

PETROBRAS ENERGIA PARTICIPACIONES SA
Form 6-K
March 25, 2008

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

March 25, 2008

PETROBRAS ENERGIA PARTICIPACIONES S.A.

(formerly PEREZ COMPANC S.A. and PC HOLDING S.A.)

(Exact Name of Registrant as Specified in its Charter)

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Maipú 1, Piso 22

(1084) Buenos Aires, Argentina

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82

N/A.

PETROBRAS ENERGIA PARTICIPACIONES S.A.

Consolidated Financial Statements and Summary of Events

as of December 31, 2007, 2006 and 2005

Independent Auditors Report

To the Shareholders

To our Shareholders:

In 2007, Petrobras Energía continued to strengthen its position as an integrated energy company, with its main focus in Argentina.

The Company operated in a general context of high international prices for oil and its by-products, increased energy demand and economic growth in Argentina. As in the previous year, this context faced some challenges, such as the suite of government regulations. The particular case this year was the enactment of Law No.42, which amended Ecuador's Hydrocarbons Law and has an impact on the Company's profitability in that country.

We have put together strategies to face those challenges and opportunities, which opened up the path to new business opportunities and mitigated restrictions.

Focused on business integration and the search for profitability in each operation, policies and procedures have been made consistent so as to make management more efficient.

Quite aware of the strategic importance of the power industry in this growth, we are leveraging it with investments for approximately P\$1.9 billion. Since we are committed to the development of the country and the region, we also contribute to creating economic, social, and environmental value through each business.

In the area of Oil and Gas Exploration and Production, we have strengthened the strategy of growing reserves through exploration activities. Consequently, we have increased our investments in exploration to US\$75 million. Another step taken was the acquisition of the Rio Colorado exploration Block in the province of Salta. We have also bought additional interests in oil fields, such as El Tordillo and La Tapera, and in gas fields, such as Sierra Chata and Parva Negra at the Golfo San Jorge and Neuquen basins, respectively, which are subject to government authorizations. We have also added an annual average gas production of 800 thousand cubic meters/day at the Neuquen basin, at the first anniversary of production of El Mangrullo field.

This investment was also channeled to other countries in Latin America, such as Peru. Precisely there, in Lote 57, we have found gas and condensate in the Kinteroni 1 well. The preliminary production tests show more than 35 million cubic feet of gas and 1.2 thousand barrels of condensate per day.

This year we sold a 40% equity interest in Petrobras de Valores Internacional de España S.L., holder of 99.79% of Petrobras Energía del Perú's capital stock. The purpose of this decision was to make the most of our asset portfolio, by adjusting our investment in Peru to amounts aligned to our business plan. This transaction, which monetizes a value boosted by high oil prices in the international market, expands the Company's investment capacity in Argentina.

In the Refining and Distribution business units, our refineries worked at full capacity in order to meet market demand. We have made investments both in San Lorenzo and in Bahia Blanca, so as to be able to process larger volumes. And we have also improved the level of the fuel customer portfolio, which prompted an increase in the sales per gas station and a more efficient distribution.

As regards the Petrochemicals business unit, we also managed to prove our competition skills and leadership in the region. We have approved the Light Reformate Project which, with an investment of above US\$13 million, will support a larger raw material processing capacity. And we have completed the technological upgrade of the Campana ammonia plant so as to increase fertilizer production.

Through the Gas and Energy segment, we continued to supply energy solutions within a context of growing demand and with one of the lowest water flow levels lately. In order to increase our market share, the Company's Board approved the construction of a new Thermoelectric Power Plant, Genelba Plus, located close to the current Genelba, with a capacity of 170 MegaWatts. This project has been preliminarily approved by the Secretary of Energy. On the other hand, regarding our affiliates, we have met the commitment to divest Compañía Inversora en Transmisión Eléctrica S.A. agreed upon with the Argentine government.

A strong bottom line and the financial position of the Company have supported the first dividend distribution to shareholders after the 2001 crisis in Argentina.

As to quality, health, environment and safety (QHES), we have consolidated the policy of taking care of the environment, a critical value for our operations. This has implied, among other actions, QHES training for more than 6,000 people, including people on the payroll and others under contract. We have also continued with our improvement plans in process management and expanded the Management Excellence program to evaluate complete business units.

Excellence in human capital was also one of our concerns in 2007, because we understand that people are one of the Company's strategic assets. In this sense, we supply training, development and integration tools, apart from protecting their health and lives.

We have also deepened our bond with the community, by contributing to its development through our corporate social responsibility programs. We have carried out a participatory diagnosis regarding children's and teens' rights that will support private social investment projects, which we will put together as from 2008. And we continue to promote initiatives, our own or with partners, to promote road safety, environmental awareness, children's health and integration of disabled people.

Petrobras Energía Participaciones S.A. has always been a transparent organization and we understand that the credibility of our Company in the markets and in the community is an essential asset to sustain business growth. Evidence of that is the fact that we have achieved the certification required by Chapter 404 of the Sarbanes Oxley Act (SOX). This means that the information supplied by the Company to its investors and the general public is trustworthy.

Petrobras Energía has moved forward in implementing the Management by Process: after more than two years of planning and development, the first ProAni cycle finally started. It is one of the most important milestones for the Company this year. Among other things, this project promotes, based on the deployment of a single management model in each unit of Petrobras' International Area, a horizontal vision of the organization and the possibility of sharing knowledge, experiences and practices among the different business units. ProAni also provides more data transparency throughout commercial processes, by viewing all transactions in real time (procurement, production, maintenance, etc.).

Another relevant milestone for Petrobras Energía was the appointment, in January 2008, of a new Chief Executive Officer: Décio Odone. A reputed professional with a solid background in Petrobras, who will go more deeply in the strategic line of work we have put forward.

All these actions show a dynamic, integrated, effective company and committed to building a better future. A company ready to face the challenges anticipated in the 2008 outlook.

Outlook

Petrobras Energía is focused on consolidating its position in Argentina, by maximizing business integration and profitability, and contributing to the country's social and economic development through energy supply.

The Company, in order to achieve this goal, has anticipated investment in Argentina in excess of US\$1.7 billion for the next 5 years. In this sense, and from each business unit, we will work to consolidate our leadership as an integrated energy company.

Throughout 2008, in the Oil and Gas Exploration and Production business, we will direct our efforts to increase reserves and production. We will prioritize exploration as a driver for long-term growth and, at the same time, seek to maximize the existing integration with Refining and Distribution and Gas and Energy.

Regarding the first goal, we will continue to consolidate our exploration portfolio, mainly in Argentina and Peru, by focusing both on current projects and the ongoing search for opportunities. We will go forward with Argentinean offshore studies so as to gather more information about the potential of the basin, by using Petrobras' state-of-the-art technology. We will continue with the implementation, in the Neuquen basin, of the tight gas project to develop non conventional reservoirs with low permeability, by using innovative technology in the country, which could then be applied in other fields.

Concerning developing assets, we will apply the Company's expertise in mature field management, by allocating strong investment to reserve development and to maintain and increase production levels.

In the Refining and Distribution business, we have set demanding goals focused on optimizing resources, increasing operational efficiency, operations reliability and management excellence. On the one hand, we will continue to make the greatest operational efforts so that the production of our refineries can supply the domestic demand. Moreover, we will continue to pursue the projects meant to increase light fuel production from heavier crude oils, at the same time meeting the goal to conform to quality specifications as set forth by the regulations for the next few years.

