purposes and adapted to an equal period of time in respect to the financial statements of the Company. Additionally, the adjustments to adapt the valuation methods to those applied by the Company have been also considered.

f) Changes in professional accounting standards

On August 10, 2005 the CPCECABA approved the Resolution CD No. 93/2005, which introduced a series of changes to professional accounting standards. Through General Resolutions Nos. 485 and 487 dated December 29, 2005, and January 26, 2006, the CNV approved the abovementioned changes, which were effective for years beginning as from January 1, 2006.

The effects of these changes on the shareholders' equity as of December 31, 2005 are described below:

Comparison with recoverable values (1)	(190)
Deferred tax (ii)	(1,060)
Total effect on unappropriated retained earnings	(1,250)
Deferred loss	(14)
Total effect on shareholders' equity	(1,264)

(i) In calculating the recoverability of Property, Plant & Equipment and certain intangible assets, the recoverable value is considered to be the higher of the net realizable value and the discounted value of the expected cash flows, eliminating the first comparison with the nominal value of expected cash flows.

(ii) The difference between the inflation-adjusted book value of Property, Plant & Equipment and other non-monetary assets and their tax basis is considered to be a temporary difference that gives rise to the recognition of a deferred tax liability, which, as provided by CNV General Resolution No. 487, can either be booked or disclosed in notes to financial statements. The Company's Management opted to book this effect in order to be consistent with the International Financial Reporting Standards (IFRS).

(iii) The effects of the measurement of the derivative instruments considered to be an effective hedge and the effects of the translation of foreign operations net of the foreign-exchange differences generated by the debt denominated in foreign currency designated as hedge for net investment abroad are no longer disclosed as an item between liabilities and shareholders' equity ( mezzanine account ) and, instead, are disclosed in the shareholders' equity.

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**3. Accounting standards**

These consolidated financial statements have been prepared in accordance with the applicable CNV regulations. The CNV regulations differ from Argentine GAAP as follows:

- a) The date of discontinuance of the application of inflation accounting provided for in FACPCE Technical Resolution No. 6, as described in Note 2.c).
- b) The possibility of capitalizing the financial costs of financing with the Company's own capital may not be applied.
- c) The alternative treatment prescribed in the professional accounting standards in connection with the capitalization of financial costs attributable to certain assets is considered mandatory.

**4. Valuation methods**

The main valuation methods used in the preparation of these consolidated financial statements are as follows:

- a) Accounts denominated in foreign currency:

At the prevailing exchange rates at each balance sheet date.

The summary of accounts denominated in foreign currency is presented in Note 25.d).

- b) Trade receivables and accounts payable:

Trade receivables and accounts payable have been recognized at cost plus accrued financial components, net of collections or payments, respectively. The principal amount is equal to the cash price, if available, or the nominal price less implicit interest calculated at the prevailing interest rate on the date of the original transaction.

Trade receivables include both outstanding billed services and services rendered but not yet billed as of each balance sheet date.

The total amount of receivables is net of an allowance for doubtful accounts. In providing such allowance, the Company evaluates different factors, including the customers' credit risk, historical trends and other relevant information. Such evaluation may require future adjustments if economic conditions substantially differ from the assumptions made.

- c) Inventories:

Crude oil stock: at reproduction cost.

Raw materials and materials: of high-turnover, at replacement cost; of low-turnover, at the latest purchase price, restated according to Note 2.c).

Work in progress and finished products relating to refining, distribution, petrochemical and gas and energy businesses: at replacement or reproduction cost, as applicable, applied proportionally to the degree of completion of the related good in the case of work in progress.

Advances to suppliers: based on the amounts of money delivered.

The carrying amount of these assets does not exceed their recoverable value.

- d) Investments:

Publicly traded Government Securities: at market value at each balance sheet date. Any gain or loss due to market fluctuations is reflected in the Financial income (expenses) and holding gains (losses) account.

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Certificates of deposit and loans granted to group companies and to affiliates in which significant influence is exercised: at nominal value plus accrued interest, according to the specific clauses of each transaction. The carrying amount of these assets does not exceed their recoverable value.

Investments in mutual funds: at market value at each balance sheet date.

Shares Participation in affiliates in which the Company exercises significant influence: at the equity method calculated using the affiliates financial statements as of December 31, 2008 and 2007 or the best available financial information, adapted to an equal period of time.

For the determination of the Company s equity investments in affiliates, consideration has been given to the adjustments to adapt the valuation methods of some affiliates to those of the Company, irrevocable contributions made by others, elimination of reciprocal investments, intercompany profits and losses and the difference between acquisition cost and book value of affiliates at the time of the acquisition.

Investments are stated at recoverable value if such value is exceeded using the equity method.

Interest in affiliates in which the Company does not exercise significant influence: at acquisition cost restated according to Note 2.c).

a)

e) Financial receivables and payables:

Financial receivables and payables have been valued according to the amounts rendered and received, respectively, net of transaction costs, plus accrued financial gains (losses) on the basis of the explicit or estimated rate at such time, net of payments or collections.

f) Other receivables and payables:

Other receivables and payables have been valued on the basis of the best estimate of the amount to be collected or paid, respectively, discounted, when applicable, using the estimated rate at the time of initial measurement, except for the deferred tax assets and liabilities which are stated at nominal value.

g) Property, plant and equipment:

Property, plant and equipment, except as indicated below, have been valued at acquisition cost restated according to Note 2.c), less accumulated depreciation. Any expenditure subsequent to the original recognition of the asset is added as a component of the asset only when the expenditure improves its condition and it is probable that future economic benefits, in excess of the originally assessed ones, will flow to the enterprise or when the expenditure relates to a major repair or overhaul of the asset made to allow the continued use of the asset provided (i) such expenditure is allocated to the replacement of the component parts of the asset, (ii) the useful life of such component parts has been calculated based on their own wear and tear or depletion and (iii) it is probable that future economic benefits will flow as a result of the expenditure.

Property, plant and equipment related to foreign operations were converted into US dollars (functional currency) at their historical exchange rates, and they have been translated into Argentine pesos at the exchange rate effective at closing date in accordance with the method for converting foreign operations described in Note 2.b).

The Company uses the successful efforts method of accounting for its oil and gas exploration and production activities, in accordance with the Statement of Financial Accounting Standard No. 19 (SFAS No.19), issued by the United States Financial Accounting Standard Board. This method involves the capitalization of: (i) the cost of acquiring properties in oil and gas exploration and production areas; (ii) the cost of drilling and equipping exploratory wells that result in the discovery of commercially recoverable reserves; (iii) the cost of drilling and equipping development wells, and (iv) the estimated future costs of abandonment and restoration.

In accordance with SFAS No.19, exploration costs, excluding exploratory well costs, are expensed during the year in which they are incurred. Drilling costs of exploratory wells are capitalized until determination is made on whether the drilling resulted in proved reserves that justify the commercial development. If reserves are not found, such drilling costs are expensed. Occasionally, an exploratory well may determine the existence of oil and gas reserves but they cannot be classified as proved when drilling is complete. In those cases, in accordance with the interpretation FASB Staff Position 19-1, such costs continue to be capitalized insofar as the well has allowed to determine the existence of sufficient reserves to warrant its completion as a production well and the Company is making sufficient progress in evaluating the economic and operating feasibility of the project.





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The cost of Transportadora de Gas del Sur S.A. s ( TGS ) property, plant and equipment was determined based on the price paid for the acquisition of 70% of TGS s common stock. This price was the basis to determine a total value of common stock, to which was added the value of the debts assumed under the Transfer Agreement, in order to determine the initial value of property, plant and equipment. Such value has been restated as explained in Note 2.c).

The cost of work in progress, whose construction will extend over time, includes, if applicable, the computation of financial costs accrued on loans granted by third parties and the costs related to setting up the facilities, net of any income obtained from the sale of commercially valuable production during the process.

The Company depreciates productive wells, machinery and camps in the production areas according to the units of production method, by applying the ratio of oil and gas produced to the proved developed oil and gas reserves. The acquisition cost of property with proved reserves is depreciated by applying the ratio of oil and gas produced to estimated proved oil and gas reserves. Acquisition costs related to properties with unproved reserves is valued at cost and its recoverability is periodically assessed on the basis of geological and engineering estimates of possible and probable reserves that are expected to be proved over the life of each concession.

Estimated future restoration and well abandonment costs in hydrocarbons areas, discounted at an estimated rate at the time of their initial measurement, are included in the cost of the assets and depreciated using the units of production method. Additionally, a liability at the estimated value of the discounted amount payable is recognized.

The Company estimates its reserves at least once a year. The Company s reserves estimation as of December 31, 2008 and 2007 was audited by DeGolyer and MacNaughton. The technical revision covered approximately 70% and 71% respectively, of the Company s estimated reserves. The audit covered approximately 90% of the estimated reserves located in areas operated by the Company. As of December 31, 2006, the Company s reserves estimation were audited by Gaffney, Cline & Associates Inc. The technical revision covered approximately 93% of the Company s estimated reserves.

The Company s remaining property, plant and equipment are depreciated by the straight-line method based on their existing concession terms and their estimated useful lives as the case may be, which ranges from three to forty years.

The value of property, plant and equipment does not exceed its recoverable value. Company s Management assesses the recoverability of property, plant and equipment items whenever there occur events or changes in circumstances (including significant decreases in the market value of assets, in the prices of the main products sold by the Company or in oil and gas reserves, as well as changes in the regulatory framework for the Company s activities, significant increases in operating expenses, or evidence of obsolescence or physical damage) that could indicate that the value of an asset or of a group of assets might not be recoverable. The book value of a long-lived asset is adjusted to its recoverable value if its carrying amount exceeds such value.

From a regulatory standpoint, recoverable value is defined as the larger of net realizable value and the discounted value in use, defined as the addition of the discounted expected net cash flows that arise as a direct result of the use and eventual disposition of the assets. To such end, among other elements, the premises that represent the best estimation made by Management of the economic conditions that will prevail throughout the useful life of the assets are considered.

In subsequent periods, the reversal of the impairment is analyzed if changes in the assumptions used to determine the asset recoverable value arise. In such a case, the book value of the asset or group of assets is raised to the smaller of: a) the book value that the asset or group of assets would have had if the impairment had never been recognized; and b) its recoverable value.

h) Environmental costs:

The costs incurred to limit, neutralize or prevent environmental pollution are only capitalized if at least one of the following conditions is met: (a) such costs relate to improvements in safety; (b) the risk of environmental pollution is prevented or limited; or (c) the costs are incurred to prepare the assets for sale and the book value of such assets together with the additional cost do not exceed their respective recoverable value.

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Liabilities related to future remediation costs are recorded when environmental assessments are probable, and the costs can be reasonably estimated. The timing and magnitude of these accruals are generally based on the Company's commitment to a formal plan of action, such as an approved remediation plan or the sale or disposal of an asset. The accrual is based on the probability that a future remediation commitment will be required.

The Company records the related liabilities based on its best estimation of future costs, on a discounted basis, using currently available technology and applying current environmental regulations as well as the Company's own internal environmental policies. The environmental liabilities recorded mainly correspond to our Argentine operations.

- i) Income tax, minimum presumed income tax, withholdings on exports of hydrocarbons and hydroelectric royalties:

The Company and its subsidiaries estimate income tax on an individual basis under the deferred tax method.

To book the deferred tax balance, the Company uses the liability method, which establishes the determination of net deferred tax assets and liabilities on the basis of temporary differences determined between the accounting and tax measurement of assets and liabilities. Temporary differences determine tax assets and liabilities when their future reversal decreases or increases the taxes to be determined, without affecting the compensation of the respective amounts. The Company recognizes a deferred tax asset for an unused tax loss carryforward if, and only if, it is considered probable that there will be sufficient future taxable profit against which the tax loss could be used.

The deferred tax assets and liabilities have been valued at their nominal value.

Prevailing income tax rates at year end in Argentina, Venezuela, Brazil, Perú, Ecuador, Bolivia, Austria, Colombia and Spain are 35%, 50%, 34%, 30%, 36.25%, 25%, 25%, 33% and 35%, respectively. Additionally, payment of Bolivian-source income to beneficiaries outside Bolivia is levied with 12.5% withholding income tax.

The minimum presumed income tax (applicable in Argentina) is supplementary to income tax, since while the latter is levied on the year's taxable income, the minimum presumed income tax is a minimum tax levied on the potential income of certain productive assets at the rate of 1%, so that the Company's final liability will be equal to the higher of both taxes. However, should the minimum presumed income tax exceed the calculated income tax in any given year, such excess may be applied to reduce any excess of income tax over the minimum presumed income tax in any of the ten succeeding years. The minimum presumed income tax asset has been valued at its discounted value.

For the operation of Pichi Picún Leufú Hydroelectric Complex, the Company pays since 2002 hydroelectric royalties of 1%, increasing at a rate of 1% per year up to the maximum percentage of 12% of the amount resulting from applying the rate for the bulk sale to the power sold under the terms of Section No. 43 of Law No. 15,336, as amended by Law No. 23,164. As of December 31, 2008, we paid hydroelectric royalties at a rate of 7%. In addition, the Company is subject to a monthly license fee payable to the Federal Government for the use of the power source equivalent to 0.5% of the same basis used for the calculation of the hydroelectric royalty.

The Public Emergency and Exchange System Reform Law No. 25,561 established the creation of a system of withholdings on exports of hydrocarbons for five years from March 1, 2002, which was subsequently extended for five years from January 2007 pursuant to Law No. 26,217. The effect of such withholdings is deducted from the respective selling prices.

Effective November 2007, Resolution No. 394/07 issued by the Ministry of the Economy and Production established a new method for calculating withholdings on exports of crude oil, and gave equivalent treatment to certain oil related products as that of crude oil. This amendment results in the application of a variable export withholding based on a formula that considers the international price of crude oil and a cut-off price by product.

Under this method, when the international (quoted) price of crude oil exceeds US\$60.90 per barrel, an increasing withholding rate is set for crude oil exports that results in a price cap of US\$ 42 received by the producer per barrel of standard-quality crude oil. When the international price of crude oil ranges between US\$ 45.00 and US\$ 60.90 per barrel, a 45% withholding rate is applied. When the international price of crude oil dips below US\$ 45 per barrel, the regulations call for the authorities to determine a new applicable withholding rate within 90 days. The same rules apply to exports of refined products such as gasoline, fuel oil and lube oils, for which different cut-off and reference prices were defined.



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Previously, the withholding rate was 5% for refined products and 20% for LPG, and a special regime was applied on crude oil exports, starting at 25% when the price per barrel was equal to or lower than US\$ 32 and contemplating increasing rates ranging between 3% and 20% when the price per barrel ranged between US\$ 32.01 and US\$ 45, with a cap set at 45% when the price exceeded US\$ 45.

In March 2008, the Ministry of Economy and Production issued Resolution No.127/08 which, in connection with natural gas, amended Resolution No. 534/2006, whereby a 45% withholding rate was established on the price of the gas imported from Bolivia, and imposed a 100% withholding on natural gas exports, considering for valuation purposes the highest price set for natural gas under the applicable agreements for natural gas imports into Argentina. In addition, pursuant to such resolution, the methodology for calculating withholdings on exports of crude oil was also applied to LPG.

j) Labor costs liabilities:

Labor costs liabilities are accrued in the years in which the employees provide the services that trigger the consideration.

The cost of defined contribution plans is periodically recognized in accordance with the contributions made by Petrobras Energía.

For purposes of determining the estimated cost of post-retirement benefits granted to employees, the Company has used actuarial calculation methods, making estimates with respect to the applicable demographic and financial variables. The amount recognized as liability attributable to such benefits represents the addition of the present value of the obligation, net of any actuarial result not recognized and the present value of the assets of the plan, with which the obligations will be canceled.

k) Contingencies:

Contingencies relate to conditions that exist as of the date of the financial statements that may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. Such contingent liabilities are assessed by the Company's management based on the opinion of its legal counsel and the remaining available evidence.

Such contingencies include outstanding lawsuits or claims for possible damages to third parties in the ordinary course of the Company's business, as well as third party claims arising from disputes concerning the interpretation of legislation.

If the assessment of a contingency indicates that it is probable that a loss has been incurred and the amount of the loss can be estimated, a liability is accrued in the Reserves account, at the best estimate of the expenditure required to settle the present obligation at the balance sheet day. The company evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, they are included in the accrual. If the assessment indicates that a potential loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the possibility of occurrence, is disclosed in a note to the financial statements. Loss contingencies considered remote are not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Movements of reserves are disclosed in Note 12.

l) Basic/diluted earnings per share:

Earnings per share for the years ended December 31, 2008, 2007 and 2006 was calculated on the basis of shares outstanding during each year. Since the Company does not have preferred shares or debt convertible into shares, basic and diluted earnings per share are the same.

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m) Shareholders' equity accounts:

The equity accounts were restated according to Note 2.c), except for Capital stock that represents subscribed and paid-in capital. The adjustment arising from the restatement of the Capital stock is disclosed under the caption Adjustment to capital stock .

The account Treasury stock relates to shares of PEPSA owned by the Company, and is deducted from the shareholders equity at acquisition cost, representing 9,431,210 Class B shares for a face value of P\$1, with a cost and book value of 33 and a listed price of 21.

The Deferred income account comprises the changes in the accounting measurement of derivative financial instruments designated as cash flows hedges to the extent that they are effective hedges, and the gain (loss) resulting from the translation of foreign operations, net of the exchange differences from the Company's liabilities denominated in foreign currency designated as hedge of the net foreign investment.

The activity of the deferred (loss) income is the following:

	<b>Total (a)</b>
Balances at 12/31/2005	(14)
Activity for the year	3
Balances at 12/31/2006	(11)
Activity for the year	18
Balances at 12/31/2007	7
Activity for the year	56
Balances at 12/31/2008	63

(a) See Note 2.b

n) Revenue recognition:

Revenues from the sale of crude oil, natural gas and petroleum, electric power generation, petrochemical and refined products are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured.

Revenues from oil and natural gas production in which the Company has a joint interest with other producers are recognized on the basis of the net working interest, regardless of actual assignment. Any imbalance between actual and contractual assignment will result in the recognition of an amount payable or receivable according to the actual share in production, whether above or below the production resulting from the Company's contractual interest in the consortium. As of December 31, 2008 and 2007 gas imbalance liabilities were 6 and 5, respectively, attributable to 135 and 118 million cubic meters, respectively.

Revenues from natural gas transportation under firm agreements are recognized based on contracted capacity hired, regardless of the volumes carried. Revenues generated by interruptible gas transportation and by certain liquid natural gas (LNG) production and transportation contracts are recognized at the time the natural gas and the liquids are delivered to the customers. For other LNG production contracts and other services, revenues are recognized when the services are rendered.

Revenues from electric power distribution are recognized on the basis of the actual supply of the service, considering the billed portion resulting from periodic power measurements and an estimated amount accrued and not billed for the services supplied from the last measurement to year end. Services accrued and not billed as of year end are determined

on the basis of the estimated daily power consumption for the days following the last measurement, based on users historical consumption, and adjusted by seasonality or other measurable factors that may have an impact on consumption.

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## o) Changes in presentation criteria:

For comparative purposes, all the necessary reclassifications were made in the consolidated financial statements of prior periods in order to present them on a consistent basis. These reclassifications do not imply changes in the decisions based on them.

## p) Accounting for derivative financial instruments

Derivative financial instruments are measured at their fair value, determined as the amount of cash to be collected or paid to settle the instrument as of the date of measurement, net of any obtained or paid advances.

Changes in the accounting measurement of derivative financial instruments designated as cash flows hedges, which have been designated as effective hedges, are recognized under *Deferred income in Shareholders equity*. Changes in the accounting measurement of derivative financial instruments that do not qualify for hedge accounting are recognized in the statement of income under *Financial income (expense) and holding gains (losses)*.

A hedge is considered to be effective when at its inception, as well as during its life, its changes offset from eighty to one hundred and twenty five percent the opposite changes of the hedged item. In this respect, the Company excludes the specific component attributable to the time-value of an option when measuring the effectiveness of instruments that qualify for hedge accounting.

Hedge accounting must cease upon occurrence of any of the following events: (a) the hedge instrument has matured or has been settled; (b) the hedge transaction is no longer effective; or (c) the projected transaction does not have a high likelihood of occurrence. Should that be the case, the income (loss) arising from the hedge instrument that would have been allocated to *Deferred income* should remain there until the committed or projected transactions occurs in the case of (a) and (b) are charged to the statement of income in the case of (c).

As of December 31, 2008 and 2007 the Company does not hold any derivative instruments. As of December 31, 2006, the Company made forward sales of US dollars in exchange for Argentine pesos, the face value of effective contracts amounted to US\$ 18 million, at the average exchange rate of 3.26 Argentine pesos per US dollar.

**5. Oil and gas areas and participation in joint ventures**

As of December 31, 2008, the Company and its affiliates were part of the oil and gas consortiums, joint-ventures and areas indicated in [Note 25.g](#)). The aggregate joint ventures and consortium assets, liabilities and results in which the Company is a party, included in each account of the balance sheet and the statement of income utilizing the proportionate consolidation method, are disclosed in [Note 25.h](#)).

The Company is jointly and severally liable with the other participants for meeting the contractual obligations under these arrangements.

The production areas in Argentina and Perú are operated pursuant to concession production agreements with free crude oil availability.

According to Law No.17,319, royalties equivalent to 12% of the wellhead price of crude oil and natural gas are paid in Argentina. The wellhead price is calculated by deducting freight and other sales related expenses from the sale prices obtained from transactions with third parties, or from the product prices prevailing in the domestic market in case the product is subject to industrialization processes.

In Perú, royalties paid for the production of crude oil are determined on the basis of the price of a basket of varieties of crude oil, starting at a rate of 13% for prices of up to US\$ 23.9 per barrel. The royalty rate applicable as of December 31, 2008 was 18.7%. Production of natural gas is subject to a fixed royalty of 24.5%.

In Ecuador, production agreements relating to Block 18 provide for the free availability of the crude oil output and a working interest in favor of the Ecuadorian State of 40% and 60% in Pata and Palo Azul fields, respectively. In addition, under the Tax Equity Law, the Ecuadorian State will receive 70% of the revenues when prices exceed the base price of US\$45.43 per barrel (see Operations in Ecuador).



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In Venezuela, mixed companies (see Operations in Venezuela) are subject to royalty payments of 33.33% and, in addition, they are required to pay an amount equivalent to any difference between 50% of the value of oil & gas sales during each calendar year and the royalty payments made during such year plus income tax and any other tax or duty calculated on the basis of the sales revenues. Mixed companies have to sell to Petr leos de Venezuela S.A. ( PDVSA ) all liquid hydrocarbons and the associated natural gas (when so provided in the agreement), produced in the delimited area, according to a price formula associated with international benchmarks such as WTS and WTI.

Additionally in Venezuela, since April 2008, with the enactment of the Special Tax Law on Extraordinary Prices of the International Hydrocarbon Market, a special tax payable by companies exporting or transporting abroad liquid hydrocarbons and oil by-products will be applicable when the average Venezuelan basket price of crude oil exceeds, in any month, US\$70 per barrel. The special tax per barrel will be 50% of the difference between the above mentioned monthly average price and the US\$70 threshold price. In addition, when such average price exceeds US\$100, the special tax per barrel, applicable to any difference in excess of the US\$100 threshold, will be 60%.

In December 2008, the Company executed a Memorandum of Agreement for a ten-year extension of the production concessions Aguada de la Arena, R o Neuqu n, Veta Escondida and Rinc n de Aranda, all of them located in the province of Neuqu n, with a related payment of 56 (Note 15.b).

Petrobras Energ a s branch in Bolivia performs at its own risk and for its own account, in the name and on behalf of YPFB exploration and production activities within the Colpa Caranda area. Pursuant to the agreement, YPFB owns the hydrocarbons, pays royalties and direct tax on hydrocarbons, which in the aggregate amount to 50% of the production valued on the basis of sales prices, and applies the 80% of the surplus amount to pay, in the first place, the costs and depreciations associated to the development and operation of Petrobras Energ a s branch, being the rest shared between YPFB and the branch on the basis of an index calculated based on production volumes, depreciation rate, prices and taxes paid, among other items.

**Investment commitments**

In Argentina, on account of its interest in the joint ventures in charge of the exploration of the areas Chirete, Hickmann, R o Colorado and R o Atuel, the Company maintains investment commitments for approximately US\$ 58 million, which mainly include the execution of seismic surveys and exploratory wells perforation.

In Colombia, the Company has a 30% interest in the consortium Tib , which has committed investments for US\$ 13 million up to December 2009.

**Asset retirement obligations**

In accordance with the regulations enacted in the countries in which we perform oil and gas operations, the Company (directly or indirectly through its subsidiaries) has the obligation to incur in costs related to the abandonment of oil and gas wells. The Company does not have assets legally restricted for purposes of settling the obligation.

The following table summarizes the activity in asset retirement obligations for the years ended December 31, 2008, 2007 and 2006.

	2008	2007	2006
Beginning balance	170	146	126
Accretion	15	14	9
Additions	59	16	19
Estimated cash flow changes	52	(3)	41
Decreases		(3)	(48)
Foreign currency translation / other	12		(1)
Ending balance (Note 15.b)	308	170	146



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Estimated cash flow changes principally relates to: (a) changes in the Company's expectations as to the number of wells to be abandoned before the end of the concession period, and (b) an increase in restoration and abandonment well costs as a consequence of general price increases in the industry.

**Exploratory well costs**

The following table provides the year-end balances and activity for exploratory well costs.

	2008	2007	2006
Beginning balance	124	106	61
Translation effect	2		
Additions (1)	233	85	123
Transferred to development	(14)	(22)	
Charged to expense (Note 25.e) (1)	(42)	(45)	(78)
Ending balance	303	124	106
Number of wells at year end	38	21	26

(2) Additions shown in 2008 include 36 that were charged to expense during the year.

**Changes in oil and gas areas and participation in joint ventures**

In December 2008, the Company entered into a joint undertaking agreement with Repsol-YPF for the exploration of CGSJ Marina-1 block in the Golfo San Jorge basin for a 33% interest. In addition, the Company entered into a joint undertaking agreement with Repsol -YPF and Pan American for the exploration of CAA-40 and CAA-46 exploration blocks in the Malvinas basin for a 33% interest.

In March 2008, once all the formalities concerning regulatory matters were completed, the Company acquired from Energy Development Corporation (Argentina), Inc. Argentina Branch a 13.72% equity interest in El Tordillo and La Tapera Puesto Quiroga areas paying US\$117.5 million.

On January 11, 2007 the Ministry of Energy and Mines of Ecuador approved the preliminary agreement entered into with Teikoku Oil Co. Ltd. in January 2005, whereby the Company assigned 40% of its rights and obligations under the Block 18 Participation Agreement to Teikoku Oil Co. Ltd. On October 24, 2008, Petroecuador incorporated Teikoku Oil Ecuador, a subsidiary of Teikoku Oil Co. Ltd, as a partner in Block 18 agreements. On October 27, 2008, Petroecuador registered the Assignment Agreement with the National Hydrocarbons Board. As of the date of these financial statements, the parties are negotiating the final economic terms of the respective assignment agreements. During the year ended December 31, 2008 the Company recognized a loss estimated at 28 derived from this transaction in Other (expenses) income, net (Note 15.d)

In February 2007, Petrobras Energía through its subsidiary Petrobras Bolivia Internacional S.A. acquired from ConocoPhillips, its 25.67% and 52.37% interests in Sierra Chata and Parva Negra, respectively. The acquisition was structured through the purchase of the company Burlington Resources Argentina Holdings Limited, indirect holder of such interest. The acquisition cost was agreed in US\$ 77.6 million plus adjustments based in the working capital variations as of the agreement date. The applicable regulatory authorities approved this transaction in September 2008, and it was recorded at that moment.

In November 2007, the Company sold 76.15% of its rights and obligations in the Bajada del Palo area. As a result of this transaction the Company recognized a gain of 62 in Other (expenses) income, net (Note 15.d).

In October 2006 Petrobras Energía sold 100% of its rights and obligations in Refugio Tupungato and Ataminsqui concession areas. As a result of this transaction, the Company recognized a gain of 85 in Other (expenses) income, net (Note 15.d).

**Table of Contents****Operations in Ecuador***Amendatory Agreements relating to Block 18 Participation Agreement*

On October 31, 2008, EcuadorTLC S.A., Teikoku Oil Ecuador, Petroecuador and others entered into the Amendatory Agreements which, among other things, will govern the operation of Block 18 for one year as from that date. During that period, negotiations will be conducted to determine whether such agreements will be converted into a new contractual modality. Under these Amendatory Agreements, the Ecuadorian Government's share in Pata and Palo Azul fields' production increased to 40% and 60%, respectively. In addition, the Tax Equity Law becomes applicable upon the execution of the mentioned agreements.

*Amendment to Ecuador's Hydrocarbons Law*

In April 2006, Ecuadorian authorities approved the Amendment to the Hydrocarbons Law (Law No. 42/2006), which recognizes at least a 50% increment of extraordinary revenues in favor of the State, generated from the increases in crude's Ecuadorian oil price (average monthly price in cash of FOB sales) in comparison with their respective average monthly sales, with the corresponding agreement approval, in constant price of the settlement month.

On October 18, 2007, the President of the Republic of Ecuador issued an Amendment to the Regulating Provisions of Law No.42/2006, whereby as from that date the Government's interest in the extraordinary revenues from crude oil price was increased to 99%, reducing the oil companies' interest to 1%.

Since the approval of Law No. 42/2006, EcuadorTLC S.A. and Petroecuador adopted significant opposing interpretations as to its applicability and scope in connection with the Palo Azul operating agreement in which Ecuador's share in extraordinary revenues resulting from any increase in crude oil prices was already established. In the Company's opinion, the application of the law according to Petroecuador's interpretation was confiscatory in respect of the investment and put its economic viability at risk. As from January 2008 EcuadorTLC S.A did not make any payments of royalties as calculated by Petroecuador under Law No. 42/2006.

Following the negotiations conducted with the Ecuadorian Government, which resulted in the execution of the Amendatory Agreements for Block 18, and considering the Attorney General's opinion, the parties reached an agreement on the scope of Law No. 42/2006. Under this agreement, EcuadorTLC S.A. made a payment of US\$44 million, which is to be considered as the settlement of any differences that may arise from the application of the foregoing law until the execution date of the above amendatory agreements, at which date the Tax Equity Law became applicable.

*Recoverability of investments*

As from 2006, and with special emphasis during 2007, the Ecuadorian Government implemented major tax and regulatory amendments, which particularly focused on the hydrocarbons industry. The Law No. 42/2006 is among them.

