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PROSPECTUS CONTAINING THE PRICING SUPPLEMENT DATED MAY 2, 2007
AND THE OFFERING MEMORANDUM DATED APRIL 16, 2007

Petrobras Energía S.A.

U.S.$300,000,000

5.875% Series S Notes due 2017

Payments supported by a standby purchase agreement provided by
Petróleo Brasileiro S.A. – PETROBRAS

The Series S Notes (the "Series S Notes") are part of the U.S.$2,500,000,000 Medium-Term Note Program of Petrobras Energía S.A. (the "Program"). The Series S Notes will mature on May 15, 2017 and will bear interest at the rate of 5.875% per year. Interest on the Series S Notes is payable in arrears on May 15 and November 15 of each year, beginning November 15, 2007 to holders of record on the prior May 1 and November 1. Unless stated otherwise or required by the context, references to "Petrobras Energía," "the Issuer," "we," "us," "our" and similar terms refer to Petrobras Energía S.A. and its controlled subsidiaries, but excluding affiliates and companies under joint control.

The Series S Notes will represent general senior unsecured obligations of the Issuer and will constitute nonconvertible negotiable obligations (*obligaciones negociables*) under, and will be issued pursuant to and in compliance with, all of the requirements of Law No. 23,576, as amended by Law No. 23,962 (the "Negotiable Obligations Law"), and any other applicable Argentine laws and regulations. Our payment obligations under the Series S Notes, except as is or may be provided under Argentine law, at all times will rank equal in right of payment with all of our other unsecured and unsubordinated obligations that are not, by their terms, expressly subordinated in right of payment to the Series S Notes.

The Series S Notes will have the benefit of credit support provided by Petróleo Brasileiro S.A. — PETROBRAS ("Petrobras"), as majority shareholder of the Issuer, under the terms of a standby purchase agreement (the "Standby Purchase Agreement") which will obligate Petrobras to purchase from the noteholders their rights to receive payments in respect of the Series S Notes from the Issuer in the event of nonpayment by the Issuer. The obligations of Petrobras under the Standby Purchase Agreement constitute general senior unsecured obligations of Petrobras which will at all times rank *pari passu* with all other senior unsecured obligations of Petrobras that are not, by their terms, expressly subordinated in right of payment to Petrobras' obligations under the Standby Purchase Agreement.

Application has been made to list the Series S Notes on the Buenos Aires Stock Exchange ("BASE") and to make the Series S Notes eligible for trading in the Argentine over-the-counter market (*Mercado Abierto Electrónico S.A.* or "MAE"). Application has also been made to admit the Series S Notes for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market, the exchange-regulated market operated by the Luxembourg Stock Exchange ("Euro MTF"). There can be no assurance that a trading market for the Series S Notes will develop.

Investing in the Series S Notes involves risks, including risks related to the Standby Purchase Agreement. Prospective investors should carefully consider the risk factors beginning on page 41 of this Pricing Supplement and page 19 of the Offering Memorandum that is incorporated by reference hereto (the "Offering Memorandum") before making an investment in the Series S Notes.

The Series S Notes (including the credit support provided by Petrobras under the Standby Purchase Agreement) have not been registered under the Securities Act of 1933, as amended (the "Securities Act") or any state securities laws and are being offered and sold only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. For a description of certain restrictions on transfers of the Series S Notes, see "Plan of Distribution" and "Notice to Investors" in the Offering Memorandum.

The Series S Notes initially will be sold to investors at a price equal to 99.617% of the principal amount thereof, plus accrued interest, if any, from May 7, 2007.

Neither the United States Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of these securities or determined if this Pricing Supplement or the Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense in the United States.

It is expected that the Series S Notes will be ready for delivery on or about May 7, 2007 to purchasers in book-entry form through the Depository Trust Company and its direct and indirect participants, including Clearstream Banking, S.A. Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System.

HSBC **Morgan Stanley**

Argentine Placement Agent:

HSBC Bank Argentina S.A.

The date of this Prospectus is May 2 , 2007.
This Prospectus may only be used for the purposes for which it has been published.

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You should rely only on the information contained or incorporated by reference in this Pricing Supplement or the Offering Memorandum. None of us, Petrobras and the Initial Purchasers authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. None of us, Petrobras and the Initial Purchasers are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this Pricing Supplement and the Offering Memorandum is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Series S Notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements described under the heading "Notice to Investors" in the Offering Memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

In Argentina, we are conducting a public offer of the Series S Notes. In connection with such public offering in Argentina, the Argentine Placement Agent plans to make a series of marketing and public offering placement efforts subject to applicable Argentine laws, including Argentine Law 17,811, as amended, the Negotiable Obligations Law, Decree No. 677/2001 and the Joint Resolution No. 470-1738/2004, as amended by Joint Resolution No. 500-2222/2007, both jointly issued by the Argentine Securities Commission (*Comisión Nacional de Valores* or "CNV") and the Argentine Tax Authority ("AFIP") on September 14, 2004 (the "Joint Resolution"). Outside of Argentina, we have submitted this Pricing Supplement and the Offering Memorandum to certain U.S. institutional investors and to certain non-U.S. persons so that they can consider a purchase of the Series S Notes. We have not authorized the use of this Pricing Supplement and the Offering Memorandum for any other purpose. By accepting delivery of this Pricing Supplement and the Offering Memorandum, you agree to certain restrictions. See "Notice to Investors" in the Offering Memorandum.

This Pricing Supplement and the Offering Memorandum are based on information provided by us and by other sources that we believe are reliable. This Pricing Supplement and the Offering Memorandum summarize certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this Pricing Supplement and in the Offering Memorandum. In making an investment decision, you must rely on your own examination of our company and the terms of the offering and the Series S Notes, including the merits and risks involved.

You should not consider any information in this Pricing Supplement or the Offering Memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Series S Notes.

The establishment of the Program has been authorized by the CNV pursuant to Certificate No. 202, dated May 4, 1998, Certificate No. 290 dated July 3, 2002 and Certificate No. 296 dated September 16, 2003. Such authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in this Pricing Supplement or the Offering Memorandum. The truthfulness of the accounting, financial, economic and all other information contained in this Pricing Supplement and the Offering Memorandum is the sole responsibility of our Board of Directors and, insofar as is applicable, the Syndics (as defined under Argentine law).

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this Pricing Supplement or the Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense in the United States.