Simultaneously, we will keep on with our branding strategy of positioning Petrobras as a strategic asset, by offering the market quality and technology products and customer service aimed at building the perception that it is the best purchase option. To such effect, our efforts will be mainly focused on optimizing the gas station and agro-service network and growing in the lubricants market by strengthening the Lubrax brand.

In the Petrochemicals business, we will strengthen our leadership position in the regional market, through 2007 investments and the synergy between the styrene plants in Argentina and Brazil. Our goal: keeping styrene leadership in South America.

In the Gas and Energy business we will develop diversified projects so as to provide energy solutions to our own assets and those in the market, by prioritizing synergies with the Petrobras system. In the gas area, we will seek to secure supply of our own consumption and at the same time find profitable marketing alternatives.

In line with our actions in 2007, we have put forward a proposal to establish a reserve for future dividends in the amount of P\$ 191 million.

This sets out a scenario full of challenges, which will place the highest demand on our strategic capacity and operational reliability. That is, a year where we will leverage business integration, continue to work towards a higher profitability and a more efficient management by joining and streamlining processes, innovate through quality products and services, and promote the development of the communities around us.

Macroeconomic Overview Year 2007

International Context

The global economy ended 2007 with a moderate growth, despite negative factors such as the mortgage crisis in the United States. The central banks of the principal economies had to make important cash injections in order to avoid a liquidity crisis. On signs of economic weakness, the Federal Reserve cut interest rates from 5.25% to 4.25% towards the end of the year, while, in a more difficult financial context, the preference for safe assets led to a sustained downtrend in the long-term interest rates implied in Treasury bonds. The dollar clearly depreciated against the major currencies and the euro reached its own record.

China, in turn, maintained an annual growth rate above 10% and its economic authorities insisted, apparently with no significant success, on the need to aim at a more balanced growth situation. Both in Europe and in Japan, the growth in the activity level was sustained but slower than in the previous year.

Oil

Year 2007 showed a rise in oil prices for the sixth year in a row. West Texas Intermediate (WTI) reference crude oil averaged US\$72.3 a barrel, 9% higher compared to 2006. Prices were affected by a marked volatility, which made them climb from unusually low levels in January around US\$50 to the nominal record of US\$99 by the end of November. The weakness of inventories, and particularly the depreciation of the dollar versus other currencies (which attracted capitals looking for shelter in energy commodities), contribute to explain this spread.

Demand increased by 1.21 million bbl/d, 1.4% higher compared to 2006. The explanation for this higher demand comes fully from developing countries, led by China (36% of the rise), Middle East, the rest of Asia and Latin America. The demand from developed countries (OECD) had zero increase, with rises in the United States and Canada which were offset by declines in European Union and Japan; all of them affected by lower growth rates than in emerging countries, a higher elasticity to unsubsidized international prices and a gradually greater energy efficiency.

On the other hand, supply rise by only 0.55 million bbl/d, 0.6% higher compared to 2006, which reflects the generally tight outlook in producing countries and the consequent decline in inventories to face demand. The rises were exclusively focused within non-members of the Organization of the Petroleum Exporting Countries (OPEC), with the former Soviet republics leading in this field, with a rise of 0.52 million bbl/d. The OECD countries did not have here either any impact in terms of additional volumes (the rises in North America were more than offset by the declines in Europe). The OPEC, which added two new members to the cartel (Angola and Ecuador, which is back), took out of the market 0.50 million bbl/d in comparison with 2006, in spite of having increased its production quota in September 2007.

Argentina

In 2007 the annual growth rate of the Argentine economy was higher than 8% for the fifth year in a row. Accelerated consumption allowed to compensate for less dynamic investments with regard to previous years, while promoting a strong increase of imports. The use of the industrial installed capacity continued on the rise, and several sectors had to operate on the limits of their maximum production capacity. Social indicators also showed improvements, with a reduction of the unemployment rate to a level below 10% and nominal wages growing above 20%. This situation originated greater inflationary pressures.

Both the abundant capital inflow and a broad trading balance created again a surplus dollar supply. Except for the most complicated months during the international financial crisis, the Central Bank of the Argentine Republic (B.C.R.A.) continued intervening in the exchange market purchasing currencies and preventing a nominal appreciation of the peso, which averaged 3.12 P\$/US\$ for the year. During 2007, the international reserves of the B.C.R.A. increased by approximately US\$14 billion.

The public sector achieved a primary surplus of over 3 percent points of the gross product, in spite of the strong growth of public expenditure and due to the record prices of commodities and the reform of the social security system, which allowed the Treasury to obtain additional inflows. The Argentine Government met the financing needs both with voluntary placements and direct allotments to Venezuela and surplus funds of various public agencies. Argentina's country risk started the year around 200 basis points, but then it grew significantly, with values up to 500 basis points in the second semester, and finally averaging slightly above 300 basis points by the end of 2007.

The domestic oil production showed a 2.5% yoy decline, while processed crude oil increased by 7%, taking the use of installed capacity in the refining sector to levels close to their limit (higher than 95%). By the end of the year, the Argentine Government increased the withholdings on exports of oil and derivatives, invoking both fiscal motivations and control of domestic prices. The sales of fuels in the domestic market continued on the rise, encouraged by the high economic growth. In such respect, diesel oil grew by 7%, while gasoline sales increased by 17%, driven by lower sales of CNG. The local prices of fuels, in turn, showed a sustained rising trend during the year. At the beginning of the year, regulations were enacted for implementation of the law under which a biofuel 5% cut should be added in gasoline and diesel oil as from 2010.

With respect to gas, the domestic production showed a decline of 1.6% compared to prior year. The low temperatures experienced during the winter brought about an extraordinary increase of seasonal demand by residential customers, resulting in restrictions on gas supply to industries, power generation companies and CNG. In this context, exports of gas to Chile were again cut down. An agreement was entered into by the Argentine Government and producers which sets guidelines on the supply to the domestic market for the next few years, prioritizing the supply to residential customers. These facts, in conjunction with a year that was dry in terms of water flows, also restricted the power supply, being it necessary to go for a greater generation with alternative fuels and more energy imports.

Latin America

Peru

Once again, in a context of strong international liquidity and high prices for commodities, the Peruvian economy continued with the expansive cycle that began in 2002, with annual growth rates higher than 8%, among the highest in the region. The explanation of this great performance lies in construction, non-primary manufacturing, trade, and power utilities sectors.

The massive inflow of capitals resulted in a more significant appreciation of the exchange rate than expected, with the NS at 3/US\$ at year end, which in turn allowed to maintain the limitations on retail prices, with a 3.9% rise, slightly above the inflationary target band, in spite of the weather factor and high international prices for commodities which had a strong influence on the rise of prices.

The external accounts, even though at levels rather below those of 2006, showed robust balances. In this respect, the reserves of the Central Bank reached historical record levels, above US\$27 billion, the trade balance ended with a significant surplus of approximately 7% of the gross product and the current account surplus was 1.1% of the GDP. On the fiscal front, the Treasury showed primary and overall surpluses of around 5.1% and 1.8%, respectively.

In this context, the country risk levels were around an average of 137 basis points, the floor for the measurement of the index and among the lowest in the region. The employment rate had a slight improvement, being around 7.5% by the end of 2007.