The combination of these changes have materially modified the conditions set forth at the time of execution of the respective participation agreements, adversely affecting the profitability evaluation of ongoing projects in Ecuador, with the ensuing negative impact on the assessment of their recoverability. Accordingly, in the year ended December 31, 2007, the Company recorded an impairment allowance of 759 to write the book value of Ecuador's assets down to their probable recoverable value (Note 15.d). In estimating the related recoverable value, the Company included the impact of the estimated net deficit of production from the transportation capacity contract with Oleoducto de Crudos Pesados Ltd.

*Block 31*

On December 31, 2008, Petrobras Energía Ecuador and Petroecuador executed the Termination Agreement relating to Block 31 Participation Agreement for the return of Block 31 to the Ecuadorian State. As a result, the Company recognized a loss of 31 in Other (expenses) income, net (Note 15.d).

*Crude Oil Transportation Agreement with Oleoductos de Crudos Pesados Ltd. (OCP)*

The Company has executed an agreement with OCP, whereby it has secured an oil transportation capacity of 80,000 barrels per day for a 15-year term starting November 10, 2003.



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The type of transportation agreement is Ship or Pay . Therefore, the Company should meet its contractual obligations for the entire volume hired, although no crude oil is transported, paying, like the other producers, a rate that covers OCP operating costs and financial services, among others. As of December 31, 2008 such rate amounted to US\$ 2.075 per barrel.

The costs for the transportation capacity are billed by OCP and charged to expenses monthly. Hence, the costs related to the crude oil volume effectively transported are charged to Administrative and selling expenses line, whereas the surplus, related to transportation capacity hired but not used, is recorded in the Other operating expenses, net line (Note 15.c).

The Company estimates that during the effective term of the Ship or Pay transportation agreement the volume of crude oil produced will be lower than the committed transportation capacity. This presumption is based on the current assessment of the Company's reserves. For the purpose of mitigating the Company's financial exposure for the capacity contracted, the Company periodically negotiates committed transportation capacity volumes. On December 31, 2008, the Company and Petroecuador entered into an agreement for the utilization of the oil transportation capacity committed under the agreement entered into with Oleoducto de Crudos Pesados, under which the Ecuadorian State undertook the commitment that the transportation as from January 1, 2009 of its crude oil through the OCP will be charged to the transportation capacity committed under the agreement entered into between the Company and OCP, up to a maximum of 70,000 barrels per day. In addition, as of December 31, 2008, the Company sold a portion of this transportation capacity (at an average amount of 8,000 barrels per day from July 2004 to January 2012 and 16,000 barrels per day during the two years starting in May 2006). The impact of the net production deficit is considered for the purpose of analyzing the recoverability of the assets in Ecuador.

In order to guarantee the compliance with the Company's financial commitments related to the Ship or Pay transportation agreement and OCP's related business obligations, the Company issued letters of credit. These letters of credit, with maturity date of December 2018, are required to remain effective until the abovementioned commitments expire. As of December 31, 2008 the Company issued letters of credit for a total amount of about US\$100 million. As the letters of credit expire, the Company will be required to renew or replace them. Otherwise, the amounts due must be deposited in cash.

**Operations in Venezuela**

In April 2005, the Venezuelan Energy and Oil Ministry ( MEP ) ordered PDVSA to review the thirty-two operating agreements signed from 1992 through 1997 by PDVSA's affiliates with oil companies, including the agreements signed with Petrobras Energía, through its subsidiaries and affiliates in Venezuela, to operate the Oritupano Leona, La Concepción, Acema and Mata production areas. These instructions given by the MEP established that all the necessary measures should be taken by PDVSA to migrate all operating agreements effective at that time to mixed companies, in which the Venezuelan Government would hold a share of over 50% through PDVSA.

In August 2006, the conversion operating agreements were signed. These agreements provided that the equity interest of private partners in such mixed companies would be of 40%, with the remaining 60% to be held by the Venezuelan Government. As a consequence of the foregoing, the direct and indirect equity interest of Petrobras Energía in the mixed companies operating the areas Oritupano Leona, La Concepción, Acema and Mata (Petroritupano S.A., Petrowayú S.A., Petroven-Bras S.A. y Petrokariña S.A., respectively) amount to 22%, 36%, 34.5% and 34.5%, respectively. Additionally, CVP recognized a divisible and transferable credit in favor of the private companies participating in the mixed companies in the amount of US\$ 88.5 million for Petrobras Energía's equity interest, which does not accrue interest and could be applied to the payment of acquisition bonds to be used in any new mixed ownership project for oil exploration and production activities, or licenses for gas exploration and production operations in Venezuela. Since the requirements for the recognition of such credit had been met as of December 31, 2006, the Company recognized the related receivable at its estimated recoverable value, which amounted to 180.

In accordance with the corporate and governance structure established for the mixed companies, as from April 1, 2006, the Company discontinued the consolidation of assets, liabilities, income and cash flows of the Venezuelan operations on a line by line basis. Accordingly, the Company's interest in the shareholders' equity and related net income are now presented as a long term investment and equity in earnings of subsidiaries, respectively.





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The new operating conditions prevailing as from the conversion of the operating agreements had an adverse impact on the recoverable value of the Company's assets in Venezuela. The recoverability of the referred investments is highly sensitive to crude oil price volatility, to economic, social and regulatory changes and, particularly, to the resulting business plans. As a result of the changes in the foregoing variables, in the years ended December 31, 2008, 2007 and 2006, the Company recorded writedowns of 154, 33 and 186, respectively related to its assets in Venezuela.

In addition, since projects for the use of the credit recognized by CVP had not been materialized, the efforts to transfer such credit to third parties had not been successful, and other alternative uses of the credit was not anticipated, as of December 31, 2007 the Company wrote down the carrying value of the credit to zero, resulting in an impairment charge.

As of December 31, 2008, 2007 and 2006, the carrying value of the Company's direct and indirect interest in the mixed companies, net of writedown allowances, amounts to 2,751, 2,564 and 2,633, respectively.

**6. Credit risk**

The Company provides credit lines in the normal course of business to refiners, petrochemical companies, marketers of petroleum products, crude oil exporting companies, electrical power generation companies, retail customers, natural gas distributors, large electrical power users and power distribution companies, among others.

As a result of the Company's business and sales locations, the portfolio of receivables is well diversified, and, therefore, the Company's Management considers the credit risk moderate based on such diversification. The Company constantly performs credit evaluations of the financial capacity of its clients, which minimizes the potential risk of bad debt losses.

**Table of Contents****7. Inventories**

The breakdown of current and non-current inventories is as follows:

	2008		2007	
	Current	Non-current	Current	Non-current
Crude oil stock	348		186	
Materials	387	95	221	101
Work in progress and finished products	794		560	
Advances to suppliers	9		6	
Other	2		23	
Allowance for inventories obsolescence (Note 12)	(4)			(1)
	1,536	95	996	100

**8. Investments, equity in earnings of affiliates and dividends collected**

The breakdown of current and non-current investments, the equity in earnings of affiliates and dividends collected, are as follows:

*a) Investments*

Name and issuer	2008		2007
	Cost	Book value	Book value
Current:			
Government securities			5
Certificates of deposit	515	515	757
Mutual funds	48	48	331
Related companies (Note 17)	465	465	38
Other	2	2	1
	1,030	1,030	1,132
Non-current:			
Government securities			1
Loans to joint venture partners in Venezuela	262	262	239
Related companies (Note 17)	147	147	143
Equity in affiliates (Note 25.b)	2,984	3,682	3,306
Allowance for impairment of investments (Note 12)		(614)	(419)
	3,393	3,477	3,270

**Table of Contents***b) Equity in earnings of affiliates*

	2008	2007	2006
Petroritupano S.A.	132	55	15
Petrokariña S.A.	40	1	(3)
Petrowayú S.A.	107	2	29
Petroven-Bras S.A.	3	(1)	(2)
Petrolera Entre Lomas S.A.	25	30	33
Inversora Mata S.A.	8	(7)	3
Oleoductos del Valle S.A.	1	3	8
Oleoducto de Crudos Pesados Ltd.	(5)	(1)	6
Refinería del Norte S.A.	(6)	44	32
Petroquímica Cuyo S.A.I.C. (1)		21	15
Petrobras Bolivia Refinación S.A.(1)		31	82
Other		(2)	1
	305	176	219

(1) See Note 8.III

*c) Dividends collected*

	2008	2007	2006
Petrobras Bolivia Refinación S.A.		60	76
Petroquímica Cuyo S.A.I.C.		6	5
Petrolera Entre Lomas S.A.	10	19	22
Oleoductos del Valle S.A.		5	7
Refinería del Norte S.A.		19	
Oleoductos de Crudos Pesados Ltd.		6	6
Petroritupano S.A.	119	82	
Petrowayú S.A.	21	67	
	150	264	116

I. Investment in companies in which joint control or significant influence is exercised and which are subject to transfer restrictions:

*a) Distrilec:*

Petrobras Energía, through Petrobras Finance Bermudas and Petrobras Electricidad de Argentina S.A ( PEDASA ), holds an indirect shareholding of 48.50% in Distrilec.

Distrilec is able to change its equity interest and sell its shares in Edesur S.A. ( Edesur ) only with the approval of ENRE (Federal Power Regulation Authority).

In addition, over the entire term of the concession, the Class A shares in Edesur shall remain pledged to guarantee the compliance with the obligations undertaken in the Concession Agreement. This pledge in no way limits the exercise of financial and voting rights associated with the Edesur s shares.

*b) CIESA:*

Shareholders of CIESA, parent company of TGS, may not sell their Class A shares representing 51% of TGS s capital stock, without the prior authorization of the regulatory agency and the approval of the shareholders of CIESA.



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As of December 31, 2008 the book value of the equity interests in CIESA and in Distrilec amounted to 198 and 585, respectively (net of adjustments of (216) and (82) made to adapt Ciesas and Distrilecs valuation methods to those of the Company, respectively, and 43 corresponding to the purchase price allocated to Distrilecs Property, Plant and Equipment recorded by the Company at the time of the acquisition of a portion of its interest).

As of December 31, 2007 the book value of the equity interests in CIESA and in Distrilec amounted to 218 and 560, respectively (net of adjustments of (227) and (90) made to adapt Ciesas and Distrilecs valuation methods to those of the Company, respectively, and 50 corresponding to the purchase price allocated to Distrilecs Property, Plant and Equipment recorded by the Company at the time of the acquisition of a portion of its interest).

As of December 31, 2008 and 2007, the valuation of CIESA includes 110 from the transfer to Enron of its interest in TGS.

The book value of these interests does not exceed their recoverable value.

**II. Tariff situation of the public utility companies**

The scenario after the enactment of the Public Emergency Law significantly changed the financial equation of the public utility companies. Particularly, the tremendous effect of the devaluation, within a context of revenues that have remained fixed, as a consequence of de-dollarization of rates, has affected the financial and cash flow position of such companies, as well as their ability to comply with certain loan agreement clauses.

The Public Emergency Law provided for the conversion into Argentine pesos and the elimination of indexation clauses on public service rates, thus fixing them at the exchange rate of ARS 1 = US\$ 1. In addition, the Executive Branch was empowered to renegotiate those agreements entered into to provide public services, along the following criteria: (i) rates impact on economic competitiveness and revenue allocation, (ii) service quality and investment plans, to the extent that they were contractually agreed upon, (iii) users interest and access to services, (iv) the safety in the system involved, and (v) companies profitability.

On February 12, 2002, the Executive Branch of Government issued Decree No. 293/02 whereby it recommended that the Ministry of the Economy and Production renegotiate the agreements executed with public utility companies. UNIREN (public service agreement renegotiation and analysis unit) was created in July 2003. This agency reports to the Ministries of Economy and Production, and of Federal Planning, Public Investment and Services. UNIREN took over the work of the Renegotiation Commission and its aim is, among others, to provide assistance in the public works and services renegotiation process, to execute comprehensive or partial agreements, and to submit regulatory projects related to transitory rate adjustments.

On October 9, 2008, after UNIREN had submitted to TGS several proposals for the tariff adjustment as provided for in the concession contract that TGS had deemed insufficient, TGS executed a provisional agreement with UNIREN, which provides for a 20% tariff increase to be retroactively applied as from September 1, 2008 and for the application of the cash from such increase to an investment plan in the gas transportation system devised under the same agreement. The tariff increase will become effective after the ratification of the provisional agreement by the Argentine Executive Branch. This provisional agreement will be valid until the effective date of an agreement for the comprehensive renegotiation of the transportation license to be entered into with the National Government. In this respect, in early October 2008, TGS received from UNIREN a proposal for a comprehensive renegotiation agreement (including the 20% initial tariff increase), aimed at renegotiating the license terms and starting an overall tariff review process. As of the date of these financial statements, TGS is evaluating such proposal. As set forth in the provisional agreement, TGS should reach an agreement with UNIREN on the modalities, terms and dates for the execution of the comprehensive agreement before the date the Public Emergency Law expires. If no agreement is reached, UNIREN will submit a report to the Executive Branch recommending what future actions to take, if any.

In December 2008, the Law No. 26,456 was issued, which extended the public works and services renegotiation term to December 2009.

In June 2005, Edesur signed a letter of understanding with the UNIREN as part of the renegotiation process involving the related concession contract. Based on this letter of understanding, in August 2005, the parties signed a memorandum of understanding that included, among other matters, the terms and conditions that, once the procedures established by regulations are fulfilled, would be the basis for amending the concession agreement.



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The document established that as from the execution of the letter of understanding through June 30, 2006, a complete rate review would be performed, which lead to a new rate system effective August 1, 2006, and for the following five years. Also, it established a transition period for which the following was agreed upon: (i) a transitional rate system as from November 1, 2005, with an increase in the average service rate not exceeding 15%, applicable to all rate categories, except for residential rates; (ii) a mechanism to monitor costs, which allows for reviewing rate adjustments; (iii) restrictions on dividends distribution and debt interest payment during 2006; (iv) investment commitments for 2006; (v) service provision quality standards; and (vi) restrictions on Distrilec's ability to modify its equity interest or sell its shares in Edesur. Subsequently, Resolution No. 864/2008 issued by the Secretary of Energy put off the effectiveness of the new rate system until February 2009.

As a preliminary condition for the Executive Branch to ratify the Memorandum of Understanding, Edesur and its shareholders suspended all pending claims based on the measures taken as from the emergency situation established by Public Emergency Law in connection with the concession agreement.

The Memorandum of Agreement (MOA) was ratified by the Executive Branch on December 28, 2006. According to ENRE's Resolution No. 50/2007 published in the Official Gazette on February 5, 2007, the values stated in Edesur's Rate Schedule and resulting from the Interim Rate Schedule provided for in the MOA became effective as from February 1, 2007.

As a consequence, a 23% increase was applied on the company's own distribution costs (not affecting T1R1 and T1R2 residential rates), connection costs and the reconnection service charged by Edesur, and an additional average increase of 5% is also applied on such distribution costs for the execution of a work plan. In addition, ENRE authorized to apply to such costs, effective May 1, 2006, the 9.962% positive variation in the cost monitoring system indexes provided under the MOA.

Subsequently, Resolutions No. 1,838/2007 issued by the Secretary of Energy and No. 867/2007 of ENRE approved a 9.75% adjustment for the period from May 2006 to April 2007 under the cost monitoring method set forth in the Memorandum of Agreement applicable as from May 2007.

On July 31, 2008 ENRE issued Resolution No 324/2008 in relation to the Interim Tariff Scheme, approving a new tariff schedule for Edesur applicable as from July 1, 2008, which imposes gradual increases between 10% and 30% on residential users with bimonthly consumption levels over 650 kilowatts as well as a 10% increase on commercial or industrial users. In addition, it provides for the application of the new tariff to the Program for the Rational Use of Energy and the partial recognition of the cost monitoring system for subsequent periods.

### III. Equity interest sales

#### - *Hidroneuquén S.A.*

On January 17, 2007, Petrobras Energía entered into a stock purchase agreement with a consortium composed of Merrill Lynch, Pierce, Fenner & Smith Inc. and Sociedad Argentina de Energía S.A., for the sale of its 9.19% equity interest in Hidroneuquén S.A., a company holding 59% of Hidroeléctrica Piedra del Aguila S.A.'s capital stock. The stock purchase price provided under the terms and conditions of the agreement was US\$ 15 million, implying a gain of 23, recorded in Other (expenses) income, net (Note 15.d).

#### - *Petrobras Bolivia Refinación S.A.*

In May 2006, the Bolivian Government issued Supreme Decree No. 28,701, thus establishing what it calls the nationalization of oil and gas of the country.

The abovementioned decree also provided that the Bolivian Government shall recover full participation in the entire oil & gas production chain, and for this purpose provided, among others, the necessary actions to be taken for YPFB to control at least 50% plus one share in a group of companies, among which was Petrobras Bolivia Refinación S.A. Within this framework, on June 25, 2007, Petrobras Energía S.A., through its subsidiary Petrobras Energía Internacional S.A., signed an agreement for the sale to YPFB of its interest in Petrobras Bolivia Refinación S.A. The sale price amounted to US\$55 million, resulting in a gain of 44 recorded in Other (expenses) income, net (Note 15.d).

**Table of Contents***- Compañía Inversora en Transmisión Eléctrica S.A. (Citelec)*

In compliance with the commitment to divest Citelec assumed by Petrobras Energía upon the approval on July 19, 2007- by the Comisión Nacional de Defensa de la Competencia (the Argentine antitrust authorities) of the purchase by Petrobras Participaciones S.L. of the shares representing the majority of the capital stock of Petrobras Energía Participaciones, Petrobras Energía entered into an agreement to transfer its 50% equity interest in Citelec to Energía Argentina S.A. ( Enarsa ) and Electroingeniería S.A., with each transferee assuming 25% of the equity of Citelec. In December 2007 the pertinent approvals were granted by the regulatory agencies and authorities and all other terms and conditions to which the transaction was subordinated were fulfilled.

The sale was carried out at a price of US\$ 54 million and did not result in any significant profit and loss effects.

*- Yacylec S.A.(Yacylec)*

On July 19, 2007, Petrobras Energía signed with Electroingeniería S.A. a stock purchase agreement for the sale of its 22.22% equity interest in Yacylec, which was approved by ENRE in December 2007. The sale was performed at a fixed price of US\$ 6 million, giving rise to a gain included in Other (expenses) income, net of 16 (Note 15.d).

*- Petroquímica Cuyo S.A.I.C.*

On December 31, 2007, Petrobras Energía entered into a stock purchase agreement with Admire Trading Company S.A. and Grupo Inversor Petroquímica S.L. for the sale of its 40% equity interest in Petroquímica Cuyo S.A.I.C. The selling price was US\$ 32 million, resulting in a gain of 40 included in Other (expenses) income, net (Note 15.d).

*- Petrobras de Valores Internacional de España S.L.(PVIE)*

In December 2007, Petrobras Energía sold 40% of its equity interest in PVIE, a holding company whose main asset is the 99.79% interest in the capital stock of Petrobras Energía Perú S.A., to Petrobras Internacional Braspetro B.V. in the amount of US\$ 423.3 million, plus a contingent consideration to be defined by the parties if a commercially viable discovery is made at the Kinteroni prospect in Lote 57. The transaction resulted in a gain of 1,014 included in Other (expenses) income, net (Note 15.d).

In January 2008, Petrobras Energía announced a discovery of gas and condensed gas at the Kinteroni prospect, which it is still in the evaluation phase. Currently, the operator is conducting reservoir analysis and other preparation activities in order to assess the potential of the field.

Pursuant to the terms and conditions of the stock purchase agreement, the parties agreed to share the power and authority to define and direct PVIE's operating and financial policies (Note 2.a).

For further information on PVIE, see Note 24.a).

**9. Financing**

The detail of the financial debt as of December 31, 2008 and 2007 is as follows:

	2008		2007	
	Current	Non-current	Current	Non-current
Financial institutions	1,136	477	1,071	428
Notes	1,233	3,987	545	4,372
Related companies (Note 17)	76	688	306	630
	2,445	5,152	1,922	5,430



**Table of Contents**

I. Global Programs of nonconvertible bonds

Global program of US\$ 2.5 billion:

As of December 31, 2008 under this program, which matured on May 4, 2008 the following classes of bonds remained outstanding:

- Class H, for a face value of US\$181.5 million, maturing in May 2009, at a 9% annual rate (Note 24.b).
- Class I, for a face value of US\$349.2 million, maturing in July 2010, at a 8.125% annual rate.
- Class N, for a face value of US\$ 97 million, with principal amortized in two installments, the first equivalent to 9.9099% of face value settled on the same day of issuance, January 24, 2003, and the remaining due in June 2011, accruing interest at the 9 month Libor rate plus 1%.
- Class R, for a face value of US\$ 200 million, maturing in October 2013, at a 9.375 % annual rate.
- Class S, for a face value of US\$ 300 million, maturing in May 2017, at a 5.875% annual rate. Class S bonds are supported by a Standby Purchase Agreement provided by Petrobras, pursuant to which, in the event of failure to pay principal, interest and any other amount owed by Petrobras Energía in connection with Class S bonds, Petrobras shall purchase the rights of bondholders to receive payments.

The proceeds from the issuances of the bonds were used to refinance liabilities, increase working capital, make capital expenditures in Argentina or capital contributions to affiliates.

Debt from the issuances is disclosed net of the unaccrued portion of the issuance discounts and the incurred costs for such issuances.

Global program of US\$ 1 billion:

The Annual Shareholders Meeting of Petrobras Energía held on March 28, 2008 approved the creation of a global program for the issuance of bonds for an outstanding maximum principal amounting to US\$1 billion or its equivalent in any other currency, maturing within a 5-year term, or the maximum term that may be established by any applicable regulation in the future, under terms and conditions identical to those of the global program of US\$2.5 billion. On August 8, 2008, the program was authorized by Resolution No. 15,947 of the CNV.

II. Cross default clauses

Outstanding bonds include cross default clauses, whereby the Trustee, as instructed by the bondholders representing at least 25% of the related outstanding capital, shall declare all the amounts owed due and payable, if any debt of Petrobras Energía or its significant subsidiaries is not settled upon the maturity date, provided that those due and unpaid amounts exceed the higher of US\$ 25 million or 1% of Petrobras Energía s shareholders equity upon those maturities, and that the default has not been defeated or cured within 30 days after the Company has been served notice of the default.

As of the date of these consolidated financial statements, the Company has complied with all the terms and conditions related with its financial indebtedness.

III. Edesur indebtedness

Edesur maintains a global corporate bond program maturing on October 14, 2013, or the maximum term that may be allowed under any new regulations that might become applicable in the future, for up to a maximum principal amount outstanding at any time during the effectiveness of the program up to US\$ 450 million or its equivalent in other currency.

As of December 31, 2008, only Class 7 is outstanding under such global program for a face value of 165, with five semiannual principal repayments of 33 as from June 2010, at an annual interest rate of 11.75%.

Proceeds from the issuances have been applied to refinancing liabilities and improving working capital.

In addition, Edesur has signed loan agreements with banks. Some of Edesur s loan agreements contain cross-default clauses, whereby lending banks may declare all owed amounts as due and payable in the event that any debt was not settled in due time, provided that such amounts due and payable exceeded those stipulated in the agreements.



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Some of these agreements also contain cross-acceleration clauses, whereby lending banks may declare all owed amounts as due and payable in the event that Edesur was required to pre-pay any other debt stipulated in the agreements.

As of the date of these consolidated financial statements Edesur has complied with all the terms and conditions contained in the loan agreements.

**IV. CIESA and TGS indebtedness**

Due to the Argentine macroeconomic situation, starting with the enactment of the Public Emergency Law (see [Note 8.11](#) Tariff Situation of the public utility companies ), CIESA did not pay at maturity, in April 2002, either the principal and the last interest installment, or the cap and collar of its interest rate agreements. Consequently, CIESA's indebtedness included in the Company's consolidated financial statements pursuant to the proportional consolidation method, in the amount of US\$ 296 million, has been disclosed in the Short-term debt line.

In April 2004, the shareholders of CIESA entered into a master settlement agreement whereby Petrobras Energía and Enron would reciprocally waive any claiming right arising from or related to certain agreements executed by such groups in connection with their interests in CIESA and TGS. The terms of the Master Agreement included the transfer of the technical assistance agreement to Petrobras Energía, which was finalized in July 2004. In addition, to provide the necessary flexibility to make progress in restructuring CIESA's financial debt, the Master Agreement established certain share transfers in two successive steps.

Initially, after the relevant regulatory authorities' approvals, on August 29, 2005, Enron transferred 40% of CIESA's shares to a trust fund and, at the same time, Petrobras Energía and its subsidiary, Petrobras Hispano Argentina S.A., transferred Class B shares of TGS (representing 7.35% of TGS's capital stock). The Company considered the book value of the shares transferred as part of the valuation of its interest in CIESA in non-current investments.

Subsequently, pursuant to the terms of the Restructuring Agreement entered into on September 1, 2005 by CIESA, Petrobras Energía S.A., Petrobras Hispano Argentina S.A., Enron Pipeline Company Argentina S.A., ABN AMRO BANK N.V. Argentine Branch and all its financial creditors, CIESA refinanced the debt for an amount of about US\$ 23 million at a 10-year term. Once approvals were obtained from the Argentine Gas Regulatory Agency and the Argentine anti-trust authorities, CIESA would provide its financial creditors with about 4.3% of TGS's Class B common shares as partial settlement of the financial debt. These shares were to be transferred to Enron in exchange for its remaining 10% shareholding in CIESA and the creditors would then capitalize the financial debt balance.

Once the debt restructuring was completed, and considering that in addition to the foregoing share transfers: a) the fiduciary ownership of the shares held in CIESA by the trust fund would be transferred to Petrobras Energía and Petrobras Hispano Argentina S.A. and b) new shares would be issued for the benefit of the entity's creditors, CIESA's capital structure would be as follows: (i) Class A shares directly and indirectly held by Petrobras Energía S.A., representing 50% of the capital stock and votes in CIESA; and (ii) Class B shares held by the financial creditors of CIESA, representing the remaining 50% of the capital stock and votes in CIESA.

The Restructuring Agreement, as amended, would remain valid through December 31, 2008. As from such date, any party was entitled to unilaterally terminate the agreement.

CIESA's financial statements were prepared using the going concern basis of accounting and therefore such financial statements do not include any adjustments or reclassifications that may derive from the resolution of the uncertainties affecting its debt restructuring process.

Between May and June 2007, TGS successfully concluded the refinancing of its debt through the issuance of US\$ 500 million bonds under the 2007 Global Program, and the prepayment of its previous debt through a bond repurchase offer, the redemption of bonds not subject to the repurchase offer and the prepayment of the loans from the Inter-American Development Bank.

Bonds are due May 14, 2017 and bear interest at an annual fixed rate of 7.875%. Principal will be repaid in four annual, equal and consecutive installments of US\$125 million each, as from May 14, 2014. In 2008, TGS repurchased bonds in an amount equivalent to a face value of US\$ 95 million, recognizing a gain of 57 in Other (expenses) income, net (Note 15.d).



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As of December 31, 2008, TGS' s financial debt mainly results from the issuance of bonds in the amount of US\$405 million under the 2007 Global Program, for an amount of up to US\$650 million, authorized by the CNV on January 18, 2007.

Pursuant to the financing agreements executed in connection with the debt restructuring, TGS is required to comply with a series of covenants, which include, among others, restrictions on debt issuance, new investments, sale of assets, payment of technical assistance fees and dividend distributions. As of the date of these financial statements, TGS has complied with the above mentioned covenants.

## V. Detail of long-term debt

Long-term debt as of December 31, 2008 is made up as follows:

<b>Type</b>	<b>Amount</b>	<b>Currency</b>	<b>Annual interest rate</b>
Financial institutions			
	119	US\$	Libo+1.19 %
	35	US\$	4.41%(*)
	41	US\$	Libo+0.925 %
	21	US\$	4.22%
	9	US\$	Libo+1.65 %
	68	US\$	Libo+1.44 %
	121	US\$	Libo+1 %
	63	US\$	Libo+2 %
Related companies (Note 17)	688	US\$	7.22%
Bonds			
Class I	1,204	US\$	8.125%
Class S	1,028	US\$	5.875%
2007 Global Program (TGS)	699	US\$	7.875
Class R	687	US\$	9.375%
Class N	289	US\$	Libo+1%
Class 7 (Edesur)	80	\$	11.75%
	5,152		

(\*) Average rate.

The maturities of long-term debt as of December 31, 2008, are as follows:

From 1 to 2 years	1,387
From 2 to 3 years	461
From 3 to 4 years	110
From 4 to 5 years	717
Over 5 years	2,477
	5,152

**10. Fund for the investments required to increase the electric power supply in the electric wholesale market (FONINVEMEM)**

Through Resolution No. 712/04, the Energy Department created the FONINVEMEM I for the purpose of granting creditors and incentive to invest in wholesale electricity market (WEM) for increasing the supply of electrical power generation in Argentina. Through Resolution No.564/07, the Secretary of Energy requested WEM agents to participate in FONINVEMEM II, with the purpose of complementing financing of FONINVEMEM I.

The financing of FONINVEMEM I and II was made through the contribution of 65% and 50% of the credit balances recorded in 2004-2006 and in 2007, respectively, resulting from the spread between the selling price of energy and the variable generation cost. The total contribution by all wholesale electric market private creditors is estimated at US\$ 816 million for all periods, of which Petrobras Energía contributed US\$ 55 million, dedicating US\$ 39 million to FONINVEMEM I and US\$ 16 million to FONINVEMEM II.

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On October 17, 2005 and under the terms of Resolution No. 1,193 issued by the Secretary of Energy, Petrobras Energía and other WEM creditors formally announced their decision to participate in the construction, operation and maintenance of two power plants of at least 800 MW each. Construction costs of both plants are estimated at approximately US\$1.3 billion and are to be funded with the contributions to FONINVEMEM I and II, with an additional specific charge imposed to users and with contributions from the Argentine Government.

For the purposes of purchasing of equipment and the construction, operation and maintenance of the power plants, two trusts funds were created within the scope of CAMMESA. The funds related to FONINVEMEM and the specific charge will be deposited with the trusts funds. Procurement of the equipment, construction, operation and maintenance of each power plant will be performed by Termoeléctrica José de San Martín S.A. and Termoeléctrica Manuel Belgrano S.A., which will act as agents of the respective trusts funds. These power plants will enter into electricity supply agreements with CAMMESA for a term of 10 years for the 80% of the energy generated, at a price that will allow for the covering of costs and FONINVEMEM reimbursements, the companies being able to freely dispose of the remaining 20% of the energy generated. Upon expiration of the supply agreements, ownership of the assets held in trust will be transferred to the power generation companies.