This Pricing Supplement and the Offering Memorandum have been prepared on the basis that all offers of Series S Notes will be made pursuant to an exemption under Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive"), as implemented in Member States of the European Economic Area (the "EEA"), from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of Series S Notes that are the subject of the placement contemplated in this Pricing Supplement and the Offering Memorandum should only do so in circumstances in which no obligation arises for us, Petrobras or the Initial Purchasers to produce a prospectus for such offer. None of us, Petrobras and the Initial Purchasers have authorized, nor do we, Petrobras or the Initial Purchasers authorize, the making of any offer of Series S Notes through any financial intermediary, other than offers made by the Initial Purchasers which constitute the final placement of Series S Notes contemplated in this Pricing Supplement and Offering Memorandum.

This Pricing Supplement and the Offering Memorandum are for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Series S Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Pricing Supplement and the Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

This Pricing Supplement is supplementary to, and should be read in conjunction with, the Offering Memorandum, which at the date hereof contains, inter alia:

1. A description of the notes to be issued under the Program and general information regarding the Program;

2. A description of our business; and

3. A description of the significant differences between United States Generally Accepted Accounting Principles ("U.S. GAAP") and Argentine Generally Accepted Accounting Principles ("Argentine GAAP") and the Auditors' Report and financial statements of the Issuer as at and for the years ended December 31, 2006, 2005 and 2004.

The issuance of the Series S Notes was authorized by a resolution of our board of directors dated March 6, 2007.

In addition, this Pricing Supplement contains information about Petrobras and the terms of the Standby Purchase Agreement.

Copies of the Offering Memorandum and of other documents referred to herein are available at the registered office of the Issuer, located at Maipú 1, (C1084ABA), Buenos Aires, Argentina.

THE OFFERING MEMORANDUM IS HEREBY INCORPORATED BY REFERENCE IN THIS PRICING SUPPLEMENT.

THE SERIES S NOTES (INCLUDING THE CREDIT SUPPORT PROVIDED BY PETROBRAS UNDER THE STANDBY PURCHASE AGREEMENT) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT. SUBJECT TO CERTAIN EXCEPTIONS, THE SERIES S NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S). THIS PRICING SUPPLEMENT HAS BEEN PREPARED BY THE ISSUER FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE SERIES S NOTES OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES TO “QUALIFIED INSTITUTIONAL BUYERS” IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE SERIES S NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE SERIES S NOTES AND DISTRIBUTION OF THIS PRICING SUPPLEMENT AND THE REMAINDER OF THE OFFERING MEMORANDUM, SEE “PLAN OF DISTRIBUTION” IN THIS PRICING SUPPLEMENT AND “NOTICE TO INVESTORS” CONTAINED IN THE OFFERING MEMORANDUM. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF ANY SERIES S NOTES.

USE OF PROCEEDS

We expect to use the net proceeds of the issue of the Series S Notes, estimated at approximately U.S.$298 million (before expenses), for the purpose of (i) working capital in Argentina, (ii) investments in tangible assets located in Argentina, (iii) refinancing of debt and/or (iv) contributions to the capital of controlled or affiliated companies, provided that any such company uses the proceeds of such contributions in the manner specified above.

CAPITALIZATION OF THE ISSUER

The following table sets forth our consolidated debt and total capitalization (including the proportional consolidation of companies over which we exercise joint control), which comprises total long-term and short-term debt, minority interest and shareholders' equity, at December 31, 2006. Our authorized and issued share capital at December 31, 2006 amounted to P$1,010 million. There have been no material changes in our capitalization since December 31, 2006, except as discussed in this Pricing Supplement and the Offering Memorandum.

The information presented herein was obtained from our consolidated financial statements and the Management's Discussion and Analysis of Consolidated Financial Condition and Result of Operations included in the Offering Memorandum.

	As of December 31, 2006	As of December 31, 2006
	(in millions of pesos)	(in millions of U.S. dollars) (2)
Short-term debt		
Petrobras Internacional Braspetro B.V.	20	8
Financial Institutions	1,148	374
Notes (1)	960	313
Others	6	2
Distrilec Inversora S.A.	45	15
Compañía de Inversiones de Energía S.A.	467	152
Total short-term debt	2,646	864
Long-term debt		
Petrobras Internacional Braspetro B.V.	768	250
Financial Institutions	273	89
Notes	2,505	816
Distrilec Inversora S.A.	183	60
Compañía de Inversiones de Energía S.A.	987	321
Total long-term debt	4,716	1,536
Minority interest	771	251
Shareholders' equity		
Capital stock par value P$1.00 per share	1,010	329
Adjustment to capital stock	1,230	401
Additional paid-in capital on sales of own stock	56	18
Merger premium	960	313
Reserves	403	131
Treasury stock	(33)	(11)
Unappropriated retained earnings	4,221	1,375
Deferred results	(11)	(4)
Total shareholders' equity	7,836	2,552
Total capitalization	15,969	5,203

(1) In January 2007, all of the outstanding Series G Notes were paid in full and cancelled at maturity for an aggregate total of U.S.$250 million (approximately P$768 million, based on the exchange rate in effect as of December 31, 2006).

(2) Amounts are obtained by dividing the Peso amount by the exchange rate as of December 31, 2006 between the Peso and the U.S. dollar (U.S.$1=P$3.07).

DESCRIPTION OF THE SERIES S NOTES

The following summary sets forth the specific details of the Series S Notes and, unless otherwise provided or to the extent not consistent with the terms hereof, terms and conditions set forth under the heading "Description of Notes" in the Offering Memorandum and in the Amended and Restated Indenture between the Issuer and The Bank of New York, as Trustee, dated as of August 1, 2002 (the "Base Indenture"), as amended and supplemented by the Sixteenth Supplemental Indenture relating to the Series S Notes (the "Supplemental Indenture" and, together with the Base Indenture, the "Indenture"), shall apply. Capitalized terms not otherwise defined herein have the same meaning given to them in the Offering Memorandum, or in the Indenture, as applicable. Copies of the Offering Memorandum and the form of the Series S Notes are available to investors for inspection at our registered office and at the addresses of the Paying Agents set forth on the reverse hereof.

