

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)

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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 No

Petrobras Energía S.A. Yes No

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 Companc 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.

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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**

	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)				
Argentine GAAP:					
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
U.S. GAAP:					
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**

	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)				
Argentine GAAP:					
Consolidated Balance Sheet					
Assets					
Current assets					
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
Total current assets	6,291	6,489	5,106	4,020	3,650
Non-current assets					
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
Total non-current assets	16,839	14,905	15,405	14,605	14,510
Total assets	23,130	21,394	20,511	18,625	18,160
Liabilities					
Current liabilities					
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
Total current liabilities	5,778	4,614	5,066	3,846	3,799
Non-current liabilities					
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
Total non-current liabilities	7,475	7,490	6,838	7,674	8,315

Total liabilities	13,253	12,104	11,904	11,520	12,114
Minority interest in subsidiaries	930	860	771	688	1,869
Total Shareholders Equity	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
U.S. GAAP:					
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)				
Argentine GAAP:					
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
U.S. GAAP:					
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**

	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)				
Argentine GAAP:					
Consolidated Balance Sheet					
Assets					
Current assets					
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
Total current assets	6,252	6,452	5,074	3,996	3,638
Non-current assets					
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
Total non-current assets	16,839	14,905	15,405	14,605	14,510
Total assets	23,091	21,357	20,479	18,601	18,148
Liabilities					
Current liabilities					
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
Total current liabilities	5,787	4,620	5,071	3,850	3,808
Non-current liabilities					
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
Total non-current liabilities	7,475	7,490	6,838	7,674	8,315

Total liabilities	13,262	12,110	11,909	11,524	12,123
Minority interest in subsidiaries	2,777	2,583	2,350	1,922	1,626
Total Shareholders Equity	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
U.S. GAAP:					
Total assets	20,501	19,306	18,017	16,158	16,751
Shareholders equity	7,020	6,874	6,195	5,233	5,286

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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
2009				
June ⁽¹⁾	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
2008				
December	3.37	3.47	3.42	3.45
For the year ended December 31,				
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.

Table of Contents***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*) (FONINMEM) 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. 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.

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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:

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

(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:

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

(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
Gross wells drilled:						
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
Net wells drilled:						
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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Production Areas	Location	Basin	2008 Production		Oil and Gas Wells	Interest	Expiration
			Oil⁽¹⁾	Gas⁽²⁾			
Argentina:							
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% ⁽¹¹⁾	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% ⁽¹¹⁾	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% ⁽³⁾	2023
Sierra Chata	Mendoza	Neuquén	4		6	33.33% ⁽¹¹⁾	2015
Atuel Norte	La Tapera						
Puesto Quiroga	Chubut	San Jorge				35.67% ⁽⁴⁾⁽¹¹⁾	2017
El Tordillo	Chubut	San Jorge	2,965		729	35.67% ⁽⁴⁾⁽¹¹⁾	2016
Aguaragüe	Salta	Noroeste	113	6,828	40	15.00% ⁽¹¹⁾	2017/2023
Estancia Agua Fresca	Santa Cruz	Austral	327	201	4	50.00%	2033
Gobernador Ayala	Mendoza	Neuquén	64		17	22.51% ⁽¹¹⁾	⁽⁵⁾
Agua Amarga	Río Negro	Neuquén			5	17.90% ⁽¹¹⁾	2013
Total Argentina			15,744	97,536	3,166		
Outside of Argentina:							
		Sub					
Colpa Caranda ⁽⁶⁾	Bolivia	Andina	569	13,657	61	100.00%	2029
Oritupano Leona ⁽⁷⁾	Venezuela	Oriental	2,816		227	22.00% ⁽¹¹⁾	2025
Acema ⁽⁷⁾	Venezuela	Oriental	205	758	25	33.24% ⁽⁸⁾⁽¹¹⁾	2025
		Lago					
La Concepción ⁽⁷⁾	Venezuela	Maracaibo	1,253	1,109	92	36.00% ⁽¹¹⁾	2025

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

	Year ended December 31,		
	2008	2007	2006
	(in pesos per barrel of oil equivalent)		
Argentina:			
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
Outside of Argentina ⁽¹⁾:			
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.

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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.

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

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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 km², including 200 km² 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.

	Crude oil, condensate and natural gas liquids			Natural gas			Combined (in millions of barrels of oil equivalent)
	Argentina	Outside of Argentina	Total	Argentina	Outside of Argentina	Total	
	(in thousands of barrels)			(in millions of cubic feet)			
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.

	2008		2007		2006	
	Millions of barrels of oil equivalent	% of total proved reserves	Millions of barrels of oil equivalent	% of total proved reserves	Millions of barrels of oil equivalent	% of total proved reserves
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%
Total Proved Reserves	433.0	100%	482.7	100%	527.2	100%

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.