As of December 31, 2008, gas turbines of the power plants Central Termoeléctrica Manuel Belgrano and Central Termoeléctrica José de San Martín are already fully operational. It is also expected that both powers plants will operate in combined cycles, in the fourth quarter of 2009 or the first quarter of 2010.

Petrobras Energía, as well as the other WEM creditors, will be reimbursed the amounts contributed to FONINVEMEM I, converted into US dollars and adjusted at a rate of LIBO + 1% p.a., in 120 monthly installments out of the funds received from the trusts during the effective term of the electricity supply agreement entered into with CAMMESA and funds contributed to FONINVEMEM II will be recovered through their application to additional energy generation as it is established by Resolution No. 1,281/2006 of the Secretary of Energy under the condition of, at least, multiplying four-fold this contribution with the new investment. On April 18, 2008, the Secretary of Energy considered the project of construction of a new thermoelectric plant of 170 mega watts to be constructed next to Genelba Plant to be covered by the terms of Resolution No. 1,281/2006. Following the Secretary of Energy instruction to CAMMESA to refund Petrobras Energía the funds contributed to FONINVEMEM II in accordance with Resolution No. 564/07, whereby, as of December 31, 2008, Petrobras Energía received US\$ 4.5 million.

**11. Current and deferred income tax**

The Company's income tax expense and deferred tax balances are comprised as follows:

	2008	2007	2006
<b>Income tax for the year</b>			
Current	(538)	(414)	(296)
Deferred	9	(80)	(169)
<b>Total income tax</b>	<b>(529)</b>	<b>(494)</b>	<b>(465)</b>

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	2008	2007
<b>Deferred tax</b>		
<b>Deferred tax assets</b>		
Tax loss carryforwards	495	361
Property, plant and equipment	208	266
Reserves and provisions	126	95
Pension plan obligations	23	19
Equity interest in affiliates	38	34
Inventories	33	
Other	131	134
Valuation allowance (Note 12 and 15) (3)	(796)	(702)
<b>Deferred tax liabilities</b>		
Property, plant and equipment	(1,076)	(1,073)
Prepaid expenses	(5)	(6)
Equity interest in affiliates	(386)	(322)
Other	(33)	(26)
	(1,242)(1) (4)	(1,220)(2)



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- (1) 258 are included in the non-current Other receivables line and 1,500 in the non-current Taxes payable line.
- (2) 207 are included in the non-current Other receivables line and 1,427 in the non-current Taxes payable line.
- (3) Management evaluates the recoverability of tax loss carryforwards and the remaining temporary differences taking into consideration, among other elements, the projected business profits, tax planning strategies, temporariness of future taxable income, considering the term of expiration of the tax loss carryforwards, the future reversals of the existing temporary differences and the recent year tax history. All the evidence available, both

positive and negative, is duly weighted and considered in the analysis.

Management believes that it is more likely than not that the Company will realize the benefits of the above-mentioned deductible differences and tax loss carryforwards, net of the existing valuation allowance as of December 31, 2008.

- (4) The change in 2008 includes 11 related to the acquisition of the interests in Sierra Chata and Parva Negra (Note 5) and 20 attributable to the revaluation of deferred tax liabilities in foreign affiliates in the Deferred income account within shareholders equity. Deferred income showed no significant changes in 2007 and 2006 so, therefore, the activity was not presented separately.

The reconciliation of the income tax at the statutory rate of 35% to the tax provision (before taxes and the minority interest in the subsidiary's income) is as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Income before income tax and minority interests in subsidiaries	1,378	1,348	1,964
Statutory tax rate	35%	35%	35%
Income for the year at statutory tax rate	482	472	687
Permanent differences at income tax rate			
- Equity in earnings of affiliates	(127)	233	(146)
- Asset impairment			2
- Deconsolidation of companies		(103)	110
- Permanent differences in foreign subsidiaries	4	(67)	29
- Other	76	17	16
- Statute of limitation of tax loss carryforwards		449	
- Net movement in the valuation allowance	94	(507)	(233)
	529	494	465

Deferred tax assets related to tax loss carryforwards may be used through the dates indicated below:

<b>Use up to</b>	2008	2007	2006
2007			1,006
2009	320	238	194
2010 onwards	175	123	104
	495	361	1,304

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Movements of reserves for contingencies and allowances are as follows:

Account	Balances at the beginning of the year	Increase	Decrease	Balances at the end of the year
<b>Deducted from assets:</b>				
Current				
For doubtful accounts	114	14	(32)	96
For other receivables (Note 15.a)	279		(279)	
For inventories obsolescence (Note 7)		4		4
	393	18(1)	(311)(2)	100
Non-current				
For doubtful accounts		32(2)		32
For other receivables (Note 15.a)				
Deferred tax assests (Note 11)	702	94(3)		796
For other tax credits	51		(51)(4)	
Other				
For impairment of investments (Note 8.a)	419	195(6)		614
For property, plant and equipment	1,062	86(7)	(874)(8)	274
For inventories obsolescence (Note 7)	1		(1)(1)	
	2,235	712	(926)	2,021
<b>TOTAL 2008</b>	2,628	730	(1,237)	2,121
<b>TOTAL 2007</b>	2,200	1,414	(986)	2,628

**Included in liabilities:**

Current				
For contingencies				
Labor and commercial contingencies	124	32	(31)	125
	124	32	(31)	125
Non-current				
For contingencies				
Labor and commercial contingencies	86	34	(1)	119
	86	34	(1)	119

<b>TOTAL 2008</b>	210	66(9)	(32)(10)	244
<b>TOTAL 2007</b>	180	142	(112)	210

- (1) Recorded in  
Financial income  
(expenses) and  
holding gain  
(losses)
- (2) Reclassified from  
current to  
non-current
- (3) The net effect was  
recorded in the  
Income tax caption
- (4) Relating to the  
return of Block 31  
(Note 5)
- (5) It includes 279  
reclassified from  
current to  
non-current and 26  
recorded in  
Deferred income
- (6) It includes 154  
recorded in Other  
(expenses) income,  
net (Note 15.d) and  
41 recorded in  
Deferred income
- (7) Recorded in  
Deferred income
- (8) It includes 157  
recorded in Cost of  
sales as  
Depreciation of  
property, plant and  
equipment, 596 for  
the sale of the 40%  
of Block 18 and the  
return of Block 31  
and 121 for the  
reversal of the

allowance for  
impairment of  
assets in Argentina  
(Note 15.d).

(9) It includes 42  
recorded in Other  
operating expenses  
net , 13 in Financial  
income (expenses)  
and holding gain  
(losses) and 11 in  
Costs of sales

(10) Used during the  
year

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## a) Environmental matters

The Company is subject to extensive environmental regulations in Argentina and in the other countries in which it operates. Petrobras Energía's management believes that its current operations are in material compliance with applicable environmental requirements, as currently interpreted and enforced, including remediation commitments assumed. The Company has not incurred any material pollution liabilities as a result of its operations to date. Petrobras Energía undertakes environmental impact studies for new projects and investments and, to date, environmental requirements and restrictions imposed on these new projects have not had any material adverse impact on Petrobras Energía's business. Additionally, the Company maintains no significant lawsuits related to environmental issues.

## b) Other issues

The Company maintains interpretative differences with the AFIP (Argentine Federal Public Revenues Administration), provincial tax authorities and foreign tax authorities about taxes applicable on oil and gas activity. Company's Management and its legal advisors estimate that the outcome of these differences will not have significant adverse effects on the Company's financial position or results of operations.

**13. Contractual commitments, warranty bonds, sureties and guarantees granted**

The warranty bonds, sureties and guarantees as of December 31, 2008 and 2007, which are not disclosed in the remaining notes, amount to 79 and 61, respectively.

Innova S.A. has agreements with certain financial institutions whereby it may request cash advances on accounts receivable from clients that comply with a certain credit status for a maximum amount of approximately US\$40 million with recourse. Pursuant to the terms and conditions of the agreements, Innova S.A. bears the credit risk for the amounts received in the event of default of the debtor, the relevant amount must be paid by Innova S.A. As of December 31, 2008, amounts advanced totaled US\$18 million.

The following table summarizes certain contractual commitments of Petrobras Energía as of December 31, 2008. The table does not include accounts payable. Amounts in the table do not include interest.

	Total	Payments due by period				Until
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	
<b>Debt Obligations</b>	5,036	1,416	1,205	690	1,725	2017
<b>Purchase Obligations</b>						
Ship or pay agreement with OCP (1) (2) (6)	1,416	146	234	277	759	2018
Long-term service agreement (6)	970	570	207	94	99	2010
Petroleum services and materials (6)	3,856	2,206	537	292	821	2019
Ethylene (4)(6)	1,642	215	634	514	279	2015
Benzene (5)(6)	3,760	388	1,496	1,216	660	2015
Oil Purchase agreements for Refinery (6)	555	420	135			2010
Gas transportation capacity with TGS (3)	738	123	246	246	123	2014
Gas purchase agreements for Genelba (6)	14	14				2009
<b>Pension Plan</b>	140	14	26	27	73	

<b>Total</b>	18,127	5,512	4,720	3,356	4,539	
<b>Sales Obligations</b>						
Natural gas	2,036	330	557	549	600	2018
Styrene	492	166	202	124		2013
Electric power	846	156	224	362	104	2014
LPG	276	86	97	62	31	2015
Oil sale agreement	771	771				2009
<b>Total</b>	4,421	1,509	1,080	1,097	735	

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- (1) Net of transportation capacity sold to third parties
- (2) Estimated average price US\$ 3.63 per barrel.
- (3) Estimated price P\$0.11 million per million of cubic meters.
- (4) Estimated average price US\$1087 per ton. Contractual prices are in US Dollars. Peso amounts translated using exchange rate as of December 31, 2008.
- (5) Estimated price US\$ 895 per ton. Contractual prices are in US Dollars. Peso amounts translated using exchange rate as of December 31, 2008.
- (6) Prices are generally determined by formulas based on future market prices. Estimated prices used to calculate the monetary equivalent of

these purchase obligations for purposes of the table are based on current market prices as of December 31, 2008 and may not reflect actual future prices of these commodities. Accordingly, the peso amounts provided in the this table with respect to these obligations are provided for illustrative purpose only.

Estimated prices used to calculate the monetary equivalent of these purchase obligations for purposes of the table are based on current market prices as of december 31, 2008 and may reflect actual future prices of these commodities. Accordingly, the peso amounts provided in the this table with respect to these obligations are provided for illustrative purpose only.

The following table sets forth volume information with regard to the commitments under commercial contracts, for the years indicated below, as of December 31, 2008.

	<b>Obligations by period</b>				<b>More than 5 years</b>
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	
<b>Purchase Obligations</b>					
Ship or pay agreement with OCP (in million of barrels)	113	14	18	23	58
Ethylene (in thousands of tons)	438	72	144	144	78
Benzene (in thousands of tons)	1,218	201	400	400	217
Oil Purchase agreements for Refinery (in million of barrels)	4	3	1		
Gas transportation capacity with TGS (in million of cubic meters)	6,570	1,095	2,190	2,190	1,095
Gas purchase agreements for Genelba (in million of cubic meters)	65	65			
<b>Sales Obligations</b>					
Natural gas (in millions of cubic meters)	11,678	2,249	3,276	3,276	2,877
Styrene (in thousands of tons)	237	84	102	51	
Electric power (in GWh)	3,526	1,155	1,071	1,091	209
LPG (in thousands of tons)	453	171	174	54	54
Oil sale agreement (in millions of barrels)	5	5			

**14. Capital stock**

As of December 31, 2008, the Company's capital stock totaled 1,009,618,410 Class B shares fully subscribed, issued, paid-in, registered and authorized for public trading.

Changes in capital stock in the last three years:

	<b>December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Common shares of 1 vote and nominal value of P\$1 per share	1.010	1.010	1.010

Pursuant to a resolution adopted by Class A and B Shareholders at the Special Meetings held on March 28, 2008,

Class A shares were converted into Class B shares. Consequently, as from that date, the Company's capital stock is represented only by Class B shares.

**Table of Contents****15. Other receivables, other liabilities, other operating expenses, net, other (expenses) income, net and supplemental cash flow information**

	2008		2007	
	Current	Non-current	Current	Non-current
a) Other receivables				
Joint ventures	44		33	
Related companies (Note 17)	275	3	1,621	5
Dividends receivable	60			
Tax credits	907	206	482	447
Deferred tax assets		1,054		909
Advisory services to other companies			3	
Receivables from the sale of companies (Note 8.III)	33		133	
Expense refunds	55	8	65	7
Prepaid expenses	140	11	255	25
Credit for new projects in the mixed companies in Venezuela (Note 5)		305	279	
Guarantee deposits	12	16	7	
Commercial agreements				
Allowance for other receivables and tax credits (Note 12)		(1,101)	(279)	(753)
Other	67	20	59	17
	1,593	522	2,658	657

	2008		2007	
	Current	Non-current	Current	Non-current
b) Other liabilities				
Related companies (Note 17)	50		15	
Advanced collections	101	103	64	55
Expenses allowance Environmental remediation	46	66	38	64
Joint ventures	9		35	
Extension of production concessions (Note 5)	56			
Litigation and fines accrual	118		101	
Third party collection	15		12	
Asset retirement obligation (Note 5)		308		170
Other	135	17	40	18
	530	494	305	307

	2008	2007	2006
c) Other operating expenses, net			
Advisory services to other companies	40	46	48
Environmental remediation expenses		(17)	(5)
Taxes on bank transactions	(146)	(121)	(98)

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Contingencies	(42)	(24)	(24)
Oil transportation agreement with OCP	(174)	(155)	(178)
Fundopem (1)	80	70	46
Edesur Memorandum of agreement		85	
Commercial claims resolution			75
Amendment to Ecuador's Hydrocarbons Law		(44)	
Allowance for other tax credit		(15)	(1)
Other	13	(1)	2
	(229)	(176)	(135)

(1) Tax benefits earned by Innova S.A. consisting in a partial reduction of certain taxes in accordance with an incentive program that the Brazilian state of Rio Grande do Sul provides to companies located there.

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	2008	2007	2006
d) Other (expenses) income, net			
Gain from the financial debt repurchase (Note 9.IV)	57		
Reversal of the allowance for impairment of fixed assets in Argentina (Nota 25.a)	121		
Termination Agreement of Block 31 (Note 5)	(31)		
Gain from the sale of the 40% of Block 18 (Note 5)	(28)		
Gain from the sale of Hidroneuquén S.A. (Note 8.III)		23	
Gain from the sale of Petrobras de Valores de España S.L. (Note 8.III)		1,014	
Gain from the sale of Yacylec S.A. (Note 8.III)		16	
Gain from the sale of Petroquímica Cuyo S.A.I.C. (Note 8.III)		40	
Gain from the sale of Petrobras Bolivia Refinación S.A. (Note 8.III)		44	
Allowance for advances to partners in Venezuela		(41)	
Net impairment of assets in Ecuador (Note 5)		(759)	
Net impairment of assets in Venezuela (Note 5)	(154)	(214)	(6)
Seniat claim - Venezuela			(18)
Sales of oil and gas areas (Note 5)		62	85
Disposals of property, plant and equipment		(17)	(15)
Reversal of the allowance for impairment of investments - Hidroneuquén S.A.			10
Reversal of the allowance for impairment of investments - Enecor S.A.		5	6
Reversal of the allowance for impairment of investments - Citelec S.A.			23
Other, net	(58)	(42)	14
	(93)	131	99
	2008	2007	2006
e) Supplemental cash flow information			
Cash	492	98	86
Time deposits and mutual funds	979	1,069	1,264
Cash and cash equivalent at the end of the year	1,471	1,167	1,350

**16. Social benefits and other payroll benefits****a) Defined contribution plan**Supplementary pension plan

In November 2005, Petrobras Energía's Board of Directors approved the implementation of a defined voluntary contribution plan for the employees who fulfill certain conditions. Through this plan, Petrobras Energía makes contributions to a trust fund in an equal amount to the contributions made by the employees adhered to the plan, in conformity with a scheme defined for each salary level. The participating employees may make voluntary contributions exceeding those established in the mentioned scheme, which will not be considered for purposes of the contributions to be made by Petrobras Energía.

In the years ended December 31, 2008, 2007 and 2006, Petrobras Energía recorded losses of 8, 7 and 3, respectively, attributable to such benefits.

**b) Defined benefit plan**

Indemnity plan

This is a defined benefit plan for employees who fulfill certain conditions, and consists of granting, upon retirement, a one-month salary per year working at the Company, in conformity with a decreasing scale considering the years of effectiveness of the plan.

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**Table of Contents****Compensatory fund**

This is a defined benefit plan for employees of Petrobras Energía who take part in the defined contribution plan effective at each opportunity that joined the Company prior to May 31, 1995, and have reached a certain number of years of service. The benefit is based on the last computable salary and years of service of each employee included in the plan.

The plan is of a supplemental nature, so that the benefit received by the employee is represented by the amount determined under the provisions of this plan, after deducting benefits payable to the employee under the contribution plan and the public retirement system, in order to that the aggregate benefit to each employee equals the one stipulated in this plan.

The plan calls for a contribution to a fund exclusively by Petrobras Energía and without any contribution by the employees. The assets of the fund are contributed to a trust fund and invested in US dollar-denominated money market instruments in order to preserve the accumulated capital and obtain a return in line with a moderate risk profile. Accordingly, funds are mainly invested in US government bonds, commercial papers rated A1 or P1, AAAM-rated mutual funds and time deposits in banks rated A+ or higher in the United States of America. The Bank of New York Mellon is the trustee and Watson Wyatt is the managing agent. Should there be an excess (duly certified by an independent actuary) of the funds to be used to settle the benefits granted by the plan, Petrobras Energía will be entitled to choice to use it, in which case it would have to notify the trustee thereof.

As of December 31, 2008, 2007 and 2006 the most relevant actuarial information on the defined-benefits pension plans are as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Change in benefit obligation</b>			
Benefit obligation at the beginning of the year	176	161	99
Service cost	4	3	2
Interest cost	23	21	16
Actuarial loss	(3)	1	15
Benefits paid	(9)	(10)	(7)
Unrecognized prior service cost			36
Benefit obligation at the end of the year	191	176	161
<b>Change in plan assets</b>			
Fair value of plan assets at the beginning of the year	31	35	40
Return on plan assets	3	3	2
Contributions made	17		
Benefits paid	(7)	(7)	(7)
Fair value of plan assets at the end of the year	44	31	35



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	2008	2007	2006
<b>Reconciliation of funded (unfunded) status</b>			
Unfunded status at the end of the year	(147)	(145)	(126)
Unrecognized prior service cost	36	38	41
Unrecognized actuarial loss	45	52	53
Net liability recognized	(66)	(55)	(32)

	2008	2007	2006
<b>Components of net periodic benefit cost</b>			
Service cost	4	3	2
Interest cost	23	21	16
Return on plan assets	(3)	(3)	(2)
Amortization of actuarial gain and losses and unrecognized prior service cost	5	4	2
Net periodic benefit cost	29	25	18

**Weighted-average assumptions**

Discount rate	4%	4%	4%
Rate of return on plan assets	6%	6%	6%
Rate of compensation increase	2%	2%	2%

**c) Stock option plan**

The Board of Directors of Petrobras Energía approved the establishment of a long-term incentive program for the purpose of aligning the interests of officers and shareholders.

As part of this program, Petrobras Energía's Board of Directors approved Plans for the year 2001 ( 2001 Plan ) and 2000 ( Plan 2000 ) focused on senior officers of the Company. Both plans consisted in granting the right to exercise certain options to receive Petrobras Energía Participaciones S.A. shares or its cash equivalent, as described below:

2001 Plan

- i. 5,364,125 options to receive the value arising from the positive difference between the average listed price of Petrobras Energía Participaciones shares on the New York Stock Exchange during the 20 days prior to exercising the option and 1.64 Argentine pesos per share, for the same number of shares ( appreciation rights ).
- ii. 596,014 options to receive the same number of shares at no cost for the beneficiary. These options may be exercised as from March 5, 2005 ( full value ).

The term to exercise both options expired on March 5, 2007. The options exercised corresponding to the appreciation right amounted to 5,163,657 and those corresponding to full value totaled 569,124, cancelled in both cases primarily in cash.

2000 Plan

- i. 3,171,137 options to receive the value arising from the positive difference between the average listed price of Petrobras Energía Participaciones shares on the New York Stock Exchange during the 20 days prior to exercising the option and 1.48 Argentine pesos per share, for such number of shares ( appreciation rights ).
- ii. 352,347 options to receive the same number of shares at no cost to the beneficiary. These options may be exercised as from May 29, 2004 ( full value ).

The term to exercise both options expired on May 29, 2006. The options exercised corresponding to the appreciation right amounted to 2,873,037 and those corresponding to full value totaled 343,596, cancelled in both cases primarily in cash.

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The cost of these plans was allocated on a proportional basis within the vesting years and adjusted in accordance with the listed price of the share. Accordingly, during the years ended December 31, 2007 and 2006 1 and 3 were charged to operating expenses.

The following table presents a summary of the status of the Company's stock option plans:

	2007		2006	
	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price
Outstanding at the beginning of the year	654,697	1.59	1,198,803	1.59
Exercised	(427,339)	1.64	(237,255)	1.60
Prescribed	(227,358)		(306,851)	
Outstanding at the end of the year			654,697	1.59
Exercisable at the end of the year			654,697	1.59

**17. Balances and transactions with related companies**

Related party transactions are carried out in the ordinary course of our operations at market conditions. We believe that the terms of these transactions are comparable to those offered by or that could be obtained from non-related third parties.

Petrobras Energía has entered into several financing arrangements with subsidiaries of Petrobras.

In February 2008, Petrobras Energía loaned US\$ 300 million to Petrobras Internacional Braspetro BV, a subsidiary of Petrobras, maturing in July 2008 and accruing interest at the one month LIBOR rate plus 0.15%. The loan was partially renewed at maturity. As of December 31, 2008 the outstanding balance on the loan totaled US\$120 million.

In December 2007, Petrobras Energía sold 40% of its equity interest in PVIE, a holding company whose main asset is the ownership of 99.79% of the capital stock of Petrobras Energía Perú S.A., to Petrobras Internacional Braspetro B.V. in the amount of US\$423.3 million plus a contingent compensation to be defined between the parties in the event of a commercial discovery in the Kinteroni prospect in Lote 57. As a result of this transaction, Petrobras Energía recognized a gain of P\$1,014 million as of December 31, 2007. In accordance with the terms and conditions of the relevant stock purchase agreement, the parties agreed to share control over defining and establishing the operating and financial policies of PVIE. (see Notes 8.III and 24.a).

In November 2007, Petrobras Energía sold 73.15% of its rights and obligations in the Bajada del Palo area to Petrolera Entre Lomas S.A. (see Note 5)

In 2007, Petrobras Energía issued US\$300 million Class S Bonds under the US\$2.5 billion Global Program. Payments under the Class S Bonds are supported by a standby purchase agreement provided by Petrobras (See Note 9.I).

In 2007, Petrobras Energía acquired from Petrobras Transporte S.A. (Transpetro) a double-hulled vessel for a purchase price of US\$25 million. The purpose of the acquisition was to reduce the Company's logistics costs, meet current and future logistical needs, enhance Quality, Safety, Environmental and Health standards in connection with vessel-related operations and reduce the Company's vulnerability to limited market supply for transportation needs, in addition to the advantages represented by the technical management of vessels provided by Transpetro.

In 2005, Petrobras Energía entered into a US\$200 million loan facility with Petrobras Internacional Braspetro BV. This loan has a term of ten years and bears interest at an annual interest rate of 7.22%, plus taxes. The proceeds of this loan were used to partially prepay Classes K and M Bonds. This loan can be prepaid at any time without penalties.

In addition, during the course of business, Petrobras Energía imports and exports crude oil and related oil products with Petrobras subsidiaries, mainly with Petrobras International Finance Co.

Brasken, an affiliate of Petrobras, formerly known as Copesul, supplies Innova with the benzene and ethylene necessary for ethylbenzene production.



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Outstanding balances with related parties as of December 31, 2008 and 2007, are as follows:

Company	2008									
	Investments	Trade Receivables	Other Receivables	Current Accounts Payable	Other Liabilities	Loans	Other Receivables	Investments	Non-current Accounts Payable	Loans
Oleoducto de Crudos Pesados Ltd.				2				136		
Transportadora de Gas del Sur S.A.		23	2	31						
Refinería del Norte S.A.		28	1	19						
Petrobras International Finance Co.		25	2	33						
Petróleo Brasileiro S.A. - Petrobras		8	1	60	12					
Petrolera Entre Lomas S.A.				18					26	
Propyme SGR								5		
Petrobras Internacional - Braspetro B.V.	414		194		31	18				688
Petrobras de Valores Internacional de España S.L. (1)	5		59			58				
Petrobras Energía Participaciones S.A.	46									
Other		11	16	1	7		3	6		
<b>Total</b>	<b>465</b>	<b>95</b>	<b>275</b>	<b>164</b>	<b>50</b>	<b>76</b>	<b>3</b>	<b>147</b>	<b>26</b>	<b>688</b>

(1) It corresponds to the balance generated by proportional consolidation of Petrobras de Valores Internacional de España S.L. (Note 8.III)

Company	2007									
	Investments	Trade Receivables	Other Receivables	Current Accounts Payable	Other Liabilities	Loans	Other Receivables	Investments	Non-current Accounts Payable	Loans
Oleoducto de Crudos Pesados Ltd.								133		
Transportadora de Gas del Sur S.A.		4	4	5						
Refinería del Norte S.A.		9	5	10						

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Petrobras International Finance Co.	85		28							
Petróleo Brasileiro S.A.										
Petrobras	3	2	59	11	3					
Petrolera Entre Lomas S.A.			49						22	
Propyme SGR								6		
Petrobras Internacional										
Braspetro B.V.			1,492		178					630
Compañía Mega S.A.			12							
Petrobras Transporte S.A.										
Transpetro				79						
Petrobras de Valores Internacional de España S.L. (1)			96		128					
Petrobras Energía Participaciones S.A.	38									
Other		5	10	3	4	2	4			
Total	38	106	1,621	233	15	306	5	143	22	630

(1) It corresponds to the balance generated by proportional consolidation of Petrobras de Valores International de España S.L. (Note 8.III)

Main transactions with affiliates for the years ended December 31, 2008, 2007 and 2006 are as follows:

Company	2008		2007		2006	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
Oleoductos del Valle S.A.	18		21		23	
Transportadora de Gas del Sur S.A.	153	165	108	35	40	34
Refinería del Norte S.A.	93	43	91	5	132	53
Petrobras International Finance Co.	224	2,072	426	1,942	101	1,428
Petroquímica Cuyo S.A.I.C.		71		5		
Petrolera Entre Lomas S.A.	478	1	454	1	440	1
Petróleo Brasileiro S.A. - Petrobras	108	20	95	17	102	14
Petrobras Bolivia Refinación S.A.				10		33
Brasken (Ex Copesul)	1,252		1,247		1,032	
Compañía Mega S.A.		5				
Petrobras Uruguay Distribución S.A.		15				
Petroquímica Cuyo S.A.						33
Petrobras Transporte S.A. - Transpetro			79			
Petrobras Paraguay Refinación Ltd.				95		42
Total	2,326	2,392	2,521	2,110	1,870	1,638

**18. Business segments and geographic consolidated information**

The Company's business is mainly concentrated in the energy sector, especially through its activities in exploration and production of oil and gas, refining and distribution, petrochemical and gas and energy. Accordingly, the identified business segments are as follows:

- a) Oil and Gas Exploration and Production, composed of the Company's participation in oil and gas blocks and its interest in Oleoductos del Valle S.A. and Oleoducto de Crudos Pesados Ltd.
- b) Refining and Distribution, including the Company's operations in Refinería San Lorenzo and Bahía Blanca, its own gas station network, the Company's equity interests in Refinería del Norte S.A. and Petrobras Bolivia Refinación S.A. (Note 8.III) and, as from this year, the commercialization of the oil produced in Argentina.

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- c) Petrochemicals, comprising the Company's own fertilizer and styrenics operations developed in Argentina and Brazil plants and its equity interest in Petroquímica Cuyo S.A.I.C. (Note 8.III).
- d) Gas and Energy, comprising the Company's operations of sale of the gas produced in Argentina and the liquefied petroleum gas brokerage and trading activities, its interest in Transportadora de Gas del Sur S.A., the operations of electricity generation in the Genelba plant and in the Pichi Picún Leufú Hydroelectric Complex, and its interest in Edesur S.A., Enecor S.A., Citelec S.A. and Yacylec S.A. (Note 8.III).

Assets and results of operations related to the Central Services Structure, those not attributable to any given business segment, discontinued operations and intercompany eliminations are disclosed together.

The applicable valuation methods to report business segment information are those described in Note 4 to these consolidated financial statements. The inter-segments transaction prices are made at market value.

As from the current fiscal year, the commercialization of products among the different business units has been subject to a series of changes. As a result, the Refining and Distribution business segment commercializes the oil produced in Argentina, which is transferred at market prices from the Oil and Gas Exploration and Production business segment.