Issuer:	Petrobras Energía S.A.
Standby Purchaser:	Petróleo Brasileiro S.A.— PETROBRAS
Aggregate Principal Amount:	U.S.$300,000,000
Issue Price:	99.617%, plus accrued interest, if any, from May 7, 2007.
Original Issue Date:	May 7, 2007.
Time of Delivery:	9:00 am (New York City time) on May 7, 2007 or as soon as practicable thereafter.
Interest Rate:	5.875% per annum, as calculated on a 360-day year basis, with twelve 30-day months each.
Interest Commencement Date:	May 7, 2007.
Interest Payment Date:	May 15 and November 15 of each year, commencing on November 15, 2007.
Maturity Date:	May 15, 2017
Ranking:	Our payment obligations under the Series S Notes, except as is or may be provided under Argentine law, at all times will rank equal in right of payment with all of our other unsecured and unsubordinated obligations that are not, by their terms, expressly subordinated in right of payment to the Series S Notes. The obligations of Petrobras under the Standby Purchase Agreement constitute general senior unsecured obligations of Petrobras which will at all times rank *pari passu* with all other senior unsecured obligations of Petrobras that are not, by their terms, expressly subordinated in right of payment to Petrobras' obligations under the Standby Purchase Agreement.
Standby Purchase Agreement:	The Series S Notes will have the benefit of credit support in the form of a Standby Purchase Agreement under which Petrobras will be obligated to make certain payments to the Trustee in the event the Issuer fails to make required payments of principal, interest and other amounts due under the Series S Notes and the Indenture. Under the terms of the Standby Purchase Agreement, Petrobras will be required to purchase from the holders of the Series S Notes, and in consideration pay to the Trustee amounts in respect of, the noteholders' right to receive (i) the amount of any interest or other amounts not paid by the Issuer in accordance with the terms of the Series S Notes and the Indenture, (ii) the entire principal amount (including any amounts paid in connection with any redemption or repurchase obligation) of the Series S Notes in the event the Issuer fails to make any required payment of principal at the maturity of the Series S Notes or earlier upon any redemption, repurchase or acceleration of the Series S Notes prior to the maturity date and (iii) interest on all of the foregoing amounts at the rate of 1% above the interest rate on the Series S Notes, which we refer to as the default rate, for payments beyond the date that the Issuer was required to make such payments under the Indenture. See "Description of the Standby Purchase Agreement."
Optional Redemption:	We may redeem, in whole or in part, the Series S Notes at any time by paying the greater of the principal amount of the Series S Notes and the applicable "make-whole" amount, plus, in each case, accrued interest, as described below in "Additional Provisions Relating to the Series S Notes—Optional Redemption—Optional Redemption With "Make-Whole" Amount." The Series S Notes will also be redeemable without premium, in whole but not in part, prior to maturity at our option in the event of certain changes in or amendments to the laws or regulations of Argentina, or certain changes in the application or official interpretation of such

	laws or regulations, as described in "Description of Notes—Redemption for Taxation Reasons" in the Offering Memorandum.
Repurchase at the Option of the Holders of the Series S Notes:	In the event of a Change of Control (as defined below), we will be required to make an offer to repurchase, not later than 60 days following such Change of Control, all outstanding Series S Notes at a repurchase price equal to 101% of the outstanding principal amount plus accrued interest up to (but not including) the date of repurchase, as described below in "Additional Provisions Relating to the Series S Notes—Repurchase at the Option of the Holders of the Series S Notes."
Authorized Denominations:	U.S.$2,000 and integral multiples of U.S.$1,000 in excess thereof.
Specified Currency:	U.S. dollars.
Form of Series S Notes:	Series S Notes sold to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC"). Series S Notes sold to non-U.S. persons in offshore transactions in reliance on Regulation S will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC (for the accounts of Euroclear and Clearstream Luxembourg, as DTC participants).
Application for Listing:	Application has been made to admit the Series S Notes for listing on the Buenos Aires Stock Exchange and on the Official List of the Luxembourg Stock Exchange. However, even if admission for listing is obtained, we will not be required to maintain it.
Eligibility for Trading:	*Mercado Abierto Electrónico S.A.* and the Euro MTF market of the Luxembourg Stock Exchange.
Rule 144A Notes:	
CUSIP: ISIN:	71646J AB5 US71646JAB52
Reg S Notes:	
CUSIP: ISIN:	P7873P AD8 USP7873PAD89
Rating:	Moody's: Baa2 S&P: BBB-
Payment of Additional Amounts:	All payments of or in respect of principal, interest and premium, if any, on each Series S Note shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, penalties, fines, duties, assessments or other governmental charges of whatsoever nature, imposed, levied, collected, withheld or assessed by, Argentina or any political subdivision or governmental authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event we shall, subject to certain exceptions, pay such additional amounts as may be necessary to ensure that the amounts received by the holder after such withholding or deduction shall equal the respective amount of principal, interest and premium, if any, that would have been receivable in respect of such Series S Note in the absence of such withholding or deduction. See "Taxation—Argentine Tax Considerations" and "Description of Notes—Payment of Additional Amounts" in the Offering Memorandum. In the event Petrobras is obligated to make payments to the holders of the Series S Notes under the Standby Purchase Agreement, Petrobras will pay such additional amounts necessary to ensure that such noteholders receive the same amount as they would have received without such withholding or deduction, subject to certain exceptions. See "Description of the Standby Purchase Agreement—Additional Amounts."
Use of Proceeds:	We intend to use the net proceeds from the sale of the Series S Notes for the purpose of (i) working capital in Argentina, (ii) investments in tangible assets located in Argentina, (iii) refinancing of debt and/or (iv) contributions to the capital of controlled or affiliated companies,