Finally, in the field of energy, 10 exploration and 173 development wells were drilled. In addition, 24 exploration and operation contracts were subscribed. The production of liquid hydrocarbons averaged 113 thousand bbl/d, 2% lower than in 2006. The average production of natural gas increased 51% to 259 million cubic feet per day, mainly due to the greater volumes injected by Lote 88 (Camisea). At the same time, significant steps were given in the new investments that will be developed based on the Camisea Project: Petrochemical Complex and Liquefied Gas Exports.

Ecuador

In 2007 the Ecuadorian economy recorded a growth slightly higher than 2%. The growth of the financial intermediation, power and water, trade, industry and construction sectors allowed to offset the fall in the sectors production.

On the other hand, the external balance suffered the combined effect of the strong impact from the decline in the hydrocarbon sector and the gradual increase of imports, which events reduced the surplus of the trading balance of trade about 26% with respect to 2006, taking the trading balance to 1% of the GDP (1.5% in 2006). The fiscal front showed a similar behavior in terms of inflows (decline in the portion corresponding to oil collections), and affected by greater expenses, there was by November a slight accumulated overall deficit of 0.9% of the GDP, even with a primary surplus around 0.9%.

The increase in retail prices was around 3.3%. The good level of private consumption was the result of governmental incentive packages for low-income sectors and the increasing level of remittances, also supported by slight improvements in the level of employment and real wages.

On the energy front, government administration of Blocks XV and Edén-Yuturi / Limoncocha succeeded in slowing down the initial declining level of the fields, even though not enough to revert the downward trend. The production of crude oil, in spite of the record prices reached in the year, showed a downturn in quantity terms of about 6% (up to

509 thousand bbl/d). On the other hand, President Rafael Correa passed an order for the amendment of Law 42-2006, under which the State's share in extraordinary revenues from crude oil price was increased from 50% to 99%, while the oil companies' share was reduced to 1%. In addition, Ecuador completed its return to the OPEC.

Performance Highlights during 2007

Oil and Gas Exploration and Production

The Oil and Gas Exploration and Production segment is Petrobras Energía's core business, it is the first link of its value chain. The Company currently conducts its activities in almost all Latin American oil producing countries: Argentina, Venezuela, Peru, Ecuador, Bolivia and Colombia, and also Mexico, where it acts as contractor. In all the region, the Company's strategy is to increase oil and gas reserves and production, achieving a balance between exploration and development projects with a view to optimizing its investment portfolio.

In 2007, the Company

- acquired an additional interest in Sierra Chata and Parva Negra gas fields, in Argentina.

- acquired, also in Argentina, an additional interest in El Tordillo and La Tapera - Puesto Quiroga oil areas.

- sold a 40% interest in PVIE, a company holding 99.79% of Petrobras Energía del Perú's capital stock and other minority interests.

- started production of the Estancia Agua Fresca field at the Austral basin, first discovery by Petrobras in Argentina.

- added an annual average gas production of 800 Mm³/d at the Neuquén basin, at the first anniversary of the start-up of production from El Mangrullo field.

- increased exploration investments to approximately US\$75 million.

Production and investments

In 2007, Petrobras Energía's oil and gas production reached 139.2 thousand boe/d, accounting for a 10% decrease compared to 2006.

Argentina

In Argentina, production averaged 90.3 thousand boe/d, 6% lower compared to 2006. This reduction is mainly attributable to the natural decline of mature fields. However, during 2007, Petrobras Energía developed intense activities in Argentina: 258 producing and injection wells were drilled and 219 wells were repaired.

In order to increase gas production at the Neuquén Basin, the Company moved forward in the implementation of a pilot plan at the Punta Rosada formation in the Río Neuquén field. The project involved repair of 2 wells and drilling of other 2 wells in low permeability gas reservoirs (non conventional reservoirs). Based on the first results obtained, the pilot project was expanded to include 3 additional wells in 2008.

Also at the Neuquén basin, the Company celebrated its one-year production anniversary in El Mangrullo field, with an 800 Mm³/d average gas production during the year. These results allowed the Company to make further progress in the study of reserve development and the expansion of the production capacity for the next five years.

Jagüel de los Machos is another area with potential development for the next years. In 2007, Petrobras Energía conducted significant well drilling and repair activities in non conventional volcanic rock reservoirs, applying the know how, expertise and successful results obtained in Medanito field, located further to the north. The campaign highlight was the drilling of a new development area in Tapera Este field, which allowed to find higher volumes than expected.

At the Austral basin, in turn, the Mercury Removal Plan operated at full capacity. Crude oil with high mercury content produced by the Company in this area is treated at this plant. This improves trading conditions and fosters integration with refineries.

Another highlight for the Austral basin was the start up of production of Estancia Agua Fresca field, discovered by the Company in Santa Cruz in 2004. The early production stage started in February 2007, with a production of 200 m³/d and an accumulated annual production of 65 thousand m³. In addition, 3 development wells were drilled and the basic engineering phase of the field development project was completed.

In terms of new businesses, in February 2007 Petrobras Energía acquired from Conoco Phillips its 25.67% and 52.37% interests in Sierra Chata and Parva Negra assets, respectively. This operation, which is subject to the approval of regulatory authorities, will allow to increase the Company's interest in Sierra Chata and Parva Negra to 45.55% and 100%, respectively.

In December 2007, the Company acquired a 13.72% interest in El Tordillo field and in the area with exploration potential La Tapera - Puesto Quiroga.

In the Bajada del Palo area, the Company's interest was reduced to 17.9% (3.85% direct interest and 14.05% through its subsidiary Petrolera Entre Lomas S.A.).

Outside of Argentina

- Peru

In Peru, the Company's production was increased by 3% to 15 thousand boe/d, mainly as a result of intense drilling activities that involved drilling of 113 new wells. In addition, in December 2007, Petrobras Energía agreed to sell to Petrobras Internacional Braspetro B.V. 40% of its equity interest in Petrobras de Valores Internacional de España S.L.- PVIE, a holding company owner of 99.79% of the capital stock of Petrobras Energía Perú and other minority interests.

- Ecuador

In Ecuador, on October 18, 2007, the Ecuadorian President issued an Amendment to the Regulations for the Application of Law No. 42-2006, amendatory to the Hydrocarbons Law, under which the State's share in extraordinary revenues from crude oil price rises was increased to 99%, while the oil companies' share was reduced to 1%. The new regulations, in addition to other changes in the industry regulatory framework, represent a material adverse change with respect to the conditions determined upon granting of participation contracts, and adversely affect the Company's operations in Ecuador and the recoverability of its investments.

In 2007, Petrobras Energía's production in Ecuador net of the State's share averaged 10.4 thousand boe/d, accounting for a 12.3% decrease compared to the previous year. This drop was mainly attributable to strikes by local communities that prevented normal operations in Block 18.

Investments in Block 18 were focused on hydraulic fractionation of wells, well drilling and facilities supporting production operations. Main activities included completion and start up of the Fluid Processing Plant.

Investments in Block 31 were applied to maintenance of the camp and structure of Apaika-Nenke field, pending approval of the development stage by governmental authorities. The Environmental License for the field Development Project was granted in October 2007 by the Ecuadorian Ministry of the Environment. This Environmental License is supported by the Environmental Impact Assessment (EIA) and the Environmental Management Plan (EMP) for the development and production of Apaika-Nenke field in Block 31. This Assessment was approved by the Ministry of the Environment and the Ministry of Mines and Petroleum in December 2006 and incorporated comments by the above mentioned ministries and recommendations by the civil society and environmental experts.

Finally, in November 2007, the Ministry of Mines and Petroleum resolved to approve the First Amendment to the Development Plan of Apaika-Nenke field in Block 31. The new project stands out for the use of the best technology available to minimize potential social and environmental impacts on such a sensitive area as Parque Nacional Yasuní.

- Venezuela

In Venezuela, oil and gas production corresponding to the Company's interest in Mixed Companies averaged 15,867 boe/d during 2007, a 35% reduction compared to prior year, mainly as a result of problems in the operation of Oritupano Leona and La Concepción fields. In August, Petrobras Energía received dividends from the mixed companies in the amount of US\$47 million corresponding to fiscal year 2006 results.

- Bolivia

In Bolivia, as a result of a repair campaign, the Company's production was increased by 5% compared to the previous year, and reached approximately 7.7 thousand boe/d. In addition, on May 2, 2007, the operating agreement for the Colpa and Caranda area was notarized under Public Deed No. 408/2007, and became effective and formalized the changes in the segment regulations as a result of the hydrocarbons nationalization.

- Colombia

In Colombia, during 2007 the consortium created for the additional development of the Tibú field, located at the Catatumbo basin, made investments in production facilities and well repairs. In addition, planning of 3D seismic works to be performed in 2008 was completed.

Exploration

For Petrobras Energía exploration is the main vehicle for reserve replacement. Along these lines, in 2007 the Company's investments in exploration activities significantly increased to US\$75 million, and were focused on seismic and drilling activities.

Onshore and offshore activities

During 2007, 14 exploration wells (including 7 extension wells) were drilled, 4 of which are being completed and 7 were successful. The Kinteroni 1-x well, the Company's first exploration well in Peru, was drilled at the Madre de Dios basin. This well was tested at the beginning of 2008 and is a gas and condensate discovery well with a potential volume close to 2 TCF.

Almost half (1,594 km²) of total 3D seismic surveys (3,552 km²) covered offshore areas in Argentina. 3D seismic surveys were also conducted at the Austral and Neuquén basins. In addition, in Peru the Company conducted 2D seismic surveys over 274 km in Lote 57.

New opportunities

In terms of new opportunities,

- the Company was awarded the Río Colorado exploration block, located in the province of Salta;

- Petrobras Energía Perú is concluding the process to purchase an additional interest in Lote 57, pending approval by the Peruvian authorities. As a result, interest in Lote 57 would increase to 46.16%.

Liquid hydrocarbon and natural gas reserves

As of December 31, 2007, liquid hydrocarbon and natural gas proved reserves of Petrobras Energía totaled 482.7 million boe (264.9 million oil barrels and 1.307 thousand million cubic feet of gas), accounting for a 8% decrease compared to reserves as of December 31, 2006. This drop is almost all attributable to the sale of a 40% share interest in Petrobras de Valores Internacional de España S.L., holding company whose main asset is the 99.79% interest in the capital stock of Petrobras Energía Perú S.A., a company that operates Lote X.

Estimated reserves as of December 31, 2007 were audited by DeGolyer and MacNaughton, international technical consultants, covering approximately 90% of estimated reserves operated by the Company and 71% of the Company's total reserves.

During 2007 a net addition of reserves of approximately 54 million boe was recorded, as detailed below:

* 18 million boe were added due to extensions of known accumulations through exploration and revisions of estimated reserves in gas fields in Argentina.

* 33 million boe were added due to extension of drilling and secondary recovery projects in Peru.

Asset divestment in Peru resulted in a 46 million boe reduction. In addition, the divestment of Bajada del Palo area at the Neuquén basin in Argentina resulted in a 1 million boe reduction.

Production totaled 50.6 million boe.

Liquid hydrocarbon and natural gas accounted for 55% and 45% of proved reserves, respectively. 56% of total proved reserves are located in Argentina.

As of December 2007, total oil and gas proved reserves of Petrobras Energía were equal to 9.5 years of production, measured according to 2007 oil and gas production levels.

The following table sets forth estimated net proved reserves of oil (including crude oil, condensate and natural gas liquids) and natural gas by region as of December 31, 2007:

Hydrocarbon transportation

Oleoductos del Valle S.A. Oldelval

During 2007, oil volumes transported from Allen to Puerto Rosales averaged 31,241 m³/d, totaling 71.7 million barrels transported during the year. This volume accounts for a 1.4% increase compared to prior year.

During the year under review, works were performed to ensure the system reliability and included the installation of a reconditioned Core Engine for the Typhoon turbine at Allen pumping station, a Mark II control system at Algarrobo pumping station and required expenses were incurred for operation of the system.

For the same purpose, overhauls of pumps and turbines are being performed due to operating reasons and in compliance with environmental and safety regulations. Works involving improvements and adjustments to pumping stations are also being performed.

Refining and distribution

Through the Refining and Distribution segment, Petrobras Energía capitalizes on its hydrocarbon reserves and moves towards vertical integration of its operations. The key is to consolidate a balanced value chain which starts with hydrocarbon exploration and production and ends with the supply of products that stand out for their quality in more than 680 gas stations.

In 2007, the Company

- operated its refineries at levels close to full capacity in line with demand of the domestic market.

- performed the improvement and maintenance works required at the refineries for units to process design feedstock volumes.

- maintained its leading position in the non regulated Bunker and Asphalt segments and continued to grow profitably in the Lubricant segment.

- optimized the fuel customer portfolio which allowed to increase average sales by gas station and streamline distribution operations.

- created a transportation management area including a double-hulled own vessel, in accordance with international operating standards. This acquisition allows to streamline crude oil supply to refineries, reduce logistic costs, and optimize safety and environmental conditions.

- in June 2007, the Company signed an agreement for the sale of its equity interest in Petrobras Bolivia Refinación S.A. to YPF. The sale price was US\$55 million, accounting for a P\$44 million gain.

Refining division

Through its Refining Division, Petrobras Energía moved forward with the enhancement of the quantity and quality of crude oil processed. Installed production capacity at its refineries Ricardo Eliçabe (located in the city of Bahía Blanca, province of Buenos Aires) and San Lorenzo (located in the city of San Lorenzo, province of Santa Fe) totals 80,800 oil barrels per day. During 2007, both refineries processed an average of 76,554 oil barrels per day.

Bahía Blanca refinery

During 2007, Bahía Blanca refinery operated at levels close to full installed capacity: 30.5 thousand barrels per day. Volumes processed reached an average of 29,360 barrels per day, totaling 10.7 million barrels of crude oil during the year. Most of crude oil processed was from Medanito, produced in fields at the Neuquén basin. The refinery also processes Cañadón Seco and María Inés crude oils, produced at Golfo San Jorge and Austral basins.

Another highlight for the refinery was the successful completion of the shutdown scheduled for April and performed during 35 consecutive days in its Hydrotreatment, Isomerization, Reforming and Liquefied Gas units. Maintenance works were performed on equipment, heat exchangers and vessels to adjust processing to design feedstock volumes.

In addition, the refinery set a new historical record in marine fuel operations (production, sale and transportation).