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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:

	Year ended December 31,		
	2008	2007	2006
	(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.

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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:

	As of December 31, 2008
Owned ⁽¹⁾	128
Franchised ⁽²⁾	516
Total	644

(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

	As of December 31, 2008
Petrobras	518
Eg3	101
San Lorenzo	25
Total	644

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:

	Year ended December 31,		
	2008	2007	2006
Average crude oil processed per day (barrels)	72,200	76,600	63,100
Production (thousands of tons):			
Virgin naphtha	882	890	737
Diesel oil	1,427	1,468	1,282
Other products	1,330	1,532	1,229
Sales:			
Crude oil (thousands of m3) ⁽¹⁾	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
Sales (in millions of pesos):			
Argentina	5,708	4,171	3,361
Outside of Argentina	1,234	1,655	1,170
Total	6,942	5,826	4,531

(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:

	Year ended December 31,		
	2008	2007	2006
Production:			
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
Sales:			
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
Sales (in millions of pesos):			
Argentina	894	774	731
Outside of Argentina	344	711	785
Total	1,238	1,485	1,516

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
Production (thousands of tons):			
Styrene ⁽¹⁾	122	116	95
Synthetic rubber ⁽²⁾	45	54	53
Urea	67	47	58
UAN and other liquid fertilizers	274	295	392
Polystyrene	59	62	57
BOPS	12	13	13
Sales (thousands of tons):			
Styrene ⁽¹⁾	73	82	100
Synthetic rubber ⁽²⁾	48	55	56
Fertilizers	483	673	747
Polystyrene and BOPS	61	73	72
Propylene	18	25	23
Sales (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
Production (in thousands of tons):			
Styrene	224	222	234
Polystyrene	110	123	113
Sales (in thousands of tons):			
Styrene	146	138	136
Polystyrene	112	121	114
Other	53	71	94
Sales (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
Regulated Segment:			
Average firm committed capacity ⁽¹⁾	73.3	72.7	71.6
Average daily deliveries ⁽¹⁾	63.0	63.0	61.2
Annual load factor ⁽²⁾	86%	87%	86%
Unregulated Segment:			
Liquids total production ⁽³⁾	891.4	828.6	1,036.4
Processing capacity at year end ⁽¹⁾	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:

	Year ended December 31,		
	2008	2007	2006
Power Generated (Gwh)	6,193	5,146	6,434
Power Sold (Gwh):			
Forward market	2,578	2,421	2,300
Spot market	4,209	3,300	4,656
Total sales	6,787	5,721	6,956
Sales (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.

	Annual sales in Gwh		
	2008	2007	2006
Sales in Gwh:			
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
Sales (in millions of pesos)	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 m³; Law No. 26,074 (2006) 800,000 m³ (subject to an additional exemption of 20% in 2007); Law No. 26,337 (2007) 1,800,000 m³ (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 m³ 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 m³ 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.

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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/m³ for propane, US\$393/m³ for butane and US\$363/m³ 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/m³ for propane, US\$271/m³ for butane and U.S.\$250/m³ 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 Hazards 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 environment 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 environment 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.

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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 EcuadorTLC 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.

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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.

	With proportional consolidation			Without proportional consolidation		
	For the year ended December 31,			of CIESA and Distrilec		
	2008	2007	2006	For the year ended December 31,		
				(Unaudited)		
				2008	2007	2006
	(millions of pesos)					
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

	For the year ended December 31,		
	2008	2007	2006
	(in millions of pesos)		
Net sales ⁽¹⁾			
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 ⁽²⁾	2,993	2,671	2,498
Corporate and Eliminations ⁽³⁾	(2,975)	(2,726)	(2,555)
Total	15,175	13,458	11,745
Gross Profit (loss) ⁽⁴⁾			
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 ⁽²⁾	885	746	706
Corporate and Eliminations ⁽³⁾	22	(10)	29
Total	4,175	3,347	3,683
Operating Income (loss)			
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 ⁽²⁾	620	653	537
Corporate and Eliminations ⁽³⁾	(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.

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	For the year ended December 31,		
	2008	2007	2006
	(in millions of pesos)		
Net Sales ⁽¹⁾			
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 ⁽²⁾	1,395	1,210	1,211
Corporate and Eliminations ⁽³⁾	(2,975)	(2,726)	(2,555)
Total	13,577	11,997	10,458
Gross Profit (loss) ⁽⁴⁾			
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 ⁽²⁾	372	244	281
Corporate and Eliminations ⁽³⁾	22	(10)	29
Total	3,662	2,845	3,258
Operating Income (loss)			
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 ⁽²⁾	340	226	280
Corporate and Eliminations ⁽³⁾	(416)	(375)	(260)
Total	1,672	1,109	1,893

(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