The following information shows total assets, total liabilities and net income (loss) for each of the business segments identified by the Company's management:

	2008					
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	Total
Total assets	10,185	3,066	2,257	5,985	1,637	23,130
Total liabilities	2,509	1,344	858	3,124	5,418	13,253
	2007					
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	Total
Total assets	8,354	2,937	2,059	5,314	2,730	21,394
Total liabilities	2,283	1,060	803	2,805	5,153	12,104



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	2008					Total
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	
Consolidated Statement of Income						
Net sales						
To third parties	2,233	6,684	3,420	2,838		15,175
Inter-segment	2,507	258	55	155	(2,975)	
	4,740	6,942	3,475	2,993	(2,975)	15,175
Cost of sales	(2,478)	(6,649)	(2,762)	(2,108)	2,997	(11,000)
Gross profit	2,262	293	713	885	22	4,175
Administrative and selling expenses	(237)	(475)	(439)	(275)	(330)	(1,756)
Exploration expenses	(238)					(238)
Other operating (expenses) income, net	(207)	11	65	10	(108)	(229)
Operating income (loss)	1,580	(171)	339	620	(416)	1,952
Equity in earnings of affiliates	311	(6)				305
Other	(532)	(73)	(180)	(279)	(417)	(1,481)
Net income (loss)	1,359	(250)	159	341	(833)	776

	2007					Total
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	
Consolidated Statement of Income						
Net sales						
To third parties	2,381	5,535	3,018	2,524		13,458
Inter-segment	2,243	291	45	147	(2,726)	
	4,624	5,826	3,063	2,671	(2,726)	13,458

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Cost of sales	(2,482)	(5,744)	(2,676)	(1,925)	2,716	(10,111)
Gross profit (loss)	2,142	82	387	746	(10)	3,347
Administrative and selling expenses	(284)	(374)	(351)	(211)	(243)	(1,463)
Exploration expenses	(172)					(172)
Other operating (expenses) income, net	(206)	(22)	56	118	(122)	(176)
Operating income (loss)	1,480	(314)	92	653	(375)	1,536
Equity in earnings of affiliates	80	75	21			176
Other	(346)	50	118	(329)	(443)	(950)
Net income (loss)	1,214	(189)	231	324	(818)	762

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	2006					Total
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemicals	Gas and Energy	Corporate and Eliminations	
Consolidated Statement of Income						
Net sales						
To third parties	2,653	4,262	2,447	2,383		11,745
Inter-segment	2,128	269	43	115	(2,555)	
	4,781	4,531	2,490	2,498	(2,555)	11,745
Cost of sales	(2,094)	(4,692)	(2,068)	(1,792)	2,584	(8,062)
Gross profit	2,687	(161)	422	706	29	3,683
Administrative and selling expenses	(313)	(313)	(292)	(170)	(193)	(1,281)
Exploration expenses	(117)					(117)
Other operating (expenses) income, net	(78)	6	32	1	(96)	(135)
Operating income (loss)	2,179	(468)	162	537	(260)	2,150
Equity in earnings of affiliates	89	114	15	1		219
Other	(411)	15	(8)	(221)	(328)	(953)
Net income (loss)	1,857	(339)	169	317	(588)	1,416

The following information shows total assets, net sales and operating income (loss) by geographic area.

	2008								Total
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	
Long lived assets	11,633	2,816	276	1,000	641	127	64		16,557
Rest of assets	5,727	107		63	360	154	162		6,573
Total assets	17,360	2,923	276	1,063	1,001	281	226		23,130
Net sales	11,453		139	965	1,645	1,089	35	(151)	15,175
Operating income (expenses)	800	(12)	84	392	98	623	(33)		1,952

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	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Long lived assets	10,400	2,624	251	764	511	120	10		14,680
Rest of assets	5,110	118		88	468	318	612		6,714
Total assets	15,510	2,742	251	852	979	438	622		21,394
Net sales	10,063		127	1,101	1,457	873	25	(188)	13,458
Operating income (expenses)	781	(8)	31	500	67	166	(1)		1,536
					<b>2006</b>				
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Net sales	8,751	312	207	902	1,215	652	14	(308)	11,745
Operating income (expenses)	1,132	186	45	446	54	287	1	(1)	2,150

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**19. Controlling Group**

Petrobras Energía Participaciones S.A. is the parent company of Petrobras Energía S.A., with an ownership interest of 75.82%. Petróleo Brasileiro S.A. PETROBRAS ( Petrobras ), through Petrobras Participaciones S.L., a wholly owned subsidiary, is the controlling shareholder of Petrobras Energía Participaciones S.A., with an ownership interest of 58.6%.

Additionally, Petrobras Participaciones S.L. owns 22.8% of Petrobras Energía s capital stock.

Petrobras is a Brazilian company, whose business is concentrated on exploration, production, refining, sale and transportation of oil and its byproducts in Brazil and abroad.

**20. Summary of significant differences between accounting principles followed by the Company and US GAAP and summary of new US GAAP accounting pronouncements not yet adopted**

The Company s financial statements have been prepared in accordance with Argentina GAAP, which differ in certain respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements (which are the amounts included in the reconciliation from Argentina GAAP to US GAAP, in Note 21), as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission. The main differences relate to the items described below.

***A Explanation of the main differences included in the reconciliation from Argentina GAAP to US GAAP, corresponding to Petrobras Energía, subsidiaries and companies under joint control***

*1. Deferred charges*

Under Argentina GAAP, costs such as organizational and pre-operating expenses may be deferred and amortized over the resulting period of benefit, under certain circumstances.

For US GAAP purposes these amounts are expensed as incurred.

*2. Debt refinancing costs*

Under Argentina GAAP, unamortized deferred costs related to debt issuance are charged to expense when such debt is restructured, while costs related to the new debt are capitalized and amortized on a straight line basis.

Under US GAAP, SFAS No. 15, SFAS No. 140 and related EITF issues require the Company to continue amortizing the costs related to the old debt, if the debt restructuring is not considered to be an extinguishment , as is the case of the debt restructuring of the Company, and charge the restructuring direct costs to expense.

*3. Pension plan obligations*

Recognition of pension plan obligations under Argentina and US GAAP is essentially the same, except for the fact that under Argentina GAAP the recognition of the over or under funded status is not required.

*4. Foreign currency translation*

Under both Argentina GAAP and US GAAP, all foreign operations are remeasured into U.S. dollars, which is the functional currency of our foreign subsidiaries. Assets and liabilities stated at current values are to be converted at the closing exchange rates, assets and liabilities measured at cost and revenues, expenses, gains and losses are converted at the historical exchange rates. Once the transactions are remeasured into U.S. dollars, assets and liabilities are translated into pesos at the closing exchange rate, and revenues, expenses, gains and losses are translated at historical exchange rates.

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The resulting remeasurement gain or loss is recognized in the Financial income (expenses) and holding gain (losses) account . The effects of the translation of foreign operations net of the foreign-exchange differences generated by the debt denominated in foreign currency designated as hedge for net investment abroad are disclosed, as in US GAAP, in shareholders' equity.

The remaining exchange differences recognized in earnings differ from Argentina GAAP to US GAAP; as a result of differences in the book value of foreign subsidiaries' net assets and resulting designated debt.

*5. Discounting of certain receivables and liabilities*

Under Argentina GAAP, certain receivables and liabilities which are valued on the basis of the best possible estimate of the amount to be collected or paid, are required to be discounted using an estimated rate at the time of the initial measurement.

Under US GAAP, receivables and liabilities arising from transactions with customers and suppliers in the normal course of business, which are done in customary trade terms not exceeding one year, are generally accounted for at their nominal value, including accrued interest, if applicable.

*6. Guarantors' accounting for guarantees*

Under US GAAP, FASB Interpretation No. 45, Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others , clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee.

Under Argentina GAAP the recognition of an initial liability is not required.

*7. Accounting for inventories*

Under Argentina GAAP, inventories must be accounted for at reproduction or replacement cost or, in other words, at the price the Company would pay at any given time to replace or reproduce such inventory, whereas under US GAAP, inventories are accounted for at the lower of cost or market value.

*8. Accounting for business combinations*

a) Petrobras Energía share exchange offer

Petrobras Energía Participaciones acquired control of Petrobras Energía on January 25, 2000 as a result of an exchange offer pursuant to which Petrobras Energía Participaciones issued 1,504,197,988 Class B shares, with one vote per share, in exchange for 69.29% of Petrobras Energía's outstanding capital stock, thereby increasing its ownership interest in Petrobras Energía to 98.21%.

Under Argentina GAAP, the accounting practice enforced in 2000 fiscal year for non-monetary exchange of shares was to recognize net assets at book value. Accordingly, issued shares of Petrobras Energía Participaciones were subscribed and accounted for at the book value of Petrobras Energía's shares exchanged.

Under US GAAP, the exchange offer was accounted for under the purchase method. The purchase price of 6,766, calculated based upon the market price of Petrobras Energía's common stock, has been allocated to the identifiable assets acquired and liabilities assumed based upon their fair value as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired has been reflected as goodwill. Therefore, the US GAAP shareholders' equity reconciliation reflects the additional purchase price of Petrobras Energía's capital stock, and the net income reconciliation reflects the incremental depreciation, depletion, amortization, effective interest rate of liabilities, and when applicable, the relevant impairment charges, and the related effects on the deferred income tax, as a result of push down accounting the purchase price allocation mentioned above.

Beginning in 2003, pursuant to CNV Resolution No. 434, Argentina GAAP adopted the purchase method or the pooling of interests method, depending on the circumstances. However, such new standards were not applied on a retroactive basis.

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b) Purchase price allocation of Eg3 S.A. and Petrolera Santa Fe S.R.L.

On January 21, 2005, the Special Shareholders Meeting of Petrobras Energía, Eg3 S.A. ( Eg3 ) and Petrobras Argentina S.A. ( PAR ), and the Special Partners Meeting of Petrolera Santa Fe S.R.L. ( PSF ), in their respective meetings, approved the merger of Eg3, PAR, and PSF with and into Petrobras Energía, with the former companies being dissolved without being liquidated. The effective merger date was set as January 1, 2005, as from when all assets, liabilities, rights and obligations of the absorbed companies were considered incorporated into Petrobras Energía. On March 3, 2005, the final merger agreement was subscribed. On June 28, 2005, the CNV (Argentine Securities Commission) approved the merger and authorized the public offering of Petrobras Energía s shares. On September 16, 2005, the merger was registered in the Public Registry of Commerce.

As the result of the merger, (a) Petrobras, owner of a 99.6% equity interest in EG3 and 100% equity interest in PAR and PSF through its subsidiary Petrobras Participaciones SL, received, through such subsidiary, 229,728,550 new shares of class B stock in Petrobras Energía, with a nominal value of P\$1 each and entitled to one vote per share, representing 22.8% of Petrobras Energía s capital stock, and (b) Petrobras Energía Participaciones ownership interest in Petrobras Energía decreased from 98.21% to 75.82%. After the merger, the new capital stock of Petrobras Energía was set at 1,010,618,410 Class B shares.

Petrobras Energía recorded the effects of the corporate reorganization in accordance with the pooling-of-interest method. According to this method, the assets, liabilities and components of the shareholders equity of the transferring entities were recognized in the combined entity based on their carrying amounts as of the effective merger date.

As a result of the merger between Petrobras Energía, Petrolera Santa Fé S.R.L, Eg3 S.A. and Petrobras Argentina S.A., the reconciliation to US GAAP includes adjustments to Property, plant and equipment as of December 31, 2008 and 2007, respectively, that corresponds to the purchase price allocation derived from the excess of the acquisition price over the book values (allocated values) that were originally recorded in Eg3 S.A. and Petrolera Santa Fé S.A. as push down accounting when such companies were acquired by Petrobras, the Company s controlling shareholder, in 2001 and 2002.

Under Argentina GAAP, push down accounting (as the term is defined by US GAAP) is not required.

*9. Impairment of goodwill, property, plant and equipment and equity in affiliates*

- a) As described above in 8.a), the purchase price of Petrobras Energía has been allocated under US GAAP (but not under Argentina GAAP) to the identifiable assets acquired and liabilities assumed, based upon their fair values as of acquisition date, being the excess reflected as goodwill.

Impairment of goodwill, property, plant and equipment recorded under US GAAP in the year ended December 31, 2006:

The company performs the impairment test of goodwill, following the method established under SFAS 142. In the year ended December 31, 2006, under US GAAP, the Company recorded an impairment charge of 70 (before the effect of income taxes) to write off the allocated purchase price of goodwill, and equity in affiliates (43 and 27, respectively) originated in the business combination described in 8.a) above.

The impairment of goodwill in the US GAAP Summarized Consolidated data in Note 21 was allocated to the Other Operating expenses, net caption.

- b) Under US GAAP, once an impairment loss is allocated to the carrying value of the long-lived assets, the reduced carrying amount represents the new cost basis of the long-lived assets. As a result, SFAS 144 prohibits entities from reversing the impairment loss should facts and circumstances change in the future. Under Argentina GAAP, impairment charges can be reversed in future years due to changes in the above-mentioned facts and circumstances.
- c) Method of calculating impairment related to property, plant and equipment.

Under Argentina GAAP the book value of a long-lived asset is adjusted to its recoverable value if its carrying amount exceeds the recoverable value in use. From a regulatory standpoint, recoverable value is defined as the larger of net realizable value and discounted value in use, defined as the addition of the discounted expected net cash flows that arise as a direct result of the use and eventual disposition of the assets.

Under US GAAP the book value of a long-lived asset is adjusted to its fair value if its carrying amount exceeds the undiscounted value in use.

Following this guidance, in the reconciliation to US GAAP, impairment charges and the related effect on depreciation of property, plant and equipment recorded under Argentina GAAP were reversed since under US GAAP the carrying amount did not exceed the undiscounted value in use.



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The reconciliation of net income from Argentina GAAP to US GAAP for the year ended December 31, 2008 includes a loss of 352 mainly related to: (i) the write-off of the remaining carrying value under US GAAP (higher than the Argentina GAAP figure as it had not been affected by an impairment charge in 2007) of the property, plant & equipment related to Block 31, returned to Ecuador during the year (See Note 5, Operations in Ecuador), and (ii) the elimination of the gain recorded under Argentina GAAP to reverse an impairment charge recorded in prior years on assets located in Argentina that, considering the difference in the calculation method described above, was not recorded for US GAAP purposes.

The reconciliation of net income from Argentina GAAP to US GAAP for the year ended December 31, 2007 includes a gain of 210 related to the difference between both GAAPs in the book value of the property, plant & equipment related to Block 31, which, considering the difference in the calculation method described above, was impaired in 2007 for Argentina GAAP purposes but not under US GAAP.

The above mentioned adjustments were allocated to the Other Operating expenses, net caption in the US GAAP Summarized Consolidated data included in Note 21.

*10. Income taxes*

Represents the effect of deferred income tax over each US GAAP adjustment, when applicable.

*11. Proportional consolidation*

Under Argentina GAAP, an investor is required to proportionally consolidate line by line its financial statements with the financial statements of the companies in which it exercises joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of votes, share the power to define and establish a company's operating and financial policies on the basis of written agreements. In the consolidation of companies over which an investor exercises joint control, the amount of the investment in the company under joint control and the interest in its income (loss) and cash flows are replaced by the investor's proportional interest in the company's assets, liabilities, income (loss) and cash flows. Under the joint control of the Company are Distrilec, CIESA, and, as from December 31, 2007, PVIE.

Under US GAAP, interests in companies over which the investor exercises joint control are accounted for by the equity method and no proportional consolidation is allowed. However, pursuant to the SEC's rules, differences in classification or presentation that result from using proportionate consolidation in the reconciliation to US GAAP, may be omitted if certain requirements are met. Such requirements are met by Distrilec and since December 31, 2007 by PVIE but not by CIESA. The proportional consolidation of CIESA for the years ended December 31, 2008, 2007 and 2006 under Argentina GAAP has been reversed for purposes of the US GAAP reconciliation and in the additional disclosures included in Notes 21 and 22.

*12. Sale of non-current assets to related parties*

Under US GAAP, results on sales of non-current assets to related parties under common control are considered as a capital (dividend) transaction. Under Argentina GAAP, results on sales of non-current assets are recognized in the statement of income.

Consequently, in the year ended December 31, 2007, the reconciliation to US GAAP includes the reversal of gains recorded under Argentina GAAP, which were recorded as an increase in Additional Paid in Capital for US GAAP purposes.

These transactions with related parties under common control correspond to the following transactions (i) sale of 73.15% of Petrobras Energía's rights and obligations in the Bajada del Palo area to Petrolera Entre Lomas S.A., and (ii) sale of 40% of Petrobras Energía's equity interest in PVIE to Petrobras Internacional Braspetro B.V. (See Notes 5, 8.III and 17).

*13. Minority interest*

An adjustment to record the effect of all US GAAP adjustments attributable to minority interests has been recorded.

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***B Explanation of the main differences included in the reconciliation from Argentina GAAP to US GAAP, applicable to our equity in affiliates***

*1) Capitalization of exchange differences*

Under Argentina GAAP, during the period January 2002 to July 2003, exchange differences resulting from the peso devaluation on liabilities denominated in foreign currencies, which were directly related to the acquisition, construction or production of property, plant and equipment, intangibles and long-term investments in other companies incorporated in Argentina, were allowed to be capitalized to the cost values of such assets, subject to a number of conditions.

As of December 31, 2008 and 2007 the Company recorded capitalized foreign exchange differences losses of CIESA. Under US GAAP, foreign currency exchange gains or losses are recognized in the statement of income.

*2) Minority Interest*

An adjustment to record the effect of all US GAAP adjustments attributable to minority interests in consolidated subsidiaries of our equity in affiliates has been recorded.

*3) Income taxes*

Represents the effect of deferred income tax over each US GAAP adjustment, when applicable.

In addition, the recognition of a deferred tax asset or liability for differences related to assets and liabilities that, under FAS 52 Foreign Currency Translation, are remeasured from the local currency into the functional currency using historical exchange rates and that result from change in exchange rates or indexing for tax purposes is not allowed for US GAAP purposes. However, under Argentina GAAP recognition of a deferred tax liability or asset for those temporary differences is allowed.

*4) Troubled debt restructuring of TGS and Transener.*

On December 15, 2004 and on June 30, 2005, TGS and Transener respectively concluded their debt restructuring processes.

Under Argentina GAAP, Transener and TGS concluded that their respective debt restructuring constituted an exchange of debt instruments with substantially different terms, which must be treated as an extinguishment of the original debt instrument, with a gain or loss recognized on the de-recognition of that instrument. Argentina GAAP clarifies that from a debtor's perspective, an exchange of debt instruments, or a modification of a debt instrument, between a debtor and a creditor is deemed to have been accomplished with debt instruments that are substantially different if the discounted present value of the cash flows under the terms of the new debt instrument varies by at least 10 percent from the discounted present value of the remaining cash flows under the terms of the original instrument. In this case the new debt instrument should be initially recorded at fair value, and that amount should be used to determine the gain or loss to be recognized on the extinguishment of the original debt instrument. Fair value should equal the present value of the future cash flows to be paid under the terms of the new debt instrument, discounted at a rate commensurate with the risks of the debt instrument and the time value of money.

Under US GAAP, Transener and TGS are required to perform an analysis under SFAS No.15, Accounting by Debtors and Creditors for Troubled Debt Restructurings and EITF 02-04, Debtors Accounting for a Modification or an Exchange of Debt Instruments in accordance with SFAS 15, to assess whether the debt restructurings constituted troubled debt restructurings involving a cash payment and a modification of terms. Transener and TGS concluded that the debt restructurings in fact constituted troubled debt restructurings pursuant to the conditions defined in EITF 02-04, as Transener and TGS were undergoing financial difficulties and creditors had made concessions to both entities. The concessions involved primarily the forgiveness of principal amounts and defaulted interest.

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SFAS 15 requires an assessment of the total future cash payments specified by the new terms of the debt, including principal, interest and contingent payments. A debtor shall reduce the carrying amount of the payable by the total fair value of the assets or equity transferred and no gain on restructuring is recognized unless the remaining carrying amount of the debt exceeds the undiscounted total future cash payments specified by the new terms, considered on a payable by payable basis. The differences between the fair value and the carrying amount of any assets or equity transferred is recognized as gain or loss. SFAS 15 also requires that the restructuring of each payable, including those negotiated and restructured jointly, be accounted for individually. The carrying value of these loans will be reduced as payments are made. Interest expense is computed on the basis of the discount rate that equates the present value of the future cash payments specified by the new debt with the remaining carrying amount of the original loans.

Under Argentina GAAP, we recorded a net gain of 27 in 2004 on the debt restructuring of TGS. This number reflects a 48 financial gain, net of 21 corresponding to the minority interest of Petrobras Energía in TGS.

Under US GAAP, TGS reconciliation adjustment to our shareholders' equity as of December 31, 2005 included a loss of 42 which represents the effect of the reversal of the 48 gain on restructuring recorded under Argentina GAAP in 2004, which was reduced in 2005 and 2006 by 6 and 11 due to the lower interest expense recorded under US GAAP. As the debt was cancelled in June 2007, the remaining unamortized amounts were recorded in the income statement for the year ended December 31, 2007. These amounts are presented before the effect of minority interests.

With respect to Transener, our Argentina GAAP financial statements include a 165 gain on its debt restructuring in 2005, which was significantly offset by a 145 valuation allowance to adjust the carrying amount of our equity in Compañía Inversora en Transmisión Citelec S.A. ( Citelec ), which controls Transener, to its recoverable value. The debt restructuring gain of Transener is comprised of: (i) a gain for the forgiveness of principal, compensatory and punitive interest of 266; (ii) a loss as a result of the write-off of capitalized debt issuance costs of 1 ; (iii) a gain on restructuring of 48 as a result of accounting for the issuance of debt at its fair value instead of at its face value; and (iv) a loss of 148 corresponding to the minority interest of Petrobras Energía in Transener.

With respect to Transener, the US GAAP reconciliation adjustment to our shareholders' equity as of December 31, 2005 amounted to 262. This amount is the net effect of: (i) the reversal of the 266 gain due to the forgiveness of principal and defaulted interest recorded under Argentina GAAP as of June 30, 2005; (ii) the reversal of the 48 gain recorded under Argentina GAAP due to the valuation of debt at fair value as of June 30, 2005; (iii) a 69 gain recognized under US GAAP as of June 30, 2005 because carrying amounts exceeded future payments in respect of some specific payables; (iv) a 7 loss recorded under US GAAP as of June 30, 2005 due to the effect of the lower market value of new shares issued to cancel debt; and (v) a loss of 10 for the effect of lower interest expense recorded under US GAAP and foreign exchange loss results from June 30, 2005 to December 31, 2005. These amounts are presented before the effect of minority interests.

As our interest in Citelec was sold in December 2007, the above-mentioned reconciling items were charged against Sale of Companies in the Reconciliation of net income to US GAAP for the year ended December 31, 2007.

**C Presentation**

Major reclassifications to adjust the Argentina GAAP presentation to conform to U.S.GAAP, are as follows:

*1) Classification of impairment losses*

Under Argentina GAAP, impairment losses on property, plant and equipment are generally presented in the income statement as non-operating expenses.

US GAAP requires such losses to be presented as operating expenses. Therefore, impairment losses recognized under Argentina GAAP and additional impairment losses recognized under US GAAP are included in the Operating income (loss) subtotal of the US GAAP Consolidated income data presented in Note 21.

*2) Balance sheet classification differences related to deferred income tax assets (liabilities)*

Under Argentina GAAP, net deferred tax assets (liabilities) are to be classified as non-current assets (liabilities).

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Under US GAAP, the Company applied the provisions contained in SFAS No. 109, Accounting for income taxes. Such statement states that in a classified statement of financial position, an enterprise should separate deferred tax liabilities and assets into a current amount and a non-current amount. To such extent, deferred tax liabilities and assets should be classified as current or non-current based on the classification of the related asset or liability for financial reporting. In addition, a deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to tax loss carryforwards, shall be classified according to the expected reversal date of the temporary difference.

*3) Accounting for purchases and sales of inventory with the same counterparty*

Under Argentina GAAP, purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are not required to be combined for reporting purposes.

Under US GAAP, EITF No. 04-13 states that purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another should be combined and recorded as exchanges measured at the book value of the item sold.

**D Other***1) Restatement of financial statements for the effects of inflation*

The reconciliation to US GAAP does not include any adjustment to eliminate the effects of inflation required under Argentina GAAP (see Note 2.c), as they are also permitted by Regulation S-X of the SEC.

**E New accounting standards and developments under US GAAP not yet adopted*****FASB Statement No. 141 (revised 2007), Business Combinations ( SFAS 141-R )***

In December 2007, the FASB issued SFAS 141-R, which will become effective for business combination transactions having an acquisition date on or after January 1, 2009. This standard requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date to be measured at their respected fair values. SFAS 141-R changes the accounting treatment for the following items: acquisition-related costs and restructuring costs to be generally expensed when incurred; in process research and development to be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; changes in deferred tax asset valuation allowance and income tax uncertainties after the acquisition to be generally recognized in income tax expense; acquired contingent liabilities to be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies. SFAS 141-R also includes a substantial number of new disclosure requirements. The impact of the application of SFAS 141-R on the consolidated financial statements will depend on new business combinations arising during 2009 and thereafter.

***FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ( SFAS 160 )***

In December 2007, the FASB issued SFAS 160 that establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in the consolidated net income on the face of the income statement. Certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary is to be initially measured at fair value. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company's presentation of the consolidated statement of income and balance sheet will be significantly changed by the application of SFAS 160.

**Table of Contents*****FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 )***

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133 and is intended to provide users of financial statements with an enhanced understanding of (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations. The Company does not expect any material impact derived from the application of this pronouncement, other than additional disclosures.

***Codification of GAAP***

On July 1, 2009, FASB is expected to issue *FASB Accounting Standards Codification* (ASC) as authoritative. At this time, it will become the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC).

On March 27, 2009, FASB released an exposure draft to replace FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. The comment period ended May 8, 2009 and the effective date of the standard is expected to be July 1, 2009, which coincides with the effective date of FASB ASC. The proposed statement establishes FASB ASC as the source of authoritative GAAP to be applied by nongovernmental entities. All guidance contained in FASB ASC carries an equal level of authority.

Once the proposed statement is effective, the GAAP hierarchy is essentially reduced to two levels, one that is authoritative and one that is not. Exceptions include rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992.

***FASB Statement No. 165, Subsequent Events ( SFAS 165 )***

In June 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165 establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 will be effective for interim or annual financial periods ending after June 15, 2009.

***FASB Staff Position FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-than-Temporary Impairments***

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2. This new guidance requires that credit-related other-than-temporary impairment (OTTI) on securities not expected to be sold be recognized in earnings and noncredit-related OTTI be recognized in other comprehensive income. These pronouncements are effective for reporting periods ending after June 15, 2009. The Company does not expect the adoption of these pronouncements to have a material effect on its consolidated financial statements.

***Modernization of Oil and Gas Reporting***

In December 2008, the SEC released the final rule for *Modernization of Oil and Gas Reporting* (the *Modernization Rule* ). A significant change as a result of the *Modernization Rule* relates to the calculation of reserves. The *Modernization Rule* disclosure requirements will permit reporting of oil and gas reserves using an average price based upon the prior 12-month period rather than year-end prices, and the use of new technologies to determine proved reserves, if those technologies have been demonstrated to result in reliable conclusions about reserves volumes. Companies will also be allowed to disclose probable and possible reserves in SEC filed documents. In addition, companies will be required to report the independence and qualifications of its reserves preparer or auditor and file reports when a third party is relied upon to prepare reserves estimates or conduct a reserves audit. The *Modernization* disclosure requirements will become effective for the Company's Form 20-F for the year ended December 31, 2009.

***FASB Statement No. 166, Accounting for Transfers of Financial Assets ( SFAS 166 )***

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* an amendment of Statement No. 140, which improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and

for interim and annual reporting periods thereafter. Earlier application is prohibited. This Statement must be applied to transfers occurring on or after the effective date. We are currently evaluating the impact of adoption of SFAS 166 on our consolidated financial position or results of operations.

**Table of Contents*****FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) ( SFAS 167 )***

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* , which improves financial reporting by enterprises involved with variable interest entities. The Board developed this pronouncement to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* , as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, *Accounting for Transfers of Financial Assets* , and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This Statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently evaluating the impact of adoption of SFAS 167 on our consolidated financial position or results of operations.

***F Recently adopted accounting pronouncements******FASB Statement No. 157, Fair Value Measurements ( SFAS 157 )***

In September 2006, the FASB issued SFAS 157, which became effective on January 1, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards.

In February 2008, the FASB issued FSP 157-1. This FSP excludes FASB Statement No. 13, *Accounting for Leases*, and its related interpretative accounting pronouncements from the provisions of SFAS 157, except for leasing transactions arising from business combinations. FSP 157-1 became effective on January 1, 2008. with no impact on the consolidated financial statements of the Company.

Also in February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157* , which became effective on January 1, 2008. This FSP delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until January 1, 2009.

In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* . FSP 157-3 clarifies the application of SFAS 157, which the Company adopted as of January 1, 2008, in cases where a market is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

The Company implemented SFAS 157 as from January 1, 2008 with no material impact on the financial statements, other than additional disclosures that were incorporated in Note 22 to these consolidated financial statements.

***FASB Statement No.159 The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 )***

In February 2007, the FASB issued SFAS 159, that permits the measurement of certain financial instruments at fair value. Entities may choose to measure eligible items at fair value at specified election dates, reporting unrealized gains and losses on such items at each subsequent reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. SFAS 159 became effective for the Company on January 1, 2008 with no impact on its consolidated financial statements.

**Table of Contents****21. Reconciliation of net income and shareholders equity to US GAAP**

The following is a summary of the significant adjustments to net income for the years ended December 31, 2008, 2007 and 2006, and the shareholders equity as of December 31, 2008 and 2007, which would be required if US GAAP had been applied instead of Argentina GAAP in the Company's financial statements.

**Reconciliation of net income to US GAAP**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Net income under Argentina GAAP</b>	776	762	1,416
<b>US GAAP adjustments:</b>			
Foreign currency translation adjustment (Note 20.A.4)	26	9	7
Amortization of deferred charges (Note 20.A.1)			7
Debt refinancing costs (Note 20.A.2)	3	2	3
Depreciation of Property Plant & Equipment			
Business combination (Note 20.A.8)	(27)	(33)	(14)
Impairment (Note 20.A.9)	(23)	(12)	(19)
Other	(5)	(4)	(4)
Impairment of property plant & equipment (Note 20.A.9.c)	(352)	210	
Fair value of liabilities (Note 20.A.8.a)			(1)
Impairment of goodwill (Note 20.A.9.a)			(43)
Discounted value of assets and liabilities (Note 20.A.5)	(35)	35	2
Effects of the sale of noncurrent assets to related parties (Note 20.A.12)		(1,072)	
Minority interest (Note 20.A.13)	3	3	(2)
Guarantees (Note 20.A.6)		4	
Inventories (Note 20.A.7)	91	(69)	10
Deferred income taxes (Note 20.A.10)	66	52	71
Other	(10)	(20)	
US GAAP adjustments applicable to equity in earnings of affiliates			
Deferred income taxes (Note 20.B.3)	(97)	(14)	(2)
Depreciation of property plant and equipment	(3)	(19)	(13)
Capitalized exchange losses (Note 20.B.1)	1	1	1
Impairment of Property Plant & Equipment (Note 20.A.9.a)			(27)
Minority interest (Note 20.B.2)	2	(6)	(1)
Reversal of equity in earnings of CIESA and Citelec (i) (Note 20. A. 11)	18	(15)	(100)
Sale of companies (Note 8.III)		135	
Debt restructuring (Note 20.B.4)		31	11
Other		(4)	(7)
<b>Total US GAAP adjustments</b>	<b>(342)</b>	<b>(786)</b>	<b>(121)</b>
<b>Net income (loss) under US GAAP</b>	<b>434</b>	<b>(24)</b>	<b>1,295</b>

i) This adjustment reverses the equity in earnings accounted for



under Argentina GAAP and complements the effects of other US GAAP adjustments recognized in items listed above with respect to CIESA (2008, 2007 and 2006) and CITELEC (2006). As of December 31, 2008, 2007 and 2006, CIESA presented a deficit in shareholders equity under US GAAP, and therefore it was valued at zero. As of December 31, 2006 CITELEC was valued at 28 under US GAAP, which represents its book value as of the date when it was classified as held for sale. In the year ended December 31, 2007 our interest in CITELEC was sold (see Note 8.III) and as a result, a gain of 135 was recognized in the reconciliation of net income under US GAAP.