	provided that any such company uses the proceeds of such contributions in the manner specified above.
Clearance and Settlement:	The Series S Notes will be issued in book-entry form through the facilities of DTC for the accounts of its participants. Beneficial interests in Series S Notes will not be entitled to receive physical certificated notes except in certain limited circumstances. For a description of certain factors relating to clearance and settlement, see "Clearance and Settlement" in the Offering Memorandum.
Offering and placement of the Series S Notes in Argentina:	The Series S Notes will be offered to the public in Argentina in accordance with General Resolution 368/2001 of the Argentine Securities Commission (*Comisión Nacional de Valores* or "CNV"), as amended, and the placement of the Series S Notes in Argentina will be consummated in accordance with the provisions set forth in Section 16 of Public Offering Law No. 17,811 and applicable CNV regulations, including the Joint Resolution, as described in "Placement Efforts and Allocation Process."
Consent to jurisdiction:	Any suit, action or proceeding against us, our property, assets or revenues with respect to any Series S Note may be brought by holders of the Series S Notes, on a non-exclusive basis, in (a) any court of the State of New York or any United States federal court sitting in the Borough of Manhattan, The City of New York, New York; (b) the Ordinary Courts in commercial matters sitting in the City of Buenos Aires; or (c) if the Series S Notes are listed in the Buenos Aires Stock Exchange, before the Permanent Arbitral Tribunal of the Buenos Aires Stock Exchange under the provisions of Section 38 of the Annex to Decree No. 677/2001.
Trustee, Co- Security Registrar, Paying Agent and Transfer Agent:	The Bank of New York.
Security Registrar, Argentine Paying Agent and Transfer Agent:	Banco Santander Río S.A.
Luxembourg Transfer Agent and Paying Agent:	The Bank of New York (Luxembourg) S.A.
Luxembourg Listing Agent:	The Bank of New York (Luxembourg) S.A.
Initial Purchasers:	HSBC Securities (USA) Inc. and Morgan Stanley & Co. Incorporated
Argentine Placement Agent:	HSBC Bank Argentina S.A.
Risk Factors:	See "Risk Factors" beginning on page 41 of this Pricing Supplement, page 19 of the Offering Memorandum and page 11 of the Petrobras 2005 20-F (as defined below) for a discussion of factors you should carefully consider before deciding to invest in the Series S Notes.

THE STANDBY PURCHASER

General

Petrobras, the Standby Purchaser, is a mixed-capital company created pursuant to Brazilian Law No. 2,004 (effective as of October 3, 1953). A mixed-capital company is a Brazilian corporation created by special law, of which a majority of the voting capital must be owned by the Brazilian federal government, a state or a municipality. Petrobras is controlled by the Brazilian federal government, but its common and preferred shares are also publicly traded. Petrobras is one of the world's largest integrated oil and gas companies, engaging in a broad range of oil and gas business activities. For the years ended December 31, 2006 and 2005, under U.S. GAAP, Petrobras had sales of products and services of U.S.$93.9 billion and U.S.$74.1 billion, consolidated net operating revenues of U.S.$72.3 billion and U.S.$56.3 billion and consolidated net income of U.S.$12.8 billion and U.S.$10.3 billion, respectively.

Petrobras controls, directly or indirectly (through our parent company, Petrobras Energía Participaciones, S.A.) approximately 67.25% of our capital stock.

Petrobras engages in a broad range of activities, which cover the following segments of its operations:

- Exploration and Production—This segment encompasses exploration, development and production activities in Brazil, sales and transfers of crude oil in the Brazilian and foreign markets, transfers of natural gas to Petrobras' gas and energy segment and sales of oil products produced at Petrobras' natural gas processing plants.

- Supply—This segment encompasses refining, logistics, transportation, export and the purchase of crude oil, as well as the purchase and sale of oil products and fuel alcohol. Additionally, this segment includes Petrobras' petrochemical and fertilizers division, which includes investments in domestic petrochemical companies and Petrobras' two domestic fertilizer plants.

- Distribution—This segment encompasses oil product and fuel alcohol distribution activities conducted by Petrobras' majority owned subsidiary, Petrobras Distribuidora S.A.-BR in Brazil.

- Gas and Energy—This segment encompasses the purchase, sale, transportation and distribution of natural gas produced in or imported into Brazil. Additionally, this segment includes Petrobras' participation in electricity production in Brazil, including investments in natural gas transportation companies in Brazil, state owned natural gas distributors and thermoelectric companies.

- International—This segment encompasses international activities conducted in 15 countries, which include Exploration and Production, Supply, Distribution and Gas and Energy.

- Corporate—This segment includes those activities not attributable to other segments, including corporate financial management, overhead related with central administration and other expenses, including pension and health care expenses.

Petrobras' principal executive office is located at Avenida República do Chile, 65, 20031-912 - Rio de Janeiro - RJ, Brazil and its telephone number is (55-21) 3224-4477.

Capitalization

The following table sets forth the consolidated debt and capitalization of Petrobras as of December 31, 2006, excluding accrued interest. There have been no material changes in the consolidated capitalization of Petrobras since December 31, 2006.

	As of December 31, 2006 (in millions of U.S. Dollars)
Short-term debt:	
Short-term debt	$ 1,293
Current portion of long-term debt	2,106
Current portion of project financings	2,182
Current capital lease obligations	231
Total	5,812

Long-term debt:		
Foreign currency denominated		9,823
Local currency denominated		2,793
Total long-term debt		12,616
Total long-term debt (less current portion)		10,510
Project financings		4,192
Capital lease obligations		824
Minority interest		1,966
Stockholders' equity (1)		44,299
Total capitalization	$	67,603

(1) Comprising (a) 2,536,673,672 shares of common stock and (b) 1,849,478,028 shares of preferred stock, in each case with no par value and in each case which have been authorized and issued.

Selected Financial and Other Information

The following tables set forth Petrobras' selected consolidated financial data, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data for each of the three years in the period ended December 31, 2006 has been derived from Petrobras' audited consolidated financial statements, which were audited by KPMG Auditores Independentes for the year ended December 31, 2006, and by Ernst & Young Auditores Independentes S/S for each of the years ended December 31, 2005 and 2004. The information below should be read in conjunction with, and is qualified in its entirety by reference to, Petrobras' audited consolidated financial statements and the accompanying notes.

BALANCE SHEET DATA

	As of December 31,		
	2006	2005	2004
	(in millions of U.S. dollars)		
Assets			
Current assets:			
Cash and cash equivalents	$ 12,688	$ 9,871	$ 6,856
Accounts receivable, net	6,311	6,184	4,285
Inventories	6,573	5,305	4,904
Recoverable taxes	2,593	2,087	1,475
Advances to suppliers	948	652	422
Other current assets	1,842	1,685	1,484
Total current assets	30,955	25,784	19,426
Property, plant and equipment, net	58,897	45,920	37,020
Investments in non-consolidated companies and other investments	3,262	1,810	1,862
Other assets:			
Accounts receivables, net	513	642	411
Advances to suppliers	852	462	580
Petroleum and Alcohol Account-Receivable from the Brazilian government(1)	368	329	282
Government securities	479	364	326
Restricted deposits for legal proceedings and guarantees	816	775	699
Recoverable taxes	1,292	639	536
Goodwill	243	237	211
Prepaid expenses	244	246	271
Marketable securities	94	129	313
Fair value asset of gas hedge	–	547	635
Others	665	754	510
Total other assets	5,566	5,124	4,774
Total assets	$ 98,680	$ 78,638	$ 63,082
Liabilities and Shareholders' equity			
Current liabilities:			
Trade accounts payable	$ 5,418	$ 3,838	$ 3,284
Taxes payable	3,357	3,423	2,569
Short-term debt	1,293	950	547
Current portion of long-term debt	2,106	1,428	1,199
Current portion of project financings	2,182	2,413	1,313
Current portion of capital lease obligations	231	239	266
Dividends and interest on capital payable	3,693	3,068	1,900
Payroll and related charges	1,192	918	618
Advances from customers	880	609	290
Employees' postretirement benefits obligations – Pension	198	206	166
Other payables and accruals	1,236	1,069	1,176
Total current liabilities	21,786	18,161	13,328
Long-term liabilities:			
Long-term debt	10,510	11,503	12,145
Project financings	4,192	3,629	4,399
Employees' postretirement benefits obligations – Pension	4,645	3,627	2,915
Employees' postretirement benefits obligation – Health Care	5,433	3,004	2,137
Capital lease obligations	824	1,015	1,069
Deferred income tax	2,916	2,166	1,558
Gas-fired power liabilities	–	–	1,095
Deferred Purchase Incentive	–	144	153
Provision for abandonment of wells	1,473	842	403
Other liabilities	636	556	497
Total long-term liabilities	30,629	26,486	26,371
Minority interest	1,966	1,074	877
Shareholders' equity			
Shares authorized and issued:			
Preferred share	7,718	4,772	4,772
Common share	10,959	6,929	6,929
Capital reserve and other comprehensive income	25,622	21,216	10,805
Total Shareholders' equity	44,299	32,917	22,506
Total liabilities and Shareholders' equity	$ 98,680	$ 78,638	$ 63,082

(1) Prior to July 29, 1998, the Petroleum and Alcohol Account reflected the difference between Petrobras' actual cost for imported crude oil and oil products and the price set by the Brazilian government, as well as the net effects on Petrobras of the administration of certain subsidies and of Petrobras' fuel alcohol activities. From July 29, 1998 until December 31, 2001, the Petroleum and Alcohol Account was required to be adjusted by the PPE and certain fuel transportation and other reimbursable costs. As from the price deregulation on January 2, 2002, the Petroleum and Alcohol Account reflected only the outstanding balance owed to Petrobras by the Brazilian government and adjustments resulting from monetary correction and audits to the Account.

INCOME STATEMENT DATA

	For the Year Ended December 31,		
	2006	2005 (8)	2004 (8)
	(in millions of U.S. dollars, except for share and per share data)		
Sales of products and services	$ 93,893	$ 74,065	$ 51,954
Value-added and other taxes on sales and services	(17,906)	(14,694)	(10,906)
CIDE(1)	(3,640)	(3,047)	(2,620)
Net operating revenues	$ 72,347	$ 56,324	38,428
Cost of sales	40,061	29,828	21,279
Depreciation, depletion and amortization(2)	3,673	2,926	2,481
Exploration, including exploratory dry holes	934	1,009	613
Selling, general and administrative expenses	4,989	4,474	2,901
Impairment(3)	21	156	65
Research and development expenses	727	399	248
Other operating expenses	1,081	1,453	480
Total costs and expenses	51,486	40,245	28,067
Equity in results of non-consolidated companies(4)	28	139	172
Financial income	1,165	710	956
Financial expense	(1,340)	(1,189)	(1,733)
Monetary and exchange variation on monetary assets and liabilities, net	75	248	450
Employee benefit expense	(1,017)	(994)	(650)
Other taxes	(594)	(373)	(440)
Other expenses, net	(17)	(28)	(181)
Income before income taxes, minority interest, extraordinary item and accounting change	19,161	14,592	8,935
Income tax (expense) benefit:			
Current	(5,011)	(4,223)	(2,114)
Deferred	(680)	(218)	(117)
Total income tax expense	(5,691)	(4,441)	(2,231)
Minority interests in results of consolidated subsidiaries	(644)	35	(514)
Income before extraordinary item and effect of change in accounting principle	12,826	10,186	6,190
Extraordinary gain net of tax	—	158	—
Net income for the year	$ 12,826	$ 10,344	$ 6,190
Weighted average number of shares Outstanding:(5)			
Common(5)	2,536,673,672	2,536,673,672	2,536,673,672
Preferred(5)	1,849,903,144	1,849,478,028	1,849,478,028
Basic and diluted earnings per share:(5)(6)			
Common and Preferred Shares(5)(6)	$ 2.92	$ 2.36	$ 1.41
Common and Preferred ADS(5)(6)	$ 11.68	$ 9.44	$ 5.64
Cash dividends per(5)(6):			
Common and Preferred shares(5)(7)	$ 0.84	$ 0.68	$ 0.42
Common and Preferred ADS(5)(7)	$ 3.36	$ 2.72	$ 1.68

(1) CIDE is a per-transaction tax due to the Brazilian government.
(2) Includes impairment charge.
(3) See Note 9(f) to Petrobras' consolidated financial statements for the year ended December 31, 2006.
(4) See Note 10 to Petrobras' consolidated financial statements for the year ended December 31, 2006.
(5) On July 22, 2005, Petrobras' Board of directors authorized a 4 for 1 stock split. For purposes of comparison, the weighted average number of shares outstanding, net income per share/ADS and cash dividends per share/ADS were restated for periods prior to the stock split, which became effective as of September 1, 2005. See note 17 to Petrobras' audited consolidated financial statements.
(6) Extraordinary item altered basic and diluted earnings per share for 2005, from U.S.$2.32 (before effect of extraordinary item) to U.S.$2.36 (after effect of extraordinary item).
(7) Represents dividends declared in respect of the earnings of each period.
(8) Certain amounts from prior years have been reclassified to conform to current year presentation standards. These reclassifications had no impact on Petrobras' net income.

Management's Discussion and Analysis of Petrobras' Financial Condition and Results of Operations

Overview

Petrobras earns income from:

- domestic sales, which consist of sales of oil products (such as diesel oil, gasoline, jet fuel, naphtha, fuel oil and liquefied petroleum gas), natural gas, electricity and petrochemical products in Brazil;
- export sales, which consist primarily of sales of crude oil and oil products;
- international sales (excluding export sales), which consist of sales of crude oil, natural gas and oil products that are purchased, produced and refined outside of Brazil; and
- other sources, including services, investment income and foreign exchange gains.

Petrobras' expenses include:

- costs of sales (which are composed of labor expenses, costs of operating and purchases of crude oil and oil products); maintaining and repairing property, plants and equipment; depreciation and amortization of fixed assets; depletion of oil fields; and costs of exploration;
- selling (which include expenses for transportation and distribution of Petrobras' products), general and administrative expenses; and
- interest expense, monetary and foreign exchange losses.

Fluctuations in Petrobras' financial condition and results of operations are driven by a combination of factors, including:

- the volume of crude oil, oil products and natural gas Petrobras produces and sells;
- changes in international prices of crude oil and oil products, which are denominated in U.S. dollars;
- related changes in the Brazilian prices of crude oil and oil products, which are denominated in Brazilian Reais;
- fluctuations in the Real/U.S. dollar and Argentine peso/U.S. dollar exchange rates;
- Brazilian political and economic conditions; and
- the amount in taxes and duties that Petrobras is required to pay with respect to Petrobras' operations, by virtue of Petrobras' status as a Brazilian company and its involvement in the oil and gas industry.

RESULTS OF OPERATIONS FOR 2006 COMPARED TO 2005

You should read the following discussion of Petrobras' financial condition and results of operations together with the Petrobras Report on Form 6-K containing the audited consolidated financial statements of Petrobras as at and for the year ended December 31, 2006, and the accompanying notes thereto, and other financial information of Petrobras, furnished to the SEC on April 10, 2007.

The comparison between Petrobras' results of operations for 2006 and for 2005 has been affected by the 10.7% decrease in the average Real/U.S. dollar exchange rate for 2006 as compared to the average Real/U.S. dollar exchange rate for 2005. In addition, certain prior year amounts for 2005 have been reclassified to conform to current year presentation standards. These reclassifications had no impact on the Petrobras' net income.

Revenues

Net operating revenues increased 28.4% to U.S.$72,347 million for 2006, as compared to U.S.$56,324 million for 2005. This increase was primarily attributable to: an increase in prices of Petrobras' products, both in the Brazilian and international markets; an

increase in sales volume both in the domestic and international markets; and the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

Consolidated sales of products and services increased 26.8% to U.S.$93,893 million for 2006, as compared to U.S.$74,065 million for 2005, primarily due to the increases mentioned immediately above.

Included in sales of products and services are the following amounts that Petrobras collected on behalf of the Brazilian federal or state governments:

- Value-added, PASEP, COFINS and other taxes on sales of products and services and social security contributions. These taxes increased 21.9% to U.S.$17,906 million for 2006, as compared to U.S.$14,694 million for 2005, primarily due to the increase in prices and sales volume of Petrobras' products and services; and

- CIDE, the per-transaction tax due to the Brazilian government, which increased 19.5% to U.S.$3,640 million for 2006, as compared to U.S.$3,047 million for 2005. This increase was primarily attributable to the increase in sales volume of Petrobras' products and services and to the 10.7% increase in the value of the Real against the U.S. dollar in 2006 as compared to 2005.

Cost of sales (excluding Depreciation, depletion and amortization)

Cost of sales for 2006 increased 34.3% to U.S.$40,061 million, as compared to U.S.$29,828 million for 2005. This increase was principally a result of:

- a U.S.$3,376 million increase in the cost of imports due to higher prices for the products imported and to the increase in the volume of products imported;

- a U.S.$2,588 million increase in costs associated with a 19.4% increase in Petrobras' international market sales volumes;

- a U.S.$2,033 million increase in taxes and charges imposed by the Brazilian government totaling U.S.$7,443 million for 2006, as compared to U.S.$5,410 million for 2005, as a result of higher international oil prices and the new interpretation by the National Petroleum Agency (*Agência Nacional de Petróleo* or "ANP"), prohibiting the deductibility of charges associated with project financing for the Marlim field; including an increase in the special participation charge (an extraordinary charge payable in the event of high production and/or profitability from Petrobras' fields) of U.S.$3,885 million for 2006, as compared to U.S.$3,016 million for 2005, as a result of higher international oil prices and an increase of U.S.$249 million due to the new interpretation by the ANP mentioned above;

- a U.S.$187 million expense related to gas produced and re-injected in reserves in the Solimões, Campos and Espírito Santo basins;

- a U.S.$156 million increase in costs associated with Petrobras' international trading activities, due to increases in volume and prices from offshore operations, conducted by Petrobras' wholly-owned subsidiary Petrobras International Finance Company ("PIFCo"); and

- the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

Depreciation, depletion and amortization

Petrobras calculates depreciation, depletion and amortization of most of its exploration and production assets on the basis of the units of production method. Depreciation, depletion and amortization expenses increased 25.5% to U.S.$3,673 million for 2006, as compared to U.S.$2,926 million for 2005. This increase was primarily attributable to the following:

- increased capital expenditures related to property, plant and equipment associated with Petrobras' crude oil and natural gas production; and

- the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

Exploration, including exploratory dry holes

Exploration costs, including for exploratory dry holes, decreased 7.4% to U.S.$934 million for 2006, as compared to U.S.$1,009 million for 2005. This decrease was primarily attributable to the U.S.$71 million of gains resulting from the revision of estimated costs related to abandonment of wells and to the decrease of U.S.$109 million in expenses related to dry holes. These decreases were partially offset by the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

Impairment of oil and gas properties

For 2006, Petrobras recorded an impairment charge of U.S.$21 million, as compared to an impairment charge of U.S.$156 million for 2005. During 2006, the impairment charge was primarily related to producing properties in Brazil and principle amounts were related to Petrobras' Córrego de Pedras on-shore field. During 2005, the impairment charge was primarily related to a loss in some of Petrobras' investments in Venezuela (U.S.$134 million), due to the tax and legal changes implemented by the Ministry of Energy and Petroleum of Venezuela (MEP) in connection with its nationalization measures. See Note 9 (c) and 9(f) to Petrobras' consolidated financial statements for the year ended December 31, 2006.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 11.5% to U.S.$4,989 million for 2006, as compared to U.S.$4,474 million for 2005.

Selling expenses increased 11.8% to U.S.$2,394 million for 2006, as compared to U.S.$2,141 million for 2005. This increase was primarily attributable to the following:

- an increase of approximately U.S.$43 million in expenses related to the increased consumption of materials;
- an increase of approximately U.S.$23 million in personnel expenses due to the increase in Petrobras' workforce and salaries;
- an increase of approximately U.S.$13 million in expenses mainly associated with transportation costs of oil products, due mainly to an increase in the exports; and
- the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

General and administrative expenses increased 11.2% to U.S.$2,595 million for 2006, as compared to U.S.$2,333 million for 2005. This increase was primarily attributable to the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

Research and development expenses

Research and development expenses increased 82.2% to U.S.$727 million for 2006, as compared to U.S.$399 million for 2005. This increase was primarily due to:

- a provision for an ANP research and development investment, related to regulation ANP 05/2005, in the amount of approximately U.S.$249 million;
- additional investments in programs for environmental safety, including deepwater and refining technologies of approximately U.S.$31 million; and
- the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

Other operating expenses

Other operating expenses decreased 25.6% to a total of U.S.$1,081 million for 2006, as compared to U.S.$1,453 million for 2005.

The most significant charges for 2006 were:

- a U.S.$568 million expense for institutional relations and cultural projects;
- a U.S.$331 million expense for idle capacity from thermoelectric power plants;
- a U.S.$75 million expense for losses resulting from legal proceedings and contingencies related to pending lawsuits;
- a U.S.$64 million expense for unscheduled stoppages of plant and equipment; and
- a U.S.$46 million gain related to bonuses received from partners and other results with non-core activities.

The most significant charges for 2005 were:

- a U.S.$457 million expense for thermoelectric plants related to idle capacity and penalties and contingencies;
- a U.S.$397 million expense for institutional relations and cultural projects;
- a U.S.$255 million loss related to the exchange of assets between Petrobras and Repsol that occurred in 2001. See Note 10(b) to Petrobras' consolidated financial statements for the year ended December 31, 2006;
- a U.S.$139 million expense for losses resulting from legal proceedings and contingencies related to pending lawsuits;
- a U.S.$64 million expense for unscheduled stoppages of plant and equipment; and
- a U.S.$61 million expense related to contractual losses from compliance with Petrobras' ship or pay commitments with respect to Petrobras' investments in the OCP pipeline in Ecuador.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies decreased 79.9% for a gain of U.S.$28 million for 2006, as compared to a gain of U.S.$139 million for 2005, primarily as a result of losses in investments in certain affiliated companies of Petrobras Distribuidora S.A., in the amount of U.S.$52 million and in certain affiliated companies of Petrobras, in the amount of U.S.$43 million.

Financial income

Petrobras derives financial income from several sources, including interest on cash and cash equivalents. The majority of Petrobras' cash equivalents are short-term Brazilian government securities, including securities indexed to the U.S. dollar. Petrobras also holds U.S. dollar deposits.

Financial income increased 64.1% to a gain of U.S.$1,165 million for 2006 as compared to U.S.$710 million for 2005. This increase was primarily attributable to an increase in financial interest income from short-term investments, in the amount of U.S.$229 million, in 2006 as a result of increased cash and cash equivalent due to increases in operational cash generation, and an increase in financial income from customers in the amount of U.S$147 million, as compared to 2005. A breakdown of financial income and expenses is disclosed in Note 13 to Petrobras' consolidated financial statements for the year ended December 31, 2006.

Financial expenses

Financial expenses increased 12.7% to U.S.$1,340 million for 2006, as compared to U.S.$1,189 million for 2005. This increase was primarily attributable to the increase of U.S.$378 million of losses on derivatives instruments primarily due to cancellation of gas hedge contract; and U.S.$143 million of losses with repurchased securities. These increases were partially offset by the increase of U.S.$389 million in Petrobras' capitalized interest as part of the cost of construction and development of crude oil and natural gas production projects. A breakdown of financial income and expenses is disclosed in Note 13 to Petrobras' consolidated financial statements for the year ended December 31, 2006.

Monetary and exchange variation on monetary assets and liabilities, net

Monetary and exchange variation on monetary assets and liabilities, net generated a gain of U.S.$75 million for 2006, as compared to a gain of U.S.$248 million for 2005. The decrease in monetary and exchange variation on monetary assets and liabilities, net is primarily attributable to the effect of the 10.7% appreciation of the Real against the U.S. dollar during 2006, as compared to the 11.8% appreciation of the Real against the U.S. dollar during 2005.

Employee benefit expense

The employee benefit expense consists of financial costs associated with expected pension and health care costs. Petrobras' employee benefit expense increased 2.3% to U.S.$1,017 million for 2006, as compared to U.S.$994 million for 2005. This increase was primarily attributable to the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005. This increase was partially offset by the decrease of U.S.$96 million in the employee benefit expense for non-active participants due to the increase in expected return on plan assets regarding the good market performance during 2006.

Other taxes

Other taxes, consisting of miscellaneous value-added, transaction and sales taxes, increased 59.2% to U.S.$594 million for 2006, as compared to U.S.$373 million for 2005. This increase was primarily attributable to:

- an increase of U.S.$54 million in the PASEP / COFINS tax related to the increase in financial income;
- an increase of U.S.$49 million in the CPMF, a tax payable in connection with certain bank account transactions;
- an increase of U.S.$48 million in taxes related to the increase in operations with SPEs, mainly with Companhia Locadora de Equipamentos Petrolíferos – CLEP, Nova Transportadora do Sudeste - NTS and Nova Transportadora do Nordeste - NTN;
- a U.S.$12 million increase in taxes in Colombia and Bolivia, related to foreign remittance accounts and dividends; and
- the 10.7% increase in the value of the Real against the U.S. dollar in 2006, as compared to 2005.

Other expenses, net

Other expenses, net are primarily composed of gains and losses recorded on sales of fixed assets and certain other non-recurring charges. Other expenses, net decreased 39.3% to U.S.$17 million for 2006, as compared to U.S.$28 million for 2005, primarily due to the decrease in expenses related to platforms that were not producing.

Income tax (expense) benefit

Income before income taxes, minority interest and extraordinary gain increased 31.3% to U.S.$19,161 million for 2006, as compared to U.S.$14,592 million for 2005. The income tax expense increased 28.1% to U.S.$5,691 million for 2006, as compared to U.S.$4,441 million for 2005, primarily due to the increase in income mentioned above. This increase was partially offset by the additional tax benefits related to the provisioning of interest on shareholders' equity that amounted to U.S.$1,012 million for 2006 as compared to tax benefits related to the provisioning of interest on shareholders' equity that amounted to U.S.$791 million for 2005. The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is disclosed in Note 3 to Petrobras' consolidated financial statements for the year ended December 31, 2006.

Extraordinary gain, net of taxes

Petrobras recorded an extraordinary gain, net of taxes, in the amount of U.S.$158 million due to the Escalators Liquidation Agreement entered into on December 29, 2005, and effective as from January 1, 2006, related to a contingent purchase price adjustment on the exchange of assets between Petrobras and Repsol that occurred in 2001. See Note 10 (b) to Petrobras' consolidated financial statements for the year ended December 31, 2006.

RESULTS OF OPERATIONS FOR 2005 COMPARED TO 2004

You should read the following discussion of Petrobras' financial condition and results of operations together with Petrobras' Annual Report on Form 20-F, in addition to the audited consolidated financial statements and the accompanying notes thereto, filed with the SEC on June 28, 2006, and with the Petrobras Report on Form 6-K containing the audited consolidated financial statements of Petrobras as at and for the year ended December 31, 2006, and the accompanying notes thereto, and other financial information of Petrobras, furnished to the SEC on April 10, 2007.

The comparison between Petrobras' results of operations for 2005 and 2004 has been affected by the 16.8% decrease in the average Real/U.S. dollar exchange rate for 2005 as compared to the average Real/U.S. dollar exchange rate for 2004. Petrobras refers to this change in the average exchange rate as the "16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004."

The exchange variation resulting from monetary assets and liabilities related to operations of consolidated subsidiaries whose functional currency is not Reais are not eliminated in the consolidation process and such results are accounted for as cumulative translation adjustments.

Certain prior year amounts for 2005 and 2004 have been reclassified to conform to current year presentation standards. These reclassifications had no impact on the Petrobras' net income.

Revenues

Net operating revenues increased 46.6% to U.S.$56,324 million for 2005, as compared to U.S.$38,428 million for 2004. This increase was primarily attributable to an increase in prices of Petrobras' products, both in the domestic market and outside Brazil, an increase in sales volume in the domestic market, and the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Consolidated sales of products and services increased 42.6% to U.S.$74,065 million for 2005, as compared to U.S.$51,954 million for 2004, primarily due to the increases mentioned immediately above.

Included in sales of products and services are the following amounts that Petrobras collected on behalf of the federal or state governments:

- Value-added (ICMS), PASEP, COFINS and other taxes on sales of products and services and social security contributions. These taxes increased 34.7% to U.S.$14,694 million for 2005, as compared to U.S.$10,906 million for 2004, primarily due to the increase in prices and sales volume of Petrobras' products and services; and

- CIDE, the per-transaction tax due to the Brazilian government, which increased 16.3% to U.S.$3,047 million for 2005, as compared to U.S.$2,620 million for 2004. This increase was primarily attributable to the increase in sales volume of Petrobras' products and services and to the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Cost of sales (excluding Depreciation, depletion and amortization)

Cost of sales for 2005 increased 40.2% to U.S.$29,828 million, as compared to U.S.$21,279 million for 2004. This increase was principally a result of:

- a U.S.$1,834 million increase in taxes and charges paid to the Brazilian government totaling U.S.$5,410 million for 2005, as compared to U.S.$3,576 million for 2004, including an increase in the special participation charge (an extraordinary charge payable in the event of high production and/or profitability from Petrobras' fields) to U.S.$3,016 million for 2005, as compared to U.S.$1,883 million for 2004, as a result of higher international oil prices;

- a U.S.$1,654 million increase in the cost of imports due to higher prices for the products imported;

- a U.S.$1,375 million increase in costs attributable to: (1) maintenance and technical services for well restoration, materials, support for vessels, undersea operations, freight with third parties (these prices tend to

accompany to international oil prices) consumption of chemical products to clear out and eliminate toxic gases – principally at Marlim; and (2) higher personnel expenses primarily related to: overtime payments as set forth in Petrobras' collective bargaining agreement; an increase in Petrobras' workforce; and a revision in the actuarial calculations relating to future health care and pension benefits;

- a U.S.$1,281 million increase in costs associated with Petrobras' international trading activities, due to increases in volume and prices from offshore operations, conducted by PIFCo;
- a U.S.$561 million increase in costs associated with a 9.0% increase in Petrobras' international market sales volumes;
- a U.S.$534 million increase in costs in Petrobras' Argentinean subsidiary, and our holding company, Petrobras Energía Participaciones S.A. ("PEPSA") mainly due to oil products purchases as a result of total capacity utilization of its refineries and higher sales volume of petrochemical products;
- a U.S.$198 million increase in costs associated with a 1.7% increase in Petrobras' domestic sales volumes; and
- the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Depreciation, depletion and amortization

Petrobras calculates depreciation, depletion and amortization of exploration and production assets on the basis of the units of production method. Depreciation, depletion and amortization expenses increased 17.9% to U.S.$2,926 million for 2005, as compared to U.S.$2,481 million for 2004. This increase was primarily attributable to the following:

- increased property, plant and equipment expenditures, and increased crude oil and natural gas production; and
- the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Exploration, including exploratory dry holes

Exploration costs, including exploratory dry holes increased 64.6% to U.S.$1,009 million for 2005, as compared to U.S.$613 million for 2004. Petrobras adopted the amended FAS 19-1 effective January 1, 2005, without material impact. This increase was primarily attributable to the following:

- the increase of U.S.$196 million due to a revision in the estimated expenses for dismantling oil and gas producing areas and future well abandonment that affected the exploration costs and was related to new commercial areas, increased estimates of cost to abandon and changes in asset retirement obligations estimates provided by operators in joint ventures;
- an increase of U.S.$98 million in geological and geophysical expenses;
- an increase of U.S.$16 million in dry holes expenses; and
- the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Impairment of oil and gas properties

For 2005, Petrobras recorded an impairment charge of U.S.$156 million, as compared to an impairment charge of U.S.$65 million for 2004. During 2005, the impairment charge was primarily related to investments in Venezuela (U.S.$134 million), due to the tax and legal changes implemented by the Ministry of Energy and Petroleum of Venezuela (MEP). During 2004, the impairment charge was related to producing properties in Brazil and principle amounts were related to Petrobras' