

PETROBRAS ENERGIA PARTICIPACIONES SA  
Form 6-K  
September 05, 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

September 3, 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)

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 June 30, 2008 and 2007**

**Independent Auditors Report**

**MACROECONOMIC OVERVIEW 2008 SECOND QUARTER**

International Context

The pace of global economic activity showed again a moderate growth during 2008 second quarter. Though U.S. economic results were modest, they were higher than those recorded at the beginning of the year. Conversely, the European and Japanese economic cycle showed an economic downturn. The emerging Asian economies, in turn, maintained a high growth pace but showed signs of slowdown, except for China that continued growing over 10% yoy. Most regions exhibited increased inflationary pressures. Within a context of weak economic indicators, the U.S. Federal Reserve took the reference interest rate to 2% and stopped the downward trend. Long term interest rates, in turn, showed a slight but continuous upward trend, averaging 3.86% during the quarter. The dollar remained weak both against the euro and the yen.

## Oil

New oil price records were reached during 2008 second quarter when values hit well over the symbolic barrier of US\$100 per barrel. West Texas Intermediate (WTI) reference price averaged US\$123.9 per barrel, 91% higher compared to the same period of 2007. Prices showed a virtually uninterrupted upward trend since the beginning of the year, hitting peak levels of US\$140 by the end of June. Oil prices were affected by two significant factors: (a) fear over the U.S. economy that gave rise to successive reductions in interest rates and deepened the dollar weakness, validating increased inflation levels, and (b) as a consequence of the beforementioned, a strong capital inflow into commodity funds (specially farming and energy products) seeking to reduce market volatility and find a hedge against the U.S. dollar drop and the inflation rise. Although with expectations of a limited world demand, in addition to the partial deregulation of fuel subsidies by Asian emerging countries, crude oil prices reached new highs in spite of the negative pressure exerted by them on demand.

The demand grew 1.06 million barrels per day in the second quarter, 1.3% higher compared to 2007. Additional volumes were mainly attributable to developing countries, led by China with a 39% rise, and to countries of the Middle East, Latin America and the rest of the Asian continent, in this order of priority. Developed countries (OECD) exhibited a drop in absolute terms (the United States strong decline exceeds rises in Japan and EU) affected by lower growth rates compared to emerging countries, increased elasticity with regard to unsubsidized international prices, and gradually improved energy efficiency.

The supply, in turn, strongly increased 2.16 million barrels per day, a 2.6% rise compared to the same quarter of 2007. The increase in supply levels were almost exclusively shown in OPEC countries which, though with no access to a formal increase in quotas but with concessions by Saudi Arabia, contributed an incremental supply of 2.04 million barrels per day (OPEC + non conventional crude oils of the group). Non-OPEC countries exhibited structural declines at the North Sea and Gulf of Mexico basins, in addition to reduced incremental volumes shown by Russia and the Caspian Sea.

## Argentina

As per official statistics, the Argentine economy maintained a high growth pace during 2008 second quarter averaging 8% yoy. However, some lines of business appeared to be adversely affected as a consequence of the long-lasting conflict between the government and farmers over the sliding-scale export tax regime.

Between the end of April and the beginning of May 2008 and due to the beforementioned conflict with the farm sector, the exchange rate showed a slight increase that was quickly reversed by the monetary authority with strong foreign currency sales, with the dollar price reaching 3 pesos by the end of June and the consequent increase in interest rates in pesos. The dollar supply, in turn, decreased as a consequence of a reduced trade surplus. Though exports benefited from high international prices, sales volumes in farm-related lines of business showed a shrinkage, while imports continued growing at a sustained pace. Under these circumstances, the average dollar price during the quarter was 3.12 pesos and the closing price was 3.03 pesos, while the drop in the Central Bank's international reserves amounted to approximately US\$3 billion.

Official inflation figures published by the National Institute of Statistics and Census (INDEC) show an accumulated consumer price increase below 5%, for the year though alternative measurements account for significantly higher increases. Wages, in turn, continue showing yoy increases over 20%. In terms of fiscal accounts, the national public sector continued exhibiting surplus primary results in spite of the slowdown in tax revenue growth and the strong increase in public spending. Tax revenues were supported by increased transfers of profits by the Central Bank.

Crude oil domestic production shows a drop of approximately 5% as of May, on an accumulated basis for the year with gas production exhibiting a 2% decrease. The use of installed capacity in the refining industry remained over 90% during the whole period. Diesel oil demand, in turn, was affected during the last quarter by the farmers and transportation strike. Demand for electricity increased 2.4% yoy during the quarter. In addition, power hit a new all-time high of 19,126 megawatts during the month of June. Domestic electricity supply, with a greater share of thermal and nuclear generation and a reduced share of hydraulic generation, was complemented by increased imports from Brazil. Likewise, during the quarter the power plants financed through the FONINVEMEM, Manuel Belgrano and San Martín, started operations and installed power was added under the Energy Delivery program.

## Perú

Within a context of sustained high prices for commodities, the Peruvian economy exhibited high growth rates with an increase of approximately 9.5% yoy during 2008 second quarter, among the highest in the region. This great performance was attributable to the Construction, Trade, non-primary Manufacturing and Utilities (power) sectors, in this order of priority.

As a result of the massive capital inflows, the level of Central Bank's reserves and a surplus trade balance, the exchange rate remained stable at an average of NS. 2.81/US\$ during the quarter, accounting for a yoy appreciation of approximately 10%. The price level, in turn, though limited by the exchange rate, was also affected by international inflation, especially the basic basket products, in addition to an increasing domestic demand. Thus, the retail inflation

index significantly increased compared to previous years, with an accumulated 3.51% increase as of June (5.70% in 12 mobile months).

The external accounts, even though at levels rather below those of 2007 as a result of the import upturn (especially intermediate goods and capital assets), showed highly robust balances. The Central Bank reserves reached a historical record level, exceeding US\$35 billion, offset by the entity's foreign exchange sales policy. On the fiscal front, the positive balance continues increasing as a result of the rise in current revenues (12% yoy accumulated as of May) within a context of a restrained spending policy (10% yoy). Primary and overall results denominated in national currency that would reach approximately 3.4% and 1.8% of the GDP, respectively, increased approximately 14% and 17% yoy, respectively, as of May.

In the energy field, only one exploratory well and 38 development wells (28 owned by the Company) were drilled. No exploration or production agreements were entered into. Liquid hydrocarbon production reached an average of 110 thousand barrels per day, a 4% decline compared to the same period of 2007 due to the lower production in Lote 1AB. Natural gas average production amounted to 329 million cubic feet per day, 42% higher compared to the same period of 2007 due to higher sales volumes from Lote 88 (Camisea) as a consequence of an increased demand from thermal power plants.

#### Ecuador

The external balance strongly improved as a consequence of the increase in global exports, basically attributable to the incidence of crude oil high prices and a similar increase in the rest of the commodities and industrialized products. Exports climbed 67% in May and imports showed a 25% rise (mainly raw materials and capital assets).

On the fiscal front, tax revenues showed an accumulated 89% yoy (April) rise, as a result of the strong increase in oil revenues, income tax and VAT; however, the increase was lower than the strong rise in spending (117% in the same period). Though accumulated figures show a moderate overall surplus of approximately 0.3% of the GDP, they exhibit a significant decline of approximately 57% compared to 2007 in terms of the overall balance.

Retail prices increased an accumulated 7.1% (9.7% in 12 mobile months), also reflecting international inflation on commodities (mainly on the basic basket products) increased public spending and consumption level.

The country-risk averaged 574 basis points, with a decline of approximately 100 basis points compared to the previous quarter.

Concerning energy, crude oil production slightly increased 1.4% yoy (an average of 518 thousand barrels per day as of May 2008). Companies and governmental authorities continued working on possible changes in the contractual framework.

### **Analysis of Consolidated Results of Operations**

In accordance with the procedures set forth by Technical Resolution ( TR ) No. 21 of the Argentine Federation of Professional Councils in Economic Sciences ( FACPCE ), the Company consolidates line by line its financial statements with those of the companies in which it exercises direct or indirect control and joint control. Joint control exists where shareholders representing a voting majority have resolved, on the basis of written agreements, to share control over defining and establishing a company s operating and financial policies. As of June 30, 2008, we exercise joint control in Distrilec Inversora S.A. ( Distrilec ), Compañía de Inversiones de Energía S.A. ( CIESA ) and Petrobras de Valores Internacional de España S.L. (PVIE).

In the consolidation of controlled companies, the amount of the investment in such subsidiaries and the interest in their income (loss) and cash flows are replaced by the aggregate assets, liabilities, income (loss) and cash flows of such subsidiaries, reflecting separately the minority interest. The related party receivables, payables and transactions within the consolidated group are eliminated. The unrealized intercompany gains (losses) from transactions within the consolidated group have been completely eliminated.

In the consolidation of companies in which the Company exercises joint control, the amount of the investment in the affiliate under joint control and the interest in its income (loss) and cash flows are replaced by the Company s proportional interest in the affiliate s assets, liabilities, income (loss) and cash flows. The related party receivables, payables and transactions within the consolidated group and companies under joint control have been eliminated in the consolidation pro rata to the shareholding of the Company.

In order to evaluate the business performance, the Company s management separately analyzes the results and the financial position of CIESA and Distrilec, companies under joint control. Consequently, and in line with the Management s view, the analysis below is based on the consolidated results of the Company without taking into account the effects of the proportional consolidation of the results of CIESA and Distrilec and, therefore, it is not directly comparable to the reported information in the financial statements.

Some amounts and percentages in this analysis are rounded and the totals in some tables may therefore not precisely equal the sums of the numbers presented.

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The table below shows the Company's results of operations for the three-month periods ended June 30, 2008 and 2007 under the professional accounting standards and, for comparative purposes, the pro forma results that exclude the effects of proportional consolidation of CIESA and Distrilec. To this effect, the results of CIESA and Distrilec (both of which are presented under proportional consolidation in the financial statements), are shown under Equity in Earnings of Affiliates.

(in millions of pesos)

*Net income:* The net income of the period increased P\$296, to P\$397 million compared to P\$101 million in 2007 second quarter.

*Net sales:* Net sales increased P\$905 million to P\$3,702 million from P\$2,797 million in previous year. This growth mainly resulted from improved prices for oil, gas, refined products and petrochemicals. Sales for the Refining and Distribution, Oil and Gas Exploration and Production and Petrochemicals business segments increased P\$414 million, P\$347 million and P\$113 million, respectively.

*Gross profit:* Gross profit for 2008 period rose P\$525 million to P\$1,170 million from P\$645 million, mainly due to the increase in the Oil and Gas Exploration and Production and Petrochemicals business segments (P\$365 million and P\$80 million, respectively). In addition, intercompany gross profit accounted for increases in the amount of P\$117 million. Conversely, gross profit in Gas and Energy business segment accounted for smaller profits in the amount of P\$49 million.

*Administrative and selling expenses:* Administrative and selling expenses rose P\$60 million to P\$391 million from P\$331 million in the same period of previous year, mainly as a result of increases in the Refining and Distribution and Petrochemicals business segments.

*Exploration expenses:* See Oil and Gas Exploration and Production .

*Other operating expenses:* Other operating expenses totaled P\$59 million and P\$45 million in 2008 and 2007, respectively. Increased expenses in 2008 are primarily attributable to higher losses in the Oil and Gas Exploration and Production business segment.

*Operating income:* Operating income increased P\$461 million to P\$693 million from P\$232 million in 2007. Operating income for the Oil and Gas Exploration and Production and Petrochemicals business segments rose P\$357 million and P\$72 million, respectively. Additionally, intercompany operating income recorded P\$117 million gains. Conversely, operating income in the Gas and Energy business segment accounted for a lower income of P\$50 million.

*Equity in earnings of affiliates:* Equity in earnings of affiliates decreased P\$16 million to P\$64 million from P\$80 million in 2007, see Analysis of equity in earnings of affiliates .

*Financial income (expenses) and holding gains (losses):* Financial income (expenses) and holding gains (losses) accounted for P\$38 million gain and P\$75 million loss in 2008 and 2007 quarters, respectively. Raised earnings in 2008 are mainly attributable to higher exchange gains.

*Other income (expenses), net:* Other income (expenses), net recorded P\$2 million gains and P\$21 million loss in 2008 and 2007, respectively. Expenses recorded in 2007 were mainly attributable to allowances on loans provided to



partners in joint ventures in Venezuela for P\$11 million and disposals of property, plant and equipment for P\$8 millions.

*Income Tax:* Income tax expense increased to P\$277 million in 2008 quarter from P\$83 million in 2007. Higher income tax expense was in line with the increase in the pre-tax income, mainly related with the operations in Ecuador.

## **ANALYSIS OF OPERATING INCOME / (LOSS)**

### **Oil and Gas Exploration and Production**

*Operating income:* Operating income for the Oil and Gas Exploration and Production business segment increased P\$357 million, to P\$723 million from P\$366 million in 2007.

The table below shows the operating income breakdown for this business segment:

(in millions of pesos)

*Net sales:* Net sales increased P\$347 million to P\$1,459 million from P\$1,112 million, basically due to a rise in oil average selling prices, in line with the increase in international reference prices, partially offset by a decline in oil and gas sales volumes.

Sales volumes of oil equivalent dropped 10% to 115,4 thousand barrels, mainly due to the sale of the 40% interest in Lote X, in December 2007, which interest accounted for an average of 6,300 barrels of oil equivalent per day in 2007, and to the productive decline in the operations in Argentina. These effects were partially offset by the increase in sales in Ecuador after crude oil shipments postponed in 2008 first quarter returned to normal.

Daily production volumes averaged 106 thousand barrels of oil equivalent, accounting for a 14.9% reduction mainly attributable to: (i) the effects of labor strikes in Cuenca Austral in Argentina during this period, (ii) the sale of a 40% interest in Lote X, in Perú, (iii) new standard contracts applicable to Bolivian operations as from May 2007 and (iv) natural decline of mature fields in Argentina, partially offset by the increase in the working interest in El Tordillo and La Tapera-Puesto Quiroga areas as from March 2008.

Crude oil sales rose 35.8% to P\$1,319 million in 2008 as a consequence of a 49.6% increase in average selling prices, mainly in Ecuador and Perú, in line with international reference prices. This was partially offset by a 9.2% decrease in sales volumes. Reduced sales volumes in 2008 quarter are primarily attributable to the sale of a 40% interest in Lote X in Perú and the natural decline of mature fields in Argentina, partially offset by the Ecuadorian shipments regularization before mentioned.

Gas sales slightly decreased 3.6% to P\$133 million in 2008 quarter, as a result of a 10.9% drop in sales volumes, partially offset by an 8.2% increase in selling prices, mainly in Bolivia and Perú, in line with international reference prices. Reduced sales volumes are mainly attributable to the effects of labor strikes in 2008 and, to a lesser extent, to the productive decline from fields in Argentina.

*Gross profit:* increased P\$365 million to P\$881 from P\$516 million. Gross margin rose to 60.4% in 2008 from 46.4% in 2007. This improvement was basically attributable to operations in Ecuador, as a result of improved selling prices and, to a lesser extent, to the fact of not considering the effects of Law 42/2006 for inapplicability reasons.

*Administrative and selling expenses:* decreased to P\$68 million in 2008 quarter from P\$71 million in 2007 quarter, mainly due to changes in the allocation of sales of crude oil produced in Argentina which, as from 2008, are recognized in the Refining and Distribution segment.

*Exploration expenses:* Exploration expenses totaled P\$27 million and P\$37 million in 2008 and 2007 quarters, respectively. In 2008, exploration expenses are mainly attributable to geological and geophysical expenses in the Lote 57 in Perú, with 3D seismic expenses in the Glen Cross and Enarsa 1 areas and to the disposal of Estancia Chiripa unproductive wells in Argentina areas. In 2007, exploration expenses were mainly associated with unsuccessful results in exploration wells in Puesto Hernandez area and exploration expenses in Santa Cruz I Oeste y Glencross, in Argentina and in Lote 57 in Perú.

*Other operating expenses:* Other operating expenses accounted for P\$63 million and P\$42 million in 2008 and 2007, respectively. Expenses in both quarters are primarily attributable to costs associated with the unused transportation capacity under the contract with Oleoducto de Crudos Pesados S.A., which accounted for a P\$42 million and P\$47 million losses in 2008 and 2007, respectively.

## **Refining and Distribution**

As from 2008, allocation of sales among business units has been subject to a series of changes. As a result, the Refining and Distribution business segment commercializes the oil produced in Argentina, which is transferred at market prices from the Oil and Gas Exploration and Production business segment.

Operating loss: totaled P\$105 million and P\$104 million in 2008 and 2007, respectively. In 2007, operating margins were adversely affected by the anti-inflationary price control measures implemented in Argentina. In 2008, the slightly increases in fuel prices were offset by the losses derived from diesel oil imports (84 thousand cubic meters) to meet domestic demand, according to the provisions of Resolution No. 25/2006 issued by the Department of Trade, and by the significant increase in withholding rates applicable to refined product exports effective as from 2007 fourth

quarter.

The table below shows operating loss breakdown for the Refining and Distribution business segment:

(in millions of pesos)

*Net sales:* refined products sales rose P\$414 million to P\$1,809 million in 2008 quarter, mainly due to higher selling prices attributable to the partial price recovery in the Argentine domestic market and the increase in international reference prices for products not subject to the price control measures and, to a lesser extent, the aforementioned commercialization of crude oil which accounted for additional sales of P\$120 million in 2008 quarter.

In 2008, diesel oil and crude oil volumes processed grew 3.9% and 5.5% to 626 thousand cubic meters and 213 thousand cubic meters, respectively. Fuel oil sales volumes increased 13% mainly as a result of increased domestic demand in order to supply power plants. Total sales volumes of other related oil products decreased 17.2% to 263 thousand cubic meters, mainly as a consequence of changes in the product mix.

Crude oil processed averaged 72.3 thousand barrels per day in 2008 quarter, accounting for a 5.5% drop compared to 2007. This decline was attributable to the shutdown of the San Lorenzo Refinery for scheduled maintenance works and, to a lesser extent, to logistical limitations due to road blockades nationwide as a consequence of protests led by the Argentine farm sector.

*Gross profit (loss)*: totaled a P\$12 million gain in 2008 quarter compared to a P\$4 million loss in 2007 quarter, with a meager margins in both periods. Improvements obtained in selling prices and volumes were partially offset by higher crude oil and diesel oil import costs.

Administrative and selling expenses rose to P\$118 million in 2008 quarter from P\$94 million in 2007 quarter, basically as a result of increased variable selling expenses associated to crude oil sales and, to a lesser extent, higher payroll costs.

### **Petrochemicals**

*Operating income*: Operating income for the Petrochemicals business segment increased P\$72 million to P\$88 million.

The table below shows operating income breakdown for the Petrochemicals business segment:

(in millions of pesos)

*Net sales:* Net sales increased P\$113 million to P\$814 million in 2008 quarter from P\$701 million in 2007 (net of eliminations of transactions between the Argentine and Innova styrenics divisions, in the amount of P\$19 million and P\$37 million, respectively) mainly due to an improvement in selling prices in line with the increase in international reference prices.

Total styrenics sales in Argentina increased P\$26 million to P\$295 million in 2008 from P\$269 million in 2007, as a result of a 23.8% rise in average selling prices, in line with international reference prices, partially offset by a 11.4% drop in sales volumes. The decline in sales volumes was mainly attributable to logistical limitations due to road blockades nationwide as a consequence of the protests led by the Argentine farm sector, and reduced exports, mainly ethylbenzene sold to Innova and rubber. The decrease in rubber exported volumes was basically associated with production delays caused by the maintenance plant shutdown of the main supplier.

Styrenics sales in Brazil rose P\$60 million to P\$426 million in 2008, basically due to a 15.7% price improvement. Sales volumes were similar in both quarters, amounting to 65.7 thousands tons in the current period.

Fertilizers sales increased P\$9 million to P\$112 million in 2008 quarter, as a result of a 57.5% rise in selling prices, in line with international reference prices, partially offset by a 31% decrease in volumes, which was basically attributable to a delay in sales derived from the farm protests and, to a lesser extent, adverse weather conditions during 2008 quarter.

*Gross profit:* rose P\$80 million to P\$165 million in 2008. Margin increased to 20.3% in 2008 quarter from 12.1% in 2007 quarter, primarily due to the improvement in selling prices.

*Administrative and selling expenses:* Administrative and selling expenses increased to P\$103 million in 2008 quarter compared to P\$84 million in 2007 quarter, mainly as a result of payroll and sales taxes increases both in Argentina and Brasil.

*Other operating income:* Other operating income totaled P\$26 million and P\$15 million in 2008 and 2007 quarters, respectively and were mainly related to the tax benefits granted under the Fundopem program in Brasil.

### ***Gas and Energy***

*Operating income:* Operating income for the business segment totaled P\$3 million and P\$53 million gains in 2008 and 2007, respectively.

*Other operating income, net:* Other operating income, net totaled P\$11 million and P\$12 million for 2008 and 2007, respectively, mainly derived from the technical assistance services provided to TGS.

The table below shows operating income breakdown for this business segment:

(in millions of pesos)

- Electricity Generation

*Operating income:* Operating income for the Electricity Generation Operations decreased P\$7 million, to P\$28 million from P\$35 million.

*Net Sales:* electricity generation net sales rose P\$40 million to P\$162 million in 2008, due to the combined effect of a 18.6% improvement in energy average prices and a 12% increase in volumes. The increase in selling prices was mainly attributable to the combined effect of changes in the mix of sales, with a higher share of sales under contract, the renegotiation of contracts at higher prices and increased prices in the spot market as a result of energy deliveries by less efficient power plants to make up for the decrease in hydraulic supply, for the purpose of restoring the levels

of water stored in hydroelectric power plants.

Net sales attributable to Genelba Power Plant increased P\$35 million to P\$132 million in 2008 quarter, due to the combined effect of a 18.4% rise in average selling prices to P\$106.8 per MWh in 2008, and a 16.2% increase in energy sales to 1,236 GWh in 2008 quarter compared to 1,064 GWh in 2007 quarter, when the plant availability was affected by the shutdown for major scheduled maintenance works.

Net sales attributable to Pichi Picún Leufú Hydroelectric Complex rose P\$5 million to P\$30 million in 2008, mainly due to a 24.2% improvement in average selling prices. Energy delivered was similar in both quarters (280 GWh and 290 GWh in 2008 and 2007 quarters, respectively).

*Gross profit:* Gross profit for the electricity generation business decreased P\$13 million to P\$29 million in 2008 quarter from P\$42 million in 2007 quarter.

#### - Hydrocarbon Marketing and Transportation

*Operating (loss) income:* Marketing and Transportation of Gas business generated operating losses of P\$36 million in 2008 quarter. Conversely, such business sector generated operating income of P\$8 million in 2007 quarter.

*Net Sales:* decreased P\$13 million to P\$214 million in 2008 quarter, mainly due to reduced gas and LPG brokerage services, which accounted for P\$9 million revenues in 2008 and P\$40 million in 2007, partially offset by increased revenues from gas and liquid fuels sales.

Gas revenues rose P\$12 million to P\$130 million in 2008 quarter, primarily due to an increase in sales volumes, partially offset by a decline in average selling prices. Sales volumes increased 52.6% to 406.1 million cubic feet per day, due to a higher gas demand and increased commitment to supplying the domestic demand, mainly residential consumption. Reduced average selling prices resulted from changes in the mix of sales, with a higher share of residential consumption with significantly lower prices.

Liquid fuel sales rose 8.7% to P\$75 million from P\$69 million, basically due to a 19.3% improvement in average selling prices in line with international reference prices. Sales volumes decreased 8.1% to 56.5 thousand tons in 2008 from 61.5 thousand tons in 2007, mainly due to a reduced level of processing as a result of the Argentine Government restrictions.



*Gross profit:* Gross profit accounted for a P\$15 million loss in 2008 quarter compared to a P\$25 million gain in 2007 quarter. Negative gross margin in 2008 was mainly attributable to the combined effect of a decline in average selling prices, derived from the higher share of residential consumption, and the increase in gas costs due to increased sales in the spot market to offset the lower availability of gas produced by the Company.

#### **ANALYSIS OF EQUITY IN EARNINGS OF AFFILIATES**

Equity in earnings of affiliates decreased P\$16 million or 20% to P\$64 million from P\$80 million in 2007, which included earnings of P\$7 million and P\$26 million for the Company's interest in Petroquímica Cuyo S.A.I.C. and Petrobras Bolivia Refinación S.A., respectively, which were sold during 2007.

The table below shows the Company's equity in earnings of affiliates, subsidiaries and companies under joint control for 2008 and 2007 quarters. In addition, the table shows equity in earnings of affiliates excluding the effects of proportional consolidation of Ciesa and Distrilec.

*Compañía de Inversiones de Energía S.A (CIESA):* Our equity in the earnings of CIESA reflected P\$34 million and P\$10 million gains in 2008 and 2007 quarters, respectively. Higher gain recorded in 2008 is basically related with

increased financial income recognized during the period.

Total revenues decreased 16.4% to P\$271 million, mainly due to a drop in the non-regulated revenues from the NGL production and marketing segment (37.8% to P\$112 million), which was basically attributable to a decline of at least 25% in volumes. Such decrease was mainly related to the reduced level of gas processing as a result of the Argentine Government restrictions aimed at supplying residential users and power plants.

CIESA's financial results reflected gains of P\$43 million and losses of P\$34 million in 2008 and 2007 quarter, respectively. This increase is mainly attributable to the positive effects of the peso revaluation on its US dollar debt.

*Distrilec Inversora S.A. (Distrilec)*: Our equity in the earnings of Distrilec accounted for a P\$5 million gain in both quarters.

Income from services increased 5.3% to P\$477 million from P\$453 million in 2007, due to the combined effect of: (i) a 3.6% rise in selling prices as a result of the average rate increase provided in the Memorandum of Agreement executed by Edesur and UNIREN, and (ii) a 2% growth in the energy demand.

Operating income accounted for a P\$31 million and a P\$38 million gains in 2008 and 2007 quarters, respectively. The decrease in the period under review is attributable to higher administrative and marketing expenses arising mainly from services provided under contract and compensations, which neutralized the beforementioned improvement in revenues.

Distrilec's financial income (expense), net reflected gains of P\$11 million and P\$2 million in 2008 and 2007 quarter, respectively. This increase is mainly attributable to a lower interest on its financial debt and gains attributable to exchange differences on its US dollar debt due to the peso revaluation.

*Refinería del Norte S.A. (Refinor)*: Our equity in the earnings of Refinor reflected P\$1 million and P\$12 million gains in 2008 and 2007 quarters, respectively. This decrease resulted primarily from the higher withholdings on exports of crude oil as a result of the application of Resolution No. 394/07 issued by the Ministry of the Economy and Production effective as from the last quarter of 2007.

## **Summarized Balance Sheet and Income Statement Structure**

**Listed Price of Company's Shares**

**Statistical Data**

The information below for the six-month period ended June 30, 2004 does not reflect the effects of the merger of Petrobras Argentina S.A., Petrolera Santa Fe S.A. and Eg3 S.A. into Petrobras Energía S.A.

José Fernando de Freitas

President

**Outlook**

Petrobras Energía will be focused on consolidating its presence in Argentina, acting as an integrated energy company, contributing to the country's social and economic development through energy supply and encouraging the development of the communities where the Company operates.

Regarding the Oil and Gas Exploration and Production business segment, we will endeavor to increase reserves and production, mainly in Argentina and Perú, using exploration as the main vehicle for long-term growth. For this purpose, we will use Petrobras' state-of-the-art technology both in Argentine offshore studies and the exploitation of non-conventional low permeability reservoirs.

In the Refining and Distribution business we will continue to make the greatest operational efforts so that the production of our refineries can supply the domestic market demand, offering the market quality and technology products and customer service aimed at building the perception that it is the best purchase option.

In the Petrochemicals business our goal is to keep our styrene leadership in South America, taking advantage of the 2007 investments and the synergy between the styrene plants in Argentina and Brazil.

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.

**PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**

**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**

**(Stated in millions of Argentine pesos)**

**PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**

**CONSOLIDATED BALANCE SHEETS**

**AS OF JUNE 30, 2008 AND DECEMBER 31, 2007**

**(Stated in millions of Argentine pesos)**





**PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**

**(Stated in millions of Argentine pesos)**

**PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008, AND 2007**

**(Stated in millions of Argentine pesos)**



**PETROBRAS ENERGÍA PARTICIPACIONES S.A.**  
**AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX-MONTH ENDED JUNE 30, 2008 AND 2007**  
**(Amounts stated in millions of Argentine pesos)**

**1. Business of the Company**

Petrobras Energía Participaciones S.A. (hereinafter Petrobras Participaciones or the Company ) is a holding Company that operates through Petrobras Energía S.A. ( Petrobras Energía ) and its subsidiaries. The Company s principal assets is 75.8% of the equity interest of Petrobras Energía , an integrated energy company, focused in oil and gas exploration and production, refining, petrochemical activities, generation, transmission and distribution of electricity and sale and transmission of hydrocarbons. Petrobras Energía has businesses in Argentina, Bolivia, Brasil, Ecuador, Perú, Venezuela, México and Colombia.

**2. Basis of presentation**

Petrobras Participaciones consolidated financial statements have been prepared in accordance with the regulations of the Argentine Securities Commission ( CNV ) and, except for the matters described in Note 3, with Generally Accepted Accounting Principles in Argentina, as approved by the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires ( CPCECABA , Professional Council in Economic Sciences of the City of Buenos Aires) applicable to consolidated financial statements ( Argentine GAAP ).

The accompanying consolidated financial statements have been translated into English from those issued in Spanish in accordance with the CNV regulations. They have also been reformatted in a manner different from the presentation in Spanish, but in all other respects follow accounting principles that conform with the CNV regulations.

Certain accounting principles applied by the Company do not conform with U.S. generally accepted accounting principles ("U.S. GAAP"). The difference between the accounting practices applied by the Company and U.S. GAAP has not been quantified. Accordingly, these consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with U.S. GAAP.

Certain disclosures related to formal legal requirements for reporting in Argentina have been omitted for purposes of these consolidated financial statements.

The preparation of financial statements in conformity with Argentine GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While it is believed that such estimates are reasonable, actual results could differ.

***a) Basis of consolidation***

In accordance with the procedure set forth in Technical Resolution No. 21 of the FACPCE (Argentine Federation of Professional Councils in Economic Sciences), Petrobras Participaciones has consolidated line by line its financial statements with those of the companies in which exercises control or joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of the votes, have resolved, on the basis of written agreements, to share the power to define and establish a company's operating and financial policies. As of June 30, 2008 and December 31, 2007 under the joint control of the Company are Distrilec Inversora S.A. ( Distrilec ), Compañía de Inversiones de Energía S.A. ( Ciesa ) and Petrobras de Valores Internacional de España S.L. (PVIE).

In the consolidation of controlled companies, the amount of the investment in such subsidiaries and the interest in their income (loss) and cash flows are replaced by the aggregate assets, liabilities, income (loss) and cash flows of such subsidiaries, reflecting separately the minority interest. The related party receivables, payables and transactions within the consolidated group are eliminated. The unrealized intercompany gains (losses) from transactions within the consolidated group have been completely eliminated.

In the consolidation of companies over which the Company exercises joint control, the amount of the investment in the affiliate under joint control and the interest in its income (loss) and cash flows are replaced by the Company's proportional interest in the affiliate's assets, liabilities, income (loss) and cash flows. The related party receivables, payables and transactions within the consolidated group and companies under joint control have been eliminated in the consolidation pro rata to the shareholding of the company.

Considering that the sale of the 40% equity interest in PVIE was performed in December 2007 (Note 8.IV), the consolidated statements of income and cash flows for the six-month period ended June 30, 2007 presented for comparative purposes show the participation in PVIE according to the procedure indicated for the consolidation of controlled companies.

The information about the companies in which the Company exercises control, joint control and significant influence are disclosed in Note 21.f.

*b) Foreign currency translation*

The Company applies the method established by the Technical Resolution No. 18 of the FACPCE for the translation of financial statements of foreign subsidiaries, affiliates, branches and joint ventures.

In the opinion of the Company's Management, the transactions carried out abroad have been classified as not integrated; as such transactions are not considered to be an extension of the Company's transactions.

Upon applying the translation method, the foreign transactions are first remeasured into US dollars (functional currency for such transactions), as follows:

- Assets and liabilities stated at fair value are converted at the closing exchange rate.
- Assets and liabilities measured at historical values and the income (loss) accounts are converted at historical exchange rates.

Remeasurement results are recognized in the statements of income as Financial income (expenses) and holding gain (losses).

After the transactions are remeasured into US dollars, they are translated into Argentine pesos as follows:

- Assets and liabilities are translated by using the closing exchange rate.
- Income (loss) is translated at the historical exchange rates.

The effect arising from the translation of the financial statements of foreign operations is disclosed in the Shareholders' equity as Deferred income (loss).

Exchange gains and losses arising from the Company's liabilities in foreign currency assumed to hedge the Company's net investments in foreign entities are also recorded in the Deferred income (loss) account (Note 4.m).

*c) Consideration of the effects of inflation*

The Company presents its consolidated financial statements in constant currency following the restatement method established by Technical Resolution No. 6 of the FACPCE and in accordance with CNV General Resolutions No. 415 and 441.

Under such method, the consolidated financial statements recognize the effects of the changes in the purchasing power of the Argentine peso through August 31, 1995. Starting September 1, 1995, under CNV General Resolution No. 272, the Company has interrupted the use of this method and maintained the restatements made through such date. This method has been accepted by professional accounting standards through December 31, 2001.

On March 6, 2002, the CPCECABA approved Resolution MD No. 3/2002 providing, among other things, the reinstatement of the adjustment-for-inflation method for the interim periods or years ended after March 31, 2002, allowing for the accounting measurements restated based on the change in the purchasing power of the Argentine peso through the interruption of adjustments, such as those whose original date is within the stability period, to be stated in Argentine pesos as of December 2001. Through General Resolution No. 415 dated July 25, 2002, the CNV requires that the information related to the financial statements that are to be filed after the date on which the regulation became effective be disclosed adjusted for inflation.

The restatement method is applied to the accounting cost values immediately preceding the capitalization of the exchange differences, which represent an anticipation of the effects of variances in the purchasing power of the Argentine peso, which will be subsequently absorbed by the restatement in constant pesos.

On March 25, 2003, the Executive Branch of Government issued Decree No. 664 establishing that the financial statements for years ending as from such date be filed in nominal currency. Consequently, and under CNV Resolution No. 441, the Company no longer applied inflation accounting as from March 1, 2003. This method was not in accordance with professional accounting standards effective in the City of Buenos Aires, which through Resolution N° 287/03 of the CPCECABA discontinued the application of the restatement method starting October 1, 2003. The effects thereof do not significantly affect the Company's financial position.

*d) Accounting for the operations of oil and gas exploration and production joint ventures and foreign branches*

The oil and gas exploration and production joint ventures have been proportionally consolidated. Under this method, the Company recognizes its proportionate interest in the joint ventures' assets, liabilities, revenues, costs and expenses on a line-by-line basis in each account of its financial statements.

Foreign branches have been fully consolidated.

*e) Financial statements used*

The financial statements of the subsidiaries and companies under joint control as of June 30, 2008, 2007 and December 31, 2007, or the best available accounting information at such dates were used for consolidation purposes and adapted to an equal period of time in respect to the financial statements of the Company. Additionally, the adjustments to adapt the valuation methods to those applied by the Company have been also considered.

**3. Accounting standards**

These consolidated financial statements have been prepared in accordance with the applicable CNV regulations. The CNV regulations differ from Argentine GAAP as follows:

- a) The date of discontinuance of the application of inflation accounting provided for in FACPCE Technical Resolution No. 6, as described in note 2.c).
- b) The possibility of recognizing interest on the Company's own capital may not be applied.
- c) The alternative treatment prescribed in the professional accounting standards in connection with the capitalization of financial costs attributable to certain assets is considered mandatory.

**4. Valuation methods**

The main valuation methods used in the preparation of the consolidated financial statements are as follows:

- a) *Accounts denominated in foreign currency:*

At the prevailing exchange rates at the end of each period.

The summary of accounts denominated in foreign currency is presented in Note 21.d).

*b) Inventories:*

Crude oil stock: at reproduction cost.

Raw materials and materials: of high-turnover, at replacement cost; of low-turnover, at the latest purchase price, restated according to Note 2.c).

Work in progress and finished products relating to refining, distribution, petrochemical and gas and energy activities: at replacement or reproduction cost, as applicable, applied proportionally to the degree of completion of the related good in the case of work in progress.

Advances to suppliers: based on the amounts of money delivered.

The carrying amount of these assets does not exceed their recoverable value.

*c) Investments:*

Publicly traded Government Securities: at market value at the end of each period. Any gain or loss due to market fluctuations is reflected in the Financial income (expenses) and holding gains (losses) account.

Certificates of deposit and loans granted to partners and to affiliates in which significance influence is exercised: at nominal value plus accrued interest, according to the specific clauses of each transaction. The carrying amount of these assets does not exceed their recoverable value.

Investments in mutual funds: at market value at the end of each period.



Shares Participation in affiliates in which the Company exercises significant influence: at the equity method calculated using the affiliates financial statements as of June 30, 2008, 2007 and December 31, 2007 or the best available financial information, adapted to an equal period of time.

For the determination of the Company's equity investments in affiliates, consideration has been given to the adjustments to adapt the valuation methods of some affiliates to those of the Company, irrevocable contributions made by others, elimination of reciprocal investments, intercompany profits and losses and the difference between acquisition cost and book value of affiliates at the time of the acquisition.

Investments are stated at recoverable value if such value is exceeded using the equity method.

Interest in affiliates in which the Company does not exercise significant influence: at acquisition cost restated according to Note 2.c).

*d) Trade receivables and accounts payable:*

Trade receivables and accounts payable have been recognized based on cash prices at the time of each transaction, plus accrued financial components, net of collections or payments, respectively. The principal amount is equal to the cash price, if available, or the nominal price less implicit interest calculated at the prevailing interest rate on the date of the original transaction.

Trade receivables include both outstanding billed services and services rendered but not yet billed as of the end of each period.

The total amount of receivables is net of an allowance for doubtful accounts. In providing such allowance, the Company evaluates different factors, including the customers credit risks, historical trends and other relevant information. Such evaluation may require future adjustments if economic conditions substantially differ from the assumptions made.

*e) Financial receivables and payables:*

Financial receivables and payables have been valued according to the amounts rendered and received, respectively, net of transaction costs, plus accrued financial gains (losses) on the basis of the explicit or estimated rate at such time, net of payments or collections.

*f) Other receivables and payables:*

Other receivables and payables have been valued on the basis of the best estimate of the amount to be collected or paid, respectively, discounted using the estimated rate at the time of initial measurement, except for the deferred tax assets and liabilities which are stated at nominal value.

*g) Property, plant and equipment:*

Property, plant and equipment, except as indicated below, have been valued at acquisition cost restated according to Note 2.c), less accumulated depreciation. Any expenditure subsequent to the original recognition of the asset is added as a component of the asset only when the expenditure improves its condition and it is probable that future economic benefits, in excess of the originally assessed ones, will flow to the enterprise or when the expenditure relates to a major repair or overhaul of the asset made to allow the continued use of the asset provided (i) such expenditure is allocated to the replacement of the component parts of the asset, (ii) the useful life of such component parts has been calculated based on their own wear and tear or depletion and (iii) it is probable that future economic benefits will flow as a result of the expenditure.

Property, plant and equipment related to foreign operations were converted into US dollars (functional currency) at their historical exchange rates, and they have been translated into Argentine pesos at the exchange rate effective at closing date in accordance with the method for converting foreign operations described in Note 2.b).

The Company uses the successful efforts method of accounting for its oil and gas exploration and production activities, in accordance with the Statement of Financial Accounting Standard No. 19 (SFAS N°19), issued by the United States Financial Accounting Standard Board. This method involves the capitalization of: (i) the cost of acquiring properties in oil and gas exploration and production areas; (ii) the cost of drilling and equipping exploratory wells that result in the discovery of proved reserves; (iii) the cost of drilling and equipping development wells, and (iv) the estimated future costs of abandonment and restoration.

In accordance with SFAS N°19, exploration costs, excluding exploratory well costs, are expensed during the period in which they are incurred. Drilling costs of exploratory wells are capitalized until determination is made on whether the drilling resulted in proved reserves that justify the commercial development. If reserves are not found, such drilling costs are expensed. Occasionally, an exploratory well may determine the existence of oil and gas reserves but they cannot be classified as proved when drilling is complete. In those cases, incorporating prospectively the changes

introduced by the interpretation FASB Staff Position 19-1, starting July 2005 such costs continue to be capitalized insofar as the well has allowed to determine the existence of sufficient reserves to warrant its completion as a production well and the Company is making sufficient progress in evaluating the economic and operating feasibility of the project.

The cost of Transportadora de Gas del Sur S.A.'s ( TGS ) property, plant and equipment was determined based on the price paid for the acquisition of 70% of TGS's common stock. This price was the basis to determine a total value of common stock, to which was added the value of the debts assumed under the Transfer Agreement, in order to determine the initial value of property, plant and equipment. Such value has been restated as explained in Note 2.c).

The cost of work in progress, whose construction will extend over time, includes, if applicable, the computation of financial costs accrued on loans granted by third parties and the costs related to setting up the facilities, net of any income obtained from the sale of commercially valuable production during the process.

The Company depreciates productive wells, machinery, furniture and fixtures and camps in the production areas according to the units of production method, by applying the ratio of oil and gas produced to the proved developed oil and gas reserves. The acquisition cost of property with proved reserves is depreciated by applying the ratio of oil and gas produced to estimated proved oil and gas reserves. Acquisition costs related to properties with unproved reserves is valued at cost and its recoverability is periodically assessed on the basis of geological and engineering estimates of possible and probable reserves that are expected to be proved over the life of each concession.

Estimated future restoration and well abandonment costs in hydrocarbons areas, discounted at an estimated rate at the time of their initial measurement, are included in the cost of the assets and depreciated using the units of production method. Additionally, a liability at the estimated value of the discounted amount payable is recognized.

The Company estimates its reserves at least once a year. The Company's reserves estimation as of December 31, 2007 was audited by DeGolyer and MacNaughton, international technical advisors. The technical revision covered approximately the 71% of the Company's estimated reserves.

The Company's remaining property, plant and equipment are depreciated by the straight-line method based on their existing concession terms and their estimated useful lives as the case may be.

The value of property, plant and equipment does not exceed its recoverable value.

Company's Management assesses the recoverability of property, plant and equipment items whenever there occur events or changes in circumstances (including significant decreases in the market value of assets, in the prices of the main products sold by the Company or in oil and gas reserves, as well as changes in the regulatory framework for the Company's activities, significant increases in operating expenses, or evidence of obsolescence or physical damage) that could indicate that the value of an asset or of a group of assets might not be recoverable. The book value of a long-lived asset is adjusted to its recoverable value if its carrying amount exceeds such value.

From a regulatory standpoint, recoverable value is defined as the larger of net realizable value and the discounted value in use, defined as the addition of the discounted expected net cash flows that arise as a direct result of the use and eventual disposition of the assets. To such end, among other elements, the premises that represent the best estimation made by Management of the economic conditions that will prevail throughout the useful life of the assets are considered.

In subsequent periods, the reversal of the impairment is analyzed if changes in the assumptions used to determine the asset recoverable value arise. In such a case, the book value of the asset or group of assets is raised to the smaller of: a) the book value that the asset or group of assets would have had if the impairment had never been recognized; and b) its recoverable value.

*h) Environmental costs:*

The costs incurred to limit, neutralize or prevent environmental pollution are only capitalized if at least one of the following conditions is met: (a) such costs relate to improvements in safety; (b) the risk of environmental pollution is prevented or limited; or (c) the costs are incurred to prepare the assets for sale and the book value of such assets together with the additional cost do not exceed their respective recoverable value.

Liabilities related to future remediation costs are recorded when environmental assessments are probable, and the costs can be reasonably estimated. The timing and magnitude of these accruals are generally based on the Company's commitment to a formal plan of action, such as an approved remediation plan or the sale or disposal of an asset. The accrual is based on the probability that a future remediation commitment will be required.

The Company records the related liabilities based on its best estimation of future costs, using currently available technology and applying current environmental regulations as well as the Company's own internal environmental policies.

*i) Income tax, minimum presumed income tax, withholdings on exports of hydrocarbons and hydroelectric royalties:*

The Company and its subsidiaries estimate income tax on an individual basis under the deferred tax method.

To book the deferred tax balance, the Company uses the liability method, which establishes the determination of net deferred tax assets and liabilities on the basis of temporary differences determined between the accounting and tax measurement of assets and liabilities. Temporary differences determine tax assets and liabilities when their future reversal decreases or increases the taxes to be determined, without affecting the compensation of the respective amounts. The Company recognizes a deferred tax asset for an unused tax loss carryforward if, and only if, it is considered probable that there will be sufficient future taxable profit against which the tax loss could be used.

The deferred tax assets and liabilities have been valued at their nominal value.

Prevailing income tax rates at period end in Argentina, Venezuela, Brasil, Perú, Ecuador, Bolivia, Austria and España are 35%, 50%, 34%, 30%, 36.25%, 25%, 25% and 35%, respectively. Additionally, payment of Bolivian-source income to beneficiaries outside Bolivia is levied with 12.5% withholding income tax.

The minimum presumed income tax is supplementary to income tax, since while the latter is levied on the year's taxable income, the minimum presumed income is a minimum tax levied on the potential income of certain productive assets at the rate of 1%, so that the Company's final liability will be equal to the higher of both taxes. However, should the minimum presumed income tax exceed the calculated income tax in any given year, such excess may be applied to reduce any excess of income tax over the minimum presumed income tax in any of the ten subsequent years. Taking into account that this tax was applicable for ten fiscal years starting December 31, 1998, in the Company's opinion this tax is not in force as of the date of these financial statements and, therefore, during the six-month period ended June 30, 2008, the Company did not make any advance payments or include any provision for that period. The minimum presumed income tax asset has been stated at its present value.

For the operation of Pichi Picún Leufú Hydroelectric Complex, since 2002 the Company pays hydroelectric royalties of 1%, increasing at a rate of 1% per year up to the maximum percentage of 12% of the amount resulting from applying the rate for the bulk sale to the power sold under the terms of Section No. 43 of Law No. 15,336, as amended by Law No. 23,164. In addition, the Company is subject to a monthly license fee payable to the Federal Government for the use of the power source equivalent to 0.5% of the same basis used for the calculation of the hydroelectric royalty.

The Public Emergency and Exchange System Reform Law No. 25,561 established the creation of a system of withholdings on exports of hydrocarbons for five years since March 1, 2002, which was subsequently extended for five years by Law No. 26,217. The effect of such withholdings is deducted from the respective selling prices.

Effective November 2007, Resolution No. 394/07 issued by the Ministry of the Economy and Production established a new method for calculating withholdings on exports of crude oil, and gave equivalent treatment to certain oil related products as that of crude oil. This amendment results in the application of a variable export withholding based on a formula that considers the international price of crude oil and a cut-off price by product. Under this method, when the international (quoted) price of crude oil exceeds US\$ 60.90 per barrel, an increasing withholding rate is set for crude oil exports that results in a price cap of US\$ 42 per barrel of standard-quality crude oil. When the international price of crude oil ranges between US\$ 45 and US\$ 60.90 per barrel, a 45% withholding rate is applied. When the international price of crude oil dips below US\$ 45 per barrel, the authorities will proceed to determine the applicable withholding rate within 90 days. The same rules apply to exports of refined products such as gasoline, fuel oil and lube oils, for which different cut-off and reference prices were defined.

Previously, the withholding rate was 5% for refined products and 20% for LPG, and a special regime was applied on crude oil exports, starting at 25% when the price per barrel was equal to or lower than US\$ 32 and contemplating increasing rates ranging between 3% and 20% when the price per barrel ranged between US\$32.01 and US\$45, with a cap set at 45% when the price exceeded US\$ 45.

In March 2008, the Ministry of Economy and Production issued Resolution No.127/08 which, in connection with natural gas, amended Resolution No. 534/2006, whereby a 45% withholding rate was established on the price of the gas imported from Bolivia, and imposed a 100% withholding on natural gas exports, considering for valuation purposes the highest price set for natural gas under the applicable agreements for natural gas imports into Argentina. In addition, pursuant to such resolution, the methodology for calculating withholdings on exports of crude oil was also applied to LPG.

*j) Labor costs liabilities:*

Labor costs liabilities are accrued in the periods in which the employees provide the services that trigger the consideration.

The cost of defined contribution plans is periodically recognized in accordance with the contributions made by Petrobras Energía.

For purposes of determining the estimated cost of post-retirement benefits granted to employees, the Company has used actuarial calculation methods, making estimates with respect to the applicable demographic and financial variables. The amount recognized as liability attributable to such benefits is the addition of the present value of the obligation, net of any actuarial result not recognized and the present value of the assets of the plan, with which the obligations will be canceled.

*k) Contingencies:*

Contingencies relate to conditions that exist as of the date of the financial statements that may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur.

Such contingent liabilities are assessed by the Company's management based on the opinion of Petrobras Participaciones' legal counsel and the remaining available evidence.

Such contingencies include outstanding lawsuits or claims for possible damages to third parties in the ordinary course of the Company's business, as well as third party claims arising from disputes concerning the interpretation of legislation.

If the assessment of a contingency indicates that it is probable that a loss has been incurred and the amount of the loss can be estimated, a liability is accrued in the Reserves account. If the assessment indicates that a potential loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the possibility of occurrence, is disclosed in a note to the financial statements. Loss contingencies considered remote are not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Significant litigation in which the Company is involved and movements of reserves are disclosed in Note 12.

*l) Basic/diluted earnings per share:*

Earning per share for the periods ended June 30, 2008 and 2007 was calculated on the basis of shares outstanding during each period. Since the Company does not have preferred shares nor debt convertible into shares, basic earning per share is equivalent to diluted earning per share.

*m) Shareholders' equity accounts:*

The equity accounts were restated according to Note 2.c), except for Capital stock that represents subscribed and paid-in capital. The adjustment arising from the restatement of the Capital stock is disclosed under the caption Adjustment to capital stock .

The account Treasury stock relates to shares of the Company owned by Petrobras Energía, and is deducted from the shareholders' equity at acquisition cost, representing 9,431,210 Class B shares of a face value of P\$1, with a cost and book value of 33 and a listed price of 36.

The Deferred (loss) income account comprises the temporary differences arising from the measurement of derivative instruments determined to be an effective hedge, and the gain (loss) resulting from the translation of operations abroad of Petrobras Energía, net of the exchange differences generated by the Company's debts denominated in foreign currency designated as hedge for the net investment abroad.

*n) Revenue recognition:*

Revenues from the sale of crude oil, natural gas and petroleum, petrochemical and refined products are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured.

Revenues from oil and natural gas production in which the Company has a joint interest with other producers are recognized on the basis of the net working interest, regardless of actual assignment. Any imbalance between actual and contractual assignment will result in the recognition of a debt or credit according to the actual share in production, whether above or below the production resulting from the Company's contractual interest in the consortium. As of June 30, 2008 and December 31, 2007 gas imbalance liabilities were 10 and 5, respectively, attributable to 158 and 118 million cubic meters, respectively.

Revenues from natural gas transportation under firm agreements are recognized by the accrued reserve of the transportation capacity hired, regardless of the volumes carried. Revenues generated by interruptible gas transportation and by certain liquid natural gas (LNG) production and transportation contracts are recognized at the time the natural gas and the liquids are delivered to the customers. For other LNG production contracts and other services, revenues are recognized when the services are rendered.

Revenues from electric power distribution are recognized on the basis of the actual supply of the service, considering the billed portion resulting from periodic power measurements and an estimated amount accrued and not billed for the services supplied from the last measurement to period end. Services accrued and not billed as of period end are determined on the basis of the estimated daily power consumption for the days following the last measurement, based on users' historical consumption, and adjusted by seasonality or other measurable factors that may have an impact on consumption.



o) Changes in presentation criteria:

For comparative purposes, all the necessary reclassifications were made in the prior periods consolidated financial statements in order to present them on a consistent basis. These reclassifications do not imply changes in the decisions based on them.

## 5 Oil and gas areas and participation in joint ventures

As of June 30, 2008, Petrobras Energía and its affiliates were part of the oil and gas consortiums, joint ventures and areas indicated in Note 21.g). The aggregate joint ventures and consortium assets, liabilities and results in which the Company is a party, included in each account of the balance sheet and the statement of income utilizing the proportionate consolidation method, are disclosed in Note 21.h).

The Company is jointly and severally liable with the other participants for meeting the contractual obligations under these arrangements.

The production areas in Argentina and Perú are operated pursuant to concession production agreements with free crude oil availability.

According to Law No.17,319, royalties equivalent to 12% of the wellhead price of crude oil and natural gas are paid in Argentina. The wellhead price is calculated by deducting freight and other sales related expenses from the sale prices obtained from transactions with third parties, or from the product prices prevailing in the domestic market in case the product is subject to industrialization processes.

In Perú, royalties paid for the production of crude oil are determined on the basis of the price of a basket of varieties of crude oil, starting at a rate of 13% for prices of up to US\$ 23.9 per barrel. The royalty rate applicable as of June 30, 2008 was 42.6%. Production of natural gas is subject to a fixed royalty of 24.5%.

In Venezuela, mixed companies (see Operations in Venezuela) are subject to royalty payments of 33.33% and, in addition, they are required to pay an amount equivalent to any difference between 50% of the value of oil & gas sales during each calendar year and the royalty payments made during such year plus income tax and any other tax or duty calculated on the basis of the sales revenues. Mixed companies have to sell to Petróleos de Venezuela S.A. ( PDVSA ) all liquid hydrocarbons and the associated natural gas (when so provided in the agreement) produced in the delimited area, according to a price formula associated with international benchmarks such as WTS and WTI.

In Venezuela, on April 15, 2008, a Special Tax Law on Extraordinary Prices of the International Hydrocarbon Market was enacted. This law provides for a special tax payable by companies exporting or transporting abroad liquid hydrocarbons and oil by-products and will be applicable when the average price of Brent crude oil exceeds, in any month, US\$70 per barrel. The special tax per barrel will be 50% of the difference between the above mentioned monthly average price and the US\$70 threshold price. In addition, when such average price exceeds US\$100, the special tax per barrel, applicable to any difference in excess of the US\$100 threshold, will be 60%. On May 27, 2008 and July 10, 2008, the Ministry of Energy and Petroleum issued Resolutions 151 and 195, respectively, that provide for the special tax calculation and settlement method. In this respect, Resolution 195 establishes that the benchmark average price will be the Venezuelan Basket price instead of the Brent crude oil price referred to in the Law and in Resolution 151. As of the date of these financial statements, the final effects of the Law on the mixed companies and the impact of Resolutions 151 and 195 have not been yet determined, considering that according to the applicable contractual terms and conditions, the mixed companies must sell all crude oil volumes produced to PDVSA.

In Bolivia, pursuant to the terms of the contract signed in October 2006 with Yacimientos Petrolíferos Fiscales Bolivianos ( YPFB ), which took effect as from May 2007, Petrobras Energía's branch performs at its own risk and for its own account, in the name and on behalf of YPFB, exploration and production activities within the Colpa Caranda area. Pursuant to the agreement, YPFB owns the hydrocarbons, pays royalties and direct tax on hydrocarbons, which in the aggregate amount to 50% of the production valued on the basis of sales prices, and applies the 80% of the surplus amount to pay, in the first place, the costs and depreciations, being the rest shared between YPFB and the branch on the basis of an index calculated based on production volumes, depreciation rate, prices and taxes paid, among other items.

In Ecuador, operation contracts for Block 18 and the Operational Agreement for the Unified Operation of the Hollin Field in Palo Azul field ( Palo Azul Unified Agreement ) stipulate the free disposition of the oil produced and differential production percentages in favor of the Ecuadorian Government. In the Pata field, the Government receives a production share ranging from 25.8%, if daily production is lower than 35,000 barrels per day, to 29%, if production exceeds 45,000 barrels per day. It is also adjusted depending on the crude oil quality factor. For intermediate production levels an incremental interest percentage within the previously established range is applied. For the operation of the Palo Azul field, the percentages are determined in accordance with a formula that takes into account the final price of the crude produced and the level of total proved reserves. In such respect, if the crude from Palo Azul is sold at less than US\$ 15 per barrel, the Government receives about 30% of the crude produced, while, if the price of the crude is US\$ 24 or higher, the Government receives about 50.50% of the production. For the intermediate price ranges, an increasing scale of price is applied. The selling price of the Palo Azul's crude is calculated using as a reference the price of barrel of WTI after the standard market discount for the Oriente crude. As of June 30, 2008, the Government's equity interest in the oil produced at the Pata and Palo Azul fields was 30% and 50.50%, respectively. See Operations in Ecuador .

### **Investment commitments**

In Argentina, on account of its interest in the joint ventures in charge of the exploration of the areas Chirete, Hickmann and Río Colorado, the Company maintains investment commitments for approximately

US\$ 57 million, which mainly include the execution of seismic surveys.

In Colombia Petrobras Energía has a 30% interest in the consortium Tibú, which has committed investments for US\$ 30 million up to December 2009.

### **Changes in oil and gas areas and participation in joint ventures**

In February 2007, Petrobras Energía acquired from ConocoPhillips in US\$ 77.6 million, its 25.67% and 52.37% interests in Sierra Chata and Parva Negra, respectively. The acquisition was structured through the purchase of the company Burlington Resources Argentina Holdings Limited, organized in Bermuda and holder of the mentioned interests. This transaction is still pending approval by the applicable regulatory authorities. Once all formalities concerning regulatory matters have been completed, Petrobras Energía's interest in Sierra Chata and Parva Negra will increase to 45.5523% and 100%, respectively.

In November 2007, Petrobras Energía sold 76.15% of its rights and obligations in the Bajada del Palo area. As a result of this transaction the Company recognized a gain of 62.

In December 2007, the Company acquired from Energy Development Corporation (Argentina), Inc. Argentina Branch a 13.72% equity interest in El Tordillo and La Tapera Puesto Quiroga areas paying US\$117.5 million, transaction that took effect as from March 2008 once all the formalities concerning regulatory matters were completed.

### **Operations in Colombia**

Since no positive results were obtained from the exploratory activities, in the first quarter of 2008, the Tierra Negra exploratory area was returned to the National Hydrocarbon Agency of Colombia.

### **Operations in Ecuador**

On March 31, 2008, Petroecuador communicated to EcuadorTLC S.A. the initiation of an administrative procedure aimed at declaring the termination of Block 18 participation agreement and required information and documentation regarding this subject. The initiation of this procedure was originally requested by the Attorney General of Ecuador, based, among others, on alleged irregularities in the assignment of 40% of its interest in Block 18 to Teikoku Oil Ecuador S.A., and the lack of registration of a Consortium among the different parties to the participation agreement -

as understood by the Attorney General and on different penalties imposed for the alleged noncompliance with the hydrocarbon law.

On April 10, 2008, EcuadorTLC S.A. filed an answer asserting its rights, produced all the documentary evidence and requested that the procedure initiated by the Attorney General be concluded.

#### *License of Block 31*

A large part of Block 31 is located in Parque Nacional Yasuní, a highly-sensitive environmental area located in Ecuador's Amazon area, which is part of the areas belonging to the National Heritage of Natural Areas, Protective Forests and Vegetation.

In August 2004, the Ecuadorean Ministry of the Environment approved the environmental impact study and Management Plan for the development and production of Block 31 and granted an environmental license for the Nenke and Apaika fields for the project of the construction phase. In addition, the Ministry of Energy and Mining approved the Block 31 development plan.

On July 7, 2005, the Ministry of the Environment decided not to authorize the beginning of certain construction works on the Tiputini River (boundary of Parque Nacional Yasuní) and denied the entrance to Parque Nacional Yasuní. This suspension prevents from continuing the development works in Block 31. Petrobras Energía Ecuador submitted to the Ministry of the Environment and the Ministry of Energy and Mining changes to Block 31 development plan and a new environmental impact study, which was approved in December 2006. On October 22, 2007, the Ministry of the Environment issued a new environmental license.

On November 6, 2007, the Ministry of Energy and Mines approved the first amendment to the Development Plan for the Apaika-Nenke field in Block 31 in the Amazon Region of Ecuador. As of the date of issuance of these financial statements, Petrobras Energía Ecuador has filed for the forestry license and is in compliance with the obligations contemplated in the new environmental license.

#### *Recoverability of investments*

As from 2006, and with special emphasis during 2007, the Ecuadorian Government has implemented major tax and regulatory amendments, which particularly focused on the hydrocarbons industry.

Among other measures, in April 2006 the Ecuadorian Government approved an Amendment to the Hydrocarbons Law (Law No.42/2006) (Note 12.c).

The combination of these changes have materially modified the conditions set forth at the time of execution of the respective participation agreements, adversely affecting the profitability evaluation of ongoing projects in Ecuador, with the ensuing negative impact on the assessment of their recoverability. Accordingly, as of December 31, 2007, the Company recorded an impairment allowance of 759 to write the book value of Ecuador's assets down to their probable recoverable value. In estimating the related recoverable value, the Company included the impact of the estimated net deficit of production from the transportation capacity contract with Oleoducto de Crudos Pesados Ltd.

As of the date of issuance of these financial statements, the Company and its subsidiaries are negotiating with the Ecuadorian government their relationship under the participation agreements governing the operation of Blocks 18 and 31. Management cannot assure that these negotiations will ultimately lead to contractual terms allowing that the financial stability of the operations in Ecuador be restored to obtain profitability on a long-term basis.

*Crude Oil Transportation Agreement with Oleoductos de Crudos Pesados Ltd. (OCP)*

In relation with the development and exploration of Blocks 31 and 18, the Company has executed an agreement with OCP, whereby it has guaranteed an oil transportation capacity of 80,000 barrels per day for a 15-year term starting November 10, 2003.

The type of transportation agreement is "Ship or Pay". Therefore, the Company should meet its contractual obligations for the entire volume hired, although no crude oil is transported, paying, like the other producers, a rate that covers OCP operating costs and financial services, among others. As of June 30, 2008 such rate amounted to US\$ 2.075 per barrel.

The costs for the transportation capacity are billed by OCP and charged to expenses monthly. Hence, the costs related to the crude oil volume effectively transported are charged to "Administrative and selling expenses" line, whereas the surplus, related to transportation capacity hired but not used is recorded in the "Other operating expenses, net" line (Note 16.c).

The Company estimates that during the effective term of the "Ship or Pay" transportation agreement the crude oil produced will be lower than the committed transportation capacity. This presumption is based on the current assessment of the potentiality of the Company's reserves and on its estimated graduality for its development. Considering this situation, and for the purpose of mitigating the resulting effects of such situation, the Company negotiates committed transportation capacity volumes periodically. As of June 30, 2008, the Company sold a portion of this transportation capacity (at an average amount of 8,000 barrels per day from July 2004 to January 2012 and

16,000 barrels per day during two years starting from May 2006). The impact of the net production deficit is considered for the purpose of analyzing the recoverability of the assets in Ecuador.

In order to guarantee the compliance with the Company's financial commitments related to the Ship or Pay transportation agreement and OCP's related business obligations, the Company issued letters of credit. These letters of credit, with maturity date of December 2018, are required to remain effective until the abovementioned commitments expire. As of June 30, 2008 the Company issued letters of credit for a total amount of about US\$ 103 million. As the letters of credit expire, the Company will be required to renew or replace them. Otherwise, the amounts due must be deposited in cash.

*Agreement with Teikoku Oil Co. Ltd.*

In January 2005, Petrobras Energía entered into a preliminary agreement with Teikoku whereby, after obtaining approval from the Ministry of Energy of Ecuador, Petrobras Energía will transfer 40% of its rights and interest in Blocks 18 and 31 and Teikoku will assume the payment of 40% of the crude oil transportation agreement entered into with OCP.

On January 11, 2007 the transfer was approved by the Ecuadorian Ministry of Energy and Mines and EcuadorTLC was authorized to execute, together with Petroecuador, the public deeds evidencing the incorporation of Teikoku to the participation agreements relating to Blocks 18 and 31. As a result of this authorization, the parties are taking all necessary steps to ensure, among other things, the assignment of the rights and obligations resulting from the participation agreement that has to be signed by Petroecuador, in order to incorporate Teikoku Oil Ecuador S.A., a subsidiary of Teikoku, as a partner in the participation agreements.

The economic terms and conditions and the legal effects of the transaction will be effective once the assignment and the pertinent registration thereof have been made.

Based on the request for termination made by the Attorney General and the subsequent request for information made by Petroecuador, EcuadorTLC S.A. filed an answer asserting its rights and produced all the documentary evidence in order to prove that there were no grounds to sustain the request for the termination of the participation agreement, since the assignment had been approved by the administrative authorities involved. A Ministerial Agreement has also been issued, whereby the assignment is authorized and Petroecuador is compelled to amend the participation agreement and grant the related deeds.

**Operations in Venezuela**

In April 2005, the Venezuelan Energy and Oil Ministry ( MEP ) ordered PDVSA to review the thirty-two operating agreements signed from 1992 through 1997 by PDVSA s affiliates with oil companies, including the agreements signed with Petrobras Energía, through its subsidiaries and affiliates in Venezuela, to operate the Oritupano Leona, La Concepción, Acema and Mata production areas. These instructions given by the MEP established that all the necessary measures should be taken by PDVSA to migrate all operating agreements effective at that time to mixed companies, in which the Venezuelan Government would hold a share of over 50% through PDVSA.

In March 2006, Petrobras Energía, through its subsidiaries and affiliates in Venezuela, signed Memorandums of Understanding (MOU) with PDVSA and Corporación Venezolana del Petróleo S.A. (CVP) for the purpose of migrating the operating agreements. The MOUs provided for 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. The MOUs established that the migration would have economic effects as from April 1, 2006. As a consequence of the foregoing, the direct and indirect equity interest of Petrobras Energía in the mixed companies operating the areas Oritupano Leona, La Concepción, Acema and Mata amount to 22%, 36%, 34.5% and 34.5%, respectively. Additionally, CVP recognized a divisible and transferable credit in favor of the private companies participating in the mixed companies in the amount of US\$ 88.5 million for Petrobras Energía s equity interest, which does not accrue interest and could be applied to the payment of acquisition bonds to be used in any new mixed ownership project for oil exploration and production activities, or licenses for gas exploration and production operations in Venezuela. Since the requirements for the recognition of such credit had been met, as of December 31, 2006, the Company recognized the related receivable at its estimated recoverable value, which amounted to 180.

In August 2006, conversion agreements were entered into under terms and conditions consistent with those set forth in the MOUs. Subsequently, Petroritupano S.A., Petrowayú S.A., Petroven-Bras S.A. and Petrokariña S.A. were organized and registered with the Public Registry of Commerce of Venezuela, the Venezuelan Executive Branch issued the related decrees for the transfer of rights, and the shareholders made the required capital contributions. Between December 2006 and March 2007, following the transfer of the vendor agreements and the employees, among others, the transfer of operations to the mixed companies was completed and they started operating.

In accordance with the corporate and governance structure established for the mixed companies, as from April 1, 2006, the Company discontinued the consolidation of assets, liabilities, income and cash flows of the Venezuelan operations on a line by line basis. Accordingly, the Company s interest in the shareholders equity and related net income are now presented as a long term investment and equity in earnings of subsidiaries, respectively.

The new operating conditions prevailing as from the conversion of the operating agreements had an adverse impact on the recoverable value of the Company s assets in Venezuela. The recoverability of the referred investments is highly sensitive to crude oil price volatility, to economic, social and regulatory changes and, particularly, to the resulting business plans. Decreases in crude oil prices, fluctuations in the economy and measures adopted by the Venezuelan Government and/or a more limited approach for the development of the reserves of such companies could adversely affect the evaluation of the recoverability of the investments in the mixed companies and, consequently, the Company s income. As a result of the changes in the foregoing variables, in the years ended December 31, 2007, 2006 and 2005, the Company recorded write downs of 33, 186 and 424, respectively.

In addition, since projects for the use of the credit recognized by CVP had not been materialized, the efforts to transfer such credit to third parties had not been successful, and other alternative uses of the credit could not be anticipated, as of December 31, 2007 the Company wrote down the carrying value of the credit to zero resulting in an impairment charge.

As of June 30, 2008 and December 31, 2007, the carrying value of the Company's direct and indirect interest in the mixed companies, net of write down allowances, amounts to 2,625 and 2,564, respectively.

## **6. Credit risk**

The Company provides credit lines in the normal course of business to refiners, petrochemical companies, marketers of petroleum products, crude oil exporting companies, electrical power generation companies, retail customers, natural gas distributors, large electrical power users and power distribution companies, among others.

As a result of the Company's business and sales locations, the portfolio of receivables is well diversified, and, therefore, the Company's Management considers the credit risk moderate based on such diversification. The Company constantly performs credit evaluations of the financial capacity of its clients, which minimizes the potential risk of bad debt losses.

Sales for the six-month period ended June 30, 2008, were mainly performed to Petr leos del Per  - Petroper  S.A. and Petrobras International Finance Co., representing about 11% and 5%, respectively, of total sales for the period, before deducting export withholdings.

Sales for the six-month period ended June 30, 2007, were mainly performed to Petrobras International Finance Co. and Petr leos del Per  - Petroper  S.A. representing about 12% and 7%, respectively, of total sales for the period, before deducting export withholdings.

## **7. Inventories**

The breakdown of current and non-current inventories is as follows:



**8. Investments, equity in earnings of affiliates and dividends collected**

The breakdown of current and non-current investments, the equity in earnings of affiliates and dividends collected, are as follows:

a) Investments

*b) Equity in earnings of affiliates*

c) Dividends collected

***I. Investment in companies in which joint control or significant influence is exercised and which are subject to transfer restrictions:***

*a) Distrilec:*

Petrobras Energía, through Petrobras Finance Bermudas and Petrobras Electricidad de Argentina S.A ( PEDASA ) holds an indirect shareholding of 48.50% in Distrilec.

Distrilec is able to change its equity interest and sell its shares in Edesur S.A. ( Edesur ) only with the approval of the ENRE (Federal Power Regulation Authority).

In addition, over the entire term of the concession, the Class A shares in Edesur shall remain pledged to guarantee the compliance with the obligations undertaken in the Concession Agreement. This pledge in no way limits the exercise of financial and voting rights associated with the Edesur's shares.

As of June 30, 2008 and December 31, 2007, equity interest in PEDASA was valued at 420 and 405, which includes 127 and 132 attributable to adjustments to eliminate intercompany results.

*b) CIESA:*

Shareholders of CIESA, parent company of Transportadora de Gas del Sur S.A. ( TGS ), may not sell their Class A shares representing 51% of CIESA's capital stock, without the prior authorization of the regulatory agency and the approval of the shareholders of CIESA.

## *II. Situation of the interests in public utility companies*

The scenario after the enactment of the Public Emergency Law significantly changed the financial equation of the public utility companies. Particularly, the tremendous effect of the devaluation, within a context of remained fixed revenues, as a consequence of de-dollarization of rates, has affected the financial and cash flow position of such companies, as well as their ability to comply with certain loan agreement clauses.

During 2002, TGS and its controlling company CIESA suspended the payment of their financial debts. In December 2004 the process involving restructuring of TGS financial debt was completed. In September 2005, CIESA signed an agreement to restructure its financial debt with all its creditors. The materialization of the restructuring is subject to certain approvals by the regulatory authorities. CIESA has prepared its financial statements assuming that it will continue as a going concern, therefore, those financial statements do not include any adjustment or reclassifications that might result from the outcome of the uncertainties arising from such debt restructuring process.

The Public Emergency Law provided for the conversion into Argentine pesos and the elimination of indexation clauses on public service rates, thus fixing them at the exchange rate of ARS 1 = US\$ 1. In addition, the Executive Branch was empowered to renegotiate those agreements entered into to provide public services, along the following criteria: (i) rates impact on economic competitiveness and revenue allocation, (ii) service quality and investment plans, to the extent that they were contractually agreed upon, (iii) users interest and access to services, (iv) the safety in the system involved, and (v) companies' profitability.

On February 12, 2002, the Executive Branch of Government issued Decree No. 293/02 whereby it recommended that the Ministry of the Economy renegotiate the agreements executed with public utility companies. The UNIREN (public service agreement renegotiation and analysis unit) was created in July 2003. This agency reports to the Ministries of Economy and Production, and of Federal Planning, Public Investment and Services. The UNIREN took over the work of the Renegotiation Commission and its aim is, among others, to provide assistance in the public works and services renegotiation process, to execute comprehensive or partial agreements, and to submit regulatory projects related to transitory rate adjustments.

In July 2004, the UNIREN made a proposal to TGS in order to adjust the license contractual terms, which stipulates, among other issues, a 10% rate increase effective as from 2005 as well as a comprehensive rate review effective as from 2007 and the waiver by TGS and its shareholders to claims based on the emergency situation under Law No. 25,561 before the agreement effective date, and to hold the Argentine Government harmless against any claim that

may proceed based on the same grounds.

Considering that the proposal did not reflect the outcome of the meetings held with the UNIREN, TGS requested to continue with the negotiation process so as to reach a comprehensive agreement during the first half of 2005.

On April 27, 2005, the public hearing called by the UNIREN was held to analyze the proposal made on July 2004. During such meeting, the UNIREN repeated its 10% increase proposal and proposed to bring forward the comprehensive rate review process so that the new rate charts would take effect during 2006. TGS stated which features of the original proposal should, in its opinion, be improved and that it was willing to continue negotiating its terms.

In June and November 2005, TGS received two new proposals from the UNIREN, which were made in conformity with the previous one and incorporated as a new requirement that TGS and its shareholders shall waive any future claim related to the PPI rate (United States Producer Price Index) adjustments that were not applied in 2000 and 2001. TGS answered these proposals and stated that the original 10% increase was not sufficient and, jointly with Petrobras Energía, agreed not to make any claims and file any appeals and actions in an arbitration tribunal or an administrative or judicial court in Argentina or abroad, provided that a renegotiation agreement was reached. In addition, the other shareholder in CIESA (ENRON), which filed a claim against Argentina with the International Centre for Settlement of Investment Disputes (ICSID), reported that they would only consider waiving their claims if they were fairly compensated. During 2006, the UNIREN submitted two proposals to TGS with guidelines identical to those established in previous proposals, but there was not a big progress in the pricing adjustment.

In June 2005, Edesur signed a letter of understanding with the UNIREN as part of the renegotiation process involving the related concession contract. Based on this letter of understanding, in August 2005, the parties signed a memorandum of understanding that included, among other matters, the terms and conditions that, once the procedures established by regulations are fulfilled, they shall be the substantive basis for amending the concession agreement.

The document established that as from the execution of the letter of understanding through June 30, 2006, a complete rate review would be performed, which would allow fixing a new rate system effective August 1, 2006, and for the following five years. Also, it established a transition period for which the following was agreed upon: (i) a transitional rate system as from November 1, 2005, with an increase in the average service rate not exceeding 15%, applicable to all rate categories, except for residential rates; (ii) a mechanism to monitor costs, which allows for reviewing rate adjustments; (iii) restrictions on dividends distribution and debt interest payment during 2006; (iv) investment commitments for 2006; (v) service provision quality standards; and (vi) restrictions on Distrilec's ability to modify its equity interest or sell its shares in Edesur.

As a preliminary condition for the Executive Branch to ratify the Memorandum of Understanding, Edesur and its shareholders suspended all pending claims based on the measures taken as from the emergency situation established by Public Emergency Law in connection with the concession agreement.

The Memorandum of Agreement (MOA) was ratified by the Executive Branch on December 28, 2006. According to the ENRE's Resolution No. 50/2007 published in the Official Gazette on February 5, 2007, the values stated in Edesur's Rate Schedule and resulting from the Interim Rate Schedule provided for in the MOA became effective as from February 1, 2007.

As a consequence, a 23% increase was applied on the company's own distribution costs (not affecting T1R1 and T1R2 residential rates), connection costs and the reconnection service charged by Edesur, and an additional average increase of 5% is also applied on such distribution costs for the execution of a work plan. In addition, the ENRE authorized to apply to such costs, effective May 1, 2006, the 9.962% positive variation in the cost monitoring system indexes provided under the MOA. The ENRE provided that the amounts resulting from the application of the Interim Rate Schedule for consumptions accrued between November 1, 2005 and January 31, 2007, be invoiced in 55 equal and consecutive installments. Edesur estimated these amounts at 237.

Subsequently, Resolutions No. 1,838/2007 issued by the Secretary of Energy and No. 867/2007 of the ENRE approved a 9.75% adjustment for the period from May 2006 to April 2007 under the cost monitoring method set forth in the Memorandum of Agreement applicable to sales as from May 2007.

In January 2008, Law No. 26,339 extended until December 31, 2008 the term to renegotiate contracts for public works and utilities.

As of June 30, 2008 the book value of the equity interests in CIESA and Distrilec amounted to 266 and 576, respectively (net of adjustments of (222) and (86) made to adapt Ciesas and Distrilecs valuation methods to those of the Company, respectively, and 47 corresponding to the purchase price allocated to Distrilecs fixed assets recorded by the Company at the time of the acquisition of a portion of its interest).

As of December 31, 2007 the book value of the equity interests in CIESA and Distrilec amounted to 218 and 560, respectively (net of adjustments of (227) and (90) made to adapt Ciesas and Distrilecs valuation methods to those of the Company, respectively, and 50 corresponding to the purchase price allocated to Distrilecs fixed assets recorded by the Company at the time of the acquisition of a portion of its interest).

As of June 30, 2008 and December 31, 2007 the valuation of CIESA includes 110 corresponding to the transfer to Enron of its interest in TGS (See Section III).

The book value of these interests does not exceed their recoverable value.

### ***III. CIESA 's Master Settlement Agreement and Mutual Release Agreement***

In April 2004, the shareholders of CIESA celebrated a master settlement agreement whereby Petrobras Energía and Enron would reciprocally waive any claiming right arising from or related to certain agreements executed by such groups in connection with their interests in CIESA and TGS. The terms of the Master Agreement included the transfer of the technical assistance agreement to Petrobras Energía, which was materialized in July 2004. In addition, to provide the necessary flexibility to make progress in restructuring CIESA 's financial debt, the Master Agreement established certain share transfers in two successive steps.

As a first instance, and after the relevant regulatory authorities ' approvals, on August 29, 2005, Enron transferred 40% of its shares in CIESA to a trust fund and, at the same time, Petrobras Energía and its subsidiary, Petrobras Hispano Argentina S.A., transferred Class B shares of TGS (representing 7.35% of TGS 's capital stock) to Enron.

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 Ente Nacional Regulador del Gas (Argentine Gas Regulatory Agency) and Comisión Nacional de Defensa de la Competencia (Anti-trust authorities), CIESA will deliver about 4.3% of the Class B shares of TGS to its financial creditors as a partial debt repayment. These shares will be, afterwards, transferred to Enron in exchange for the 10% remaining shares held by the latter in CIESA. Creditors will capitalize the financial debt balance.

The records were sent by the National Gas Regulatory Entity to the UNIREN to expedite a decision in any matter within its jurisdiction. It concluded on January 2007, and subsequently forwarded them to the Attorney General 's Office requesting that a decision be taken regarding matters under its jurisdiction and stating that from the regulatory standpoint there were no objections to authorize the transaction as requested.

Once the debt restructuring is completed (Note 9.IV), considering that in addition to the share transfers mentioned above the fiduciary ownership of the shares held in CIESA by the trust fund will be transferred to Petrobras Energía and Petrobras Hispano Argentina S.A. and new shares will be issued for the benefit of creditors, CIESA 's capital stock structure will 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.

Considering the progress made in renegotiating CIESA 's debt and the favorable expectations regarding its outcome, which would result in an increased value of the equity interest in CIESA, the Company computed the book value of the interest in TGS transferred to Enron as part of the valuation of its equity interest in CIESA, which is presented as non-current investment.

*IV. Equity interest sales*

*- Hidroneuquén S.A.*

On January 17, 2007, Petrobras Energía entered into a stock purchase agreement with a consortium composed of Merrill Lynch, Pierce, Fenner & Smith Inc. and Sociedad Argentina de Energía S.A., for the sale of its 9.19% equity interest in Hidroneuquén S.A., a company holding 59% of Hidroeléctrica Piedra del Aguila S.A.'s capital stock. The stock purchase price provided under the terms and conditions of the agreement was US\$ 15 million, implying a gain of 23, recorded in Other income (expenses) net .

*- Petrobras Bolivia Refinación S.A.*

In May 2006, the Bolivian Government issued Supreme Decree No. 28,701, thus establishing what it calls "the nationalization of oil and gas" of the country.

The abovementioned decree also provided that the Bolivian Government shall recover full participation in the entire oil & gas production chain, and for this purpose provided, among others, the necessary actions to be taken for YPFB to control at least 50% plus one share in a group of companies, among which was Petrobras Bolivia Refinación S.A.

Within this framework, on June 25, 2007, Petrobras Energía S.A. through its subsidiary Petrobras Energía Internacional S.A. signed an agreement for the sale to YPFB of its interest in Petrobras Bolivia Refinación S.A. The sale price amounted to US\$ 55 million, generating a gain of 44 recorded in Other income (expenses), net.

*- Compañía Inversora en Transmisión Eléctrica S.A. (Citelec)*

In compliance with the commitment to divest Citelec assumed by Petrobras Energía S.A. upon the approval - on July 19, 2007- by the Comisión Nacional de Defensa de la Competencia (the Argentine antitrust authorities) of the purchase by Petrobras Participaciones S.L. of the shares representing the majority of the capital stock of Petrobras Energía Participaciones, Petrobras Energía entered into an agreement to transfer its 50% equity interest in Citelec to Energía Argentina S.A. ( Enarsa ) and Electroingeniería S.A. on a 50/50% basis. In December 2007 the pertinent approvals were granted by the regulatory agencies and authorities and all other terms and conditions to which the transaction was subordinated were fulfilled.



The sale was carried out at a price of US\$ 54 million and did not generate significant results. The agreement considered an earn-out related to the results of the comprehensive tariff revision to be determined for the companies Compañía de Transporte en Energía Eléctrica en Alta Tensión Transener S.A. and Empresa de Transporte de Energía Eléctrica por Distribución Troncal de la Provincia de Buenos Aires S.A., applicable through June 30, 2008 which did not eventually materialize since no tariff revision process was initiated until such date.

- *Yacylec S.A.*

On July 19, 2007, Petrobras Energía signed with Electroingeniería S.A. a stock purchase agreement for the sale of its 22.22% equity interest in Yacylec S.A., which was approved by ENRE in December 2007. The sale was performed at a fixed price of US\$ 6 million, generating a gain of 16.

- *Petroquímica Cuyo S.A.I.C.*

On December 31, 2007, Petrobras Energía entered into a stock purchase agreement with Admire Trading Company S.A. and Grupo Inversor Petroquímica S.L. for the sale of its 40% equity interest in Petroquímica Cuyo S.A.I.C. The selling price was US\$ 32 million, resulting in a gain of 40.

- *Petrobras de Valores Internacional de España S.L. (PVIE)*

In December 2007, Petrobras Energía sold 40% of its equity interest in PVIE, a holding company whose main asset is the 99.79% interest in the capital stock of Petrobras Energía Perú S.A., to Petrobras Internacional Braspetro B.V. in the amount of US\$ 423.3 million, plus a contingent consideration to be defined by the parties if a commercially viable discovery is made at the Kinteroni prospect in Lote 57. The transaction resulted in a gain of 1,014.

In January 2008, Petrobras Energia announced a discovery of gas and condensed gas at the Kinteroni prospect, which is still in the evaluation phase.

Pursuant to the terms and conditions of the stock purchase agreement, the parties agreed to share the power and authority to define and direct PVIE's operating and financial policies (Note 2.a).

## 9. Financing

The detail of financial debt as of June 30, 2008 and December 31, 2007, is as follows:

### *I. Petrobras Energía's Global Programs of nonconvertible bonds*

#### Global program of US\$ 2.5 billion:

As of June 30, 2008 under this program, which matured in May 4, 2008 the following classes of bonds remained outstanding:

- Class H, for a face value of US\$ 181.5 million maturing in May 2009, at a 9% annual rate.
  
- Class I, for a face value of US\$ 349.2 million maturing in July 2010, at a 8.125% annual rate.
  
- Class N, for a face value of US\$ 97 million, with principal amortized in two installments, the first equivalent to 9.9099% of face value settled on the same day of issuance, January 24, 2003, and the remaining due in June 2011, accruing interest at LIBOR for a period of six months plus 1%.
  
- Class R, for a face value of US\$ 200 million, maturing in October 2013, at a 9.375% annual rate.

- Class S, for a face value of U\$S 300 million, maturing in May 2017, at a 5.875% annual rate. Interest is payable semiannually and principal will be repaid in a single installment at maturity. Class S bonds are supported by a Standby Purchase Agreement provided by Petrobras, pursuant to which, in the event of failure to pay principal, interest and any other amount owed by Petrobras Energía in connection with Class S bonds, Petrobras shall purchase the rights of noteholders to receive payments

The proceeds from the issuances of the bonds were used to refinance liabilities, increase working capital, make capital expenditures in Argentina or capital contributions to affiliates.

Debt from the issuances is disclosed net of the unaccrued portion of the issuance discounts. The incurred costs for such issuances were deferred at the time of each issuance and are included in Prepaid expenses within the Other receivables account.

Global program of US\$ 1 billion:

The Annual Shareholders Meeting of Petrobras Energía held on March 28, 2008 approved the creation of a global program for the issuance of bonds for an outstanding maximum principal amounting to US\$1 billion or its equivalent in any other currency, maturing within a 5-year term, or the maximum term that may be established by any applicable regulation in the future, under terms and conditions identical to those of the global program of US\$2.5 billion. As of the date of issuance of these financial statements, Petrobras Energía began the authorization proceedings with the CNV.

*II. Cross default clauses*

Outstanding bonds include cross default clauses, whereby the Trustee, as instructed by the noteholders representing at least 25% of the related outstanding capital, shall declare all the amounts owed due and payable, if any debt of Petrobras Energía or its significant subsidiaries is not settled upon the maturity date, provided that those due and unpaid amounts exceed the higher of US\$ 25 million or 1% of Petrobras Energía's shareholders' equity upon those maturities, and that the default has not been defeated or cured within 30 days after the Company has been served notice of the default.

As of the date of these consolidated financial statements, Petrobras Energía has complied with all the terms and conditions related with its financial indebtedness.

***III. Edesur indebtedness***

Edesur maintains a global corporate note program for the term of five years as from October 14, 2003, or the maximum term that may be allowed under any new regulations that might become applicable in the future, for up to a maximum principal amount outstanding at any time during the effectiveness of the program up to US\$ 450 million or its equivalent in other currency.

As of June 30, 2008, only Class 7 is outstanding under such global program for a face value of 165, with five semiannual principal repayments of 33 as from June 2010, at an annual interest rate of 11.75% p.a.

Proceeds from the issuances have been applied to refinancing liabilities and improving working capital.

In addition, Edesur has signed loan agreements with banks. Some of Edesur's loan agreements contain cross-default clauses, whereby lending banks may declare all owed amounts as due and payable in the event that any debt was not settled in due time, provided that such amounts due and payable exceeded those stipulated in the agreements.

Some of these agreements also contain cross-acceleration clauses, whereby lending banks may declare all owed amounts as due and payable in the event that Edesur was required to pre-settle any other debt stipulated in the agreements.

As of the date of these consolidated financial statements Edesur has complied with all the terms and conditions contained in the loan agreements.

***IV. CIESA and TGS indebtedness***

Due to the Argentine macroeconomic situation, starting with the enactment of the Public Emergency Law (see [Note 8.II](#) Situation of the interest in public utility companies ), CIESA did not pay at maturity, in April 2002, neither the principal and the last interest installment nor its cap and collar of interest rate agreements. Consequently, CIESA's indebtedness included in the Company's consolidated financial statements pursuant to the proportional consolidation method, in the amount of US\$ 296 millions, has been disclosed in the Short-term debt line.

In September 2005, CIESA signed an agreement to restructure its financial debt with all its financial creditors. In view of the agreement reached, CIESA refinanced the debt for an amount of about US\$ 23 million at a 10-year term and,

once approvals are obtained from the Argentine Gas Regulatory Agency and the Argentine anti-trust authorities, it will provide its financial creditors with about 4.3% of TGS's Class B common shares and will capitalize the remaining debt by issuing shares in favor of creditors. CIESA's financial statements were prepared using the on going concern basis of accounting and therefore such financial statements do not include any adjustment or reclassification that may derive from their resolution of uncertainties resulting from its debt restructuring process.

Between May and June 2007, TGS successfully concluded the refinancing of its debt through the issuance of US\$ 500 million bonds under the 2007 Global Program and the prepayment of its previous debt through an offer for the purchase of bonds, redemption of bonds not subject to the purchase offer and prepayment of loans with the Inter-American Development Bank.

Bonds are due May 14, 2017 and bear interest at a fixed rate of 7.875% p.a. Principal will be repaid in four yearly, equal and consecutive installments of US\$125 million each, as from May 14, 2014.

As of June 30, 2008, TGS's financial debt mainly results from the issuance of bonds in the amount of US\$500 million under the 2007 Global Program, for an amount of up to US\$650 million, authorized by the CNV on January 18, 2007.

Pursuant to the financing agreements executed in connection with the debt restructuring, TGS is required to comply with a series of covenants, which include, among others, restrictions on debt issuance, new investments, sale of assets, payment of technical assistance fees and dividend distributions. As of the date of these financial statements, TGS has complied with the above mentioned covenants.

#### ***V. Detail of long-term debt***

Long-term debt as of June 30, 2008 is made up as follows:

(\*) Average rate.

Maturities of long-term debt as of June 30, 2008 are as follows:

**10. Fund for the investments required to increase the electric power supply in the electric wholesale market (FONINVEMEM)**

Through Resolution No. 712/04, the Energy Department created the FONINVEMEM I for the purpose of granting creditors and incentive to invest in wholesale electricity market (MEM) for increasing the supply of electrical power generation in Argentina. Through Resolution No.564/07, the Secretary of Energy requested MEM agents to participate in FONINVEMEM II, with the purpose of complementing financing of FONINVEMEM I.

The financing of FONINVEMEM I and II was made through the contribution of 65% and 50% of the credit balances recorded in 2004-2006 and in 2007, respectively, resulting from the spread between the selling price of energy and the variable generation cost. The total contribution by all wholesale electric market private creditors is estimated at US\$ 816 million, of which Petrobras Energía contributed US\$ 55 million, US\$ 39 million to FONINVEMEM I and US\$ 16 to FONINVEMEM II.

On October 17, 2005 and under the terms of Resolution No. 1,193 issued by the Secretary of Energy, Petrobras Energía and other MEM creditors formally announced their decision to manage the construction, operation and maintenance of two power plants of at least 800 MW each.

For the purposes of purchasing of equipment and the construction, operation and maintenance of the power plants, two trusts funds were created within the scope of CAMESA. The funds related to FONINVEMEM and the specific charge will be deposited with the trusts funds. Procurement of the equipment, construction, operation and maintenance of each power plant will be performed by Termoeléctrica José de San Martín S.A. and Termoeléctrica Manuel Belgrano S.A., which will act as agents of the respective trusts funds. These power plants will enter into electricity supply agreements with CAMESA for a term of 10 years for the 80% of the energy generated, at a price that will allow to cover costs and FONINVEMEM reimbursements, the companies being able to freely dispose of the remaining 20% of the energy generated. Upon expiration of the supply agreements, ownership of the assets held in trust will be transferred to the power generation companies.

As of June 30, 2008, two turbines of the power plant Central Termoeléctrica Manuel Belgrano and one gas turbine of the Central Termoeléctrica San Martín are already fully operational, while the second San Martín turbine is expected to start operating in the third quarter of 2008. It is also expected that both power plants will operate in combined cycles during the first semester of 2009.

Construction costs of both plants are estimated at approximately US\$1,300 million and are to be funded with the contributions to FONINVEMEM I and II, with an additional specific charge imposed to users and with contributions from the National Government.

Petrobras Energía, as well as the other MEM creditors, will be reimbursed the amounts contributed to FONINVEMEM I, converted into US\$ and adjusted at a rate of LIBO + 1% p.a., in 120 monthly installments out of the funds received from the trusts during the effective term of the electricity supply agreement entered into with CAMMESA and funds contributed to FONINVEMEM II will be recovered through their application to additional energy generation as it is established by Resolution N° 1,281/2006 of the Secretary of Energy under the condition of, at least, multiplying four-fold this contribution with the new investment. On April 18, 2008, the Secretary of Energy considered the project of construction of a new thermoelectric plant of 170 mega watts to be constructed next to Genelba Plant to be covered by the terms of Resolution N° 1,281/2006. The Secretary of Energy instructed CAMMESA to refund Petrobras Energía the funds contributed to FONINVEMEM II in accordance with Resolution N° 564/07.

### **11. Current and deferred income tax**

The Company's income tax expense and deferred tax balances are comprised as follows:



1) 191 are disclosed in the non-current Other receivables line and 1,408 in the non-current Taxes payable line.

2) 207 are disclosed in the non-current Other receivables line and 1,427 in the non-current Taxes payable line.

3) Management evaluates the recoverability of tax loss carryforwards and the remaining differences taking into consideration, among other elements, the projected business profits, tax planning strategies, temporariness of future taxable income, considering the term of expiration of the tax loss carryforwards, the future reversions of the existing temporary differences and the recent year tax history. All the evidence available, both positive and negative, is duly weighted and considered in the analysis.

The reconciliation of the income tax at the statutory rate of 35% to the tax provision (before taxes and the minority interest in the subsidiary's income) is as follows:

Tax loss carryforward may be used through the dates indicated below:

**12. Contingencies, allowances and environmental matters**

Movements of reserves for contingencies and allowances are as follows:

(1) Recorded in Financial income (expenses) and holding gain (losses)

(2) The net effect was recorded in the Income tax caption

(3) Recorded in Deferred income (loss)

(4) It includes 37 recorded in Cost of sales as Depreciation of property, plant and equipment and 40 in Deferred income (loss)

(5) It includes 20 recorded in Cost of sales, 4 in Financial income (expenses) and holding gain (losses) and 8 reclassified from non-current

(6) It includes 19 of applications and 8 reclassified to current

***a) Environmental matters***

The Company is subject to extensive environmental regulations in Argentina and in the other countries in which it operates. The Company's management believes that its current operations are in material compliance with applicable environmental requirements, as currently interpreted and enforced, including remediation commitments assumed. The Company has not incurred in any material pollution liabilities as a result of its operations to date. The Company undertakes environmental impact studies for new projects and investments and, to date, environmental requirements and restrictions imposed on these new projects have not had any material adverse impact on Petrobras Participaciones business.

**b) Value-added tax on operations in Ecuador**

On December 12, 2006, EcuadorTLC S.A. signed with the Ecuadorian Tax Authority (SRI), the Attorney General's Office (Procuraduría General del Estado) and Petroecuador, a Memorandum of Agreement for the quantification and assessment of the VAT paid on the acquisition of goods and services for the exploration and production of hydrocarbons in the Block 18. The agreement provides the basis for the refund of credits accrued. This criterion will be effective until the parties renegotiate the share of the block production for the application of such tax.

Since as of the date of these consolidated financial statements the Company has not started similar negotiations relating to the refund of tax credits for VAT in connection with Block 31, and in spite of considering that the Company is entitled to such refund, whether by the SRI or by renegotiating its share in oil production, since at the time of determining the respective shares in of oil production in the block the export of goods and the rendering of services were not subject to VAT, as of June 30, 2008 the Company recorded an allowance of 50 related to these receivables.

***c) Amendment to Ecuador's Hydrocarbons Law***

In April 2006, Ecuadorian authorities approved the Amendment to the Hydrocarbons Law (Law No. 42/2006), which recognizes at least a 50% increment of extraordinary revenues in favor of the State, generated from the increases in crude's Ecuadorian oil price (Average monthly price in cash of FOB sales) in comparison with their respective average

monthly sales, with the corresponding agreement approval, in constant price of the liquidation month.

In July 2006, the related regulating provisions of such law were published in the Official Gazette, upon which the Company's subsidiary EcuadorTLC S.A. and Petroecuador set in differences as to their respective interpretation. In order to put an end to the resulting uncertainty and at the petition of EcuadorTLC S.A., Petroecuador requested Ecuador's Attorney General to issue a ruling in this respect.

On October 12, 2006 EcuadorTLC S.A. took notice of the Attorney General's ruling, whereby the contracts that provided for the Government's interest in extraordinary revenues from increases in crude oil price were exempted from the scope of the new law. Notwithstanding such opinion, in January 2007, Petroecuador submitted to EcuadorTLC S.A. a new calculation of the Government's interest under the new law for the period from April to December 2006, contemplating in such computation the amounts that the Government was already entitled to receive on account of the increase in the price as specifically provided for in the operating agreement of the Palo Azul field (calculation contemplating deductions). EcuadorTLC S.A., under protest, paid in full the new amounts as computed by Petroecuador, which totaled US\$ 26 million, and as from January 2007 decided to make the future periodic payments as required by Petroecuador.

Despite of the opinion issued by Ecuador's Attorney General and the payments previously made, in July 2007, Petroecuador submitted to EcuadorTLC S.A. a new calculation of the amounts payable by EcuadorTLC S.A. under Law No. 42/2006 related to the Palo Azul field from January to June 2007, this time without contemplating the deduction of the amount the Government was entitled to receive on account of the increase in the price provided for in the operating agreement of the referred field, demanding an additional payment of US\$ 16 million. On July 27, 2007, EcuadorTLC S.A. requested Petroecuador's President to reconsider the criterion applied in the recalculation and to apply the Attorney General's criterion and the calculation method contemplating deductions used by Petroecuador itself.

On October 2, 2007, the Ministry of Mines and Oil notified EcuadorTLC S.A. that Petroecuador had been informed by them that the only binding criterion was that of the Attorney General issued in September 2006, as communicated to EcuadorTLC S.A. in October 2006. Consequently, the new calculation under Law No.42/2006 should have been performed contemplating deductions. The Ministry's decision also made reference to the instructions given by Petroecuador's President in January 2007 under which Petroecuador recalculated the payments for the year 2006 contemplating the foregoing deductions.

On October 18, 2007, the President of the Republic of Ecuador issued an Amendment to the Regulating Provisions of Law No.42/2006, which introduced changes to the Hydrocarbons Law, whereby as from that date the Government's interest in the extraordinary revenues from crude oil price was increased to 99%, reducing the oil companies' interest to 1%.

On October 19, 2007, the National Hydrocarbons Board (NHB) notified EcuadorTLC S.A. of a preliminary new recalculation disregarding deductions for the period from April 25 to December 31, 2006, plus interest, which implied an incremental charge of US\$30 million compared to the amount opportunely accounted. On October 22, 2007, EcuadorTLC S.A. notified the NHB its disagreement with this new recalculation since it did not take into account the terms of the participation agreement and the unified agreement of the Palo Azul field, the Attorney General's opinion, the deductions contemplated by the Ministry of Mines and Oil in the notification dated October 2, 2007 addressed to EcuadorTLC S.A., or the calculation method used by Petroecuador's President which contemplated the deductions as well.

On January 18, 2008, Petroecuador communicated to EcuadorTLC S.A. the existence of a debt amounting to US\$ 66 million for the differences accumulated from April 2006 to December 2007 resulting from EcuadorTLC S.A.'s disregard of the deduction of those payments made under Law No. 42/2006.

According to its local legal counsels, EcuadorTLC S.A. has legal grounds to sustain that the application of Law No. 42/2006 to the participation agreement and the unified agreement are a violation to those agreements. As from January 2008, EcuadorTLC S.A. did not record the settlements made by Petroecuador under Law No. 42/2006 in the total amount of US\$166 million for the six-month period ended June 30, 2008. These consolidated financial statements do not include any provision for the referred contingencies.

In order to safeguard EcuadorTLC S.A.'s position, a notice was remitted to the Attorney General under the terms of the Treaty for the Reciprocal Protection of Investments signed by Ecuador and Argentina which authorizes, once the term for negotiation between the parties has elapsed, to use the arbitration means provided for the resolution of the dispute, since EcuadorTLC S.A. considers that Law No.42/2006 constitutes a violation of the guarantees contemplated in such Treaty, and it is a confiscatory law that puts at risk the investment's economic feasibility, being the equivalent to an expropriation of interests.

In addition, on June 18, 2008, EcuadorTLC S.A. notified Petroecuador and the Ministry of Mines and Petroleum the existence of controversies under the terms of the dispute resolution clauses of the pertinent contracts, considering, among other things, that Law No.42 constitutes a violation of the provisions set forth in such contracts, since it amends them unilaterally and alters their economic balance, making them economically unfeasible. Since no answer to the notice was received, in July 2008 EcuadorTLC S.A. submitted a request for arbitration to Petroecuador's Chief Executive Officer.

**d) *Other issues***

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The Company maintains interpretative differences with the AFIP (Argentine Federal Public Revenues Administration), provincial tax authorities and foreign tax authorities about taxes applicable on oil and gas activity. Additionally, the Company maintains no significant lawsuits related to environmental issues. Company's Management and its legal advisors estimate that the outcome of these differences will not have significant adverse effects on the

Company's financial position or results of operations.

**13. Contractual commitments, warranty bond, sureties and guarantees granted**

The warranty bonds, sureties and guarantees as of June 30, 2008, which are not disclosed in the remaining bonds, amount to 58.

In addition, Innova S.A. has credit agreements with certain financial institutions whereby it may assign receivables from clients that comply with a certain credit status for a maximum amount of approximately US\$49 million with recourse. Pursuant to the terms and conditions of the agreements, Innova S.A. bears the credit risk for the amounts assigned and in the event of default by the debtor, the relevant amount must be paid by Innova S.A. As of June 30, 2008, trade receivables assigned totaled US\$23 million.

In addition, as of December 31, 2007, the Company had the following contractual commitments:

**14. Petrobras Energía's social benefits and other payroll benefits**

**a. Defined contribution plan**

Supplementary Pension Plan

In November 2005, Petrobras Energía's Board of Directors approved the implementation of a defined voluntary contribution plan for the employees who fulfill certain conditions. Through this plan, Petrobras Energía makes contributions to a trust fund in an equal amount to the contributions made to a mutual fund or AFJP by the employees adhered to the plan, in conformity with a scheme defined for each salary level. The participating employees may make voluntary contributions exceeding those established in the mentioned scheme, which will not be considered for purposes of the contributions to be made by Petrobras Energía.

In the six-month periods ended June 30, 2008 and 2007, Petrobras Energía recorded losses of 4 and 4, respectively, attributable to such benefits.

**b. Defined benefit plan**

Indemnity Plan

This is a defined benefit plan for employees who fulfill certain conditions and consists of granting, upon retirement, a one-month salary per year working at the Company, in conformity with a decreasing scale considering the years of effectiveness of the plan.

Compensatory Fund

This is a defined benefit plan for employees of Petrobras Energía who take part in the defined contribution plan effective at each opportunity, that joined the Company prior to May 31, 1995, and have reached a certain number of years of service. The benefit is based on the last computable salary and years of service of each employee included in the plan.



The plan is of a supplemental nature, so that the benefit received by the employee is represented by the amount determined under the provisions of this plan, after deducting benefits payable to the employee under the contribution plan and the public retirement system, in order to that the aggregate benefit to each employee equals the one stipulated in this plan.

The plan calls for a contribution to a fund exclusively by Petrobras Energía and without any contribution by the employees, provided that they make contributions to the retirement system for their whole salary. As provided by Petrobras Energía's bylaws, the Company makes contributions to the fund on the basis of a Board of Directors proposal to the Shareholders Meeting up to 1.5% of net income for each year.

The assets of the fund are contributed to a trust fund and invested in US dollar-denominated money market instruments in order to preserve the accumulated capital and obtain a return in line with a moderate risk profile. Accordingly, funds are mainly invested in US government bonds, commercial papers rated A1 or P1, AAAM-rated mutual funds and time deposits in banks rated A+ or higher in the United States of America. The Bank of New York is the trustee and Watson Wyatt is the managing agent. Should there be an excess (duly certified by an independent actuary) of the funds to be used to settle the benefits granted by the plan, Petrobras Energía will be entitled to choice to use it, in which case it would have to notify the trustee thereof.

As of June 30, 2008 and December 31, 2007 the most relevant actuarial information on the defined-benefits pension plans are as follows:

**c. Stock option plan**

The Board of Directors of Petrobras Energía approved the establishment of a long-term incentive program for the purpose of aligning the interests of officers and shareholders.

As part of this program, Petrobras Energía's Board of Directors approved the Plan for the year 2001 ( 2001 Plan ), focused on senior officers. The plan consisted in granting the right to exercise certain options to receive Petrobras Participaciones shares or the cash equivalent, as described below:

i. 5,364,125 options to receive the value arising from the positive difference between the average listed price of Petrobras Participaciones shares on the New York Stock Exchange during the 20 days prior to exercising the option and 1.64 Argentine pesos per share, for the same number of shares ( appreciation rights ).

ii. 596,014 options to receive the same number of shares at no cost for the beneficiary. These options may be exercised as from March 5, 2005 ( full value ).

The term to exercise both options expired on March 5, 2007. The options exercised corresponding to the appreciation right amounted to 5,163,657 and those corresponding to full value totaled 569,124, cancelled in both cases primarily in cash.

The cost of this plan was allocated on a proportional basis within the vesting years and adjusted in accordance with the listed price of the share. During the six-month period ended June 30, 2007 charges to operation expenses amounted to 1.

## **15. Capital stock and restrictions on unappropriated retained earnings**

As of June 30, 2008 the Company's capital stock totaled 2,132, fully subscribed, issued, paid-in, registered and authorized for public trading. The following table presents the changes in capital stock in the last three years:

Since January 26, 2000, the Company Class B shares are listed on the Buenos Aires Stock Exchange and on the New York Stock Exchange.

At the Regular Shareholders Meeting, held on March 28, 2008, it was announced that, if upon approval of any of the Company's 2008 quarterly financial statements, realized profits reflect an amount equivalent to the cash dividend collected from Petrobras Energía S.A., the Board of Directors will authorize the payment of an advanced cash dividend for up to such amount.

According to legal provisions, 5% of the net income of the year plus or less adjustments to the prior years results should be assigned to increase the balance of the legal reserve up to an amount equivalent to 20% of the capital stock.

Under Law No. 20,628 (article 69.1), any dividends distributed, in cash or in kind, in excess of the taxable income accumulated as of the year end immediately prior to the respective payment or distribution date, will be subject to thirty-five percent income tax withholding, as single and definitive payment. For this purpose, taxable income is deemed to be that resulting from adding up the income as determined under the general provisions of the income tax law and the dividends or income obtained from other corporations and limited liability companies not taken into account in determining the former for the same tax period or periods.

**16. Other receivables, other liabilities, other operating expenses, net, and supplemental cash flow information**



1) Tax benefits earned by Innova S.A. consisting in a partial reduction of certain taxes in accordance with an incentive program that the Brazilian state of Rio Grande do Sul provides to companies located there.

**17. Balances and transactions with related companies**

Balances with related parties as of June 30, 2008 and December 31, 2007 are as follows:

Main transactions with affiliates for the six-month periods ended June 30, 2008 and 2007 are as follows:

**18. Business segments and geographic consolidated information**

Petrobras Participaciones' business is mainly concentrated in the energy sector, especially through its activities in exploration and production of oil and gas, refining and distribution, petrochemical and gas and energy. Accordingly, the identified business segments are as follows:

a) Oil and Gas Exploration and Production, composed of the Company's participation in oil and gas blocks and its interest in Oleoductos del Valle S.A. and Oleoducto de Crudos Pesados Ltd.

b) Refining and Distribution, including the Company's operations in Refinería San Lorenzo and Bahía Blanca, its own gas station network, the Company's equity interests in Refinería del Norte S.A. and Petrobras Bolivia Refinación S.A. (Note 8.IV) and, as from this year, the commercialization of the oil produced in Argentina.

c) Petrochemicals, comprising the Company's own fertilizer and styrenics operations developed in Argentina and Brasil plants and its equity interest in Petroquímica Cuyo S.A.I.C. (Note 8.IV).

d) Gas and Energy, comprising the Company's operations of sale of the gas produced in Argentina and the liquefied petroleum gas brokerage and trading activities, its interest in Transportadora de Gas del Sur S.A., the operations of electricity generation in the Genelba plant and in the Pichi Picún Leufú Hydroelectric Complex, and its interest in Edesur S.A., Enecor S.A., Citelec S.A. y Yacylec S.A. (Note 8.IV).

Assets and results of operations related to the Central Services Structure, those not attributable to any given business segment, discontinued operations and intercompany eliminations are disclosed together.

The applicable valuation methods to report business segment information are those described in Note 4 to these consolidated financial statements. The inter-segments transaction prices are made at market value.

As from the current fiscal year, the commercialization of products among the different business units has been subject to a series of changes. As a result, the Refining and Distribution business segment commercializes the oil produced in Argentina, which is transferred at market prices from the Oil and Gas Exploration and Production business segment.

The following information shows total assets, total liabilities and net income (loss) for each of the business segments identified by the Company's management:





The following information shows total assets, net sales and operating income (expenses) by geographic area.

## **19. Controlling Group**

Petróleo Brasileiro S.A. PETROBRAS, through Petrobras Participaciones, S.L., a wholly-owned subsidiary, is the controlling shareholder. As of June 30, 2008 Petrobras Participaciones S.L. owns 58.6% of Petrobras Energía Participaciones capital stock.

Petrobras is a Brazilian company, whose business is concentrated on exploration, production, refining, sale and transportation of oil and its byproducts in Brasil and abroad.

## **20. Subsequent events**

On July 31, 2008 the ENRE issued Resolution No 324/2008 approving a new tariff schedule for Edesur applicable as from July 1, 2008. This tariff schedule imposes gradual increases between 10% and 30% to residential users with bimonthly consumption levels over 650 kilowatts and a 10% increase to commercial or industrial users.

No other events have occurred subsequent to period end that may significantly affect the Company's financial position as of June 30, 2008, or the results of its operations for the six-month period then ended.

**21. Other consolidated information**

The following tables present additional consolidated financial statements disclosures required under Argentine GAAP.

- a- Property, plant and equipment.
- b- Equity in affiliates
- c- Cost of sales.
- d- Foreign currency assets and liabilities.
- e- Detail of expenses.
- f- Information about ownership in subsidiaries and affiliates.
- g- Oil and gas areas and participation in joint ventures.
- h- Combined joint- ventures and consortium assets, liabilities and results.

**a- Property, plant and equipment as of June 30, 2008 and December 31, 2007**

(Stated in millions of Argentine Pesos)

**b- Equity in affiliates as of June 30, 2008 and December 31, 2007**

(Stated in millions of Argentine Pesos)

**c- Cost of sales for the six-month periods ended June 30, 2008 and 2007**

(Stated in millions of Argentine Pesos)

**d- Foreign currency assets and liabilities as of June 30, 2008 and December 31, 2007**

(Stated in millions of Argentine Pesos)



US\$

Millions of United States Dollars

Bs

Millions of Bolivares

Rs

Millions of Reales

Sol

Millions of Peruvian Soles

Eu

Millions of Euros

**e- Detail of expenses for the six-month periods ended June 30, 2008 and 2007**

(Stated in millions of Argentine Pesos)

*f- Information about ownership in subsidiaries and affiliates as of June 30, 2008*



**g- .Oil and gas areas and participation in joint-ventures as of June 30, 2008**



**h- Combined joint ventures and consortium assets and liabilities as of June 30, 2008 and December 31, 2007  
and results for the six-month periods ended June 30, 2008 and 2007**

(Stated in millions of Argentine Pesos)

**INDEPENDENT AUDITORS REPORT**

To the Shareholders, President and Directors of  
Petrobras Energía Participaciones S.A.  
Maipú 1, 22<sup>nd</sup> floor  
Buenos Aires

Argentina

1. We have audited the accompanying consolidated balance sheet of Petrobras Energía Participaciones S.A. ( PEPSA an Argentine Corporation) and its subsidiaries as of June 30, 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month period then ended, and notes 1 to 21. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the above-mentioned consolidated financial statements based on our audit.

2. Except as discussed in paragraph 5, we conducted our audit in accordance with auditing standards generally accepted in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Company's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides us with a reasonable basis for our opinion.

3. The accompanying financial statements were translated into the English language from those issued in Spanish in conformity with the regulations of the Argentine National Securities Commission ( CNV ). They were also reformatted in a manner different from those presented in Spanish, but in all other respects follow accounting principles and reporting practices that conform to CNV regulations.

4. As further explained in note 2 to the consolidated financial statements, the accounting practices applied by the Company conform to the accounting standards set forth by the CNV, and they do not conform to accounting principles generally accepted in the United States. The effects of the differences between the foregoing sets of accounting principles have not been quantified by the Company.

5. We were unable to obtain audited financial statements supporting: (a) the carrying value of PEPSA's equity method investment in Oleoductos del Valle S.A., Refinería del Norte S.A. ( Refinor ), Petrolera Entre Lomas S.A., Petroritupano S.A., Petrowayú S.A., Petrokariña S.A. and Petroven-Bras S.A., amounting to \$ 2,201,543,000- as of June 30, 2008, or its equity in the earnings of such companies amounting to \$130,893,000- included in the Company's net consolidated income for the six-month period then ended, as described in note 8 to the consolidated financial statements of PEPSA, and (b) the Company's interests in Distrilec Inversora S.A. ( Distrilec ) and Compañía de Inversiones de Energía S.A. ( CIESA ), incorporated by the proportional consolidation method, and the consolidation of Petrobras Holding Austria AG, which, after considering the adjustments made by the Company as disclosed in note 8 to the consolidated financial statements, represent approximately 24% and 11% of the related total consolidated assets and net sales of PEPSA, respectively, as of June 30, 2008 and for the six-month period then ended; nor were we able to satisfy ourselves through other auditing procedures as to the carrying value of the investments referred to in (a), the equity in the earnings of such companies, the amounts proportionally consolidated for Distrilec and CIESA, or the consolidated amounts of Petrobras Holding Austria AG.

6. As described in note 8 to the consolidated financial statements, CIESA and its subsidiary Transportadora de Gas del Sur S.A. ( TGS ) have been adversely affected by the Argentine Government's adoption of several economic measures, including the redenomination into pesos of their rates, the renegotiation of the license (which is in process) and the devaluation of the peso. Additionally, CIESA has suspended the payment of its financial debts, although in September 2005, it entered into a debt restructuring agreement in connection therewith, pending approval by certain regulatory authorities as of the date of this report. Although, as indicated in note 8 to the consolidated financial statements, TGS successfully concluded between May and June 2007 a debt restructuring process in order to improve its indebtedness profile, the aforesaid situation in connection with TGS gives rise to uncertainties with respect to the future development of the regulated business of this company and, therefore, to the future cash flows and results of operations of CIESA, which depend on the income obtained from its investment in its subsidiary TGS. The financial

statements of CIESA referred to above have been prepared by this company's management considering that the entity was able to continue operating as a going concern. Accordingly, these financial statements do not include the effects of potential adjustments and reclassifications, if any, that may be required if the situations described above are not successfully resolved. In addition, the resolution of the uncertainties referred to above may determine that CIESA's assumptions underlying the projections relating to the determination of the recoverable value of its non current assets do not materialize in the future. The accompanying consolidated financial statements of PEPSA as of June 30, 2008 do not include any adjustments or reclassifications that may result from the resolution of these uncertainties.

The assets and net sales of CIESA incorporated by the proportional consolidation method, after considering the adjustments mentioned in note 8 to the consolidated financial statements of PEPSA, represent approximately 12% and 5% of the related total consolidated amounts as of June 30, 2008 and for the six-month period then ended.

7. The Company estimated the recoverable value of its equity investments in: (i) Petroven-Bras S.A., Petrokariña S.A., Petrowayú S.A. and Petroritupano S.A. as of June 30, 2008 and of other receivables that could be used to pay for acquisition bonds related to any new project of a mixed company to develop oil exploration and production activities, or to acquire licenses to carry out gas exploration and production operations in Venezuela, and (ii) its assets in Ecuador, as respectively described under the headings Operations in Venezuela and Operations in Ecuador in note 5 to the consolidated financial statements.

The Company estimated the recoverable value of such assets in Venezuela and Ecuador based on the best information available as of that date. However, the materialization of certain assumptions used by the Company to determine the recoverable value of these assets is contingent on future events and actions, some of which are beyond its control and might affect the carrying value of these assets.

8. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the equity investments in the affiliates Oleoductos del Valle S.A., Refinor, Petrolera Entre Lomas S.A., Petroritupano S.A., Petrowayú S.A., Petrokariña S.A., Petroven-Bras S.A., Distrilec, CIESA and Petrobras Holding Austria AG, and subject to the effects of the potential adjustments, if any, as might have been determined to be necessary had the resolution of the matters mentioned in paragraphs 6 and 7 been known, the consolidated financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Petrobras Energía Participaciones S.A. and its subsidiaries as of June 30, 2008, and the results of their operations, the changes in shareholders' equity and their cash flows for the six-month period then ended, in conformity with professional accounting principles in force in the City of Buenos Aires.

9. On February 12, 2008, we issued an audit report in which we expressed an opinion on the consolidated financial statements of PEPSA for the fiscal year ended December 31, 2007 presented for comparative purposes.

Our audit report contained: (a) a qualification regarding a scope limitation because we were unable to obtain audited financial statements as of that date nor were we able to examine other evidence as of said date supporting the carrying value of the equity method investment in Refinor, the Company's equity in the earnings of such affiliate and the values incorporated by the proportional consolidated method for Distrilec, and (b) qualifications regarding the effects of the adjustments, if any, that might have been determined to be necessary had the resolution of the following uncertainties been known: (i) the situations described in paragraph 6 in connection with CIESA and TGS, and (ii) the materialization of certain assumptions used by the Company to determine the recoverable value of assets in Venezuela and Ecuador mentioned in paragraph 7.

Subsequent to the issuance of our audit report, an unqualified audit report on the financial statements as of December 31, 2007 of Distrilec was issued by other auditors and furnished to us. The issuance of the audited financial statements for the referred company did not result in any modifications to the amounts originally incorporated in the consolidated financial statements of PEPSA as of December 31, 2007.

The financial statements of Refinor as of such date were not furnished to us. The carrying value of PEPSA's equity investment and equity in the earnings of this company as of December 31, 2007 and for the fiscal year then ended is not material to the consolidated financial statements of PEPSA taken as a whole.

10. Additionally, on August 7, 2007, we issued an audit report in which we expressed an opinion on the consolidated financial statements of PEPSA for the six-month period ended June 30, 2007 presented for comparative purposes.

Our audit report contained: (a) a qualification regarding a scope limitation because we were unable to obtain audited financial statements as of that date nor were we able to examine other evidence as of said date supporting the carrying value of the equity method investment in Oleoductos del Valle S.A., Refinor, Petroquímica Cuyo S.A., Enecor S.A., Petrolera Entre Lomas S.A., Petroritupano S.A., Petrowayú S.A., Petrokariña S.A. and Petroven-Bras S.A., the Company's equity in the earnings of such affiliates and the values incorporated by the proportional consolidated method for Distrilec, and (b) qualifications regarding the effects of the adjustments, if any, that might have been determined to be necessary had the resolution of the following uncertainties been known: (i) the situations described in paragraph 6 in connection with CIESA and TGS, and (ii) the materialization of certain assumptions used by the Company to determine the recoverable value of assets in Venezuela mentioned in paragraph 7.

Subsequent to the issuance of our audit report, an unqualified audit report and a qualified audit report on the financial statements as of June 30, 2007 of Distrilec and Enecor S.A., respectively, were issued by other auditors and furnished to us. The qualification involving an uncertainty included in the audit report on the financial statements of Enecor S.A. is not material to the consolidated financial statements of PEPSA as of June 30, 2007.

The issuance of the audited financial statements for the referred companies did not result in any modifications to the amounts originally incorporated in the consolidated financial statements of PEPSA as of June 30, 2007.

Buenos Aires (Argentina), August 5, 2008

SIBILLE

Gabriel E. Soifer  
*Partner*

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROBRAS ENERGÍA PARTICIPACIONES S.A.

Date: 02/09/2008

By: /s/ Daniel Casal

By: /s/ Luis M. Sas

Name: Daniel Casal

Name: Luis M. Sas

Title: Attorney

Title: Attorney