***Earnings per share***

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Basic / Diluted earnings (loss) per share under US GAAP</b>	0.430	(0.024)	1.282
<b>Basic / Diluted earnings per share under Argentine GAAP</b>			
Class B	0.769	0.755	1.403
Number of shares -in millions (1)	1,010	1,010	1,010

(1) Earnings (loss) per share are calculated based on the weighted average number of shares outstanding during the years ended December 31, 2008, 2007 and 2006.

**Table of Contents*****Consolidated statement of comprehensive income and accumulated comprehensive income***

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net income (loss) under US GAAP	434	(24)	1,295
Foreign currency translation (Note 20.A.4) Net change during the year	73	26	24
Deferred pension plan obligations (Note 20.A.3) Decrease (increase), net of tax	5	3	(8)
 Total comprehensive income	 512	 5	 1,311
 Accumulated Other Comprehensive income (loss):			
Amounts not recognized as net periodic pension costs, net of tax (Note 20.A.3)	(26)	(31)	(34)
Foreign currency translation (Note 20.A.4)	135	62	36
Adjustment to initially apply SFAS 158, net of tax	(28)	(28)	(28)
 Total Accumulated Other Comprehensive Income (Loss)	 81	 3	 (26)

***Reconciliation of shareholders equity to US GAAP***

	<b>2008</b>	<b>2007</b>
<b>Shareholders equity under Argentina GAAP</b>	8,947	8,430
 <b>US GAAP adjustments:</b>		
Debt refinancing costs (Note 20.A.2)	(2)	(5)
Pension plan obligations (Note 20.A.3)	(82)	(90)
Foreign currency translation (Note 20.A.4)	(47)	(53)
Property plant and equipment		
Business combination (Note 20.A.8)	247	262
Impairment (Note 20.A.9.c)	(30)	325
Other	(1)	16
Other	(9)	(10)
Goodwill (Note 20.A.8.a and 21.A.9.a)	101	101
Discounted value of assets and liabilities (Note 20.A.5)	50	85
Inventories (Note 20.A.7)	(11)	(101)
Guarantees (Note 20.A.6)	(5)	(5)
Minority interest (Note 20.A.13)	10	7
Deferred income taxes (Note 20.A.10)	(1)	(61)
US GAAP adjustments applicable to equity in affiliates		
Deferred income taxes (Note 20.B.3)	(140)	(43)
Property plant and equipment (Note 20.A.9.a)	1	(5)
Capitalized exchange losses (Note 20.B.1)	(26)	(29)

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Minority interest (Note 20.B.2)	(18)	(20)
Reversal of equity in affiliates of CIESA (i) (Note 20. A. 11)	(90)	(108)
Other	(8)	(7)
<b>Total US GAAP adjustments</b>	(61)	259
<b>Shareholders equity under US GAAP</b>	8,886	8,689

- i) This adjustment reverses the equity in earnings accounted for under Argentina GAAP and complements the effects of other US GAAP adjustments recognized in items listed above with respect to CIESA. As of December 31, 2008 and 2007, CIESA presented a deficit in shareholders equity under US GAAP, and therefore it was valued at zero.

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**Table of Contents****Description of changes in shareholders equity under US GAAP**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Shareholders equity under US GAAP as of beginning of the year	8,689	7,786	6,502
Additional paid-in capital (Note 20.A.12)		1,084	
Cash dividends	(315)	(186)	
Other comprehensive income	78	29	17
Net income (loss) under US GAAP	434	(24)	1,295
Adjustment to initially apply SFAS 158			(28)
<b>Shareholders equity under US GAAP as of the end of the year</b>	<b>8,886</b>	<b>8,689</b>	<b>7,786</b>

**US GAAP summarized consolidated data**

The consolidated income data and the consolidated cash flows for the years ended December 31, 2008, 2007 and 2006 and the consolidated balance sheets as of December 31, 2008 and 2007, presented below have been adjusted to reflect the differences between US GAAP and Argentina GAAP discussed above, giving effect to differences in measurement methods and disclosures as previously discussed.

**US GAAP consolidated income data**

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Sales	14,928	12,974	11,303
Less taxes on sales and services	(543)	(262)	(218)
Net sales	14,385	12,712	11,085
Cost of sales	(10,417)	(9,651)	(7,713)
Gross profit	3,968	3,061	3,372
Administrative and selling expenses	(1,712)	(1,425)	(1,258)
Exploration expenses	(238)	(172)	(117)
Other operating expenses, net	(723)	(783)	(55)
Operating income	1,295	681	1,942
Equity in earnings of affiliates	208	164	151
Financial expenses and holding losses, net	(638)	(439)	(404)
Income before income taxes and minority interest	865	406	1,689
Income tax expense	(407)	(386)	(398)
Minority interest in subsidiaries	(24)	(44)	4
Net income (loss) for the year	434	(24)	1,295



**Table of Contents****US GAAP condensed consolidated balance sheet data**

	<b>2008</b>	<b>2007</b>
Other receivables	1,649	2,692
Other current assets	4,300	3,433
Current assets	5,949	6,125
Investments	3,262	3,141
Property, plant and equipment	10,692	9,130
Other non-current assets	637	947
Total non-current assets	14,591	13,218
Total assets	20,540	19,343
Short-term debt (a) (b)	1,908	1,452
Other liabilities	3,152	2,545
Total current liabilities	5,060	3,997
Long-term debt	4,419	4,613
Other non-current liabilities	1,768	1,664
Total non-current liabilities	6,187	6,277
Total liabilities	11,247	10,274
Minority interest in subsidiaries	407	380
Shareholders' equity	8,886	8,689
	20,540	19,343

a) The weighted average annual interest rates for outstanding short-term borrowings were 5.22% and 5.84% as of December 31, 2008 and 2007, respectively.

- b) Includes 785 and 78 relating to current portion of long-term debt for the fiscal years ended December 31, 2008 and 2007, respectively.

**US GAAP condensed consolidated cash flow data**

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net cash provided by operations	1,842	1,549	2,558
Net cash used in investing activities	(1,156)	(1,581)	(1,965)
Net cash used in financing activities	(577)	(133)	(15)
(Decrease) Increase in cash	109	(165)	578
Effect of the exchange rate on cash	81	25	
Cash and cash equivalent at the beginning of the year	971	1,111	533
Cash and cash equivalent at the end of the year under US GAAP	1,161	971	1,111



**Table of Contents****22. Additional financial statement disclosures required by US GAAP and the SEC****i) Income taxes**

The tax effect of the significant differences between the book value under US GAAP and the tax value of the Company's assets and liabilities and tax loss carryforwards is as follows:

	<b>2008</b>	<b>2007</b>
<b>Deferred tax assets</b>		
Tax loss carryforwards	409	301
Inventories	28	39
Property, plant and equipment	224	211
Reserve for contingencies	112	95
Equity interest in affiliates	83	83
Pension plan obligations	52	51
Other deferred tax assets, not individually significant	146	130
Total gross deferred tax assets	1,054	910
Less-Valuation allowance (2)	(772)	(636)
<b>Total net deferred tax assets</b>	<b>282</b>	<b>274</b>
<b>Deferred tax liabilities</b>		
Prepaid expenses	(5)	(6)
Property, plant and equipment	(783)	(827)
Equity interest in affiliates	(349)	(319)
Other deferred tax liabilities, not individually significant	(28)	(24)
<b>Total deferred tax liabilities</b>	<b>(1,165)</b>	<b>(1,176)</b>
<b>Net deferred tax liabilities</b>	<b>(883)(1)</b>	<b>(902)</b>

(1) The change in 2008 includes 11 related to the acquisition of the interests in Sierra Chata and Parva Negra (Note 5), and 24 and 3 attributable to the foreign exchange revaluation of deferred tax

liabilities in  
foreign affiliates  
and Pension Plan  
adjustments,  
respectively, that  
were recorded in  
Other  
Comprehensive  
Income .

- (2) Management evaluates the recoverability of tax loss carryforwards and the remaining temporary differences taking into consideration, among other elements, the projected business profits, tax planning strategies, temporariness of future taxable income, considering the term of expiration of the tax loss carryforwards, the future reversals of the existing temporary differences and the recent year tax history. All the evidence available, both positive and negative, is duly weighted and considered in the analysis. Management believes that it is more likely than not that the

Company will realize the benefits of the above-mentioned deductible differences and tax loss carryforwards, net of the existing valuation allowance as of December 31, 2008.

Net deferred tax liabilities as of December 31, 2008 and 2007 consist of:

	<b>2008</b>	<b>2007</b>
Current deferred income tax assets	61	66
Non-current deferred income tax assets	11	32
Non-current deferred income tax liabilities	(955)	(1,000)
Net deferred tax liabilities	<b>(883)</b>	<b>(902)</b>

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The reconciliation of tax provision at the statutory rate to the tax provision for the years ended December 31, 2008, 2007 and 2006, computed in accordance with US GAAP, is as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Income before income tax and minority interest in subsidiaries	865	406	1,689
Statutory tax rate	35%	35%	35%
Statutory tax rate applied to pre-tax income	303	142	591
Equity in earnings of affiliates	(129)	233	(150)
Impairment, amortization and other decreases of goodwill			17
Deconsolidation of companies		(103)	110
Permanent differences in foreign subsidiaries	4	(67)	29
Other, net	93	(3)	20
Statute of limitation of tax loss carryforwards		366	
Net movement in the valuation allowance	136	(182)	(219)
Tax expense	407	386	398

The Company's provision for income taxes under US GAAP comprised the following:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current			
Argentina	88	51	6
Foreign	377	353	290
	465	404	296
Deferred			
Argentina	(113)	32	109
Foreign	55	(50)	(7)
	(58)	(18)	102
Total tax expense	407	386	398

As of December 31, 2008, the tax loss carryforwards amounting to 905 may be used until the dates indicated below:

2009	616
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2010 and thereafter	289
	905

**Effect of adopting FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes**

In July 2006, FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides guidance on recognition, classification and disclosure concerning uncertain income tax liabilities. The evaluation of a tax position requires recognition of a tax benefit if it is more likely than not it will be sustained upon examination. The Company adopted FIN 48 on January 1, 2007. The adoption did not have a material impact in our consolidated financial statements.

As of January 1, 2008 and 2007 and for the years ended December 31, 2008 and 2007, the Company did not have any unrecognized tax benefits. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months. Furthermore, the Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of financial and operating expenses, respectively, in the consolidated statements of income. As of January 1, 2008 and 2007 and for the years ended December 31, 2008 and 2007, the Company has not accrued interest and penalties related to unrecognized tax benefits.

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The Company and its subsidiaries file income tax returns in Argentina and in other foreign jurisdictions. The Argentine tax returns are open to examination by the respective tax authorities for the years beginning in 2002. In addition, tax returns of foreign jurisdictions in which we operate are open to examination for the years beginning in 2004 in Venezuela, Bolivia, Spain and Peru, 2003 in Colombia, Brazil, Austria and Mexico and 2002 in Ecuador.

**j) Fair value of financial instruments**

US GAAP requires disclosure of the estimated fair value of the Company's financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

The carrying amounts of cash, cash equivalents, accounts receivables and short-term obligations approximate their fair value, because of the short-term maturities of these instruments.

The fair value of publicly traded long-term debt is based on quoted market prices, and for the remaining long-term debt fair value was estimated based on the current rates available to the Company for debt of similar remaining maturities. Fair values of derivative financial instruments represent the estimated amount that would have been required to terminate the contracts. The fair value of performance bonds and other guarantees approximate the notional amount of these instruments.

The estimated fair values of financial instruments are as follows, except for those financial instruments noted above for which the carrying values approximate fair values:

	2008		2007	
	Carrying amount under US GAAP	Fair Value	Carrying amount under US GAAP	Fair Value
<b>Financial liabilities:</b>				
Long-term debt	4,419	3,932	4,613	4,662

**k) Fair value disclosures**

SFAS 157 requires disclosures that categorize assets and liabilities measured at fair value on a recurring basis into one of three different levels depending on the observability of the inputs applied in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting the Company's assumptions about pricing by market participants.

The disclosure requirements of SFAS 157 were applied to holdings in mutual funds recognized in accordance with SFAS 115.

The fair value of the Holdings in Mutual Funds was recognized on the basis of exchange quoted prices as the balance sheet date for identical assets in active markets and, therefore, were classified as Level 1.

The fair value hierarchy for the Company's financial assets and liabilities accounted for at fair value on a recurring basis at December 31, 2008, was:

	As of December 31, 2008			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Holdings in Mutual Funds	48			48
<b>Total assets</b>	<b>48</b>			<b>48</b>



**Table of Contents****l) Summarized financial information of unconsolidated affiliates**

The following table provides summarized financial information on a 100% basis, for the main affiliates accounted for by the equity method, combined per business unit, under Argentina GAAP.

Each business unit includes the following companies as of December 31, 2008, 2007 and 2006.

*Oil and Gas Exploration and Production:* Petrolera Entre Lomas S.A., Inversora Mata S.A., Coroil S.A., Petroritupano S.A. (1), Petrowayú S.A. (1), Petrovenbras S.A. (1), Petrokariña S.A. (1), Oleoductos del Valle S.A. and Oleoducto de Crudos Pesados Ltd.

*Refining and Distribution:* Refinería del Norte S.A. and Petrobras Bolivia Refinación S.A. (2)

*Petrochemical:* Petroquímica Cuyo S.A.I.C. (2)

*Gas and Energy:* Citelec S.A. (2), Yacylec S.A. (2) and Uruguay S.A.

(1) These companies were added in 2006.

(2) Companies sold in the year ended December 31, 2007 (see Note 8.III)

	<b>2008</b>				
	<b>Oil and Gas</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy Marketing and Transportation of Gas Electricity</b>	
	<b>Exploration and Production</b>				
Current Assets	6,185	645			
Non Current Assets	8,543	405			
Current Liabilities	4,156	517			
Non Current Liabilities	4,184	44			
Shareholders Equity	6,388	489			
Sales	6,545	1,238			
Gross profit	4,087	186			
Net income	1,216	(21)			

	<b>2007</b>				
	<b>Oil and Gas</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy Marketing and Transportation of Gas Electricity</b>	
	<b>Exploration and Production</b>				
Current Assets	5,988	553			
Non Current Assets	7,322	422			



Current Liabilities	3,726	416
Non Current Liabilities	4,657	49
Shareholders Equity	4,927	510
Sales	4,049	1,485
Gross profit	2,628	411
Net income	899	154

	<b>2006</b>				
	<b>Oil and Gas</b>	<b>Refining and</b>	<b>Petrochemical</b>	<b>Gas and Energy Marketing and Transportation of Gas</b>	<b>Electricity</b>
	<b>Exploration and Production</b>	<b>Distribution</b>			
Sales	3,308	4,229	470		501
Gross profit	1,582	605	80		168
Net income	377	272	35		34

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**Table of Contents*****m) Summarized financial information of proportionally consolidated jointly controlled companies***

The following table provides summarized financial information on a proportional basis, for jointly controlled companies, which are proportionally consolidated under Argentina GAAP:

	2008				2007				2006		
	CIESA (a)	Distrilec	PVIE	Total	CIESA (a)	Distrilec	PVIE (b)	Total	CIESA (a)	Distrilec	Total
Current Assets	429	298	243	970	343	252	372	967			
Non Current Assets	2,187	1,545	1,073	4,805	2,224	1,407	789	4,420			
Current Liabilities	721	514	293	1,528	617	383	298	1,298			
Non Current Liabilities	1,184	333	342	1,859	1,259	330	297	1,886			
Shareholders Equity	199	585	678	1,462	218	560	564	1,342			
Minority Interest	512	411	3	926	473	386	2	861			
Sales	639	993	965	2,597	602	894	1,101	2,597	632	695	1,327
Gross Profit	263	251	428	942	287	215	573	1,075	312	101	413
Net Income (loss)	(18)	26	241	249	7	51	839	897	71	(37)	34
Cash provided by (used in):											
Operating activities	313	133	319	765	304	224	312	840			
Investing activities	(96)	(140)	(214)	(450)	(116)	(131)	71	(176)			
Financing activities	(103)	(3)	(27)	(133)	(231)	(89)	(375)	(695)			

(a) For US GAAP reporting purposes, CIESA was not proportionally consolidated, as explained in Note 20 A.11)

(b) Considering that the sale of the 40% equity interest in PVIE

was executed in December 2007 (Note 8.III), the consolidated statements of income and cash flows for the year ended December 31, 2007 presented for comparative purposes show the participation in PVIE according to the procedure indicated for the consolidation of subsidiaries.

*n) Pension plan*

**Defined benefit plan:**

The information for the Company's defined benefit plans is as follows (see Note 16.b):

**Change in projected benefit obligation**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Projected Benefit Obligation at beginning of the year	176	161	99
Service cost	4	3	2
Interest cost	23	21	16
Actuarial (income) loss	(3)	1	15
Benefits paid	(9)	(10)	(7)
Unrecognized prior service cost			36
Projected benefit obligation at the end of the year (1)	191	176	161
Accumulated benefit obligation at the end of year	190	176	161
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of the year	31	35	40
Return on plan assets	3	3	2
Contributions	17		
Benefits paid	(7)	(7)	(7)
Fair value of plan assets at the end of the year (2)	44	31	35

**Status of the plans**

Unfunded status at year end	(147)	(145)	(126)
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(1) As of December 31, 2008, 2007 and 2006 the Projected Benefit Obligation is comprised of 135, 124 and 118 corresponding to the Compensatory Fund, and 56, 52 and 43 corresponding to the indemnity plan, respectively.

(2) Both for December 31, 2008 and 2007, assets contributed correspond to the Compensatory Fund (Note 16.b)

**Amounts recorded in the consolidated balance sheet consists of:**

	<b>2008</b>	<b>2007</b>
Total liabilities	(147)	(145)

**Cumulative amounts recorded in Accumulated other comprehensive income consists of:**

Unrecognized prior service cost	36	38
Unrecognized actuarial loss	46	52

Total recored in Accumulated other comprehensive income at year end, before tax	82	90
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**Reconciliation of amounts recognized in Accumulated other comprehensive income**

	<b>2008</b>	<b>2007</b>
Amounts recorded before tax at beginning of year	90	93

Change in unrecognized actuarial loss	(6)	1
Amortization of actuarial loss recognized in net periodic benefit cost	(2)	(4)
Amounts recorded before tax at end of year:	82	90

**Components of net periodic pension benefit cost**

	2008	2007	2006
Service cost	4	3	2
Interest cost	23	21	16
Return on plan assets	(3)	(3)	(2)
Amortization of actuarial gain and losses and unrecognized prior service cost	5	4	2
Net periodic benefit cost	29	25	18

**Weighted-average assumptions**

Discount rate	4%	4%	4%
Rate of return on plan assets	6%	6%	6%
Rate of compensation increase	2%	2%	2%

The compulsory discount rate of 4% was established by the National Insurance Control Entity (Superintendencia de Seguros de la Nación), which is based on the historical analysis of fixed income investments.

As of the date of the issuance of these financial statements, the Board of Directors did not approve contributions to its Defined Benefit pension plan funds in 2009.

Benefit obligations for the period 2009-2018 are expected to be paid as follows:

2009	14
2010	12
2011	14
2012	15
2013	13
2014-2018	73

**Table of Contents****Adoption of SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans**

Effective December 31, 2006 for US GAAP reporting purposes, the Company implemented FASB Statement No. 158,

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), which requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income, a separate component of the shareholders' equity.

In 2008, 2007 and 2006, the amounts recorded in other comprehensive income for net actuarial losses and prior service costs are required by FAS 158.

The following table presents the effect of adopting SFAS No. 158 on the Company's December 31, 2006 consolidated balance sheet:

	<b>Balances prior to</b>		<b>Balances after to</b>
	<b>SFAS No. 158 Adoption</b>	<b>Adjustments</b>	<b>SFAS No. 158</b>
Intangible assets	40	(40)	
Accumulated other comprehensive loss	53	40	93
Liabilities	126		126
Deferred tax assets	30	14	44

As of December 31, 2008, the amounts expected to be recognized in 2009 as net periodic benefit cost, before the effect of income taxes, are as follows:

**Pension Benefits**

Prior service cost	2
Net actuarial loss	2

**o) *Business segment consolidated information***

The following information shows additional disclosures under Argentina GAAP about the Company's business segments as defined by its management.

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	<b>2008</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas &amp; Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
	Unaffiliated revenues	2,233	6,684	3,420	2,838	
Intersegment revenues	2,507	258	55	155	(2,975)	
<b>Total revenues</b>	<b>4,740</b>	<b>6,942</b>	<b>3,475</b>	<b>2,993</b>	<b>(2,975)</b>	<b>15,175</b>
Depreciation, depletion and amortization	(798)	(89)	(108)	(241)	(24)	(1,260)
Equity in earnings of unconsolidated affiliates	311	(6)				305
Interest expense	(53)	(26)	(21)	(103)	(333)	(536)
Interest revenue	6		5	31	60	102
Dividends received from unconsolidated affiliates	150					150
Additions to property, plant and equipment	2,098	140	175	519	18	2,950
Identifiable assets	7,194	2,926	2,257	5,961	1,637	19,975
Investments in and advances to unconsolidated affiliates	2,991	140		24		3,155
<b>Total assets</b>	<b>10,185</b>	<b>3,066</b>	<b>2,257</b>	<b>5,985</b>	<b>1,637</b>	<b>23,130</b>

**2007**

	<b>2007</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas &amp; Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>



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Unaffiliated revenues	2,381	5,535	3,018	2,524		13,458
Intersegment revenues	2,243	291	45	147	(2,726)	
Total revenues	4,624	5,826	3,063	2,671	(2,726)	13,458
Depreciation, depletion and amortization	(782)	(56)	(100)	(253)	(26)	(1,217)
Equity in earnings of unconsolidated affiliates	80	75	21			176
Interest expense	(134)	(4)	(20)	(151)	(276)	(585)
Interest revenue	33		9	27	25	94
Dividends received from unconsolidated affiliates	179	79	6			264
Additions to property, plant and equipment	847	250	279	300	17	1,693
Identifiable assets	5,568	2,791	2,059	5,290	2,730	18,438
Investments in and advances to unconsolidated affiliates	2,786	146		24		2,956
Total assets	8,354	2,937	2,059	5,314	2,730	21,394

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	<b>2006</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas &amp; Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
	Unaffiliated revenues	2,653	4,262	2,447	2,383	
Intersegment revenues	2,128	269	43	115	(2,555)	
Total revenues	4,781	4,531	2,490	2,498	(2,555)	11,745
Depreciation, depletion and amortization	(720)	(62)	(80)	(232)	(27)	(1,121)
Equity in earnings of unconsolidated affiliates	89	114	15	1		219
Interest expense	(221)	(4)	(25)	(153)	(206)	(609)
Interest revenue	35		5	33	35	108
Dividends received from unconsolidated affiliates	35	76	5			116

**p) Exploratory well costs**

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of the drilling:

**Aging of capitalized exploratory well costs**

	<b>2008</b>		<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>Wells</b>	<b>Amount</b>	<b>Wells</b>	<b>Amount</b>	<b>Wells</b>
Drilling not finished or capitalized for less than one year	178	22	94	20	91	24
Capitalized for more than one year	125	16	30	1	15	2
Total	303	38	124	21	106	26

Capitalized exploratory well costs as of December 31, 2008 for more than one year correspond to 15 wells located in the Austral Basin (Argentina), and 1 in Peru in which progress is being made on contractual arrangements that will permit future development and costs are being incurred to assess the reserves and their potential development.

**23. Oil and Gas Supplementary Disclosures (Unaudited)**

The following information for the oil and gas producing activities has been prepared in accordance with the methodology prescribed by Statement of Financial Accounting Standards No 69 Disclosures about Oil and Gas

Producing Activities and includes the Company and its subsidiaries oil and gas production activities as well as the equity shares in its affiliates valued by the equity method. The Company has oil and gas properties in Argentina and other countries in Latin America.

Amounts are stated in millions of pesos as mentioned in Note 2.c. to the financial statements.

**Table of Contents****Capitalized costs**

The following table presents the capitalized costs as of December 31, 2008 and 2007, for proved and unproved oil and gas properties, and the related accumulated depreciation and allowances, which reduce the value of assets.

	2008		2007	
	Argentina GAAP	US GAAP	Argentina GAAP	US GAAP
	(in millions of constant pesos - note 2. c. )			
<b>Consolidated companies:</b>				
Proved properties:				
Equipment, camps and other facilities	4,436	4,326	3,180	3,070
Mining properties and wells	8,024	7,172	7,456	6,434
Unproved properties	307	307	92	92
Total capitalized costs	12,767	11,805	10,728	9,596
Accumulated depreciation and allowances which reduce the value of assets	(7,000)	(6,078)	(6,470)	(5,006)
Subtotal of consolidated companies	5,767	5,727	4,258	4,590
<b>Company's share in capitalized costs by unconsolidated affiliates</b>	2,304	2,328	2,275	2,290
Total net capitalized costs	8,071	8,055	6,533	6,880

**Costs incurred**

The following table presents those costs capitalized as well as expensed that were incurred during each of the years ended as of December 31, 2008, 2007 and 2006. The acquisition of properties includes the cost of acquisition of proved or unproved oil and gas properties. Exploration costs include geological and geophysical costs, costs necessary for retaining undeveloped properties, and drilling costs and exploratory well equipment. Development costs include drilling costs and equipment for developmental wells, costs incurred in improved recovery, the construction of facilities for extraction, treatment and storage of hydrocarbons and all necessary costs to maintain facilities for the existing developed reserves.

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	<b>2008</b>			<b>2007</b>		
	<b>Argentina and US GAAP</b>			<b>Argentina and US GAAP</b>		
	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total
<b>Consolidated companies:</b>						
Acquisition of properties:						
- Proved	735		735			
- Unproved	3		3			
Exploration costs	345	96	441	127	49	176
Development costs	859	334	1,193	820	614	1,434
Subtotal costs incurred by consolidated companies	1,942	430	2,372	947	663	1,610
<b>Company's share in costs incurred by unconsolidated affiliates</b>	41	208	249	17	205	222
Total costs incurred	1,983	638	2,621	964	868	1,832

	<b>2006</b>		
	<b>Argentina and US GAAP</b>		
	Argentina	Rest of Latin-America	Total
<b>Consolidated companies:</b>			
Acquisition of properties:			
- Proved			
- Unproved			
Exploration costs	130	60	190
Development costs	665	589	1,254

Subtotal costs incurred by consolidated companies	795	649	1,444
<b>Company's share in costs incurred by unconsolidated affiliates</b>	9	55	64
Total costs incurred	804	704	1,508

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**Table of Contents****Results of operations**

The breakdown of results of the operations shown below summarizes revenues and expenses directly associated with oil and gas-producing activities for the years ended December 31, 2008, 2007 and 2006. These activities are a part of the Oil and Gas Exploration and Production segment. This breakdown does not include any allocation of financial costs or expenses from Corporate and therefore it is not necessarily an indicator of the contribution in operations for oil and gas producing activities to the net income of the Company. Income tax for the years presented was calculated utilizing the deferred income tax criteria.

	<b>2008</b>					
	<b>Argentine GAAP</b>			<b>US GAAP</b>		
	Argentina	Rest of Latin- America	Total	Argentina	Rest of Latin- America	Total
	(in millions of constant pesos - note 2.c)					
<b>Results of operations of consolidated companies:</b>						
Net sales:						
- to third parties	11	2,222	2,233	11	2,222	2,233
- transfers to other operations	2,507		2,507	2,507		2,507
Total net sales	2,518	2,222	4,740	2,518	2,222	4,740
Production costs:						
- Operating costs	(978)	(161)	(1,139)	(978)	(161)	(1,139)
- Royalties and other	(128)	(882)	(1,010)	(138)	(882)	(1,020)
Total production costs	(1,106)	(1,043)	(2,149)	(1,116)	(1,043)	(2,159)
Exploration costs	(179)	(59)	(238)	(179)	(59)	(238)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(574)	(102)	(676)	(725)	(346)	(1,071)
Results of operations before income tax	659	1,018	1,677	498	774	1,272
Income tax	(230)	(423)	(653)	(225)	(419)	(644)

Results of operations consolidated companies	429	595	1,024	273	355	628
<b>Company's share in results of operations by unconsolidated affiliates</b>	25	128	153	23	33	56
Total Results of oil and gas operations	454	723	1,177	296	388	684

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	<b>2007</b>					
	<b>Argentina GAAP</b>			<b>US GAAP</b>		
	Argentina	Rest of Latin- America	Total	Argentina	Rest of Latin- America	Total
	(in millions of constant pesos - note 2.c)					
<b>Results of operations of consolidated companies:</b>						
Net sales:						
- to third parties	260	2,121	2,381	260	2,121	2,381
- transfers to other operations	2,243		2,243	2,243		2,243
Total net sales	2,503	2,121	4,624	2,503	2,121	4,624
Production costs:						
- Operating costs	(569)	(192)	(761)	(569)	(192)	(761)
- Royalties and other	(469)	(910)	(1,379)	(469)	(910)	(1,379)
Total production costs	(1,038)	(1,102)	(2,140)	(1,038)	(1,102)	(2,140)
Exploration costs	(121)	(51)	(172)	(121)	(51)	(172)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(576)	(965)	(1,541)	(606)	(753)	(1,359)
Results of operations before income tax	768	3	771	738	215	953
Income tax	(269)	(249)	(518)	(256)	(255)	(511)
Results of operations consolidated companies	499	(246)	253	482	(40)	442
<b>Company's share in results of operations by unconsolidated affiliates</b>	30	29	59	25	29	54

Total Results of oil and gas operations	529	(217)	312	507	(11)	496
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	<b>2006</b>					
	<b>Argentina GAAP</b>			<b>US GAAP</b>		
	Argentina	Rest of Latin- America	Total	Argentina	Rest of Latin- America	Total
	(in millions of constant pesos - note 2.c)					
<b>Results of operations of consolidated companies:</b>						
Net sales:						
- to third parties	566	2,087	2,653	566	2,087	2,653
- transfers to other operations	2,128		2,128	2,128		2,128
Total net sales	2,694	2,087	4,781	2,694	2,087	4,781
Production costs:						
- Operating costs	(484)	(218)	(702)	(484)	(218)	(702)
- Royalties and other	(359)	(684)	(1,043)	(359)	(684)	(1,043)
Total production costs	(843)	(902)	(1,745)	(843)	(902)	(1,745)
Exploration costs	(68)	(49)	(117)	(68)	(49)	(117)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(485)	(225)	(710)	(523)	(223)	(746)
Results of operations before income tax	1,298	911	2,209	1,260	913	2,173
Income tax	(454)	(308)	(762)	(441)	(309)	(750)
Results of operations consolidated companies	844	603	1,447	819	604	1,423
<b>Company's share in results of operations by unconsolidated affiliates</b>	33	40	73	27	40	67

Total Results of oil and gas operations	877	643	1,520	846	644	1,490
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**Table of Contents****Estimated oil and gas reserves**

Proved reserves represent estimated quantities of oil (including crude oil, condensate and natural gas liquids) and natural gas, which available geological and engineering data demonstrates with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods. The choice of method or combination of methods employed in the analysis of each reservoir was determined by the stage of development, quality and reliability of basic data, and production history.