San Lorenzo refinery

In 2007, San Lorenzo refinery processed 17.2 million barrels of crude oil, accounting for an average volume of 47,194 barrels per day against an installed capacity of 50,300. The refinery mainly processes Medanito crude oil, produced in fields at the Neuquén basin and, to a lesser extent, María Inés, San Sebastián and Cañadón Seco crude oils, produced in fields at the Austral and Golfo San Jorge basins.

In 2007, an asphalt test laboratory was inaugurated at San Lorenzo refinery and two new truck loading platforms were started up with a view to reducing operating times, increasing safety and reducing environmental impact by recovering gases released to the atmosphere. Another action aiming at consolidating environmental safety in the area was the start of replacement of fuel loading and unloading lines at the dock.

Refining Master Plan (PDR)

During 2007, the Company achieved the goals set forth in the Refining Master Plan (PDR) that aims at producing an increased quantity of fuels with heavier crude oils, while ensuring compliance with future quality specifications.

In Bahía Blanca works were performed to meet environmental requirements, optimize processes and improve gasoline formulations. In San Lorenzo, in turn, works related to the processing capacity increase implemented in 2006 were completed. Scheduled works were performed and further progress was made in the assessment of projects aiming to enhance quality and quantity of fuels, particularly fuels produced from heavier crude oils.

Distribution Division

The Argentine Liquid Fuel Market

In 2007, the fuel market in Argentina grew for the fifth year in a row, at a faster pace than in the previous years. Gasoline and diesel oil sales volumes totaled 18.6 million cubic meters, accounting for a 9.2% increase compared to 2006. This, in addition to higher prices for the year, allowed for a partial recovery of the business margins.

Sales of diesel oil grew 7% to 13.6 million cubic meters, boosted by the strong demand from the agricultural, industrial and transportation domestic sectors. This increase was also attributable to the fact that some industrial companies and power plants used diesel oil to make up the shortfall of gas supplies during the winter.

The growth in gasoline domestic sales volumes was even higher. Sales volumes totaled 5 million cubic meters, 17% higher compared to 2006, this being the highest growth level in the last 10 years. This significant improvement results from the remarkable economic growth over the last few years and particularly from record sales of new cars during 2007.

Along these lines, high-grade gasoline recorded the highest sales volumes, with a 23% market growth, while Premium gasoline grew only 19% (half of the growth reached in 2006), mainly due to price increases. The regular gasoline market, in turn, continued its downward trend with sales declining 21% compared to 2006.

Liquid fuels recorded a significant growth over compressed natural gas (CNG), whose sales volumes declined for the second year in a row, this time at 4.5%. This was attributable to the fact that the gap between CNG market prices and liquid fuel market prices was not attractive enough to encourage further conversions.

Petrobras fuels

Domestic sales of Petrobras Energía liquid fuels gasoline and diesel oil totaled 2.6 million cubic meters during the year, a 10% increase compared to 2006. Consequently, the Company maintained its third-place position in the market, with a 14% market share.

Six hundred and eighty (680) thousand cubic meters of the total 2.6 million cubic meters are attributable to gasoline that was in line with the market demand and accounted for a 10% growth compared to the prior year. Podium gasoline, the only 100-octane gasoline in the Argentine market, recorded an 18% increase in sales, with a 9% market share.

However, diesel oil was the highest growth product in 2007 and the Company increased its market share from 13.6% in 2006 to 14.1% in 2007. Petrobras Energía supplied the market with 1.9 million m³ of diesel oil (a 10% increase compared to prior year).

Asphalt and bunker markets

In 2007 the domestic road asphalt market grew 3% compared to 2006 and reached a volume of 478 thousand tons, 185 thousand of which are attributable to Petrobras Energía, a 17% increase compared to 2006. As a result, the Company reached a 39% market share. Exports totaled 9 thousand tons, mainly to Paraguay, Bolivia and Chile.

In addition, Petrobras Energía reached the highest sales level in polymer-modified asphalts since the product was launched in 2002. In 2007, sales volumes exceeded 3 thousand tons, a 30% increase compared to the previous year.

In line with the foreign trade growth and the consequent increased number of vessels accessing domestic ports, in 2007 the bunker diesel oil market grew 4.4% and the bunker IFO market (a blend of fuel oil and diesel oil) increased 5.2%. Bunker diesel oil sales reached 220 thousand cubic meters and bunker IFO sales totaled 644 thousand tons. Petrobras Energía accompanied this growth and maintained its leading position in the market: bunker IFO sales volumes totaled 382 thousand tons, accounting for a 59% market share. In addition, the Company sold 44 thousand cubic meters of bunker diesel oil and maintained its second-place position in the market. These are some of the few non regulated segments in the downstream market.

Lubricants

The lubricant business was another highlight in Petrobras Energía's performance during 2007. Lubrax hit a new sales record: 36,360 cubic meters sold in the Argentine market. This amount represents an 11.5% growth compared to 2006 and stands out against a moderate 5% growth of the domestic market. As a result, the Company reached a 11.7% share in the lubricants market.

In order to obtain these results the Avellaneda plant operated at full capacity. In addition, two new products were launched: Lubrax Valora 5W-30, a state-of-the art multigrade oil for leading edge gasoline engines, and Lubrax TRM 3 80W-90 for gearboxes. The exclusive dealers club was also formally launched. As a result of these and other actions, the Lubrax growth case in Argentina was granted the *Mercurio* Award in the category "Supplies" by the Argentine Marketing Association.

Gas stations and agro-centers

During 2007, the Company moved forward with the optimization of its gas station network. This implied termination of the business relationship with 45 gas stations that were not in line with Petrobras' profile and addition of 6 new stations. This resulted in a 17% improvement in monthly average sales by point of sale.

The Company also continued implementing the program for a change of image of gas stations designed to strengthen customers positive perception of the Petrobras brand in the market. Eighteen new gas stations were identified under the Petrobras brand and as a result 75% of the 680 points of sale of the network already bear Petrobras image. In addition, 6 agro-centers were identified under Petrobras brand, reaching a total of 40 agro-centers identified.

Also with a view to improving the positive perception of the brand and services provided to customers, Petrobras Energía strengthened the development of Spacio 1 convenience stores. In 2007, 4 new stores were added to the network, with 24 Spacio 1 stores at year end.

Refinería del Norte (Refinor)

In 2007, Refinor increased its gas processing installed capacity by replacing the turbine that drives the Turboexpansion II Plant compressor early in May. As a result, the plant processing capacity increased by 850 Mm³/d and reached a total capacity of 11,050 Mm³/d.

Assembly works were performed as scheduled and included the participation of 236 persons from Argentina and other 6 countries, who worked during 35 consecutive days with no problems or accidents.

Gas - LPG

As a result of the above mentioned replacement of the Turboexpansion II plant turbine, since May 2007 Refinor has a total gas processing capacity of 20,350 Mm³/d, which allowed the Company to process an average of 18,600 Mm³/d in 2007.

In addition, LPG production in Turboexpansion plants recorded a monthly average of 29.5 thousand tons, similar to volumes in the previous year when the Company set a historical production record. LPG sales totaled 362.4 thousand tons during the year, 3% higher compared to 354.4 thousand tons in 2006.

Fuels

Mainly due to the decline in crude oil volumes available in the region, the refinery processed 15,914 bbl/d against an installed capacity of 26,417 bbl/d, and this also had an impact on fuel sales which reached 1.036 million cubic meters in the year, 503 thousand cubic meters of which were sold in the domestic market. The remaining volume (533 thousand m³) was sold in foreign markets, 93% of which was attributable to virgin naphtha.

Petrochemicals

The Petrochemicals business is a key component in Petrobras Energía's strategy of vertical integration of its operations. The Company produces a wide array of products such as styrene, polystyrene, synthetic rubber and fertilizers, both for the domestic and foreign markets. Production activities are conducted both in Argentina and Brazil.

Petrobras Energía has the largest installed capacity to produce styrene and polystyrene in the region (and is also the only producer of liquid fertilizers), thus providing higher flexibility in customer service.

In 2007, the Company

- approved the Light Reformate Project (US\$13.3 million investment) that will enable the Company to increase the benzene fractionation capacity and the aromatics recovery unit capacity, among other improvements.

- started to deliver bulk polystyrene in tank trucks, with a view to enhancing customer service, reducing costs and minimizing material handling.

- in the fertilizers segment, completed the revamping of the Campana Ammonia Plant. This will result in a 14% production increase.

- strengthened integration of the styrenics business, by consolidating the operating synergy of plants in Argentina and Brazil, with the development of exemplary logistics allowing to optimize business opportunities in both markets.

- in December 2007 the Company sold its 40% equity interest in Petroquímica Cuyo S.A.I.C. The price set forth in the stock purchase agreement was US\$32 million, accounting for a P\$40 million gain.

Argentine styrenics division

Styrene

In 2007 sales volumes of monomer styrene totaled 50.9 thousand tons, 36.5 thousand tons of which were sold in the domestic market, accounting for a 10% increase in sales volumes in line with the market growth. This growth was mainly attributable to the development of civil construction works, reflected in the production of EPS (expandable polystyrene), polyester resin and paints. Exports, in turn, fell 19% compared to 2006, mainly as a result of reduced sales to Chile.

In the ethylbenzene segment, sales volumes totaled 31.2 thousand tons, accounting for a 36% decrease compared to 2006. This decline was mainly attributable to an increased use of ethylbenzene to produce styrene in Argentina, since during 2006 the Company sent additional ethylbenzene to Innova as a consequence of the scheduled shutdown to perform expansion works at Puerto General San Martín Styrene Plant.

General San Martín port: Light Reformate Project

In February 2007, the Company approved the Light Reformate Project (LRP), with a US\$13.3 million investment. The project objective is to increase benzene fractionation capacity from 60 thousand to 133 thousand tons per year and recover aromatics as petrochemical raw material (benzene) and to be used as solvent (toluene). This project is expected to increase the aromatics recovery unit capacity from 750 to 1,250 cubic meters per day. In addition, the Project involves installation of a pyrolysis gasoline partial hydrogenation plant that will allow for cleaner processing and will add value through its addition to motor gasoline blending.

Works started in March 2007, with a 70% progress at year end. Works will be completed during the Reformer Plant scheduled shutdown, which started in January 2008.

Polystyrene

During 2007 the polystyrene domestic market grew 13%, due to the general economic growth and increased production of durable goods such as television sets and refrigerators, major consumers of this product. Customers made significant investments in the extrusion area throughout 2007 and therefore increased consumption is expected for 2008.

In this market, sales volumes totaled 60.1 thousand tons. Domestic market sales reached 49.6 thousand tons, a 11% increase compared to 2006. October monthly production hit a new record of 5,863 tons, with an average of 7.96 tons per hour.

In the foreign market, polystyrene sales volumes totaled 10.5 thousand tons, a 25% decrease compared to 2006. This decrease is attributable to the mentioned increase in domestic sales due to the fact that the Company is operating at full capacity. In order to maintain export markets, a process involving a change in the origin of exports from the Zárate Plant, Argentina, to the Triunfo Plant, Brazil, is under way.

In addition, during 2007 the Company started to deliver bulk polystyrene in tank trucks, this representing a differentiating action in the market since it implies an improvement in customer service, lower costs and reduced material handling. To such effect, new 1.1 thousand ton storage silos were installed at the Zarate Plant.

The Company is developing new grades of high impact polystyrene that will allow to increase sales and open new markets.

Bi-oriented polystyrene (BOPS)

In 2007 sales of bi-oriented polystyrene (BOPS) totaled 12.5 thousand tons, of which 23% were sold in the domestic market and 77% were exported. Total sales decreased 7% compared to 2006, due to production stoppages during winter as a result of union strikes and operating problems at the plant.

Synthetic rubber

In 2007 Petrobras Energía's synthetic rubber sales totaled 54.7 thousand tons, a 1.5% decline compared to 2006 mainly attributable to power supply restrictions imposed by the Government.

The Company sold 28.5 thousand tons in the domestic market, a 6% increase compared to 2006. Improved sales result from a higher activity level in the tire, band and shoe segments.

In the foreign market, the Company exported 26.2 thousand tons of synthetic rubber, an 8% decline compared to 2006.

Innova S.A. - Innova

In Brazil, the styrene market grew 9% in 2007 (excluding consumption for polystyrene and applications of styrene producers) mainly as a result of the growth of the automobile and civil construction sectors, reflected in acrylic resin and polyester production.

In this market, Innova reached a 42% integrated market share (styrene + polystyrene) and consolidated its leading position. The Company's performance in 2007 included a total production of 205 thousand tons of ethylbenzene and 223 thousand tons of styrene. Polystyrene production reached 123 thousand tons, a 9% rise compared to 2006.

In October 2007, a shutdown for scheduled maintenance works was performed at the styrene and polystyrene plants. However, customer demand was fully met.

In Brazil, styrene sales totaled 133.2 thousand tons, an 18% increase compared to 2006. Polystyrene sales, in turn, reached 100 thousand tons, a 21% rise compared to 2006.

Polystyrene exports reached 21 thousand tons, mainly to Argentina, Africa and Central America. The 33% decline in polystyrene export volumes compared to 2006 was attributable to the strong growth of the Brazilian domestic market where Innova reaffirmed its leading position.

In line with Innova's philosophy of growing in the Brazilian styrene market, during 2007 Innova entered into commercial agreements and contracts with the main customers, for loyalty building purposes, and developed long term relationships, among other actions. Innova continued implementing an approach strategy among the main customers. Within this framework, meetings were held at the plant to generate approaches, strengthen relationships and consolidate confidence to the market. Innova also participated in actions designed to boost development of the EPS civil construction market, thus achieving increased consumption of styrene.

The polystyrene segment business strategy focused on defending market leadership. In this respect, the company strived to increase market share by increasing sales through a more aggressive position in the market. This strategy was implemented by preserving main customers' loyalty. Innova is currently developing new grades of high impact polystyrene that will result in increased sales in the refrigeration, packaging and electronics segments.

In addition, Innova was recognized as the best Brazilian chemical and petrochemical company according to the ranking published by the magazine ISTOÉ Dinheiro, based on the analysis of financial management and social and environmental responsibility, among other aspects, and became the first petrochemical company in Brazil to receive ROHS (Restriction of Hazardous Substances) 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.

New ethylbenzene plant

In late 2006, Innova started the construction of the new ethylbenzene plant which, through more integrated and efficient operations, will allow to reduce costs and incorporate state-of-the-art technological concepts in terms of safety and environment, with reduced effluents and emissions to the atmosphere. About 600 people are currently participating in the construction works, which involved the execution of 13 agreements with companies that provide infrastructure, construction and electromechanical assembly related services. In late 2007 equipment purchases for the plant and auxiliary systems were completed. Start up of production is expected in the second semester of 2008.

Fertilizers

The fertilizers market in Argentina recorded a 10% growth, with a 19% rise in the nitrogen fertilizers market and a 5% increase in the phosphate fertilizers market. This growth primarily results from the high prices of grains (wheat, soybean, corn and sunflower).

Petrobras Energía's total sales volumes were lower compared to 2006, mainly due to a strategy shift aimed at optimizing product profitability. Along these lines, the liquid fertilizers commercial strategy was reoriented to position their products as premium products, with a price 12% higher compared to solid substitute products.

Storage logistics grew in the Company's warehouses and replaced leased services. At Campana the last stage of extension works in the tanks area was completed and dispatch capacity was improved by 30%, with the addition of a loading line. As a result, a 70 thousand ton storage capacity was reached.

The Company also completed the revamping of the ammonia plant, allowing for a 14% production increase.

Gas and Energy

The Gas and Energy business enables Petrobras Energía to consolidate as an integrated company, maximizing profits from gas and electricity production and ensuring self-supply through its active presence in the market.

In the gas segment, Petrobras Energía conducts sales transactions of gas produced by the Company and imported gas. The Company also provides brokerage services to producers who prefer to outsource gas and LPG sales and positions itself as a major commercial service provider. The Company was awarded with the license to transport gas, through Transportadora de Gas del Sur, in the southern region of Argentina and it also processes and markets natural gas liquids.

In the electricity business, Petrobras Energía is engaged in generation and distribution activities and is positioned as a major player in the Argentine electricity market. Electricity generation allows the Company to accelerate monetization of gas reserves. Distribution provides the Company with new growth opportunities, adding value through sales to end users and the development of cutting-edge technology.

In 2007, the Company

- approved construction of the new 170 MW Thermoelectric Plant close to the existing Genelba Power Plant, in Marcos Paz. The Project has been pre-qualified by the Secretary of Energy.

- signed the Natural Gas Producers Agreement to ensure supply of domestic demand, excluding own consumption.

- sold 3.3 thousand tons of bulk liquefied petroleum gas (LPG) and consolidated in the market, with an increased number of customers and installed tanks. The Company also opened a new bulk sales market in Neuquén that absorbed 55% of total sales.

- TGS successfully completed expansion of the firm transportation system by a total of 1.6 MMm³/d, through the installation of 80 km of additional pipelines and the repowering of a compressor plant, resulting in a P\$19 million increase in annual revenues from gas transportation.

- Edesur made P\$260 million investments, with total accumulated investments of P\$3,623 million since the beginning of the concession. The investment plan implies the compliance with the terms of the Memorandum of Agreement entered into with the Government.

- in compliance with the 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 stock purchase agreement of the shares representing Petrobras Energía Participaciones S.A.'s majority capital stock by Petrobras Participaciones S.L., Petrobras Energía sold its 50% equity interest in Compañía Inversora en Transmisión Eléctrica Citelec S.A.

Gas

Marketing

Petrobras Energía continued providing gas and liquefied petroleum gas (LPG) brokerage and trading services to related companies and other producing companies in order to expand business opportunities.

In 2007, sales volumes in Argentina of gas produced by the Company and imported gas totaled 8.18 MMm³/d. The Company also sold 254,914 tons of LPG produced by the Company and imported LPG. The Company, in turn, sold under the brokerage modality 7.35 MMm³/d of gas and 34,087 tons of LPG. Gas volumes transported by the Company (owned and third parties) grew to 4.2 MMm³/d.

In terms of bulk LPG, sales volumes significantly increased. The Company 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. Petrobras Energía also opened a new bulk sales market in Neuquén that absorbed 55% of total sales. The Company also built an automobile LPG gas station.

Another highlight for the year was the execution of the Natural Gas Producers Agreement to ensure supply of domestic demand, excluding own consumption that will be supplied by the Company's own production.

Transportadora de Gas del Sur S.A. TGS

TGS was able to refinance its long-term debt. As a result, restrictions were eliminated or made more flexible, interest rate was reduced and maturity dates of principal were extended, with an extension of the debt average term from 4.3 to 8.5 years. This refinancing transaction involved a US\$130 million debt reduction to US\$500 million. This financial restructuring was accompanied by an operating improvement, since the company was able to exceed the reliability levels required by ENARGAS for gas pipeline operations.

In addition, TGS successfully completed expansion of its firm transportation system (started in 2006) by 1.6 MMm³/d, through the installation of 80 km of additional pipelines and the repowering of a compressor plant. This resulted in a P\$19 million increase in annual revenues from gas transportation.

In the regulated segment, TGS increased both daily average deliveries to 63,015 Mm³ and firm transportation contracted capacity to 72.69 MMm³. In addition, the company was able to extend the terms of contracts expiring between 2008 and 2011. The new average term of renegotiated contracts is 27 years.

The regulated segment, however, could not restore the profitability of the business. In spite of the negotiations carried out with the Utilities Contract Renegotiation and Analysis Committee (UNIREN) in 2007, an agreement was not reached with the Argentine Government. This lack of definition as regards regulatory matters has been one of the major challenges the company had to face since the 2001 crisis and is crucial to the gas transportation business strategy in the mid term.

TGS revenues from the non regulated segment continued to account for a high percentage of the company's revenues (approximately 59% in 2007). Natural gas liquids (NGL) sales volumes decreased by 21% to 815,871 tons. The year's production levels were adversely affected by supply restrictions on natural gas industrial users. Due to high demand by users of uninterruptible supply as a consequence of low temperatures during the winter, the Argentine Government decided to redirect gas for industrial users, among which Cerri Complex was one of the most affected users due to its relevance and position in the transportation system.

In addition, as a result of the energy situation, TGS products had access to new markets and swap transactions that enhanced product value. This, in addition to favorable international prices, allowed to partially offset lower production levels. Strengthening of logistics services related to reception, storage and dispatch of third party products also had a positive impact.

Electricity

Generation

In 2007, the demand for electricity continued its upward trend, with a 6.7% increase. This growth was mostly covered by thermal generation (55.5%) and hydraulic generation (35%). Nuclear generation and imports covered 6.1% and 3.4% of demand, respectively.

Among the year's highlights were the following:

- implementation of FONINVEMEN II (Fund for investments required to increase the electric power supply in the Wholesale Electric Market) to which generation companies will contribute 50% of their profit margins to continue construction of the Campana and Rosario plants or may recover contributions for new investments by private players.

- scheduled restrictions on electric power demand, for the first time since 1989. These restrictions resulted from the significant increase in residential electric power demand during winter (one of the coldest winters in the 1943-2007 period). The increase in demand reached 25% in certain regions and averaged 17% in the whole country, mainly due to low temperatures.

- drought at the Comahue basin. As a result of one of the most severe droughts recorded in the basin, no significant incoming flows resulting from rains were recorded.

Genelba thermoelectric power plant

In 2007 Genelba Thermoelectric Power Plant generated 4.4 thousand GWh of electricity, with an 84% availability factor. Along these lines, Genelba reached a 4% share of total power generation for the year and a 7.5% share of thermal generation.

This reduced performance compared to previous years resulted from major maintenance works at Genelba three units in April and November, during a 5-week period each. Maintenance works were completed ahead of schedule with highly positive results.

Pichi Picún Leufú Hydroelectric Complex - HPPL

Water flows from Comahue were one of the lowest ever recorded and this adversely affected HPPL generation. Incoming flows from the Limay river were 33% below average, while flows from the Collón Curá river were on the same level, 34.6% below average.

Consequently, HPPL generation decreased to 731 GWh, accounting for a 50% decline compared to 2006 and representing the plant minimum historical values. With an 88% availability, HPPL had a 0.7% share of total power generation for the year and a 2% share of hydraulic generation.

In the January-May period, major maintenance works were performed in Unit No.2, with highly positive results. Works were completed as scheduled and the unit was in perfect operating conditions. Major maintenance works in Unit No.3 started in November and are expected to be completed by April 2008.

Another highlight for the year was that HPPL maintained certification to ISO 9001-2000 quality standard including the Commercial Department and updated its monitoring system.

Distribution

Edesur S.A. Edesur

Argentina's economic growth had an impact on the electricity demand, which surpassed consumption levels recorded prior to the 2001 crisis. In Edesur concession area, demand increased to 17,860 GWh, a 7.7% compared to 2006, with a 3,111 MW peak demand record for the Company in May 2007.

Electricity sales also hit a historical record of 15,952 GWh during the year, including 2,410 GWh for distribution services to large users, accounting for a 7.5% increase compared to 2006.

In addition, during 2007 Edesur's variable annual loss rate remained almost unchanged at 10.7%. Edesur's customer portfolio increased 1.4% to 2.226 million users, maintaining the upward trend resumed two years ago.

In order to provide the best service to users, Edesur

- on November 1, 2007 conducted a drill involving severe failures in the high voltage system to test the Emergency Operation Plan certified by IRAM six years ago.

- inaugurated the Transradio High and Medium Voltage Substation, the largest electricity infrastructure work in Buenos Aires since the 2002 devaluation, and commercial offices in the Administrative Sector of the new Municipal Building located in Ezeiza.

- was authorized by ENRE (National Electricity Regulatory Entity) through ENRE Resolution 581/2007- to develop non regulated businesses and charge for them in its bills.

- used available resources to support provision of services, investing during 2007 P\$260 million, reaching an accumulated investment of approximately P\$3,623 million since the beginning of the concession.

- created a seal to recognize energy responsible companies and stores in order to promote rational use of energy.

- successfully completed placement of P\$165 million Corporate Notes (*Obligaciones Negociables*) through public bidding in the capital market.

As regards tariff increase, following publication in the Argentine Official Gazette of Resolution 50/2007 issued by the ENRE, a rise in Edesur s tariffs was authorized for the first time since devaluation, a 28% increase for all tariff categories except for T1R1 and T1R2 Residential ones.

Quality, Safety, Environment and Health

Petrobras Energía believes that caring for the environment and for the health and safety of people is crucial to the success of its business. In this regard, it defines itself as a socially oriented and environmentally responsible company in continued search for excellence management.

Acting on this belief, during 2007, the Company:

- through Petrobras, was included in the Dow Jones Sustainability Index (DJSI) group.

- advanced in the implementation of process management improvement plans and extended the Excellence Management program to evaluate complete business units. It also completed implementation of the Standardization Process, a crucial development towards improved standards of quality and transparency.

- trained 3,100 workers, supervisors and heads of contracting companies in safety, environment and health issues and 2,900 workers -own staff and third parties personnel- in injury prevention leadership.

- started to develop ecoefficiency guidelines and indicators and prepared ecoefficiency standards focused on issues such as waste, air emissions, affected areas, hydro resources and biodiversity. At the same time it continued with different soil and water sanitation and recovery programs.

- through individual and group consulting sessions on health issues, it attended more than 1,300 employees and organized training activities (also on health related issues) for the communities where the Company performs operations.

Quality: continued search for excellence

Petrobras Energía is moving towards excellence in process management. One of its tools to achieve this goal is the Excellence Management Program, which started in 2004/2005 with the evaluation of organizational units in all business segments and continued in 2006 with the implementation of more than 40 improvement plans.

This year, in addition to advancing in the implementation of such plans, the Company extended the evaluation to cover complete business units, as in the case of Gas and Energy, through a simplified innovative process. In addition, it continued strengthening management quality by extending the ISO 9001 certifications to the Refining and Distribution segments and maintaining such certifications for the already certified units.

Another goal of Petrobras Energía is moving towards a transparent and integrated management, with even more efficient operations. Therefore, in 2007, the Company completed the implementation of the Standardization Process, based on the application SINPEP (Petrobras Electronic Integrated Standardization System), specially designed for process management.

Safety: maximum prevention, zero accident

The Company plans and designs actions tended to reinforce accident, incident and deviation prevention, as it understands that it is the key to achieve the objective of maximum safety. To such end, in 2007 the Company:

- organized the second Petrobras Energía Contest in HES Good Practices, which allowed to share -both internally and with contractors - the best works implemented by the Company during the 2006/2007 period (those works which resulted in increased synergy among the different business units) in order to create a greater interest in QHES excellence standards.

- conducted audits of strategic safety and hygiene procedures in the different assets.

The Company also concentrated its efforts on training and increasing awareness of its own or contracted personnel towards consolidation of a safety culture. To such end, the Company:

- trained 2,900 workers - own and contracted workers - in injury prevention leadership, totaling 4,700 since its inception in June 2006.

- trained in safety, environment and health issues, 3,100 workers, supervisors and heads of contracting companies, at Petrobras University. This training was extended in 2007 to the Oil and Gas Exploration and Production business units in Argentina, Peru and Ecuador.

- implemented theoretical-practical courses on defensive driving aimed at preventing road accidents involving Petrobras Energía s personnel, within the scope of the Road Safety Program.

- developed self-management material for training in issues specifically related to accident causes.

Environment: protecting the surroundings

After a rigorous economic, social and environmental evaluation, Petrobras Energía was included, through Petrobras, in the Dow Jones Sustainability Index (DJSI) group. This index evaluates corporate sustainability in almost 60 economic sectors worldwide. This achievement shows that the Company cares for the environment and general welfare, has an adequate relationship with its groups of interest and acts in a transparent and responsible manner, caring for future generations.

In line with this concern, in 2007 Petrobras Energía implemented several actions aimed at minimizing the impact of its operations and reducing associated risks.

Operating improvements, remediation and waste treatment

In order to optimize the performance of its facilities and protect the surroundings, the Company advanced with the duct integrity project. It also made improvements to the effluent and drainage plant systems, repaired production facilities, completed a revamping of LPG round sprinklers and improved the fire systems.

In addition, in 2007 it continued with the implementation of remediation projects (sanitation and recovery of affected soils and water) both at gas and oil fields and at refineries. In addition, it is finishing the implementation of a corporate system for management of waste.

Ecoefficiency guidelines and indicators

Petrobras Energía continued developing ecoefficiency guidelines and indicators directing environmental management efforts towards the optimal use of natural resources and energy with the minimum impact on the environment, without losing focus on profitability. The Company developed ecoefficiency standards on waste, air emissions, affected areas, hydro resources and effluents, biodiversity and environmental licensing. It also continued developing guidelines and indicators related to biodiversity management in sensitive areas.

Environmental training and awareness

Together with the *Amigos de la Patagonia* association and the non-governmental organization WET (Water Education for Teachers), Petrobras Energía developed this year "WET Training Workshops for teachers and the public" in the cities of Río Gallegos and Neuquén. The objective of