

PETROBRAS ENERGIA PARTICIPACIONES SA
Form 6-K
March 30, 2009

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

March 26th, 2009

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 December 31, 2008, 2007 and 2006

Independent Auditors Report

To our Shareholders

The macroeconomic context in which the Company operated in 2008 featured drastic changes. In the first half of the year, the prices of oil and oil by-products reached all-time highs. In the second half, this context shifted dramatically due to the deep financial crisis worldwide, the main consequences of which were a sharp fall in commodity prices, a

sudden deceleration of the economy, a significant appreciation of the US Dollar and serious funding restrictions.

This new complex reality, with multiple connotations and an uncertain scope, is a serious challenge to our strategy of continued growth added to profitability and social and environmental responsibility. In this particular scenario these aspects become especially relevant.

The Company has defined a series of strategic initiatives to face these challenges focused on optimizing resources, efficient operations and financial discipline. We are convinced this will help us overcome the limitations of the context, identify and capitalize on new opportunities and differentiate ourselves in a new business environment.

In line with our Business Plan, our investments in 2008 reached approximately P\$2.50 billion, 31% above the figure for the previous year.

In the Oil and Gas Exploration and Production business, we continue to be committed to growing reserves through exploration. Consequently, we have increased our investment by 70%, totaling approximately US\$127 million. Agreements have been signed for a 33% interest in off-shore exploration activities in Golfo San Jorge and Malvinas basins. These new projects - plus those in the Colorado Marina basin - confirm the Company's major role in exploring the Argentine Sea.

In 2008, we completed the purchase of interests in El Tordillo and Sierra Chata assets. In the same line, a memorandum of agreement was signed with the Province of Neuquen to extend for another ten years the production concessions at Aguada de la Arena, Rio Neuquen, Veta Escondida and Rincon de Aranda.

Our investment abroad involved the joint discovery of major reserves, close to 2TCF of gas and 87 million barrels of condensate, at the Kinteroni 1-X well in Lote 57, in Peru. Agreements were signed with the Ecuadorian Government to secure the sustained development of operations. In Venezuela we continued with the challenge of seeking the suitable operation and development of mixed companies.

Our refineries have evidenced a high rate of use of their installed production capacity. In October 2008, the Bahia Blanca Refinery reached an all-time high installed capacity use rate, 94%. We have also made progress in the selective branding efforts in gas stations that still lacked Petrobras Energía's iconography. This action, associated to other initiatives, supported increased average sales per gas station.

As regards the Petrochemicals business, our investment in Innova fueled the start-up of the new ethylbenzene plant. This plant has a 540,000 ton/year capacity and is among the world's most modern plants in terms of technology and

environmental concerns.

In the Gas and Energy business, we continue to invest in Energía Plus projects, which in aggregate will add 178 MW.

The focus on quality, health, environment and safety resulted in a consolidated environmental policy, a critical value for our operations. Thus, we have provided ad-hoc training to more than 3,000 operators, supervisors and heads of contractor companies, and awarded the SMS certification to more than 10,000 contractor operators. On the other hand, we continued to develop Eco-efficiency guidelines, toward an optimized use of natural resources and energy with a minimum impact on the environment.

In 2008 we strived to keep the talents in the Company and give them opportunities in an environment of equity and transparency.

We managed to keep our bond with the community, by contributing to people's development through Corporate Social Responsibility Programs. They are mainly focused on projects associated to children's and teens' issues aimed at causing changes sustainable in time.

We started the ProAni Project, based on a single process-management model, which supports an integrated approach to corporate operations and more data transparency across commercial processes by viewing all transactions in real time while in-house monitoring and control are strengthened.

We are also making progress in the merger of Petrobras Energía S.A. and Petrobras Energía Participaciones S.A., approved by the companies' Regular and Special Shareholders' Meetings held on January 30, 2009. This reorganization will help streamline the corporate structure and boost administrative efficiency, with the consequent cost reduction.

The palette of actions consolidates our search for value creation. With this vision in 2008, Petrobras Energía distributed cash dividends for P\$315 million. Along these lines, we have submitted to Petrobras Energía's Regular Shareholders' Meeting the proposal to create a reserve for future dividends of P\$380 million.

Outlook

In 2009, the strategic guidelines will help manage the business toward overcoming the challenges of the current scenario.

In the Oil Exploration and Production business, our challenge will be to increase reserves and production, by prioritizing exploration as an instrument for long-term growth.

We will consolidate our exploration portfolio, focusing both on current projects and on the search for new opportunities. We will go forward with investments in drilling and studies of the Argentinean offshore. We will continue with the Tight Gas Project in the Neuquen basin to develop low permeability non conventional reservoirs, by using innovative technology in the country which could then be applied in other fields.

In the Refining and Distribution business, we will continue to optimize production at our refineries to supply the domestic fuel market. We will also go forward with the projects to meet the quality specifications set by law for the next few years. We will focus on the search for profitable operations and keep the Petrobras brand as a synonym for service, quality and technology.

In the Petrochemical business, investment from prior years will help us try to keep styrene leadership in South America.

In the Gas and Energy business, we will develop diversified projects so as to provide energy solutions by prioritizing synergies. In the gas area, we will seek to secure the supply of our own consumption and at the same time find profitable marketing alternatives. In the electricity area, we will work to grasp business opportunities that sprout within the framework of Energía Plus projects, after the start of operations of Genelba Plus and Eco Energía power plants.

Reduced activity rates, or, even more, the contraction of many markets will surely be commonplace in 2009. Funding conditions, or the lack thereof, will prompt us to take the necessary steps to generate corporate resources to support scheduled investment.

Finally, even in the light of the current challenges, the Company is keeping its investment plans and also seeking to restore business profitability, optimizing the use of working capital, efficiently managing its operations and securing funding possibilities.

Macroeconomic Overview Year 2008

International Context

Year 2008 found a deepening financial crisis, which showed its first signs the year before with the burst of the mortgage bubble. Major economies worldwide, the USA, Europe and Japan, dived into recession, whereas China suffered an acute growth deceleration in the second half of the year. The US government had to resort to successive rescues of banks, insurance companies and mortgage lenders to curb the fall in markets and, in turn, launched big economy promotion packages to keep at least a weakened activity level. Within this context, the Federal Reserve made sizable liquidity injections and strongly reduced the reference interest rate, close to zero, by the end of the year. The long-term interest rate, on the other hand, also went down considerably, to approximately 2%, despite the drastic increase of the fiscal deficit and due to the deeper risk aversion prevailing in the international scenario.

Oil

Year 2008 showed the seventh consecutive annual rise in the oil average price, marked, however, by the sudden end of this upward stage. West Texas Intermediate (WTI) reference crude oil averaged US\$99.6 a barrel, 38% higher than in 2007. Prices were affected by a marked volatility, reaching a high of US\$145 a barrel in July, to then start a clear and steep decline to below US\$40 by the end of the year, in line with the global financial crisis.

Oil demand grew throughout the year by only 70,000 barrels/day, or 0.1% higher than the figure for 2007. This virtually nil growth is unheard of since 1993. Additional volumes were fully attributable to developing nations, led by China (with a rise of 0.42 million barrels/day), Middle East (0.36 million), Latin America and the rest of the Asian continent, in that order. Developed countries (OECD) showed a decrease *vis-à-vis* 2007, led by North America (down by 1.23 million barrels), Japan and the European Union.

Supply, on the other hand, increased by 1.57 million barrels/day, or 1.8%, compared to 2007. Rises were mostly exclusively focused on OPEC countries (led by Saudi Arabia, Iraq and Angola, and declines in Nigeria and Venezuela), which added more than 90% of the new supply for the period crude and liquid fuels - in response to the growing prices by mid year. Out of the cartel, a highlight was the additional supply from Latin America (0.21 million barrels/day) and the meager performance of the former USSR (only 90,000 barrels/day), hand in hand with structural falls in the North Sea and the Gulf of Mexico.

Argentina

The Argentine economy in 2008 kept a still high growth, in excess of 6% according to official data. That was, however, below prior years records, with a clear deceleration in the last months of the year. Even when official inflation was of about 7% p.a., alternative measurements exhibit persistent inflation pressure and a general price level with a more marked dynamics, despite a weakened last part of the year, in line with activity deceleration. Salaries, on the other hand, kept growth rates above 25% year-on-year.

Exports were above US\$70 billion, driven by higher international prices but with a meager performance in volume, whereas imports were slightly below US\$60 billion, with a balance of trade in excess of US\$10 billion. Unlike previous years and despite the above benefit of commodity record prices, the currency supply did not have a surplus, reserves at the Central Bank stagnated and the nominal exchange rate showed a depreciation, which averaged US\$1 = P\$ 3.16 and closed the year at US\$1 = P\$ 3.45 due to a reduced currency demand measured in terms of GDP.

The public sector achieved a primary surplus of about 3 percentage points of GDP, with a remarkable growth in tax collections from export withholdings. Congress approved a bill put forward by the Executive Branch which eliminates the private capitalization pension system and provides for a return to the public pension regime. By the end of the year, the Government launched a series of measures to promote activities, which include changes in the income tax, an infrastructure plan and consumption lending.

Domestic oil production showed a yoy fall of about 2%, whereas processed crude oil also showed a slight decline. Even so, the use of installed capacity in the refining industry remained high, above 90% for the year's average. Diesel-oil demand was impacted by farmers and truck drivers strikes in the first half of the year, causing a weaker growth. Gasoline demand kept strong and was again driven by lower sales figures for CNG. Premium gasoline consumption was significantly reduced *vis-à-vis* the previous year, and these volumes were replaced by high-grade gasoline.

With respect to gas, domestic production showed a minimum decline throughout the year. Gas supply was supplemented in winter months by LNG (liquefied natural gas) through a gas tanker vessel at the port of Bahia Blanca.

On the other hand, demand for electricity showed a slight rise, of about 3%, compared to the previous year. In electricity supply, the two FONINVEMEM thermal plants started operations. Both are now operating in open cycle.

Latin America

Peru

Once again, in a context of strong international liquidity and high prices for commodities (at least until mid year), the Peruvian economy ended its seventh consecutive year of growth at high rates, and expanded its GDP above 9%, the highest range in the region. The explanation for this great performance lies in the utilities, trade, manufacturing and construction sectors, in that order.

The sustained inflow of capitals, supported by the Investment Grade obtained from international rating agencies, resulted in an appreciation of the exchange rate up to an average US\$1 = PEN2.93 (the year low was US\$1 = PEN2.80 in July). In turn, this helped contain the expansion of retail prices pressured upward both by the high domestic demand and the high international prices of agricultural and energy commodities. The CPI for the period climbed about 7%, or approximately twice the figure for 2007.

Central Bank reserves reached an all-time high, in excess of US\$30 billion, and the trade balance showed a surplus of approximately 2% of GDP. On the fiscal front, the Treasury showed primary and overall surpluses of around 3% and 1.7%, respectively.

In this scenario, country risk levels were around an average of 270 basis points, among the lowest in the region. The unemployment rate had a slight decline, averaging around 8% for the year, a few tenths below the figure for 2007.

Ecuador

The Ecuadorian economy grew about 4% in 2008, almost doubling its growth pace for 2007. Utilities in general, construction, government administration, water and electric power and financial intermediation more than compensated for the fall in oil GDP. On the side of aggregate demand, the slightly negative net contribution of the external sector offsets improvements in private consumption, investment and public expenditure.

On the other hand, the balance of trade in 2008 averaged a deficit of about 1% of GDP. This is explained by a strong hike in imports, partly offset by growing exports, and then impacted by the steep fall in the price of hydrocarbons since mid year. The fiscal arena showed a similar behavior on the side of income (a fall in collections from oil), impacted by higher expenditures. This took fiscal figures to a practically neutral stance or to a slight deficit globally.

Retail prices rose by about 9% as a result among others of agreeable private consumption and international inflation, which affected agricultural commodities, with a significant impact on the cost of living.

Crude oil production, despite the record prices seen throughout the year, exhibited a decline in volume of about 1% (to 504,000 bbl/d, the accumulated average as of October 2008).

In the financial arena, the Constitutional Convention completed the audit on the foreign debt, and declared Global 2012, 2015 and 2030 bonds illegitimate. Based on that statement, the country suspended the payment of

approximately one third of the bonds placed abroad.

2008 Business Performance

Oil and Gas Exploration and Production

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

In 2008, the Company

* increased exploration investments by 70% to US\$127 million.

* signed agreements for offshore exploration in Golfo San Jorge and Malvinas basins, in Argentina.

* discovered gas and condensate reserves with a potential volume close to 2 TCF of gas and 87 million barrels of condensate at the Kinteroni 1-X exploration well in Lote 57, in Peru.

* signed a Memorandum of Agreement with the province of Neuquén to extend for ten years the Aguada de la Arena, Río Neuquén, Veta Escondida and Rincón de Aranda exploitation concessions.

* reached significant agreements with the Ecuadorian government in connection with the scope of drastic regulatory amendments and their economic impact.

* continued to develop gas production feasibility studies of deep and low permeability reservoirs (tight gas) in the Neuquén basin.

* doubled oil production capacity to approximately 2,500 barrels per day in Estancia Agua Fresca field in the Austral basin, Petrobras' first oil discovery in Argentina.

Production and investments

In 2008, Petrobras Energía's oil and gas production, including its related companies, totaled 129,200 barrels of oil equivalent per day, accounting for a 7% decline compared to average production in 2007.

Argentina

Production in Argentina, including related companies, averaged 87,700 barrels of oil equivalent per day, 3% lower compared to 2007. This reduction is mainly attributable to the natural decline of mature fields and the impact of the labor strike in the Austral basin.

During 2008, we implemented a significant investment plan to improve our basic production curve, which involved drilling of 171 producing and injection wells and repair of 228 wells.

In the Neuquén basin, the Company's activity focused on Medanito area and involved 31 drillings and 21 repair works, with production totaling 19,100 barrels of oil equivalent per day.

Also in the Neuquén basin and for the second year of production in El Mangrullo field, gas production increased 12.5% to 900 MMm³/d (million cubic meters per day) average gas production during the year and with promising results from the drilling activity performed.

In the Austral basin, production pace showed the impact of the labor strike held throughout May, with consequences on production after start up in 2008 winter.

Production losses resulting from the strike were partially offset by improvements in Estancia Agua Fresca field's facilities and an increase in gas production. Operating improvements in this field allowed to double oil production capacity to approximately 2,500 barrels during the second half of the year.

Another highlight for the Austral basin was the completion of expansion works at Puesto Peter, Campo Bola and Dos Hermanos compression systems in the Santa Cruz I area. These works will decisively contribute to maintain gas production volumes during 2009 and 2010.

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

For the purpose of testing gas production feasibility in deep and low permeability reservoirs, execution of the pilot project continued to be implemented at the Punta Rosada Formation in the Río Neuquén field, in the Neuquén basin. During the year, two new wells were completed and deepening works were performed at a previously drilled well. All these are producing wells where production tests are being conducted.

In September 2008, Petrobras Energía completed acquisition from Conoco Phillips of its 25.67% and 52.37% interests in Sierra Chata and Parva Negra, respectively. This operation, which was subject to approval by regulatory authorities since February 2007, allowed to increase the Company's interest in Sierra Chata and Parva Negra to 45.55% and 100%, respectively.

In March 2008, Petrobras Energía completed acquisition of a 13.72% interest in El Tordillo field and in the areas with exploration potential La Tapera - Puesto Quiroga.

Outside of Argentina

- Peru

In Peru, production in Lote X, where the Company holds a 60% interest, increased 7% to 16,000 barrels of oil equivalent per day, mainly as a result of intense drilling activities.

The Company implemented an investment plan that involved drilling of 126 wells, 111 repair works (102 primary and 9 secondary), 37 well reactivations and infrastructure works aimed at optimizing operating costs.

- Ecuador

During 2008, significant agreements were signed with the Ecuadorian government in connection with the scope of drastic regulatory amendments and their economic impact, aimed at designing a business framework that secures the sustained development of operations while focusing on long-term profitability and social responsibility.

On October 24, 2008, we signed an agreement with Petroecuador whereby we assigned to Teikoku Oil Ecuador 40% of our rights and obligations under the Participation Agreement for Hydrocarbon Exploration and Crude oil Production in Block 18 and under the Operating Agreement for the Joint Exploitation of Hollín Common Oilfield in Palo Azul field. On October 27, 2008, this agreement was registered with the Hydrocarbon Registry of the National Hydrocarbons Board.

On November 12, 2008, the Ministry of Mines and Oil decided to put on file the request submitted by Ecuador's Attorney General dated February 18, 2008 to the Ministry to bring administrative action to terminate the Block 18 Participation Agreement and the Operating Agreement for Joint Exploitation of Hollín Common Oilfield in Palo Azul field based, among other things, on alleged irregularities during the assignment process to Teikoku Oil Ecuador.

On October 31, 2008, EcuadorTLC, Cayman, Petromanabí, Teikoku Oil Ecuador and Petroecuador signed Amending Agreements relating to Block 18 Participation Agreement and the Operating Agreement for Joint Exploitation at Palo Azul field. Under these amending agreements, the Ecuadorian State's share in Palo Azul increased to 60% from 51.5% and to 40% from 31.8% in the Pata field. In addition, the parties agreed to convert the participation agreement to the contractual modality determined by the Ecuadorian government pursuant to the governmental hydrocarbons policy, and to sign the same within the term of one year.

On December 31, 2008, Petrobras Energía Ecuador and Petroecuador signed a Termination Agreement in connection with Block 31 Participation Agreement, under which Block 31 was returned to the Ecuadorian State. In addition, the parties signed an Agreement for the use of the oil transportation capacity committed under the agreement entered into with Oleoducto de Crudos Pesados (OCP), under which the Ecuadorian State undertook to transport any available crude oil owned by it through the OCP as from January 1, 2009, assuming the cost of the oil transportation capacity committed under the agreement entered into between OCP and the Company through its related companies, up to a maximum of 70,000 barrels per day.

Finally, within the framework of the negotiations maintained with the Ecuadorian government, the parties agreed on the significant opposing interpretation as to the applicability of the Law Amending the Hydrocarbons Law (Law No.42), as from its enactment in April 2006.

In 2008, Petrobras Energía's production in Ecuador, net of the State's share, averaged 10,508 barrels of oil equivalent per day. Notwithstanding divestment of the 40% interest in the Consortium operating Block 18 and the increase of the State's share in the block's production, production increased 1.7%.

- Venezuela

In Venezuela, oil and gas production attributable to the Company's interest in Mixed Companies averaged 13,951 barrels of oil equivalent per day during 2008, a 12% reduction compared to prior year, mainly as a result of the unavailability of drilling rigs preventing completion of scheduled drilling activities and repair works, partially offset by the recovery in production volumes in the Oritupano Leona and La Concepción fields, which during the last quarter of 2007 had significantly declined due to operational problems.

During the last two months of the year, production was affected by the decline in the quota agreed upon by the OPEC member countries, resulting in pumping restrictions for Oritupano-Leona fields.

In 2008, the Company received US\$60 million in dividends approved by Petroritupano and Petrowayu.

- Bolivia

In Bolivia, 2008 production totaled approximately 7,800 barrels of oil equivalent per day, 1% higher compared to 2007.

- Colombia

In Colombia, evaluation works continued in order to gather information on the potential of Tibu field, located in the Catatumbo basin, aimed at defining the field's development plan for 2009.

Exploration

For Petrobras Energía exploration is the main vehicle for reserve replacement. Along these lines, in 2008 the Company's investments in exploration activities significantly increased to US\$127 million and were mainly focused on seismic and drilling activities.

Onshore and offshore activities

During 2008, 12 onshore exploration wells were drilled (including 4 extension wells), 3 of which were successful. Regarding offshore activities, drillings were performed in Aurora x-1 well, in the CGSJ Marina 1 block, which was subsequently abandoned (see New Opportunities).

The Company conducted 3D seismic surveys over 415 km²: 200 km² at Chirete block in the Noroeste basin and 215 at Gobernador Ayala in the Neuquén basin. In addition, 2D seismic surveys were conducted over 10,500 km in the Argentine offshore area.

In addition, airborne gravimetry, magnetometry and gradiometry surveys were conducted over 180 thousand km: 160 thousand in the Noreste basin and the rest in Enarsa 3 offshore block.

In Peru, activities resulted in the discovery of gas and condensate with a potential flow of approximately 2 TCF of gas and 87 million barrels of condensate (at 100%) in the Kinteroni 1-X production well in Lote 57, operated by Repsol, located near Camisea field, Madre de Dios basin, in the south of the country and bordering Lote 58 to the south, operated by the Company. In order to complete well evaluation, production tests on high interest mineralized levels are still pending.

In October 2008, works started in connection with construction of the base camp at La Peruanita and location of the first exploration well to be drilled in Lote 58 early in 2009. In addition, services for such activities were also contracted.

New opportunities

In terms of new opportunities, the Company made a joint venture agreement with Repsol-YPF in CGSJ Marina-1 block, in Golfo San Jorge basin, holding a 33% interest. The program involves drilling of four wells, one of which (Aurora) was drilled in 2008 and was later on abandoned due to high water levels. Other new exploration blocks are CAA- 40 and CAA - 46 in the Malvinas basin where the Company holds a 33% interest. The consortium is also composed by Repsol YPF (Operator) and Pan American, both holding a 33.5% interest.

Petrobras Energía Peru completed the purchase process started in 2007 of an additional interest in Lote 57, totaling 46.16%.

Liquid hydrocarbon and natural gas reserves

As of December 31, 2008, liquid hydrocarbon and natural gas proved reserves of Petrobras Energía totaled 433 million boe (221.5 million oil barrels and 1,269 billion cubic feet of gas), accounting for a 10% decrease compared to reserves as of December 31, 2007.

Estimated reserves were audited by DeGolyer and MacNaughton, international technical consultants, covering approximately 70% of the Company's total estimated reserves and 90% of estimated reserves operated by the Company.

Production for 2008 totaled 47.1 million boe.

During 2008, a downward revision of 32.7 million boe was recorded, mainly as a result of the return of Block 31, in Ecuador.

Divestment of interest in Block 18 in Ecuador resulted in a 10.7 million boe reduction. In addition, 32.8 million boe were acquired as a result of the purchase of interest in Sierra Chata and the renegotiation of Aguada de la Arena and Río Neuquén concessions.

Liquid hydrocarbon and natural gas accounted for 51% and 49% of proved reserves, respectively. Sixty two percent (62%) of total proved reserves are located in Argentina.

As of December 2008, Petrobras Energía's total oil and gas proved reserves were equal to 9 years of production, measured according to 2008 oil and gas production levels.

The following table sets forth estimated net proved reserves of oil (including crude oil, condensate and natural gas liquids) and natural gas by region as of December 31, 2008:

Due to regulatory changes in Bolivia hydrocarbon reserves are likely to be cancelled, which reserves accounted for 5% of the Company's total reserves as of December 31, 2008.

Hydrocarbon transportation

Oleoductos del Valle S.A. Oldelval

During 2008, oil volumes transported from Allen to Puerto Rosales averaged 31,158 m³/d, totaling 71.5 million barrels transported during the year. This volume remained in line with the volume recorded in 2007.

During the year under review, works were performed to enhance the system reliability, ensure the oil pipeline integrity and compliance with environmental and safety regulations.

Refining and distribution

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

In 2008, the Company

* maintained its leading position in the non regulated Bunker IFO and Asphalt segments.

* optimized the customer portfolio quality which allowed for an 8% increase in average sales by gas station compared to previous year.

* Bahia Blanca Refinery reached an all-time high installed production capacity use rate, 94%.

* San Lorenzo Refinery maximized process severity in the Thermal Cracking unit aimed at reaching the highest possible level of diesel oil production.

Refining division

During 2008, crude oil volumes processed at the refineries Ricardo Eliçabe (Bahía Blanca, province of Buenos Aires) and San Lorenzo (San Lorenzo, province of Santa Fe) totaled 80,800 oil barrels per day, evidencing a high installed production capacity use rate.

Crude oil volumes processed reached an average of 72,208 barrels per day, 6% lower compared to 2007. This decline was attributable to scheduled shutdowns and the drop recorded as from October resulting from the fall in international prices and the decline in domestic demand, which led to a reduction in crude oil volumes processed at the refineries so as to reach the economic optimum. Until September 2008, and in response to a growing demand for fuels, crude oil volumes processed were close to design capacity, averaging 80,100 bbl/d in 2008 third quarter.

Bahía Blanca refinery

During 2008, Bahía Blanca refinery operated at levels close to full installed capacity: 30.5 thousand barrels per day. Volumes processed reached an average of 29,122 barrels per day, totaling 10.6 million barrels of crude oil during the year. The refinery mainly processed Medanito crude oil, produced in fields in the Neuquén basin and, to a lesser extent, Cañadón Seco and María Inés crude oils.

One of the most important highlights for the refinery was the setting of a new historical record in the use of installed capacity, reaching 94% in October. On the other hand, as from the start up of the Light Reformate Unit in Bahía Blanca, approximately 6,000 m³ of benzene were recovered. This allowed to replace, at the Puerto General San Martín petrochemical plant, imports of the input, with a positive impact on the Company's profitability.

San Lorenzo refinery

In 2008, San Lorenzo Refinery processed 15.8 million barrels of crude oil, accounting for an average volume of 43,086 barrels per day against an installed capacity of 50,300. The refinery mainly processes Medanito crude oil, produced in fields in the Neuquén basin and, to a lesser extent, María Inés, Cañadón Seco and Escalante crude oils, produced in fields in the Austral and Golfo San Jorge basins.

One of the most important highlights for the Refinery was the maximization of process severity in the Thermal Cracking unit, aimed at reaching the highest possible level of diesel oil production. On the other hand, it is worth a mention that production capacity of the Aromatic Compounds Recovery Unit was increased from 750 to 1,300 m³ per day while production capacity of the new Benzene distillation tower was expanded from 450 to 700 m³ per day.

Refining Master Plan

During 2008, the Refining Master Plan was mainly focused on fuel quality improvement projects. In Bahía Blanca, major works were performed in connection with the ACAR BB (Refining Quality Adjustment) Project which involves the construction of diesel oil and gasoline hydrotreatment plants in order to meet future quality specifications set by law in terms of sulphur contents. In addition, progress in the Front End Engineering Design (FEED) is worth a mention, with an 85% progress and completion scheduled for May 2009.

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

Distribution Division

The Argentine Liquid Fuel Market

The liquid fuel market (gasoline and diesel oil) continued to grow in 2008 with sales volumes totaling 19 million cubic meters, accounting for a 2.9% increase compared to 2007.

Domestic sales of diesel oil remained at levels similar to those recorded in 2007, totaling 13.6 million cubic meters. This accounts for a deceleration in growth which in the previous two years was 7%. This slowdown results from reduced demand as a consequence of the farmers' conflict during the second quarter of the year and the general economic activity deceleration arising from the worsening of the international financial crisis during the last months of the year.

Gasoline sales, in turn, totaled 5.5 million cubic meters, 10% higher than in the previous year. This increase resulted from average growth in demand during 2008, boosted by economic expansion, in general, and higher sales of new cars, in particular. Deceleration in growth (during the two previous years was 17%) resulted from the slowdown in the general level of economic activity derived from the international crisis.

The Premium gasoline market, in turn, dropped 17.5% compared to 2007, due to the increase in the product price. Conversely, high-grade gasoline demand grew 25.5%, still maintaining the leading position in sales. It is worth mentioning a 7.3% recovery in Regular gasoline consumption, which had not shown any signs of growth since 2002. Conversely, compressed natural gas (CNG) consumption dropped for the third year in a row (5%) due to less conversions.

Fuels

Petrobras Energía's liquid fuels domestic sales totaled 2.6 million cubic meters during the year, a 1.9% increase compared to 2007. Thus, the Company maintained its third-place position in the market, with a 13.8% market share.

Seven hundred and twelve (712) thousand cubic meters of total volumes are attributable to gasoline that recorded a 4.8% growth compared to prior year as a result of increased market demand. Consequently, Petrobras Energía reached a 13% market share. In line with the general trend, Premium gasoline decreased by 26.4% compared to 2007, with a market share of 8.8%. Diesel oil sales volumes totaled 1.9 million cubic meters in 2008 showing the same performance recorded in 2007. Consequently, Petrobras Energía's market share was 14.1%.

Asphalt and bunker markets

In 2008, asphalt sales in the Argentina market totaled 426 thousand tons, accounting for an 11% decline compared to 2007, the first slowdown recorded in the segment since 2003. Petrobras Energía's sales volumes totaled 176 thousand tons, of which 174 thousand are attributable to the domestic market. As a result, the Company maintained its leadership position with a 41% market share. Due to high withholding taxes on exports of this product, only 1.7 thousand tons were exported (to Paraguay and Bolivia, specifically).

Bunker IFO sales in the Argentina market, in turn, totaled 698 thousand tons, while the Argentine Gas Oil Bunker sales volumes reached 232 thousand cubic meters. This accounted for an 8% and 5% growth, respectively, compared to 2007. Petrobras Energía's sales volumes, in turn, totaled 303 thousand tons of Bunker IFO, accounting for a 21% drop compared to the previous year. In spite of the decline, the leading position was maintained with a 44% market share. Gas Oil Bunker sales volumes totaled 33 thousand cubic meters, that is, 25% lower compared to 2007. The market share reached 14%. In both cases, reduced sales volumes were attributable to logistics and product availability reasons during certain months of the year.

Lubricants

In 2008 Lubrax sales in the Argentine market totaled 34.8 thousand cubic meters. In line with a reduced demand by the farming sector, sales volumes declined 4%. However, the Company's market share remained at 11% for the year.

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

Gas stations and agro-centers

During 2008, the Company moved forward with the optimization of its gas station network. In addition, we also made progress in selective branding efforts in gas stations that still lacked Petrobras Energía's iconography. Along these lines, the Company identified 22 new points of sale, thus extending its brand to 518 gas stations that account for 80% of the points of sale, in addition to the 42 already identified agro-centers.

Also with a view to improving the positive perception of the brand and services provided to customers, Petrobras Energía added three new Spacio 1 convenience stores to the network, totaling 27 Spacio 1 stores.

These actions resulted in an 8% increase in average sales per point of sale and improvements in network and distribution efficiency.

Refinería del Norte (Refinor)

Gas - LPG

A highlight for the year was the start of *fason* operations in connection with rich gas coming from Acambuco UTE, in Salta, which involve processing rich gas and returning the resulting product (LPG and gasoline) for a consideration. The agreement, accounting for a volume of about 21% of Refinor's processing capacity, will be effective for 15 years and may be renewed for an additional 5-year term.

In 2008, Refinor processed an average of 17.74 million cubic meters of gas per day, accounting for a 4.6% shrinkage compared to 2007 due to the reduction in gas supply during the winter season.

LPG production, in turn, totaled 321.3 thousand tons and fuel sales amounted to 317 thousand tons during the year. These figures account for a 12% decline compared to 2007.

Fuels

Daily average volumes of crude processed totaled 15,214 barrels per day, against an installed capacity of 26,417 barrels per day, accounting for a 4% decline compared to 2007 due to reduced crude oil availability. Liquid fuels sales, in turn, totaled 531 thousand cubic meters in the domestic market and 492 thousand cubic meters in the foreign market, accounting for a 1% slight reduction compared to 2007.

Petrochemicals

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

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

In 2008, the Company

* commenced operation of its new 540 thousand-ton-per-year capacity plant in Brazil for the production of ethylbenzene, a raw material for the production of styrene.

*consolidated regional leadership in the styrene market.

* optimized the delivery system of bulk polystyrene in tank trucks, a distinctive action in the market that involves enhancing customer service, reducing costs and minimizing material handling, thus improving safety levels.

* continued to develop new high-impact polystyrene grades that will allow the Company to increase sales and access new markets.

* improved raw material consumption costs through reformulation in BOPS grades and in quality and customer service indicators.

* launched two new products to the fertilizers market: Solmix + Zn for corn and Solmix + Boro for sunflower.

Argentine styrenics division

In 2008, the Argentine styrenics market (styrene and polystyrene) recorded a 13.9% drop compared to 2007.

Within this context, in 2008 the Company's integrated market share was 89%, accounting for a 1.4% increase in the total market.

Styrene

In 2008 sales volumes of monomer styrene totaled 50.9 thousand tons, of which 36 thousand tons were sold in the domestic market, accounting for a 1.4% slight decline compared to 2007.

The year should be divided into two stages: First: the January-September period, where EPS (expandable polystyrene), polyester paints and resins (monomer styrene consumers) recorded a 10% average increase attributable to the development of civil construction and public works activities. Second: 2008 fourth quarter, where as a consequence of the crisis, growth was neutralized and 2008 volumes remained at levels similar to those in 2007, negatively impacting on a historically high consumption period.

Regional exports, in turn, dropped 7% compared to 2007. This decline focused on Chile since during 2008 sales were mostly directed to the domestic market as a consequence of the growth recorded until September. Exports to the rest of regional countries recorded an increase.

In the ethylbenzene segment, sales volumes totaled 22,062 tons, accounting for a 29% decrease compared to 2007. This decline was mainly attributable to the start up of the new Innova ethylbenzene plant in September 2008 which derived in the suspension of ethylbenzene deliveries from Argentina.

Light Reformate Project

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

The revamped Reformer plant has now the sufficient capacity for processing light reformates from other plants with an increase in its benzene fractionation capacity from 60 thousand to 133 thousand tons per year allowing for self-supply of this product. In addition, the aromatics recovery unit capacity increased from 750 to 1,250 cubic meters per day.

The new pyrolysis gasoline hydrogenation plant, in the start up stage as of December 2008, will allow to process pyrolysis gasoline owned by the Company and third party gasoline without affecting the hydrodesulfurization unit operation due to fouling of process equipment.

Polystyrene

During 2008 polystyrene sales volumes totaled 48.8 thousand tons, of which 38.9 thousand tons are attributable to sales to the domestic market. This accounts for a 25% decline in domestic sales compared to 2007, mainly as a consequence of two factors: the conflict between the government and the farm sector during the first semester and less credit to purchase durable goods, such as television sets and refrigerators during the last quarter of the year.

In the foreign market, polystyrene sales volumes totaled 9.9 thousand tons, a 21% increase compared to 2007. This rise is attributable to the increase in exports to Uruguay, Bolivia and Paraguay, while exports to Chile were similar to those recorded in 2007. The increase in regional sales offset the lower activity level in the domestic market in the different segments.

In addition, during 2008 the Company optimized the delivery system of bulk polystyrene in tank trucks, a distinctive action in the market that involves enhancing customer service, reducing costs and minimizing material handling. Efforts are currently being made to increase dispatch under this modality with new clients during 2009.

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

Bi-oriented polystyrene (BOPS)

In 2008 sales of bi-oriented polystyrene (BOPS) totaled 12 thousand tons, of which 11% were sold in the domestic market and 89% were exported. Total sales volumes remained at levels similar to those recorded in 2007.

During 2008, a shutdown for scheduled maintenance works was performed to optimize operating performance. In addition, raw material consumption costs were improved through reformulation in BOPS grades and in quality and customer service indicators.

Synthetic rubber

In the elastomer market, Petrobras Energía's sales totaled 46,670 tons, a 15% decline compared to 2007. This drop was mainly attributable to a lower activity level during 2008 fourth quarter as a consequence of the international crisis which had an impact on the good performance recorded during the first three quarters.

In the domestic market, the Company sold 25,934 tons, a 9% decrease compared to 2007 as a consequence of a lower activity level in tires, auto-parts and technical devices relating to automobiles.

In the regional foreign market, the Company exported 20,736 tons, a 21% decline compared to 2007. This drop was mainly attributable to a lower activity level as from October as a consequence of the deep international crisis that impacted on consumption and caused significant fluctuations in currencies in the regional countries to which the Company exports.

Innova S.A.

In Brazil, the styrene market declined 3% in 2008 (excluding consumption for polystyrene and applications of styrene producers), mainly as a result of the international crisis.

Within this context, Innova consolidated its leading position with a 45.1% integrated market share (styrene + polystyrene). Innova's performance in 2008 included a total production of 206 thousand tons of ethylbenzene and 222 thousand tons of styrene. Polystyrene production reached 110 thousand tons. In addition, Innova imported 24 thousand tons of styrene.

In September 2008, Innova opened the new 540 thousand-ton-per-year ethylbenzene plant, one of the world's most modern units in terms of technology, environment and occupational health.

In Brazil, styrene sales totaled 145.6 thousand tons, a 6% rise compared to 2007 mainly attributable to the increase in the automobile industry and civil construction works reflected in acrylic resins and polyester production. In line with Innova's philosophy of growing in the Brazilian styrene market, during 2008, Innova entered into commercial agreements and contracts with the main customers and continued with the loyalty building strategy, among other actions. In March, a meeting was held in Manaus with customers of the electrical and electronic segment in order to generate approaches, strengthen relationships and consolidate confidence to the market.

In addition, we started the resale of ABS resin (Acrylonitrile-Butadiene-Styrene), a new portfolio product to meet the clients' demand and search for new consumers in the styrenic market. ABS is a plastic resin characterized by its high resistance to chemicals, good impact resistance, gloss, toughness and good processing capacity, used in the manufacture of electrical and electronic devices, household appliances, plates and shoes, among others. Innova is the only manufacturer in Brazil. Early in 2008, the company closed the first ABS import operation with Formosa Chemical and in May the first negotiations started with Innova polystyrene clients also using ABS in their processes.

Polystyrene sales volumes totaled 99 thousand tons, with a slight 1% drop compared to 2007 attributable to reduced market growth during the last quarter. Polystyrene exports reached 13 thousand tons, mainly to Africa, United States and Colombia. The 39% decline in polystyrene export volumes compared to 2007 was attributable to the priority given to the Brazilian domestic market where Innova consolidated its leading position.

The polystyrene segment business strategy focused on defending market leadership. In this respect, the company strived to increase market share by increasing sales through a more aggressive position in the market. In addition and as consolidation of product competitiveness, the company obtained R830D, a new high-impact polystyrene grade, the production of which started in October after two years of studies and tests. R830D marks a new grade generation in the refrigeration market which demands high-performance materials, especially to reduce wall thickness, such as in door panels and inner boxes of refrigerators and freezers.

Fertilizers

The fertilizers market in Argentina recorded a 31% drop compared to 2007. This decline was mainly attributable to the farmers' conflict in the first semester, a historical drought and a drop in the price for grains attributable to the global financial crisis.

In the liquid fertilizers market, the Company's market share during 2008 increased 3% to 73% as a consequence of the strategy of growth in products with higher profit margins.

In addition, thiosulphate increased 4% to 39% in the sulphur fertilizers market thus becoming the leading product in such market niche. Two new products for corn and sunflower were launched: Solmix Zn and Solmix Boro, respectively. In addition, efforts continued to be focused on the development of new foliar fertilizers for the farm sector and some liquid sulphur fertilizers for the industry.

In addition, the Company continued storage logistics optimization by reducing warehouses at Rosario, Necochea and Chacabuco ports. During 2008 third quarter, the liquids storage plant was completed at Puerto General San Martín which, in synergy with the plant's private port, will allow to improve competitiveness.

Gas and Energy

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

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

In the electricity business, Petrobras Energía is engaged in generation, transmission and distribution activities and is positioned as a major player in the Argentine electricity market. Electricity generation allows the Company to monetize gas reserves. Distribution provides the Company with new business opportunities, adding value through sales to end users.

In 2008, the Company

* continued works in connection with Genelba Plus (164MW) and EcoEnergía (14 MW) Energía Plus projects, with the start of commercial operations estimated for 2009.

* completed a 2.2 MMm³/d expansion of the firm transportation system through Transportadora de Gas del Sur, acting as manager, and under the Gas Trust Program.

In addition, in 2008:

* the government authorized an increase in Edesur's Distribution Added Value of approximately 18% as partial recognition of the Monitoring System on Costs accrued and not passed through to tariffs.

* Transportadora de Gas del Sur signed with UNIREN a provisional agreement which provides for a 20% tariff increase to be retroactively applied as from September 1, 2008 and received a proposal for a comprehensive

renegotiation of the agreement.

Gas and Transportation business

Marketing

In 2008, in Argentina sales volumes of gas produced by the Company and imported gas totaled 9.35 MMm³/d, of which 4.45 MMm³/d were attributable to the Austral area, 3.68 to the Neuquén area and 1.07 to the Northern area. In addition, 0.15 MMm³/d were imported from Bolivia. The Company, in turn, sold 3.32 MMm³/d of gas under the brokerage modality.

Transportadora de Gas del Sur S.A. TGS

In October 2008, TGS signed with UNIREN a provisional agreement which provides for a 20% tariff increase to be retroactively applied as from September 1, 2008 and the application of funds generated from that increase to an investment plan in the gas transportation system. These funds will be provisionally deposited in a trust fund and the tariff increase will be effective after ratification of the provisional agreement by the Argentine Executive Branch. The provisional agreement will be applicable until the effective date of a comprehensive license renegotiation agreement to be entered into with the Argentine government. In this respect, early in October 2008, TGS received from UNIREN a proposal for a comprehensive renegotiation agreement (including the 20% initial tariff increase), aimed at renegotiating the license terms and starting an overall tariff review process. As of the date of these financial statements, TGS is evaluating that proposal.

In addition, a 2.2 MMm³/d expansion of the firm transportation system was successfully completed by TGS, acting as manager, and under the Gas Trust Program. The company is in charge of the operation and maintenance of expansion-related assets.

In the regulated segment, daily average deliveries totaled 63,041 Mm³, a volume similar to that recorded in 2007. Firm transportation capacity increased to 73.3 MMm³ in 2008 from 72.7 MMm³ in 2007. In addition, the company was able to extend the terms of contracts expiring between 2008 and 2011. The new average term of renegotiated contracts is now 10 years.

In the non regulated segment, the company's revenues increased as a result of a rise in sales revenues derived from higher international prices (in spite of the sharp drop recorded during recent months) and an increase in sales of propane, butane and natural gasoline.

TGS revenues from this segment accounted for 57% of total revenues, once again being the most profitable business for TGS.

Total liquids production increased from 828.6 thousand metric tons to 891.4 thousand metric tons in 2008. This rise was attributable to availability of regasified liquefied natural gas injected in Bahía Blanca and supplied by ENARSA. This additional natural gas contribution helped mitigate the negative effects of power disconnections strongly and increasingly affecting the Cerri Complex every winter season.

These actions relating to liquefied natural gas, in addition to the complex operations involving propane and butane among producers and clients, allowed to consolidate growth in the logistics business through which the company provides comprehensive customized solutions relating to reception, storage and dispatch of products.

LPG business

In 2008, we sold 261 thousand tons of LPG produced by the Company and by third parties, of which 32 thousand tons were sold under the brokerage modality.

Two Automotive LPG points of sale were installed: one in Rojas (province of Buenos Aires) and the other one in Bahía Blanca (province of Buenos Aires) aimed at supplying captive fleets. In the province of Entre Ríos, ten irrigation facilities were converted to the dual fuel system (diesel oil and LPG).

Electricity - Generation

In 2008, the demand for electricity continued its upward trend, though at a lesser extent than in 2007. Growth for the year was 2.8% compared to 5.6% in 2007 and was mostly covered by thermal generation (59.4%) and hydraulic generation (32.2%). Nuclear generation and imports covered 6.5% and 1.8% of demand, respectively.

Genelba thermoelectric power plant

In 2008, Genelba Thermoelectric Power Plant generated 5.111 GWh (gigawatt hour) of electricity, with a 92.6% availability factor. Along these lines, Genelba reached a 4.6% share of total power generation for the year and an 8.1%

share of thermal generation.

The reliability factor was 94%.

Pichi Picún Leufú Hydroelectric Complex - HPPL

Water flows from Comahue reached almost average values both for Limay river and Collón Cura river basins. Incoming flows from Limay river were 0.8% above historical average, while flows from Collón Cura river were 2.4% below average. Total incoming flows, considering both rivers, were 1.1% below average.

HPPL generation totaled 1.082 GWh (gigawatt hour), accounting for a 47.8% increase compared to the plant minimum historical values in 2007. With an 89.6% availability factor and a 100% reliability factor, HPPL had an approximately 0.9% share of total power generation for the year and a 2.9% share of hydraulic generation.

In the January-April period, major maintenance works were performed in Unit No.3, with highly positive results since works were completed ahead of schedule and the unit is in perfect operating conditions.

Distribution

Edesur S.A. Edesur

In Edesur concession area, demand increased to 18,083 GWh, or 1.9%, compared to 2007, with a 3,320 MW peak demand record in November.

Electricity sales also hit a historical record of 16,120 GWh during the year, a 2.1% increase compared to 2007, including 2,722 GWh for distribution services to large users.

In addition, during 2008 Edesur's annual loss rate declined 0.10% to 10.64%. Edesur's customer portfolio increased 1.55% to 2,262,231 users.

In order to provide the best service to users, Edesur

* commissioned cables 585 and 586 (132 kV) connecting Transradio and Santa Catalina substations.

* replaced two 20 MVA transformers with 40MVA transformers at the Spegazzini substation.

* installed the new 80 MVA transformer No.1 in Monte Chingolo substation. The substation was upgraded to 2x80 MVA.

* commissioned the new 220 kV breakers of lines 33 and 34, in Almirante Brown substation.

Regarding tariff adjustments, in July 2008, the government authorized an increase in the Distribution Added Value of approximately 18% as partial recognition of the Monitoring System on Costs accrued and not passed through to tariffs. The Secretary of Energy, under Resolution No. 1838/07, authorized Edesur to compensate for the increases accrued from the application of the MSC, until the same are effectively passed through to tariffs, with 100% of the balance from the Program for the Rational Use of Energy.

Quality, Safety, Environment and Health

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

In 2008, the Company:

* trained more than 3,000 workers, supervisors and heads of contracting companies in safety, environment and health issues and granted the SMS certification to more than 10,000 contractors.

* continued developing ecoefficiency guidelines and approved ecoefficiency standards focused on issues such as waste, air emissions, affected areas, hydro resources and biodiversity. At the same time it continued with different soil and water sanitation and recovery programs.

Quality

Excellence as a permanent challenge

During 2008, the Company continued with the Assessment of Management Quality cycle, in this case in the E&P Austral asset. The assessment was made under Petrobras Excellence Management Model, based on Excellence Criteria of the Brazilian National Quality Foundation.

In addition, Petrobras Energía launched and implemented, according to the annual schedule, several initiatives aimed at strengthening core management processes such as, "leadership meetings", "standardization" and "management of deficiencies". Particularly, "PESA's Standardization Improvement" project was developed in line with one of the Company's strategic actions for 2008 in order to consolidate operating efficiency, supported by an effective and adequate QHES management. The review of approximately 300 QHES corporate standards is worth a mention.

In line with the process of continued improvement, in 2008 the Company secured compliance with internal audits, HES Management Assessments at Petrobras Corporate level and asset audits by third parties under its certified management systems.

Likewise, as a driving force towards adoption of the best practices that provide tangible benefits for HES-related operation and people, the third edition of Petrobras HES Award was carried out, coordinated by the Main Office, and where Petrobras had a significant participation on account of the projects implemented and presented in the contest.

Safety

Maximum prevention, zero accident

The Company plans and designs actions tending to reinforce accident, incident and deviation prevention, as it understands that it is the key to achieve the objective of maximum safety. To such end, in 2008 the Company conducted audits of strategic Safety and Hygiene procedures in the different assets.

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

* continued with its SMS certification program started in 2005 and trained more than 3,000 workers, supervisors and heads of contracting companies in Argentina, Peru and Mexico. In this way, in 2008, more than 170,000 training hours were provided, involving more than 10,000 contractors.

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

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

Environment

Caring for general welfare and future generations

After a rigorous economic, social and environmental evaluation, Petrobras Energía, through Petrobras, has once again qualified for inclusion in the Dow Jones Sustainability Index (DJSI) group. This index evaluates corporate sustainability in almost 60 economic sectors worldwide. This achievement shows that the Company is committed to the environment and general welfare and acts in a transparent and responsible manner, caring for future generations.

Operating improvements, remediation and waste treatment

In order to optimize the performance of its facilities and protect the surroundings, the Company advanced with the duct integrity project making significant investments. It also made improvements to the effluent and drainage plant systems and improved the fire systems.

In addition, in 2008 it continued with the implementation of remediation projects (sanitation and recovery of affected soils and water) both at gas and oil fields and at refineries. In addition, it completed the implementation of a Corporate System for Waste Management aimed at tracking waste management from generation to final disposal.

Operating improvements, reduction of gas emissions

In September 2008, Petrobras Energía shared with community representatives at Cerri, province of Buenos Aires, the most relevant aspects of a new energy plan aimed at reducing greenhouse effect gas emissions.

Inventory of greenhouse gas emissions

During 2008, ICF International consulting company conducted a verification of Petrobras Energía's greenhouse gas emissions inventory. Oil and Gas Exploration and Production assets in Argentina, Ecuador and Peru as well as Refining and Distribution and Petrochemicals facilities in Argentina were subject to audits.

Ecoefficiency guidelines and indicators

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

Environmental training and awareness

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

Contingency systems

The Company moved forward with the Comprehensive Training Program (in contingency systems) and organized five workshops on handling of hazardous material emergencies relating to road transportation in several locations within the country: Córdoba, Santa Fe, Santa Cruz, Salta, San Martín de los Andes and Tucumán. The workshops ended up with road accident drills based on a range of different scenarios such as fire, spills and injured people.

In addition, a table top drill for tankers was conducted to validate the National Contingency Plan of Petrobras Energía as shipowner of the Poti tanker acquired in 2008.

Health

For a better quality of life

Petrobras Energía continued to develop its Health Promotion and Protection Program which promotes a healthy diet and physical activity habits and works on the handling of stress and the prevention of diseases and accidents through early detection and control of epidemiological risk factors. The purpose of the program is to improve health and the quality of life of its employees.

In this respect, the Company took different actions, including among others, the implementation of Individual Consulting services, effective since 2006, which made available to employees a specialized professional for individual inquiries at working places. Specialists gave their advice on issues related to healthy diets, stress, physical activity and smoking to approximately 1,400 employees.

In addition, Petrobras Energía

- * obtained a heart safe certificate in connection with all assets in Argentina.

- * organized physical activities in which almost 3,000 employees of the different business units participated.

- * continued with the Dental Health Preventive Program and made preventive dental checks to all employees aimed at improving dental health and minimizing health risk factors.

- * continued with the development of the Cardiopulmonary Resuscitation and First Aid training program including training with automatic external defibrillators.

- * continued developing workshops on a wide variety of topics such as food myths, weight control, food and diabetes, stress, aerobic activities and smoking, among others.

Communities near the plants could also participate in the health training activities organized by Petrobras Energía.

Our people

For Petrobras Energía, people is the key factor for excellence and distinction within the market. It is through them, their talents and commitment, that the Company contributes to the development of competitive advantages, both in the business and in the community, and therefore focuses its efforts on creating opportunities for training, development and improvement of the quality of life.

In 2008, the Company

- * continued with two core processes in the Human Resources area: Performance Management and Corporate Education. These processes were in addition to the new Human Capital Planning process.
- * participated in employment fairs and events in order to strengthen its institutional image and its presence in academic and professional fields.
- * implemented actions to remove salary inequalities and overlapping and conducted salary reviews in April, October and November.
- * strengthened integration among employees through the organization of different activities such as breakfast meetings between directors and employees, and the traditional family visits to the Company premises.
- * strengthened Organizational Climate management by involving heads and work teams in building welfare and quality of life at work.

Personnel Management

Petrobras Energía promotes an attractive, challenging and motivating work environment for all its people. The Company is focused on its people in areas such as Recruitment and Selection, Compensation and Benefits, Employees Commitment and Satisfaction and Training and Development.

Recruitment and Selection

The Company finds that it is of the essence to have the best qualified professionals to meet the businesses' needs. It also considers that one of the key factors to reach excellence is filling each position with the most suitable person. This goal is met by resorting to different strategies and channels for the recruitment and selection of the Company's

personnel allowing to maximize process quality and transparency.

- Moviliza program

Petrobras Energía prioritizes internal applicants when filling vacant positions, thus contributing to the development and the professional and personal growth of its own people. In this manner, it guarantees the internal mobility of its resources through various tools. One of them is the *Moviliza* program, which allows it to fill vacant positions with own resources up to senior levels. During 2008, responding to advertisements published on this tool, the Company received 349 applications to fill 105 vacancies.

- Employment fairs

There are numerous professionals who are interested in joining Petrobras Energía and seeing their professional careers evolve here. This was evident at *Expobumeran* 2008, the virtual employment fair where Petrobras Energía took part for the fourth year in a row in order to make its business and people management philosophy known, as well as to update its base of prospects. The stand of Petrobras Energía had 38,259 visits and received 14,018 resumes from interested people.

In addition, in 2008 the Company participated in different events in order to strengthen its institutional image and academic and professional presence. To such end, the Company acted as main sponsor of the 13th edition of *ExpoUniversidad*, the most important event in senior education in Latin America which had 88,200 visits. The Company also participated in the 5th edition of the *Jornada de Trabajo Ingeniería* (Engineering Working Day) - the most representative exhibition in this field of work - with more than 3,000 visits including students and professionals.

Compensation and Benefits

The compensation policy in Petrobras Energía is based on two principles: external competitiveness and internal equity. Along these lines, the Company has implemented actions designed to remove inequalities and overlapping in salaries, and aimed at achieving a positive impact on the working climate. Therefore, in April, October and November 2008, the Company conducted salary reviews, with average increases of 29.6% and 25.8% for personnel under and not under collective bargaining agreements, respectively.

These increases were implemented taking into consideration the structure, positioning in the market and budget approved by the Board of Directors.

On the other hand, the Company continued investing on the well-being of its employees, both in the short and long terms. For the purpose of maintaining its competitiveness, the pension plan was subject to a comparative study in 2008 considering the best