The Company believes that its estimates of remaining proved recoverable oil and gas reserve volumes are reasonable and such estimates have been prepared in accordance with Rule 4-10 of Regulation S-X of the Securities and Exchange Commission (SEC) of the United States of America.

The Company estimates its reserves at least once a year. The Company's reserves estimation as of December 31, 2008 and 2007 was audited by DeGolyer and MacNaughton. The technical revision covered approximately 70% and 71% respectively, of the Company's estimated reserves. DeGolyer and MacNaughton have concluded that the audited proved oil and natural gas reserve volumes are reasonable. We resolved all questions that arose during the course of the audit process to the auditor's satisfaction.

As of December 31, 2006, the Company's reserves estimation were audited by Gaffney, Cline & Associates Inc. The technical revision covered approximately 93% of the Company's estimated reserves.

Reserves engineering is a subjective process of estimation of hydrocarbon accumulation, which cannot be accurately measured, and the reserve estimation depends on the quality of available information and the interpretation and judgment of the engineers and geologists. Therefore, the reserves estimations, as well as future production profiles, are often different than the quantities of hydrocarbons which are finally recovered. The accuracy of such estimations depends, in general, on the assumptions on which they are based.

The following table sets forth the estimated proved reserves of oil (includes crude oil, condensate and natural gas liquids) and natural gas as of December 31, 2008, 2007 and 2006:

**CRUDE OIL, CONDENSATE AND  
NATURAL GAS LIQUIDS  
IN THOUSANDS OF BARRELS**

**NATURAL GAS IN MILLION OF CUBIC FEET**

	CONSOLIDATED COMPANIES			UNCONSOLIDATED COMPANIES			CONSOLIDATED COMPANIES			UNCONSOLIDATED COMPANIES		
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	ARGENTINA	AMERICA	ARGENTINA	AMERICA	TOTAL	ARGENTINA	AMERICA	ARGENTINA	AMERICA	TOTAL
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<b>Proved reserves</b>										
<b>(developed and undeveloped)</b>										
<b>Reserves as of</b>										
<b>December 31, 2005*</b>	138,180	386,346	5,653	8,251	538,430	937,943	379,809	12,920		1,330,672
Increase (Decrease) originated in:										
Revisions of previous estimates	(2,522)	(257,027)	(114)	70,303	(189,360)	26,198	(175,162)	(934)	79,120	(70,778)
Improved recovery	(426)	4,705	464		4,743	156	6,830	568		7,554
	5,510	6,900			12,410	63,595				63,595

Extensions and discoveries										
Sale of proved reserves in place	(4,541)				(4,541)					
Year s production	(19,124)	(13,391)	(671)	(4,560)	(37,746)	(90,133)	(18,155)	(1,128)	(1,802)	(111,218)
<b>Reserves as of December 31,2006*</b>	117,077	127,533	5,332	73,994	323,936	937,759	193,322	11,426	77,318	1,219,825
Increase (Decrease) originated in:										
Revisions of previous estimates	(8,524)	18,198	(242)	(8,818)	614	(4,104)	86,034	(1,244)	(6,130)	74,556
Improved recovery		8,864			8,864		2,027			2,027
Extensions and discoveries	2,716	299	397		3,412	167,962		364		168,326
Sale of proved reserves in place	(1,231)	(39,330)		(109)	(40,670)		(41,245)		(350)	(41,595)
Year s production	(16,353)	(9,118)	(693)	(5,090)	(31,254)	(94,631)	(16,406)	(827)	(4,212)	(116,076)
<b>Reserves as of December 31,2007 (*)</b>	93,685	106,446	4,794	59,977	264,902	1,006,986	223,732	9,719	66,626	1,307,063
Increase (Decrease) originated in:										
Revisions of previous estimates	3,048	(15,704)	197	(6,335)	(18,794)	(78,921)	(15,906)	(514)	11,508	(83,833)
Extensions and discoveries	1,505				1,505	39,195				39,195
Purchase of proved reserves in place	12,296				12,296	123,125				123,125
Sale of proved reserves in place		(10,677)			(10,677)					
Year s production	(15,027)	(7,384)	(717)	(4,603)	(27,731)	(96,673)	(16,073)	(863)	(2,867)	(116,476)

**Reserves as of  
December 31,2008  
(\* )**

95,507	72,681	4,274	49,039	221,501	993,712	191,753	8,342	75,267	1,269,074
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(\* ) Includes proved developed reserves:

As of December 31, 2005	93,980	174,227	4,113	2,000	274,320	447,161	203,255	10,217	660,633	
As of December 31, 2006	77,826	66,033	4,019	36,702	184,580	488,585	136,771	9,095	43,113	677,564
As of December 31, 2007	68,326	46,098	3,601	33,432	151,457	499,270	144,566	7,870	43,976	695,682
As of December 31, 2008	72,054	36,223	3,579	27,497	139,353	531,807	115,145	7,579	47,034	701,565

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The reserve volumes in Bolivia for year ended in 2008 and 2007, and 2006 were calculated using the economic method, according to the terms of the new operating agreements signed in October 2006.

The estimated reserves were subjected to economic evaluation to determine their economic limits. Such estimated reserves in Argentina and Peru for years ended in 2008, 2007 and 2006 are stated prior to the payment of any royalties as they have the same attributes as taxes on production and, therefore, are treated as operating costs. In Ecuador, due to the type of contract in which the Government has the right to a percentage of production and takes it in kind, the reserves are stated after such percentage.

In Venezuela, as of December 31, 2008 and 2007 and 2006, estimated reserves were calculated on the basis of the contractual structure in force, and are stated before royalties and are computed by multiplying our ownership in each mixed company by the proved reserve volumes of the relevant mixed company.

**Standardized measure of discounted future net cash flows**

The following table discloses estimated future net cash flows from future production of proved developed and undeveloped reserves of crude oil, condensate, natural gas liquids and natural gas. As prescribed by Statement of Financial Accounting Standards No. 69, such future net cash flows were estimated using each year-end prices and costs held constant for the life of the reserves and using a 10% annual discount factor. Future development and abandonment costs include estimated drilling costs, development and exploitation installations and abandonment costs. These future development costs were estimated based on evaluations made by the Company and the operators of the fields in which the Company has an interest. The future income tax was calculated by applying the tax rate in effect as of the date this supplementary information was filed.

This standardized measure is not intended to be and should not be interpreted as an estimate of the market value of the Company's reserves. The purpose of this information is to give standardized data to help the users of the financial statements to compare different companies and make certain projections. It is important to point out that this information does not include, among other items, the effect of future changes in prices, costs and tax rates, which past experience indicates that are likely to occur, as well as the effect of future cash flows from reserves which have not yet been classified as proved reserves, of a discount factor more representative of the value of money over the lapse of time and of the risks inherent to the production of oil and gas. These future changes may have a significant impact on the future net cash flows disclosed below. For all these reasons, this information does not necessarily indicate the perception the Company has on the discounted future net cash flows derived from the reserves of hydrocarbons.

	<b>2008</b>			<b>2007</b>			<b>2006</b>		
	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total
	(in millions of pesos - note 2.c.)								
<b>Consolidated companies:</b>									
Future cash flows	21,210	9,495	30,705	18,655	21,327	39,982	17,264	20,460	37,724
Future production costs	(7,928)	(3,631)	(11,559)	(6,550)	(8,387)	(14,937)	(6,381)	(6,954)	(13,335)
Future development and abandonment costs	(3,482)	(1,774)	(5,256)	(2,199)	(2,024)	(4,223)	(2,383)	(2,230)	(4,613)
Future income tax	(2,699)	(1,191)	(3,890)	(2,875)	(3,541)	(6,416)	(2,310)	(3,644)	(5,954)



Undiscounted future net cash flows	7,101	2,899	10,000	7,031	7,375	14,406	6,190	7,632	13,822
10% annual discount	(2,381)	(1,524)	(3,905)	(2,344)	(3,643)	(5,987)	(2,040)	(3,497)	(5,537)
Subtotal of consolidated companies	4,720	1,375	6,095	4,687	3,732	8,419	4,150	4,135	8,285
<b>Company's share in standardized measure by unconsolidated affiliates</b>	198	827	1,025	217	2,492	2,709	194	1,450	1,644
Standardized measure of discounted future net cash flows	4,918	2,202	7,120	4,904	6,224	11,128	4,344	5,585	9,929

**Table of Contents*****Changes in the standardized measure of discounted future net cash flows***

The following table discloses the changes in the standardized measure of discounted future net cash flows for the years ended December 31, 2008, 2007 and 2006:

	<b>CONSOLIDATED AND UNCONSOLIDATED COMPANIES</b>								
	2008			2007			2006		
	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total
	(in millions of pesos - note 2.c.)								
<b>Standardized measure at beginning of year</b>	4,904	6,224	11,128	4,344	5,585	9,929	7,522	9,900	17,422
Changes related to oil & gas activities:									
Hydrocarbons sales net of production costs	(1,475)	(1,729)	(3,204)	(1,526)	(1,500)	(3,026)	(1,916)	(1,563)	(3,479)
Net change in sales prices, net of future production costs	(456)	(6,199)	(6,655)	1,076	2,655	3,731	(4,114)	(488)	(4,602)
Changes in future development costs	(1,446)	(614)	(2,060)	(555)	(937)	(1,492)	(756)	(334)	(1,090)
Extensions, discoveries and improved recovery, net of future production and associated costs	238		238	728	12	740	326	505	831
Development costs incurred	900	542	1,442	837	819	1,656	674	644	1,318
Revisions of quantity estimates	(64)	(124)	(188)	(301)	2,365	2,064	(155)	(750)	(905)
	984		984						

Purchase of reserves in place									
Sale of reserves in place		(292)	(292)	(51)	(2,790)	(2,841)	(323)		(323)
Net change in income taxes	281	3,206	3,487	(307)	(636)	(943)	2,000	3,132	5,132
Accretion of discount	768	1,111	1,879	626	902	1,528	1,138	1,636	2,774
Changes in production rates	(145)	(262)	(407)	8	(82)	(74)	100	178	278
Effect of the ending of old contracts and the signing of the new ones before tax (Bolivia and Venezuela)								(7,084)	(7,084)
Other changes	429	339	768	25	(169)	(144)	(152)	(191)	(343)
<b>Standardized measure at end of year</b>	<b>4,918</b>	<b>2,202</b>	<b>7,120</b>	<b>4,904</b>	<b>6,224</b>	<b>11,128</b>	<b>4,344</b>	<b>5,585</b>	<b>9,929</b>

## 24. Subsequent events

### a) Sale of 60% interest in PVIE

In April 2009, Petrobras Energía sold its 60% remaining equity interest in PVIE to PIB BV, for a total consideration of US\$619.4 million. As a result of this transaction, Petrobras Energía recognized an income before income tax of approximately P\$1.6 billion for Argentina GAAP purposes.

For US GAAP purposes, the above-mentioned transaction qualifies as a capital transaction, and, as a result, the difference between total consideration received and the book value of assets sold will be recorded directly in shareholder's equity, as additional paid in capital.

### b) Nonconvertible bonds payment

On May 1, 2009, Petrobras Energía paid at maturity the nonconvertible bonds Class H, issued under the global program of US\$ 2.5 billion, for a nominal value of US\$ 181.5 million.

### c) CIESA's indebtedness (See Note 9.IV)

On January 9, 2009 Ashmore Energy International Limited (now AEI) -the only self declared holder of the Corporate Bonds (*Obligaciones Negociables*) issued by CIESA in 1997- announced its decision to terminate the Restructuring Agreement, to which AEI, CIESA and others were a party.

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On January 28, 2009, CIESA brought an action before the Supreme Court of the State of New York, County of New York, USA (the New York Court ), seeking a declaratory judgment that any claim brought by AEI against CIESA in connection with the Corporate Bonds was time-barred, due to the fact that the statute of limitations pertaining to any such claim had expired.

On April 2, 2009, CIESA filed an amended complaint including new causes of action of CIESA against AEI. In the amended complaint filed in the New York Court, CIESA seeks (i) a declaration that all claims under the Corporate Bonds are time-barred because the six-year New York statute of limitation period to seek recovery thereunder has expired, (ii) on a subsidiary basis to the first claim, that CIESA be paid damages in an amount not to exceed US\$300 million for breach of the Restructuring Agreement, (iii) on a subsidiary basis to the first and second claims, that the strict performance of the Restructuring Agreement be ordered, and (iv) that AEI be ordered to refrain from filing any claim against CIESA under the Corporate Bonds.

On April 21, 2009, AEI filed a motion before the New York Court to dismiss CIESA's amended complaint, or in the alternative, for a stay of the action. AEI argued in its motion that the complaint by CIESA should be dismissed on comity grounds, for failure to state a claim, or in the alternative, in favor of pending proceedings in Argentina.

On May 4, 2009, CIESA filed its reply to the motion to dismiss the complaint rebutting the arguments of AEI and requesting of the New York Court that CIESA's complaint be sustained. On May 14, 2009, CIESA and AEI appeared in the New York Court for oral argument regarding AEI's motion to dismiss. As of the date of these financial statements, the New York Court has not rendered a decision on the motion to dismiss.

Separately, on April 6, 2009, CIESA was given notice of a petition in bankruptcy filed in Argentine bankruptcy court by AEI in relation to the recovery of part of the Corporate Bonds for a total nominal value of US\$127 million. On April 16, 2009 CIESA answered the notice to the petition in bankruptcy and objected to it on the following grounds, among others: (i) failure to meet the admissibility requirements for a petition in bankruptcy considering that there is no enforceable claim because the claims under the Corporate Bonds are time-barred under the New York law governing them, (ii) CIESA is not in a state of insolvency, and (iii) abusive and improper use by AEI of the petition in bankruptcy to get out of the statute of limitations action previously brought in the courts of competent jurisdiction in the State of New York, and unlawfully seek the individual recovery of an alleged claim by means of proceedings designed for a very different purpose.

***d) March 27, 2009 Shareholders meeting***

The Petrobras Energía's General Regular and Special Shareholders Meeting held on March 27, 2009 adopted, among other things, the following resolutions:

1) The establishment of an optional reserve known as the Reserve for Future Dividends in an aggregate amount of P\$380 million and delegated to the Board of Directors the ability to determine the dividend distribution date and amount during the period between the admission of Petrobras Energía Participaciones S.A.'s shareholders as shareholders of Petrobras Energía S.A. and the date of the next Regular Shareholders Meeting to be held in connection with fiscal year ending December 31, 2009, taking into account the course of operations, operating results, investment programs, financial position and funds availability, among other factors deemed relevant to the development of the Company's business.

2) The change of Petrobras Energía S.A.'s corporate name to Petrobras Argentina S.A. With regards to the above-mentioned, as of the date of these financial statements, the Company is handling all formalities required for registration of the corporate name change before the relevant controlling bodies.

***e) Suspension of dividend distribution at Edesur S.A. (subsidiary of Distrilec)***

On June 1, 2009, Edesur received a notice from ENRE demanding the suspension of the dividend distribution in the amount of P\$65 million that had previously been approved at the Shareholders Meeting held on March 16, 2009, on the grounds of non-compliance with the formal request for dividend distribution according to the MOA

The Board of Directors of Edesur resolved, on grounds of prudence and without any acknowledgment of rights or facts, to abide by the terms of the notice sent by ENRE and requested that ENRE reconsider its demand.



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**25. Other consolidated information**

The following tables present additional consolidated financial statements disclosures required under Argentine GAAP.

- a) Property, plant and equipment.
- b) Equity in affiliates.
- c) Cost of sales.
- d) Foreign currency assets and liabilities.
- e) Detail of expenses.
- f) Information about ownership in subsidiaries and affiliates.
- g) Oil and gas areas and participation in joint-ventures.
- h) Combined joint-ventures and consortium assets and liabilities and statements of income.

**Table of Contents****a) Property, plant and equipment as of December 31, 2008, 2007 and 2006**

(Stated in millions of Argentine Pesos)

	<b>2008</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemicals</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Net book value at the beginning of the year	4,258	1,317	1,009	3,897	128	10,609
Translation effect	88		48			136
Net increase	2,098	140	175	519	18	2,950
Reversal of the allowance for impairment of assets in Argentina (Note 15.d)	121					121
Depreciation (Note 25.e)	(798)	(89)	(108)	(241)	(24)	(1,260)
Net book value at the end of the year	5,767	1,368	1,124	4,175	122	12,556

	<b>2007</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Net book value at the beginning of the year	4,907	1,123	821	3,850	137	10,838
Translation effect	45		9			54
Net increase	847	250	279	300	17	1,693
Impairment of assets in Ecuador (Note 5)	(759)					(759)
Depreciation (Note 25.e)	(782)	(56)	(100)	(253)	(26)	(1,217)

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Net book value at the end of the year	4,258	1,317	1,009	3,897	128	10,609
	<b>2006</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemical</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Net book value at the beginning of the year	6,913	947	702	3,932	163	12,657
Translation effect	47		5			52
Net increase	1,327	238	194	150	1	1,910
Migration of operations in Venezuela (Note 5)	(2,660)					(2,660)
Depreciation (Note 25.e)	(720)	(62)	(80)	(232)	(27)	(1,121)
Net book value at the end of the year	4,907	1,123	821	3,850	137	10,838



**Table of Contents****b) Equity in affiliates as of December 31, 2008 and 2007**

(Stated in millions of Argentine Pesos)

Name and issuer	Description of securities Face Value	2008		2007	
		Amount	Cost	Book value	Book value
Coroil S.A.	Bs 1,000	490	48	41	38
Inversora Mata S.A.	Bs 1,000	490	61	107	90
Oleoducto de Crudos Pesados Ltd.	US\$0.01	31,500	98	96	95
Oleoductos del Valle S.A.	\$10	2,542,716	61	63	62
Petrolera Entre Lomas S.A.	\$1	96,050	2	81	66
Refinería del Norte S.A.	\$10	2,610,809	63	140	146
Petroritupano S.A.	Bs 1,000	483,263	1,109	1,252	1,128
Petroven-Bras S.A.	Bs 1,000	97,163	129	145	130
Petrowayú S.A.	Bs 1,000	382,202	957	1,069	950
Petrokariña S.A.	Bs 1,000	153,869	456	552	466
Cost related with CIESA's debt restructuring (Note 8.I)				110	110
TGS S.A. goodwill in CIESA S.A.				23	23
Other				3	2
			2,984	3,682	3,306

US\$ Millions of  
United States  
Dollars

BS Millions of  
Bolívares

**Table of Contents****c) Cost of sales for the years ended December 31, 2008, 2007 and 2006**

(Stated in millions of Argentine Pesos)

	<b>2008</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemicals</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Inventories at the beginning of the year	98	683	422	61	(168)	1,096
Translation effect	5		14			19
Costs (Note 25.e)	2,433	237	314	665		3,649
Holding (losses) gains		(49)	(86)	6	18	(111)
Purchases, consumptions and other	94	6,660	2,719	1,532	(3,027)	7,978
Inventories at the end of the year	(152)	(882)	(621)	(156)	180	(1,631)
Cost of sales	2,478	6,649	2,762	2,108	(2,997)	11,000

	<b>2007</b>					
	<b>Oil and Gas Exploration and Production</b>	<b>Refining and Distribution</b>	<b>Petrochemicals</b>	<b>Gas and Energy</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
Inventories at the beginning of the year	159	524	318	47	(124)	924
Translation effect	2		2			4
Costs (Note 25.e)	2,338	181	269	554		3,342
Holding gains (losses)	8	29	84	(2)	(33)	86
Purchases, consumptions and other	73	5,693	2,425	1,387	(2,727)	6,851

Inventories at the end of the year	(98)	(683)	(422)	(61)	168	(1,096)
Cost of sales	2,482	5,744	2,676	1,925	(2,716)	10,111

	2006					Total
	Oil and Gas	Corporate, Other				
	Exploration and Production	Refining	Petrochemical	Electricity	Discontinued Investments and Eliminations	
Inventories at the beginning of the year	165	527	263	52	(146)	861
Translation effect	2	1				3
Costs (Note 25.e)	2,003	181	229	471		2,884
Holding gains (losses)	(1)	17	18	(2)	(7)	25
Purchases, consumptions and other	84	4,490	1,876	1,318	(2,555)	5,213
Inventories at the end of the year	(159)	(524)	(318)	(47)	124	(924)
Cost of sales	2,094	4,692	2,068	1,792	(2,584)	8,062

**Table of Contents****d) Foreign currency assets and liabilities as of December 31, 2008 and 2007**

(Stated in millions of Argentine Pesos)

	Foreign currency and amount		Exchange rate	Book value in local currency
<b>CURRENT ASSETS</b>				
Cash	US\$	119	3.4500	410
	Rs	10	1.4763	15
	BS	6	1.6040	10
				<b>435</b>
Investments	US\$	241	3.4500	831
	Rs	52	1.4763	77
				<b>908</b>
Trade receivables	US\$	160	3.4500	552
	Rs	75	1.4763	111
				<b>663</b>
Other receivables	US\$	70	3.4500	243
	EU	1	4.8697	4
	Rs	15	1.4763	22
				<b>269</b>
<b>TOTAL 2008</b>				<b>2,275</b>
<b>TOTAL 2007</b>				<b>3,557</b>
<b>NON-CURRENT ASSETS</b>				
Trade receivables	US\$	12	3.4500	<b>40</b>
Other receivables	US\$	12	3.4500	40
	Rs	22	1.4763	33
				<b>73</b>
Table of Contents				588



<b>TOTAL 2008</b>				<b>3,479</b>
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<b>TOTAL 2007</b>				<b>3,229</b>
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**NON-CURRENT LIABILITIES**

Accounts payable	US\$	39	3.4500	<b>133</b>
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Long-term debt	US\$	1,470	3.4500	<b>5,072</b>
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Taxes payable	Sol	196	1.0982	215
	Rs	17	1.4763	25

**240**

Other liabilities	US\$	55	3.4500	189
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<b>TOTAL 2008</b>				<b>5,634</b>
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<b>TOTAL 2007</b>				<b>5,898</b>
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<b>TOTAL LIABILITIES</b>				
<b>2008</b>				<b>9,113</b>

<b>2007</b>				<b>9,127</b>
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US\$ Millions of  
United States  
Dollars

BS Millions of  
Bolívares

Rs Millions of  
Reales

Sol Millions of  
Peruvian Soles

EU

Millions of  
Euros

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**Table of Contents****e) Detail of expenses for the years ended December 31, 2008, 2007 and 2006**

(Stated in millions of Argentine Pesos)

Accounts	2006	2007	2008			
	Total	Total	Total	Costs	Administrative and selling expenses	Exploration expenses
Salaries and wages	627	719	892	390	502	
Other benefits to personnel	166	182	164	52	112	
Taxes, charges and contributions	209	259	328	22	306	
Fees and professional advisory	110	113	148	35	113	
Depreciation of property, plant and equipment (Note 25.a)	1,121	1,217	1,260	1,151	109	
Amortization of other assets	8	8	6		6	
Oil and gas royalties	716	920	902	902		
Spares and repairs	158	161	276	247	29	
Geological and geophysical expenses	32	103	188			188
Abandoned and non-productive well write-downs	78	45	42			42
Transportation and freights	338	393	446	98	348	
Construction contracts and other services	520	604	793	576	217	
Fuel, gas, energy and other	71	93	77	65	12	
Other operating costs and consumptions	226	259	229	141	80	8
Expense reimbursements	(98)	(99)	(108)	(30)	(78)	
Total 2008			5,643	3,649	1,756	238
Total 2007		4,977		3,342	1,463	172
Total 2006	4,282			2,884	1,281	117



**Table of Contents****f) Information about ownership in subsidiaries and affiliates as of December 31, 2008**

Subsidiaries	% OF OWNERSHIP AND VOTES		BUSINESS SEGMENT
	DIRECT	INDIRECT	
Corod Producción S.A. (Venezuela)	100.00		Oil and Gas Exploration and Production
EcuadorTLC S.A. (Ecuador)	100.00		Oil and Gas Exploration and Production
Enecor S.A.	69.99		Gas and Energy
EG3 Asfaltos S.A.	95.00	5.00	Refining and Distribution
EG3 Red S.A.	95.00	5.00	Refining and Distribution
Innova S.A. (Brasil)	0.01	99.99	Petrochemicals
Petrobras Energía de México S.A. de C.V. (México)		100.00	Oil and Gas Exploration and Production
Petrobras Finance Bermuda (Islas Bermudas)		100.00	Corporate
Petrobras Holding Austria AG (Austria)		100.00	Corporate
Petrobras Energía Internacional S.A.	95.00	5.00	Corporate
Petrobras Energía Operaciones Ecuador S.A. (Ecuador)		100.00	Oil and Gas Exploration and Production
Petrobras Financial Services Austria GMBH (Austria)		100.00	Corporate
Petrobras Electricidad de Argentina S.A.	93.60	6.40	Gas and Energy
Petrobras Hispano Argentina S.A. (España)	100.00		Corporate
Petrobras Bolivia Internacional S.A. (Bolivia)	100.00		Corporate
Petrobras Energía Ecuador (Gran Cayman)		100.00	Oil and Gas Exploration and Production
Petrolera San Carlos S.A. (Venezuela)		100.00	Oil and Gas Exploration and Production
Transporte y Servicios de Gas en Uruguay S.A. (Uruguay)	51.00	13.55	Gas and Energy
World Energy Business S.A.	5.00	95.00	Gas and Energy
Electricidade Com S.A. (Brasil)		100.00	Gas and Energy
Petrobras Energía Colombia (Gran Cayman)		100.00	Oil and Gas Exploration and Production
World Fund Financial Services (Gran Cayman)		100.00	Corporate
Burlington Resources Argentina Holdings Limited (Islas Bermudas)		100.00	Corporate
Atalaya Energy S.R.L.		100.00	Oil and Gas Exploration and Production
Canadian Hunter Argentina S.R.L.		100.00	Oil and Gas Exploration and Production
<b>Affiliates under joint control</b>			
Cía. de Inversiones de Energía S.A.	25.00	25.00	Gas and Energy
Distrilec Inversora S.A.		48.50	Gas and Energy
Edesur S.A.		27.33	Gas and Energy
Transportadora de Gas del Sur S.A.		27.65	Gas and Energy

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Petrobras de Valores Internacional de España S.L. (España)	60.00		Corporate
Petrobras Energía Perú S.A. (Perú)		60.08	Oil and Gas Exploration and Production
Petrobras Energía Venezuela S.A. (Venezuela)		60.00	Oil and Gas Exploration and Production
<b>Main affiliates in which significant influence is exercised</b>			
Coroil S.A. (Venezuela)	20.00	17.40	Oil and Gas Exploration and Production
Oleoducto de Crudos Pesados Ltd. (Gran Cayman)		11.42	Oil and Gas Exploration and Production
Oleoducto de Crudos Pesados S.A. (Ecuador)		11.42	Oil and Gas Exploration and Production
Inversora Mata S.A. (Venezuela)	49.00		Oil and Gas Exploration and Production
Oleoductos del Valle S.A.	23.10		Oil and Gas Exploration and Production
Propyme S.G.R	50.00		Corporate
Petrolera Entre Lomas S.A.	19.21		Oil and Gas Exploration and Production
Refinería del Norte S.A.	28.50		Refining and Distribution
Urugua-í S.A.	29.33		Gas and Energy
Petroven-Bras S.A.	29.20	4.04	Oil and Gas Exploration and Production
Petrokariña S.A.	29.20	5.29	Oil and Gas Exploration and Production
Petrowayú S.A.	36.00		Oil and Gas Exploration and Production
Petroritupano S.A.	22.00		Oil and Gas Exploration and Production
<b>Other subsidiaries</b>			
Ternoeléctrica José de San Martín S.A.	10.00		Gas and Energy
Ternoeléctrica Manuel Belgrano S.A.	10.00		Gas and Energy

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**Table of Contents****g) Oil and gas areas and participation in joint-ventures as of December 31, 2008**

NAME	LOCATION	WORKING INTEREST	OPERATOR	DURATION THROUGH
<b>Production</b>				
<b>Argentina</b>				
25 de Mayo Medanito S.E.	La Pampa y Río Negro	100.00%	Petrobras Energía	2016
Jagüel de los Machos	La Pampa y Río Negro	100.00%	Petrobras Energía	2015
Puesto Hernández	Mendoza y Neuquén	38.45%	Petrobras Energía	2016
Bajada del Palo	Neuquén	17.90%	Petrolera Entre Lomas	2015
Santa Cruz II	Santa Cruz	100.00%	Petrobras Energía	2017 / 2028
Río Neuquén	Neuquén y Río Negro	100.00%	Petrobras Energía	2017 / 2027
Entre Lomas	Neuquén y Río Negro	17.90%	Petrolera Entre Lomas	2016
Aguada de la Arena	Neuquén	80.00%	Petrobras Energía	2036
Veta Escondida y Rincón de Aranda	Neuquén	55.00%	Petrobras Energía	2027
Santa Cruz I	Santa Cruz	71.00%	Petrobras Energía	2017 / 2035
Sierra Chata (5)	Neuquén	45.55%	Petrobras Energía	2023
El Mangrullo	Neuquén	100.00%	Petrobras Energía	2025
Atuel Norte	Mendoza	33.33%	Tecpetrol	2015
La Tapera Puesto Quiroga (5)	Chubut	35.67%	Tecpetrol	2017
El Tordillo (5)	Chubut	35.67%	Tecpetrol	2016
Aguaragüe	Salta	15.00%	Tecpetrol	2017 / 2023
Estancia Agua Fresca	Santa Cruz	50.00%	Petrobras Energía	2033
	Mendoza		Petro Andina	(1)
Gobernador Ayala		22.51%	Resources Ltd	
Agua Amarga	Río Negro	17.90%	Petrolera Entre Lomas	2013
<b>Foreign</b>				
Colpa Caranda	Bolivia	100.00%	Petrobras Energía	2029
Oritupano Leona	Venezuela	22.00%	PDVSA (4)	2025
Acema	Venezuela	33.24%	PDVSA (4)	2025
La Concepción	Venezuela	36.00%	PDVSA (4)	2025
Mata	Venezuela	34.49%	PDVSA (4)	2025
Lote X	Perú	60.08%	Petrobras Energía Perú	2024
Bloque 18 (3)	Ecuador	30.00%	Ecuadortlc	2022
Tibu	Colombia	30.00%	Ecopetrol	
<b>Exploration</b>				
<b>Argentina</b>				
Glencross	Santa Cruz	87.00%	Petrobras Energía	2033
Puesto Oliverio	Santa Cruz	50.00%	Petrobras Energía	(1)
Cerrito Oeste	Santa Cruz	50.00%	Petrobras Energía	(1)
El Campamento	Santa Cruz	50.00%	Petrobras Energía	(1)
	Mendoza		Petro Andina	(1)
Cerro Hamaca Norte		39.64%	Resources Ltd	
Cañadón del Puma	Neuquén	50.00%	Chevron San Jorge	2009
Parva Negra (5)	Neuquén	100.00%	Petrobras Energía	(1)

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Cerro Manrique	Río Negro	50.00%	Petrobras Energía	(2)
Estancia Chiripá	Santa Cruz	87.00%	Petrobras Energía	2032
	Plataforma Continental		YPF	2020
Enarsa 1 (E1)	Argentina	25.00%		
	Plataforma Continental		Petrobras Energía	2020
Enarsa 3 (E3)	Argentina	35.00%		
Chirete	Salta	100.00%	Petrobras Energía	2012
Hickmann	Salta	50.00%	Tecpetrol	2015
Río Colorado	Salta	30.00%	Tecpetrol	2013
Río Atuel	Mendoza	33.33%	Tecpetrol	2014
	Plataforma Continental		YPF	2009
Bloque CAA 40	Argentina	33.00%		
	Plataforma Continental		YPF	2010
Bloque CAA 46	Argentina	33.00%		
	Plataforma Continental		YPF	2009
CGSJ Marina I	Argentina	33.00%		
<b>Foreign</b>				
Lote 57	Perú	27.73%	Petrobras Energía Perú	2011
Lote 58	Perú	60.08%	Petrobras Energía Perú	2012
Lote 103	Perú	18.02%	Petrobras Energía Perú	2013
Lote 110	Perú	60.08%	Petrobras Energía Perú	2013
Lote 117	Perú	60.08%	Petrobras Energía Perú	2013

(1) The granting of the concession is under progress and the term will be 25 years from such granting.

(2) The granting of the exploration concession has not been yet obtained.

(3) See Note 5 Operations in Ecuador.

(4) See Note 5 Operations in Venezuela.

(5) See Note 5 Changes in Oil and gas areas and participation in

joint ventures in  
Argentina.

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**Table of Contents****h) Combined joint-ventures and consortium assets and liabilities as of December 31, 2008 and 2007 and statements of income for the years then ended December 31, 2008, 2007 and 2006**

(Stated in millions of Argentine Pesos)

<b>Assets and liabilities</b>	<b>2008</b>	<b>2007</b>	
Current assets	226	935	
Non-current assets	1,864	1,415	
<b>Total assets</b>	<b>2,090</b>	<b>2,350</b>	
Current liabilities	455	538	
Non-current liabilities	143	74	
<b>Total liabilities</b>	<b>598</b>	<b>612</b>	
<b>Statements of income</b>			
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net sales	2,400	1,719	1,686
Cost of sales	(1,094)	(895)	(634)
<b>Gross profit</b>	<b>1,306</b>	<b>824</b>	<b>1,052</b>
Administrative and selling expenses	(92)	(67)	(102)
Exploration expenses	(127)	(49)	(42)
Other operating expenses	(194)	(226)	(93)
Financial income (expenses) and holding gain (losses)	(16)	(22)	(49)
Other expenses, net	(8)	(569)	
Income tax	(272)	(130)	(146)
<b>Net income (loss)</b>	<b>597</b>	<b>(239)</b>	<b>620</b>

**Table of Contents****PETRORITUPANO, S. A.**

(Subsidiary 60% owned by Corporación Venezolana del Petróleo, S.A. CVP)

## Statements of Income

Years ended December 31, 2008 and 2007

(In thousands of U.S. dollars)

	<b>Note</b>	<b>2008</b>	<b>2007</b>
Sales of crude oil	18	1,054,108	793,140
Costs and expenses:			
Operating expenses	14-18	70,200	84,419
Depreciation and amortization	9	59,476	58,337
Selling, administrative and general expenses	12-14-16	37,925	20,484
Production tax and other taxes	8-b	355,840	281,990
Contribution for social development	18	129,969	
Other expenses (income), net		3,556	(16,231)
		656,966	428,999
Results from operating activities		397,142	364,141
Finance income	3-b	(4,152)	(662)
Income before income tax		401,294	364,803
Income tax	8-a	60,131	104,558
Net income		341,163	260,245

The accompanying notes are an integral part of these financial statements.

**Table of Contents****PETRORITUPANO, S. A.**

(Subsidiary 60% owned by Corporación Venezolana del Petróleo, S.A. CVP)

## Balance Sheets

December 31, 2008 and 2007

(In thousands of U.S. dollars)

	Note	2008	2007
<b>Assets</b>			
Property, plant and equipment, net	9	483,990	439,623
Deferred tax assets	8-a	184,902	102,420
Recoverable value added tax	8-c	44,532	27,918
Total non-current assets		713,424	569,961
Inventories of materials and supplies		7,201	410
Accounts receivable from stockholders and related companies	18	627,820	879,185
Prepaid expenses and other	10	8,828	2,358
Financial assets	11	1,425	
Cash and cash equivalents	12	37,497	69,386
Total current assets		682,771	951,339
Total assets		1,396,195	1,521,300
<b>Stockholders Equity</b>			
Stockholders equity, see statement of stockholders equity	13	957,375	780,397
<b>Liabilities</b>			
Non-current account payable to PDVSA Petróleo, S.A.	18	5,062	2,933
Accruals and other liabilities, net of current portion	15	19,483	16,781
Total non-current liabilities		24,545	19,714
Accounts payable	17	254,231	532,902
Dividends payable	13-d		71,110
Accruals and other liabilities	15	152,865	109,010
Income tax payable	8-a	7,179	8,167
Total current liabilities		414,275	721,189
Total liabilities		438,820	740,903
Total liabilities and stockholders equity		1,396,195	1,521,300



The accompanying notes are an integral part of these financial statements.

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(Subsidiary 60% owned by Corporación Venezolana del Petróleo, S.A. CVP)

Statements of Stockholders Equity

Years ended December 31, 2008 and 2007

(In thousands of U.S. dollars)

	Note	Capital		2008 Retained earnings			Total retained earnings	Total
		stock subscribed and paid	Premium in issue of shares	Legal reserve	Other reserve	Unappropriated		
Balances at end of 2006		10,217	471,901	1,022		155,528	156,550	638,668
Net income for the year						260,245	260,245	260,245
Dividends paid	13-d					(118,516)	(118,516)	(118,516)
Balances at end of 2007		10,217	471,901	1,022		297,257	298,279	780,397
Net income for the year						341,163	341,163	341,163
Dividends paid	13-d					(164,185)	(164,185)	(164,185)
Transfer to other reserve	13-c				184,902	(184,902)		
Balances at end of 2008		10,217	471,901	1,022	184,902	289,333	475,257	957,375

The accompanying notes are an integral part of these financial statements.

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(Subsidiary 60% owned by Corporación Venezolana del Petróleo, S.A. CVP)

## Statements of Cash Flows

Years ended December 31, 2008 and 2007

(In thousands of U.S. dollars)

	Note	2008	2007
Cash flows from operating activities:			
Net income		341,163	260,245
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	9	59,476	58,337
Asset retirement obligations	15-16	1,990	(209)
Deferred tax assets		(82,482)	(57,184)
Net changes in operating assets-			
Accounts receivable from stockholders and related companies		(541,169)	(453,657)
Prepaid expenses and other		(6,470)	(2,358)
Inventories of materials and supplies		(6,791)	333
Recoverable value added tax		(16,614)	(20,373)
Purchase of financial assets		(1,425)	
Net changes in operating liabilities-			
Non-current account payable to PDVSA Petróleo, S.A.		2,129	(12,624)
Accounts payable		344,244	412,775
Income tax payable		(988)	(132,371)
Accruals and other liabilities		44,242	84,292
Total adjustments		(203,858)	(123,039)
Net cash provided by operating activities		137,305	137,206
Cash flows used in investing activities acquisition of property, plant and equipment			
	9	(103,519)	(30,631)
Cash flows used in financing activities:			
Contribution of shareholders			3,510
Dividends paid	13-d	(65,675)	(47,406)
Cash flows used in financing activities		(65,675)	(43,896)
Net increase (decrease) in cash		(31,889)	62,679
Cash and cash equivalents at beginning of year		69,386	6,707
Cash and cash equivalents at end of year		37,497	69,386
Supplemental disclosure:			
Cash paid during the year for-			
Income tax		143,601	153,575

The accompanying notes are an integral part of these financial statements.

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**PETRRITUPANO, S. A.**

(Subsidiary 60% owned by Corporación Venezolana del Petróleo, S.A. CVP)

Notes to the Financial Statements

December 31, 2008 and 2007

**(1) Reporting Entity**

Petroritupano, S. A. (the Company) was incorporated as a result of the migration process from the operating agreement to mixed company after all the relevant approvals by the Venezuelan government, and it began operations since April 1<sup>o</sup>, 2006 in the area denominated Oritupano Leona, located in Anzoátegui and Monagas States.

During the year 2005, the Ministry of People's Power for Energy and Petroleum (MENPET) instructed the Boards of Directors of Petróleos de Venezuela, S.A. (PDVSA), and its subsidiary Corporación Venezolana del Petróleo, S.A. (CVP), for the conversion of the operating agreements of PDVSA Petróleo, S.A. (PDVSA Petróleo), a subsidiary of PDVSA, to mixed companies. On August 5, 2005, the following participants of the operating agreements of the Oritupano Leona area: Petrobrás Energía, S. A.; APC Venezuela, S.R.L.; Venezuela US S.R.L. and Corod Producción, S. A. signed a transitory agreement with PDVSA Petróleo and CVP for the conversion of a mixed company which purpose is to carry out primary exploration activities in search for hydrocarbon wells, their initial extraction from natural wells, collection, transportation and storage, pursuant to Article 9 of the Organic Hydrocarbons Law.

The National Government filed on March 16, 2006 with the National Assembly through MENPET the model project contract for the incorporation of mixed companies between CVP and private investing companies taking part in operating agreements entered into with PDVSA Petróleo. In May 2006, the National Assembly agreed the incorporation, creation and operations of the Company in order to develop the abovementioned primary activities for a twenty-year period.

On March 31, 2006, Petrobrás Energía, S. A.; APC Venezuela, S.R.L.; Venezuela US S.R.L. and Corod Producción, S. A. signed jointly with PDVSA Petróleo and CVP a memorandum of understanding whereby, subject to all necessary approvals including the approval of the National Assembly of the Bolivarian Republic of Venezuela and the corporate approvals of the participating companies, they will have 40% and 60%, respectively, of participation on the Company's capital stock. The mixed company will be in charge of conducting the primary activities provided in the model project contract for the incorporation of mixed companies, and their by-laws and incorporation document will be adjusted as per such model. In addition, pending to the approvals established in the memorandum of understanding, the parties agreed having reached an agreement regarding the basis of economic calculations for the commencement of operations of the mixed company, including the signing of the purchase/sale contract of hydrocarbons with PDVSA Petróleo, on April 1<sup>o</sup>, 2006.

The contract model for the creation of mixed companies establishes the automatic extinguishment of operating agreements since March 31, 2006, whereby the operating companies are not entitled to receive any compensation as a result of these agreements, except for any payments pending related to the first quarter of 2006 or to file any claim as a result of such extinguishment. In addition, it rules the transfer of ownership of assets operated at such date under these agreements, and that these be made immediately available to the mixed companies, for the development of their activities.

The main activities of Petroritupano, S. A. are ruled by the Organic Hydrocarbons Law, which came into effect in January 2002.

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Notes to the Financial Statements

December 31, 2008 and 2007

Official Gazette N° 38.443, published on May 24, 2006, contained the decree regarding the Partial Reform Law to the Organic Hydrocarbons Law. Among the most relevant aspects of this reform, there is the creation of the following taxes:

Extraction tax: establishes a rate of one third of the value of liquid hydrocarbons extracted from any reservoir, calculated over the same basis established in the Law for the calculation of the production tax. In calculating this tax, the taxpayer shall deduce the amount that had been paid for production tax, including any additional production tax paid.

Export registration tax: it establishes a rate of one over one thousand over the value of all hydrocarbons exported from any port of the Venezuelan territory, calculated over the sales price of such hydrocarbons.

**(2) Basis of Presentation**

***(a) Statement of Compliance***

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Boards (IASB) and its interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

On June 11, 2009, the Board of Directors approved submitting to the consideration of the Stockholders Meeting the financial statements of the year 2008, which will be presented soon during such Stockholders Meeting and they are expected to be approved without any modification. The financial statements of the year ended December 31, 2007, were approved on October 20, 2008 by the Stockholders Meeting.

***(b) Basis of Measurement***

The financial statements have been prepared on the historical cost basis, except for certain assets that have been adjusted to be presented at their fair value. Assets and liabilities measured and presented at their fair value are inventories and property, plant and equipment contributed by the stockholders at the beginning of the operations, and asset retirement obligations (see notes 9 and 16).

***(c) Functional and Presentation Currency***

The financial statements are presented in thousands of U.S. dollars (dollar or \$). The Company's functional currency is the dollar, due to the fact that the main economic operational environment of the Company is the international market for upgraded crude oil and its products. In addition, a significant portion of costs, expenses and investments are denominated in dollars.

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Notes to the Financial Statements

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***(d) Use of Estimates and Judgments***

For the financial statements preparation pursuant to IFRS s, management is required to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The Company applies its best estimates and judgments; however, actual results may vary from those estimates.

Estimates and related assumptions are based on the experience and some other factors that are deemed reasonable in the current circumstances, which result is the basis to form judgments on the carrying value of assets and liabilities that are not easily determinable by other sources. Estimates and assumptions are reviewed periodically, and the reviews of these accounting estimates are recognized in the same period and the future periods affected.

Significant areas of uncertainty and critical judgments in the application of accounting principles that have the most significant effect on the amounts recognized in the financial statements follow:

Notes 3(c) and 9 Depreciation and amortization

Notes 3(d) and 16 Accrual for asset retirement obligations

Note 6 Determination of fair value

Note 3(g) Impairment of assets

Note 8(a) Deferred income tax.

**(3) Significant Accounting Policies**

The accounting policies set out below have been applied consistently:

***(a) Currencies Other than the Dollar***

Transactions in currencies other than the dollar are translated at the functional currency, using the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in currencies other than the dollar at the balance sheet date are translated to the functional currency, using the exchange rate in effect at such date (see note 5). Exchange incomes or losses resulting from the translation are recognized in the statement of income.

***(b) Financial Instruments***

***Non-derivative Financial Instruments***

Non-derivative financial instruments are recognized initially at fair value, plus any direct transaction costs, subsequent to initial recognition. Non-derivate financial instruments are presented at fair value at the balance sheet date.

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A financial instrument is recognized when the Company is bound to or is engaged in the contractual clauses of it. Financial assets are reversed if the Company's contractual rights on cash flows expire or if the Company transfers the financial asset to another entity without retaining the control or a significant portion of the risks and benefits of the asset. Purchases and sales of financial assets made using the usual procedures are accounted for at the negotiation date, which is generally the date when the Company commits to purchase or sell the asset. Financial liabilities are extinguished when the specific contractual obligation of the Company expires or is paid.

***Finance Income***

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in the results, using the effective interest method.

***Financial Assets at Fair Value Through Profit or Loss***

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Assets in this category are classified as current assets.

***Other***

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

***(c) Property, Plant and Equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and losses due to impairment. The successful efforts method of accounting is used for oil and gas exploration and production activities. The costs of exploratory wells, plant and related equipments and the properties assigned to the exploitation of crude oil are assessed as part of the cost of the assets. The costs of exploratory wells are accounted for as assets until they are proved productive, otherwise, they are charged to operating expenses. Other exploratory expenditures, including the geological and geophysical costs are charged to operating expenses when incurred. Major maintenance costs or for a general repair are capitalized in the cases where these are identified as a separate component of the asset to which such maintenance or repair corresponds and are depreciated over the period between one maintenance and another. Expenditures for minor maintenance of the facilities, repairs and renewals carried out to maintain facilities in operating conditions are expensed when incurred.

The cost of replacing parts and improvement of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.



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Costs of property, plant and equipment also include, when relevant, the amounts associated with asset retirement obligations (see note 3 (d)).

Financing costs of projects that require high investments over long-term construction periods and the financing costs incurred for specific financing of projects are capitalized and amortized over the estimated useful lives of the assets.

The cost of assets built by the Company includes the financing cost, materials and direct labor as well as any other costs directly attributable to bringing the asset to a working condition. It also includes dismantling and removal costs at the location where built.

All disbursements related to the construction or purchase of property, plant and equipment in the stage prior to implementation are stated at cost as work in process. Once the assets are ready for use, they are transferred to property, plant and equipment and start to be depreciated or amortized.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gain or loss generated from the sale or disposal of an asset of property, plant and equipment is determined by the difference between the amount received from the sale or disposal, if any, and the net carrying value of the asset, and it is recognized as part of other expenses (income), net in the statement of income.

Depreciation and amortization of capitalized costs of the wells and facilities of crude oil production equipment are determined using the units-of-production method by field, based on the proved developed reserves. The rates used are reviewed annually based on an analysis of the reserves and are applied retroactively at the beginning of the year.

The calculation of the depreciation of property, plant and equipment associated to the crude oil production, requires the quantification of proved developed reserves expected to be extracted in the future by the Company. The analysis of reserves is updated periodically in order to guarantee that any significant change in the estimates made be timely recognized in the Company's financial statements.

Depreciation of property and equipment not related to exploration and exploitation of hydrocarbons is calculated based on the straight-line method using the estimated useful lives of fixed assets:

	<b>Years</b>
Operating equipment	17 4
Computer equipment and vehicles	4

The useful lives of these property and equipment are reviewed annually.

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Notes to the Financial Statements

December 31, 2008 and 2007

***(d) Cost Related to Asset Retirement Obligations***

Petroritupano, S. A. capitalizes the estimated costs related to asset retirement obligations for exploration and production of oil and other industrial facilities, based on the future disposal plan of such assets. Cost is capitalized as part of the related long-lived asset and amortized with charge to the operating expenses during their remaining useful lives.

Asset retirement obligations are recognized at fair value at the date when such obligation is incurred, based on discounted future cash flows. The determination of fair value is based on the existing regulations and technologies.

***(e) Inventories of Materials and Supplies***

Inventories of materials and supplies are presented at the lower of cost or net realizable value. The cost of inventories is based on the average method. The carrying amount of inventories does not exceed their recoverable value. During 2008 and 2007, the materials and supplies recognized as operating expenses amounted to \$13,564 thousands and \$10,131 thousands, respectively.

***(f) Cash Equivalents***

Petroritupano, S. A. considers as cash equivalents all time deposits with original maturities of less than three months and available on a current basis.

***(g) Impairment of Assets***

***Financial Assets***

Financial assets are assessed by the Company at the financial statement date, in order to determine whether there is objective evidence of impairment. A financial asset is impaired if there is objective evidence that one or more events have had a negative effect on the asset's estimated future cash flows.

Significant financial assets are assessed individually in order to determine their impairment. The remaining financial assets with similar credit risks characteristics are assessed by groups.

Losses from impairments are recognized in the statements of income. The reversal of a loss from impairment occurs only when this can be objectively related to an event occurred after the date when the loss for impairment was recognized.

***Non-Financial Assets***

The carrying amounts of non-financial assets, excluding inventory and deferred tax, are reviewed at each reporting date to determine whether evidence of impairment exists. If any such indication exists then the recoverable amount of the asset is estimated.

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**PETRORITUPANO, S. A.**

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An impairment loss is recorded when the carrying amount of an asset or of its cash-generating unit exceeds the recoverable amount. A cash generating unit is the smallest group of assets identifiable generating cash flows substantially independent of other assets or groups of assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the related assets to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recorded for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The cost of the relevant asset is presented net of this impairment charge.

Impairment is determined by the Company based on the cash generating units, in accordance with its business segments, geographical locations and the final use of the production generated by each unit. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

The management assesses annually the impairment in the value of property, plant and equipment. The main key assumptions used by the management in order to determine the recoverable amount of property, plant and equipment are the projections of income, oil prices, royalties, operating and capital costs and the discount rate. Likewise, the projections include the proved developed reserves that will be exploited during the estimated period of production of the field.

***(h) Employee Benefits and Other Postretirement Obligations***

Following corporate instructions from PDVSA, the Company's related entity PDVSA Petróleo assumed the employer condition of the workers that accepted their transfer and who work as assignees in the operations of Petroritupano, S. A. PDVSA Petróleo administers and calculates the payroll of such workers and bills the Company for the costs corresponding to the direct and indirect labor; the latter recognizes such labor costs against a liability in favor of PDVSA Petróleo. The costs corresponding to the indirect labor are determined by PDVSA Petróleo according to the following accounting policies:

***Severance Indemnities***

Severance indemnities for labor terminations in Venezuela are recorded in accordance with Venezuelan Labor Law and the effective union contracts. Severance indemnities are deposited monthly in trust accounts on behalf of each employee.

On October 11, 2007, PDVSA signed a labor collective contract effective until year 2009, whereby salary improvements and social benefits are introduced for workers of the contractual payroll in Venezuela. The obligations resulting from the application of this collective contract are in effect since November 2007.

***Short-term Benefits***

Obligations due to short-term benefits, as employee's bonuses, vacations and other benefits are accounted for as expenses as the related service is provided by the worker.

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**PETRORITUPANO, S. A.**

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December 31, 2008 and 2007

***Pension Plan***

PDVSA's net obligation for retirement benefits and other postretirement obligations as defined by contract is calculated for each participant in the plan, estimating the amount of future benefits that employees have acquired for their services during the current and prior periods; these benefits are discounted in order to determine their present value which is reduced by the fair market value of plan assets. The discount rate must reflect the yield which, at the date of the financial statements, is reflected by financial instruments issued by institutions with high credit ratings and having maturities similar to those of the obligations. The calculation is made by an actuary using the projected unit credit method.

Improvements to benefits of a plan, relating to the cost of past services, are recorded as an expense in the statement of income over the estimated period, until the benefits become vested. To the extent such benefits are vested, the expense is recorded immediately in the statement of income.

The Company records as either income or expense a portion corresponding to the amount of its unrecorded actuarial gains or losses, exceeding 10% of the greater of the following amounts:

The present value of defined benefit obligations; and

The fair value of the plan's assets.

The resulting amount is divided between the average remaining service period of the employees participating in the plan. These limits are determined and applied separately for each of the defined benefit plans.

***Other Postretirement Benefits***

The net obligation for other postretirement benefits, other than the pension plan, contractually defined, is the amount of future benefits that employees have earned for their services during the current and prior periods. These benefits include mainly health and dental plan, funeral insurance and electronic meal card. The obligation is calculated using the projected unit credit method, and is discounted to reflect its present value and is reduced by the fair value of related assets, if any. The discount rate must reflect the performance of financial instruments issued by institutions of high credit rating at the date of the financial statements and having maturities similar to those of the obligations.

Cost of past services and actuarial gains or losses are recorded using the same methodology as used for the contractually defined benefit plan.

***(i) Provisions***

A provision is recognized if, as a result of a past event, the Company has incurred a legal or formal obligation that it may estimate reliably, and it is probable that the disbursement of economic benefits be required to fulfill the obligation.

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**PETRRITUPANO, S. A.**

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According to the environmental policy established by Petroritupano, S. A. and the legal applicable standards, a liability is recognized when costs are probable and may be reasonably estimated. The disbursements relating to the preservation of the environment, linked to income for current or future operations are accounted for as expenses or assets, as required. Disbursements relating to past operations that do not contribute to the obtaining of current or future income are charged to expenses.

The creation of these provisions coincides with the identification of an obligation relating to environmental remediation, for which Petroritupano, S. A. has the adequate information to determine a reasonable estimate of the cost. Subsequent adjustments to estimates, if necessary, are recorded upon obtaining additional information.

***(j) Income Recognition***

Revenues from the sale of hydrocarbons are recorded in the statement of income when the significant risk and rights of ownership have been transferred to PDVSA Petróleo and MENPET, according to the purchase agreement sale of hydrocarbons signed between the Company and PDVSA Petróleo, and may be reasonably measured to the extent that it is probable that future economic benefits flow towards the Company. This income is calculated and accounted for at the transaction date, based on the specifications of such contract. The purchase agreement establishes that all export costs related to the export of crude oil sold to PDVSA Petróleo will be recognized by the Company as a reduction of its income.

In the case of income from activities other than the Company's main business, it is recognized when income has been realized. Income is not recognized if there is significant uncertainty as to the recovery of the obligation acquired by the buyer.

***(k) Income Tax***

Income tax expense comprises the current and deferred tax. Income tax expense is recognized in the results of each year, except when it refers to items that must be recognized directly in equity.

Current tax is the expected tax payable, calculated over the taxable income of the year, using the methodology established by the current legislation, effective tax rates at the balance sheet date and any adjustment to the tax payable from previous years.

Deferred income tax is accounted for using the balance sheet method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, pursuant to the law. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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A deferred tax asset is recognized only up to the amount that it is probable that future taxable income is available on which to offset it. Deferred tax assets are reviewed at the financial statement presentation date and are reversed as the probability of realizing the related tax benefit is reduced.

Income tax arising from the distribution of dividends, determined on the basis of the tax law, is recorded as a liability when the liability to pay the related dividend is recognized.

***(l) Capital Stock***

Ordinary shares are classified as equity. As of December 31, 2008 and 2007, the Company does not have preferred shares (see note 13 (a)).

***(m) Premium in Issue of Shares***

The Company records as premium in issue of shares any excess of the contributions generated by the stockholder during the Company's incorporation and the nominal value of shares at the incorporation date (see note 13 (b)).

***(n) Distribution of Dividends***

Dividend distributions to the Company's shareholders are recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders (see note 13 (d)).

***(o) Recently Issued Accounting Standards***

Several new standards, amendments and interpretation to current standards are not effective for the year ended December 31, 2008 and have not been applied in preparation of these financial statements. The most significant standards for Petroritupano, S. A. are the following:

In March 2007, the IASB issued the International Accounting Standard N° 23 revised Borrowing Costs (IAS 23), which eliminates the option to recognize financing costs in the statement of income and requires the companies to capitalize these directly attributable costs to the acquisition, construction or production of a qualified asset as a cost of this asset. This standard will be in effect for the economic period beginning on or after January 1°, 2009.

In July 2008, the IASB issued an amendment to International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (IAS 39), specifying situations in which inflation may be considered a hedged risk for hedge accounting purposes. Also, it establishes conditions for a company to use options as hedging instruments. This amendment will be effective for fiscal years beginning on or after July 1, 2009.

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December 31, 2008 and 2007

In May 2008, the IASB published its annual project of improvements to IFRSs, introducing a series of amendments to existing standards and interpretations, not applicable to the year ended December 31, 2008. The most relevant changes for Petroritupano, S. A. are the following: IFRS 7 *Financial Instruments: Disclosures*; IAS 1 *Presentation of Financial Statements*; IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10 *Events after the Balance Sheet Date*; IAS 16 *Property, Plant and Equipment*; IAS 18 *Revenue*; IAS 23 *Borrowing Costs*; IAS 29 *Reporting in Hyperinflationary Economies*; IAS 34 *Interim Financial Reporting*; IAS 36 *Impairment of Assets*; IAS 39 *Financial Instruments: Recognition and Measurement*; and IAS 40 *Investment Property*. These changes will be effective for fiscal years beginning on or after January 1, 2009.

In February 2008, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 32 *Financial Instruments: Presentation*, which establish when certain financial instruments must be classified as liabilities or stockholders' equity. It applies to financial instruments classified as stockholders' equity, which include contractual clauses for repurchase or settlement by the issuer or, establish an obligation for the company to deliver part of its net assets, but only in the event of liquidation. These amendments will be effective for economic years beginning on or after January 1, 2009.

In September 2007, the IASB issued IAS 1 Revised *Presentation of Financial Statements*, which introduces a comprehensive statement of income including income or loss of the period and other comprehensive income, comprising items of income and expenses not recognized in the results of the period because of the requirements of other standards. Also, it establishes the change of balance sheet for statement of financial position. This revised standard will be effective for fiscal years beginning on or after January 1, 2009.

The Company completed its analysis of these standards and determined that they will not significantly affect the financial statements.

**(4) Foreign Exchange Agreement with the Central Bank of Venezuela (BCV)**

Pursuant to Article 5 of Exchange Agreement N° 9, companies created by entering into association agreements with Petróleos de Venezuela S.A. under the Organic Law Granting the State the Exclusive Right to Administer the Oil and Gas Industry -now derogated- and those mixed companies referred to in the Organic Law on Oil and The Organic Law on Gas, may have accounts in foreign currency in overseas banks or similar institutions abroad, with the purpose of making any necessary payments outside the Bolivarian Republic of Venezuela. These accounts will be supervised by the BCV, which will be responsible for issuing the relevant regulations. These companies are obliged to sell the remaining non used amounts of foreign currency to the BCV, at the exchange rate specified pursuant to Article 6 of the Exchange Agreement N° 1 dated February 5, 2003.

Companies referred to in Article 5 of the Exchange Agreement N° 9 shall not be entitled to obtain foreign currency as granted by the Venezuelan Central Bank in order to cover for any obligations and payments in foreign currency, and are subject, under the regime set forth in this article, to the supervision mechanisms implemented by the relevant agencies.

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Notes to the Financial Statements

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The local currency of the Bolivarian Republic of Venezuela is the Bolivar Fuerte (Bs.F.).

On March 1, 2005, the National Government and the BCV amended Exchange Agreement N°2 of February 6, 2004, fixing the exchange rates for the sale and purchase of foreign currency at Bs.F.2.15 and Bs.F.2.14 to \$1, respectively. In accordance with the legal agreement for the creation of mixed companies, Petroritupano, S. A. billing collections related to liquid hydrocarbons sales must be paid to the Company in dollars, currency that could be held by the Company in foreign bank accounts and used to pay foreign liabilities.

**(5) Balances in Currencies other than the Dollar**

As of December 31, 2008 and 2007 Petroritupano, S. A. has the following monetary assets and liabilities denominated in bolivars, which are translated to dollars at the exchange rate prevailing at the balance sheet date (in thousands):

	2008		2007	
	Dollars	Bolivars	Dollars	Bolivars
Monetary assets	243,441	523,398	336,679	723,860
Monetary liabilities	226,565	487,115	649,392	1,396,193
Net monetary assets (liabilities) position	16,876	36,283	(312,713)	(672,333)

The period-end exchange rate, the average annual exchange rate, the interannual increase in the exchange rate and the national consumer price index (NCPI) in 2008 and the Caracas consumer price index (CPI) in 2007 published by the BCV, were as follows:

	2008	2007
Exchange rate at year-end (Bs.F./\$1)	2.15	2.15
Average annual exchange rate (Bs.F./\$1)	2.15	2.15
Interannual increase in the exchange rate (%)		
Interannual increase in the NCPI/CPI (%)	32	22

**(6) Determination of Fair Value**

Some of the Company's accounting policies and disclosures require the determination of fair value for assets and liabilities, both financial and non-financial. Fair values have been estimated for valuation purposes and/or disclosure, using the information available in the market, and following appropriate valuation methods. Additional information on the fair value estimation of assets and liabilities is disclosed in the specific notes to the financial statements.

The fair value of property, plant and equipment recognized as a result of a business acquisition is based fundamentally on the market value and other appropriate valuation methods. The market value of the asset corresponds to the estimated amount at which this could be exchanged at the valuation date between a willing buyer and a seller in a transaction in conditions of mutual independence, subsequent to an adequate trading where both parties have acted with knowledge, prudence and without obligation.



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The fair value of recoverable value added tax is determined discounting the carrying value, as per recoveries and estimated future collections, using interest rates applicable in the monetary market.

Balances in books of cash and cash equivalents, financial assets, accounts receivable from stockholders and related companies, accounts payable and accruals and the other liabilities approximate their fair value due to the short maturity of these instruments. The fair value of non-current account payable to PDVSA Petróleo, S.A. at December 31, 2008 and 2007, was determined considering the interest rates, and contemplates any credit risk.

The fair value of derivative instruments is based on the estimated amount that the Company would receive or pay to terminate the agreements, taking into account current commodity prices and interest rates and the current creditworthiness of the counterparties.

**(7) Financial Risk Management**

Petroritupano, S. A. is exposed to the following risks relating to the use of financial instruments:

Credit risk.

Liquidity risk.

Market risk.

This note presents information regarding the exposure of Petroritupano, S. A. to each risk mentioned, the Company's objectives, the policies and procedures to measure and managing the risk and the management of capital. Further quantitative disclosures are included in these financial statements.

Petroritupano's Board of Directors is responsible for establishing and supervising the Company's risk management framework. The effect of the business risk is estimated in the strategic and budgetary planning processes, in order to have an integral view of its impact on the Company.

Risk management policies are established in order to identify and analyze the risks faced by the Company, fix adequate limits and risk controls, and monitor risks and the compliance with the limits. The policies and risk management systems are reviewed regularly in order for them to reflect the changes in the market conditions and the Company's activities.

**(a) Credit Risk**

It is the risk of financial loss faced by the Company if a client or counterparty in a financial instrument does not comply with its contractual obligations, and it is mainly caused by cash and cash equivalents and accounts receivable from customers. In order to mitigate the credit risk, cash equivalents are represented by high-quality instruments placed in diverse institutions. Likewise, there is a risk concentration of trade accounts receivable, due to the fact that 100% of the sales of crude oil production are delivered to the related company PDVSA Petróleo (see note 18).

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**(b) Liquidity Risk**

It is the Company's risk as to failing to fulfill its financial obligations as these become due. The approach of Petroritupano, S. A. to manage the liquidity is to assure, to the greatest extent possible, that it will always count on the sufficient liquidity to comply with its obligations as these mature, both under normal conditions as under stressed conditions, without incurring unacceptable losses or risking the Company's reputation.

The Company ensures having enough cash at sight in order to solve the expected operating expenses during a ninety-day period, including the payment of financial obligations; this excludes the possible impact of extreme circumstances that cannot be predicted reasonably, such as natural disasters.

**(c) Market Risk**

It is the risk of changes in market prices, among them the exchange rates, interest rates or sales prices affecting the income of Petroritupano, S. A. or the value of the financial instruments it maintains.

The Company's activities, the financial conditions and the operating results are proportional to the volumes of upgraded crude oil prices. These prices are cyclic and tend to be unstable, and therefore the primary risk of this business is the volatility of the upgraded crude oil prices.

PDVSA Petróleo, which is the main client of the Company, monitors constantly the market's conditions in order to assure the placement of its crude oil production and its products the best way possible. In addition, the Bolivarian Republic of Venezuela is a member of the Organization of the Petroleum Exporting Countries (OPEC), through which agreements are signed to pursue stable prices for crude oil and its products.

**(8) Taxes**

A summary of the taxes affecting the operations of Petroritupano, S. A. for the years ended December 31, 2008 and 2007 follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Income tax	60,131	104,558
Production tax and other taxes	355,840	281,990
	415,971	386,548

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**(a) Income Tax**

The estimated income tax expense for the years ended December 31, 2008 and 2007 is composed as follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Estimated income tax expense based on the period's taxable income	142,613	161,742
Deferred tax benefit	(82,482)	(57,184)
	<b>60,131</b>	<b>104,558</b>

The Company's tax period ends on December 31, each year.

During the years 2008 and 2007, the Company determined tax income of \$285,226 thousands and \$323,484 thousands, which caused an income tax expense of \$142,613 thousands and \$161,742 thousands, presented as part of the income tax payable net to tax paid in advance of \$143,601 thousands and \$153,575 thousands, respectively.

The Income Tax Law establishes that taxpayers shall make an initial inflation adjustment at closing of the first taxable period of non-monetary assets and liabilities pursuant to the Standards established in such Law. Likewise, taxpayers shall register before the Registry of Revaluated Assets during such period when they complete initial inflation adjustment. Such registration causes the obligation to pay a rate equivalent to 3% of the amount of the initial inflation adjustment caused by the depreciable fixed assets, payable up to three equal, annual and consecutive portions, which amounted to \$1,676 thousands. The Law also establishes a regular inflation adjustment which will be included in the income reconciliation as a taxable or non-deductible item.

The Partial Reform of the Income Tax Law published in Official Gazette N° 38,529 dated September 25, 2006, derogated investment tax credits applicable to companies engaged in the exploitation of hydrocarbons and related activities.

The main differences between the amount of the income tax calculated based on the tax rate of 50% and the effective tax rate for the year ended December 31, 2008 and 2007 is presented as follows (in thousands, except the percentage):

	<b>2008</b>		<b>2007</b>	
	%	Dollars	%	Dollars
Income before income tax	100	401,294	100	364,803
Income tax calculated based on the tax rate	50	200,647	50	182,402
Property, plant and equipment	(19)	(77,179)	(12)	(44,373)
Regular inflation adjustment	(18)	(73,443)	(8)	(30,012)
Other	2	10,106	1	(3,459)
	<b>15</b>	<b>60,131</b>	<b>31</b>	<b>104,558</b>

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The deferred tax assets components as of December 31, 2008 and 2007 are composed as follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Property, plant and equipment, net	155,251	78,072
Asset retirement obligations, net	2,248	2,495
Contributions payable		118
Contribution for the Law on Science, Technology and Innovation		6,084
Contribution for the Law on Prevention of the Illicit Use of Stupefacient Psychotropic Substances	3,009	911
Accruals and other liabilities	24,394	14,740
	184,902	102,420

The components of the deferred tax (benefit) expense for the year ended December 31, 2008 and 2007 are composed as follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Property, plant and equipment, net	(77,179)	(44,373)
Assets retirement obligation, net	247	1,262
Contributions payable	118	(118)
Contribution of the Law on Science, Technology and Innovation	6,084	(6,084)
Contribution of the Law on Prevention of the Illicit Use of Stupefacient and Psychotropic Substances	(2,098)	(911)
Accruals and other liabilities	(9,654)	(6,960)
	(82,482)	(57,184)

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**(b) Production and Other Taxes**

A summary of the production and other taxes for the year ended December 31, 2008 and 2007, follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Crude oil production tax	317,736	238,828
Gas production tax	9,124	
Production tax to municipalites	23,513	17,674
Production tax for endogenous development projects	11,756	8,836
Accrual for investment in endogenous projects	2,957	2,664
Contribution for the application of the Law on Science, Technology and Innovation (see note 19 (b))	(12,169)	12,169
Contribution of the Law on Prevention of the Illicit Use of Stupefacient and Psychotropic Substances	2,923	1,819
	<b>355,840</b>	<b>281,990</b>

**Crude Oil and Gas Production Tax**

Pursuant to Article 44 of the Organic Hydrocarbons Law, from any hydrocarbon volume extracted from any reservoir by mixed companies, the State has the right to a participation of 30% as production tax. During the year ended December 31, 2008 and 2007, Petroritupano, S. A. paid production tax for crude oil of \$317,736 thousands and \$238,828 thousands, respectively, through delivery of crude volumes to PDVSA Petróleo, S.A. on account of the MENPET. Also, in 2008 the Company received from MENPET, an additional production tax charge of \$9,124 thousands on accumulated gas production, which was recognized in the results of the year.

**Other Taxes**

The Company is subject to the payment of some additional taxes, which are determinable based on: a) a participation as additional production tax of 3,33% over the volume of hydrocarbons extracted in the specified area, which will be distributed as follows: 2,22% directly to the municipalities composing the specified area, superseding the payments not received by such municipalities for the concept of municipal taxes and 1,11% for a fund to finance endogenous development projects pursuant the guidelines of the National Development Plan in the Relevant Region and; b) an amount equivalent to the difference, if any, between (i) 50% of the value of hydrocarbons extracted from the specified area during each calendar year and (ii) the sum of the payments made by Petroritupano, S. A. to the Bolivarian Republic of Venezuela, regarding the activity developed by the latter during such calendar year, for the production tax applicable on the hydrocarbons, including the ones mentioned above, and the investments in endogenous development projects corresponding to 1% of income before income tax. The additional tax shall be paid on April 20 each year, pursuant to the dispositions established in Annex F of the contract of conversion to mixed company.

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**(c) Value Added Tax**

Official Gazette N° 38,632 of February 27, 2007 published the decrease of the Value Added Tax (VAT) rate from 14% to 11% with effectiveness since March 1°, 2007 until June 30, 2007 and to nine 9% since July 1°, 2007.

The Company is not subject to VAT withholdings from PDVSA, due to the fact that the natural hydrocarbon sales made by the mixed companies ruled by the Organic Hydrocarbons Law to PDVSA or to any of its subsidiaries are not subject to any tax rate, pursuant to the Law on the effective Value Added Tax.

Likewise, the Law establishes that mixed companies ruled by the Organic Hydrocarbons Law will be assimilated to the regular exporting taxpayers, in order to apply the tax credits recovery regime provided in current Law for the sales of hydrocarbons in the country to PDVSA or to any of its subsidiaries. At December 31, 2008, the Company had not requested the Venezuelan tax authorities the recovery of tax credits for VAT, amounting to \$44,532 thousands and present it in balance sheet as non-current assets, due to the fact that the tax authorities were still defining the procedures for the tax credit recovery to be followed by the mixed companies.

**(9) Property, Plant and Equipment**

Property, plant and equipment as of December 31, 2008 and 2007 include the following (in thousands of dollars):

Cost	2008				
	At beginning	Acquisitions	Capitalizations	Cost associated with asset retirement obligations	At end
Production equipment	303,037		7,580	324	310,941
Operating equipment	189,747	26			189,773
Computer equipment and vehicles	1,009				1,009
Works in process	54,715	103,493	(7,580)		150,628
Total as of December 31, 2008	548,508	103,519		324	652,351

  

Acumulated Depreciation and Amortization	2008				
	At beginning	Depreciation and amortization expenses	Depreciation associated to obligation for disposal of asset	At end	Net Book Value
Production equipment	61,774	32,768	711	95,253	215,688
Operating equipment	46,803	25,877		72,680	117,093
Computer equipment and vehicles	308	120		428	581
Works in process					150,628
Total as of December 31, 2008	108,885	58,765	711	168,361	483,990



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Cost	2007					At end
	At beginning	Acquisitions	Capitalizations	Transfers	Cost associated with asset retirement obligations	
Production equipment	246,283		53,605		3,149	303,037
Operating equipment	190,074			(327)		189,747
Computer equipment and vehicles	682			327		1,009
Works in process	77,689	30,631	(53,605)			54,715
Total as of December 31, 2007	514,728	30,631			3,149	548,508

Acumulated Depreciation and Amortization	2007					Net Book Value
	At beginning	Depreciation and amortization expenses	Transfer of item	Depreciation associated to obligation for disposal of asset	At end	
Production equipment	29,464	34,628		(2,318)	61,774	241,263
Operating equipment	21,018	25,851	(66)		46,803	142,944
Computer equipment and vehicles	66	176	66		308	701
Works in process						54,715
Total as of December 31, 2007	50,548	60,655		(2,318)	108,885	439,623

**(10) Prepaid Expenses and Other**

A summary of prepaid expenses and other as of December 31, 2008 and 2007 follows (in thousands of dollars):

	2008	2007
Insurances	982	1,240
Recoverable income tax	4,243	
Recovery expenses	2,773	1,084
Advances to suppliers	527	
Advances to employee travel expenses	303	34
	8,828	2,358



**(11) Financial Assets**

As of December 31, 2008 the Company maintains unsecured debentures for \$1,425 thousands classified as trading financial assets. The fair value of these investments is similar to its carrying value. On May 27, 2009 the Company sold these unsecured debentures.

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**(12) Cash and Cash Equivalents**

A summary of cash and cash equivalents as of December 31, 2008 and 2007 follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Petty cash	2	2
Bank balances	37,495	359
Call deposits		69,025
	37,497	69,386

**(13) Stockholders Equity****(a) Capital Stock**

At December 31, 2008 and 2007, the Company's nominal and legal capital stock is composed as follows:

	<b>Number of shares</b>	<b>%</b>	<b>Type of share</b>	<b>Capital subscribed and paid (in thousands of dollars)</b>
Corporación Venezolana del Petróleo, S.A. (CVP)	1,317,990	60%	A	6,130
Petrobrás Energía, S. A.	483,263	22%	B	2,248
Venezuela US S.R.L.	395,397	18%	B	1,839
	2,196,650	100%		10,217

As of December 31, 2008 and 2007, common shares have a value of \$4.6511 each.

The incorporation document of Petroritupano, S. A., establishes that the Bolivarian Republic of Venezuela's number of shares shall always represent at least a share percentage higher than 50% of the Company's capital stock. Likewise, it establishes that in case of the Company's liquidation, all assets shall be transferred to the class A stockholder, except for the cash available not reserved for the payment of expenses and obligations, which will be distributed to the stockholders in proportion to their participation in the Company's capital stock.

**(b) Premium in Issue of Shares**

During Extraordinary Stockholders Meeting held on October 6, 2006, a decision was made as to recognizing as a premium the additional contributions represented in property, plant and equipment for \$470,249 thousands (stockholder A) and inventories of materials and supplies for \$1,652 thousands (stockholders class B) in the issue of new shares, in proportion to the participation of each partner in the Company's capital stock.

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**(c) Legal and Other Reserve**

The legal reserve is a requirement established in the Venezuelan Code of Commerce, according to which, Venezuelan companies should reserve 5% of their net income until the legal reserve is equivalent to at least 10% of the capital stock in bolivars. The legal reserve cannot be distributed as dividends.

At December 31, 2008, the Company has a legal reserve of \$1,022 thousands, which represents 10% of the capital stock.

As of December 31, 2008, following instructions of CVP, the Company recorded a reserve of \$182,902 thousands for unrealized assets, such as deferred income tax assets. This reserve was debited from unappropriated retained earnings and credited to other reserve.

**(d) Dividends**

Dividends are declared based on the financial statements expressed in bolivars, considering that they represent the presentation currency of the Company's statutory financial statements and paid to the Company's stockholders in bolivars. During an Extraordinary Stockholders Meeting held on October 20, 2008, it was agreed to the decree of dividends for \$164,185 thousands. During an Extraordinary Stockholders Meeting held on August 1<sup>o</sup>, 2007, it was agreed to the decree of dividends for \$118,516 thousands. During 2008 the Company paid \$65,675 thousands to its stockholders class B (\$47,406 thousands in 2007) and offset \$169,620 thousands against accounts receivable from CVP (see note 18).

**(14) Employee Benefits and Other Postretirement Expenses**

A summary of employee benefits and other postretirement expenses for the years ended December 31, 2008 and 2007 follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Salaries and wages	10,694	7,616
Costs of social security	1,520	769
Accrual for pension	2,129	
Benefits derived from the Labor Law and collective convention	11,216	6,751
	25,559	15,136

These expenses are included as operating expenses and selling, administrative and general expenses in the statements of income.

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**(15) Accruals and Other Liabilities**

A summary of accruals and other liabilities as of December 31, 2008 and 2007 follows (in thousands of dollars):

	<b>December 31, 2007</b>	<b>Provision made</b>	<b>Provision used</b>	<b>December 31, 2008</b>	<b>Current portion</b>	<b>Non - current portion</b>
Production tax to municipalities	25,786	23,513	(8,790)	40,509	40,509	
Production tax for endogenous development projects	11,092	11,756	(2,593)	20,255	20,255	
Investments in endogenous projects	5,328	2,957	(2,478)	5,807	5,807	
Application of the Law on Science, Technology and Innovation (see note 19 (b))	12,169		(12,169)			
Application of the Law on Prevention of the Illicit Use of Stupefacient and Psychotropic Substances	3,095	2,923		6,018	6,018	
Social fund withholding	2,905	12,100	(707)	14,298	14,298	
Income tax withholdings	1,294	4,023	(4,526)	791	791	
VAT withholdings	3,189	4,023	(5,844)	1,368	1,368	
Reserve for abandonment of unproductive wells	3,193	434	(46)	3,581		3,581
Asset retirement obligations (see note 16)	13,588	2,314		15,902		15,902
Municipal tax withholdings	1,711	5,046	(6,404)	353	353	
Other investments	6,995	84,829	(70,482)	21,342	21,342	
Expenses	25,268	292,508	(275,974)	41,802	41,802	
Other	10,178	567	(10,423)	322	322	
<b>Total accruals and other liabilities</b>	<b>125,791</b>	<b>446,993</b>	<b>(400,436)</b>	<b>172,348</b>	<b>152,865</b>	<b>19,483</b>
Less current portion	109,010			152,865		
Non current portion	16,781			19,483		

**(16) Asset Retirement Obligations**

The movement of the accrual for asset retirement obligations for the years ended December 31, 2008 and 2007, follows (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Balance at beginning of year	13,588	10,648
Reestimation of the year	1,990	(209)
Additional provision in the year	324	3,149
Balance at the end of year	15,902	13,588

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The business plan of Petroritupano, S. A. at December 31, 2008 establishes the conduction of drilling and production of hydrocarbons until the year 2025; the accrual for asset retirement obligations was calculated considering the disbursements made for this concept, associated to current wells.

**(17) Accounts Payable**

Accounts payable as of December 31, 2008 and 2007 include the following (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Stockholders and related companies (see note 18)	227,466	508,726
Commercial suppliers	26,765	24,176
	254,231	532,902

**(18) Balances and Transactions with Related Entities**

The Company maintains balances and carries out significant mercantile transactions with stockholders, related companies and entities, whose effects are included in its results and financial position.

The balances with related entities as of December 31, 2008 and 2007 follow (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Current accounts receivable-		
PDVSA Petróleo	617,256	827,884
Consorcio Petrobras Energía, S. A.	222	28,215
Venezuela US, S.R.L.		23,086
PDV Insurance	7,156	
Petrokariña, S. A.	2,816	
Bielovenezuela, S. A.	213	
Petrowayu, S. A.	129	
Petrovenbras, S. A.	27	
	627,820	879,185
Current accounts payable-		
PDVSA Petróleo	209,987	456,297
MENPET	9,124	
Consorcio Petrobras Energía APC Corod		702
Petrokariña, S. A.	7,717	
Petrobras Inversiones y Servicios, S. A.	157	
Petrovenbras, S. A.	419	
Consorcio Petrobras Energía, S. A.	58	28,641
Venezuela US S.R.L.	4	23,086
	227,466	508,726

Non-current account payable to PDVSA Petróleo

5,062

2,933

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The most significant transactions with related entities during the years ended December 31, 2008 and 2007 are summarized as follow (in thousands of dollars):

	<b>2008</b>	<b>2007</b>
Sales of crude oil to PDVSA Petróleo	736,372	554,312
Sales of crude oil as payment of production tax, delivered to PDVSA Petróleo	317,736	238,828
Contribution for social development	129,969	
Labor cost	25,559	15,136
Operating expenses	16,227	26,836
Other taxes	50,272	43,161
Estimated income tax expense	142,613	161,742
Dividends paid	65,675	47,406
Loans received		109,214

Accounts receivable from PDVSA Petróleo, are related to sales of crude oil. In addition, the production corresponding to the rest of the income of Petroritupano, S. A. for the years ended December 31, 2008 and 2007 for \$317,736 thousands and \$238,828 thousands, respectively, was delivered to PDVSA Petróleo for the payment of the production tax to MENPET, in accordance with the agreement with such ministry (see note 8 (b)).

The Special Contribution on Extraordinary Prices of the International Hydrocarbons Market Law (SCEPIHML) and its related resolutions establish a special contribution to be paid on a monthly basis by exporters (see note 19(a)). Although the Company is not a direct crude exporter, it agreed with PDVSA Petróleo the payment of a contribution for Venezuelan social development equivalent to the amount of such SCEPIHML.

During the year 2008, PDVSA Petróleo, S.A. made payments on behalf of Petroritupano, S. A., for labor costs of approximately \$25,559 thousands (\$15,136 thousands in 2007), included in the statements of income under operating expenses and selling, administrative and general expenses.

As of December 31, 2008, the Company recorded a liability of \$5,062 thousands (\$2,933 thousands in 2007) corresponding to retirement benefits of staff transferred by PDVSA Petróleo, S.A. to Petroritupano, S. A., included in the balance sheet under non-current accounts payable to PDVSA Petróleo, S.A. and in the statement of income under selling, administrative and general expenses.

PDVSA Petróleo, S.A. employs all employees assigned to Petroritupano, S. A., and this related company bills monthly the cost of payroll and other labor benefits to the Company.

During the year ended December 31, 2008 the Company acquired insurance policies from PDV Company Ltd. for \$1,963 thousands.



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As per instructions received from the management of Corporación Venezolana del Petróleo, S.A. (CVP), the Company proceeded to offset accounts receivable resulting from the sale of crude to PDVSA Petróleo against accounts payable from labor costs, operating expenses and dividends payable to CVP. At December 31, 2008 the balances of the settled accounts follows (in thousands of dollars):

Accounts receivable to PDVSA Petróleo	792,534
Accounts payable to PDVSA Petróleo	(622,914)
Dividends payable to CVP	(169,620)

Accounts payable to related entities at December 31, 2008 and 2007 correspond to disbursements carried out on account of Petroritupano, S. A. for operating expenses and selling, administrative and general expenses.

During the year ended December 31, 2008 and 2007, the Company's directors have not received any remuneration.

**(19) Laws, Resolutions and Legal Contributions****(a) Special Contribution on Extraordinary Prices of the International Hydrocarbons Market Law**

On April 15, 2008, Official Gazette 38,910 published the enactment of the Special Contribution on Extraordinary Prices of the International Hydrocarbons Market Law. Subsequently, Official Gazettes 38,939, dated May 27, 2008 and 38,970, dated July 10, 2008, as well as Resolutions 151 and 195 of MENPET were issued. This Law and its related resolutions establish a special contribution to be paid on a monthly basis by exporters or transporters of liquid hydrocarbons and derivatives to foreign countries. The amount of the contribution will be equivalent to a) 50% of the difference of the average monthly price of Venezuelan basket crude and the threshold price of \$70 per barrel; and b) 60% of the difference of the average monthly price of Venezuelan basket crude and the threshold price of over \$100 per barrel. This contribution will be made for each barrel of oil exported or transported to foreign countries and paid on a monthly basis by MENPET to the Venezuelan Development National Fund (FONDEN) for performance of infrastructure, production and social development projects, as well as Community Power strengthening programs (see note 18). This law became effective on the date of its publication.

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***(b) Organic Law for Science, Technology and Innovation***

In August 2005, the Organic Law on Science, Technology and Innovation was enacted. Under this law, beginning on January 1, 2006, large companies must pay on an annual basis an amount equivalent to 0.5% of the gross income obtained within the national territory on any investment activities relating to science, technology and innovation. According to the Law, large companies are those with gross annual income greater than 100,000 tax units (TU). Also, this Law establishes that large companies carrying out activities established in the Organic Hydrocarbons Law and Hydrocarbon Gas Law must pay on an annual basis an amount equivalent to 2% of the gross income obtained in the national territory from investment activities for science, technology and innovation. During 2008, PDVSA and its subsidiaries applied the legal principle of economic unit, whereby PDVSA offset any resulting liabilities with disbursements relating to investment activities for science, technology and innovation with no intercompany charges. In 2008, the Company applied the accrual of science, technology and innovation of \$12.169 thousands as a credit to the 2008 production tax and other taxes.

**(20) Commitments and Contingencies**

***(a) Claims***

The Company is involved in claims and legal actions in the normal course of business. As of December 31, 2008 there are claims for \$1,680 thousands. Company's management is defending the cases vigorously, and based on the advice of its legal counsel, estimates that a possible obligation may, but probably will not require an outflow of resources from the Company.

***(b) Environmental Compliance***

PDVSA and its subsidiaries are subject to various environmental laws and regulations which may require significant expenditures to modify facilities and prevent or remedy the environmental effects of waste disposal and spills of pollutants.

Petroritupano, S. A., along with its majority stockholder CVP, is taking important steps to prevent risks to the environment, people's health, and the integrity of its facilities. PDVSA is in process of the implementation the Integral Risk Management System (SIR-PDVSA®) throughout the Company, which is expected to be completed in 2009. This management system is based on international practices and standards, such as ISO 9000 for control of documentation; ISO 14001 for environmental compliance; ISO 18000 and British Standard BS8800 for occupational health; and the guidelines of the American Petroleum Institute (API) for safety processes.

Conditions that require additional expenditures may exist at various sites including, but not limited to, the Company's operating complexes and crude oil and petroleum storage terminals. Management believes that these matters, in the normal course of operations, will not have a material effect on the financial position and liquidity or operations of the Company.

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**(21) Subsequent Events**

**(a) *Presidential Instructions for Elimination of Luxury or Superfluous Consumption Tax for the National Public Sector***

In Official Gazette 38,146, dated March 25, 2009, Decree of the Presidency of the Bolivarian Republic of Venezuela 6,649 was issued containing the Presidential Instructions for Elimination of Luxury or Superfluous Consumption Tax for the National Public Sector, applicable to all organizations and entities of the national public administration.

**(b) *Economic Measures Announced by the National Government***

On March 21, 2009, the President of the Republic, announced in the Council of Ministers a series of economic measures aimed at facing the fall in oil prices. These measures include the increase of VAT from 9% to 12% and the decree raising the minimum salary by 20%, 10% in May 2009 and the remaining 10% in September 2009.

**(c) *Employee Benefits***

In January 2009, the collective employment agreement expired, and PDVSA appointed a team of negotiators to guide a new discussion. Certain improvements are contemplated with respect to employees' salaries and social benefits to be included in the new collective agreement for the 2009-2011 term.

**(d) *Recently Issued Accounting Pronouncements***

In January 2009, the IASB issued Interpretation 18 Transfers of Assets from Customers (IFRIC 18), applicable to fiscal years beginning on or after July 1, 2009. This interpretation is being analyzed by Company management.

In March 2009, the IASB issued changes to IFRIC 9 and IAS 39 to clarify the accounting treatment of embedded derivatives for companies classifying financial instruments at fair value in the statements of income. These provisions will be applied retrospectively to financial statements for years ended on or after November 30, 2009. This interpretation is being analyzed by Company management.

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**(22) Summary of Differences Between Financial Statements and Accounting Records**

The amounts in the financial statements as of December 31, 2008 and 2007, presented in this report, differ from the amounts shown in the accounting records at such dates, due to the fact that certain adjustments relating to the accrual of the Organic Law on Science, Technology and Innovation, income tax payable and deferred income tax asset were recognized after year-end. The summary of such adjustments follows (in thousands of dollars):

	<b>Balances according to accounting records debit (credit)</b>	<b>Adjustments debit (credit)</b>	<b>Balances according to this report debit (credit)</b>
<b>December 31, 2008</b>			
Balance sheet-			
Retained earnings at December 31, 2007	(315,433)	18,176	(297,257)
Statements of income-			
Other expenses (income), net	9,563	(6,007)	3,556
Production tax and other taxes	368,009	(12,169)	355,840
<b>December 31, 2007</b>			
Balance sheet-			
Deferred tax assets	111,047	(8,627)	102,420
Income tax payable	(10,787)	2,620	(8,167)
Retained earnings	(303,264)	6,007	(297,257)
Statements of income-			
Income tax	98,551	6,007	104,558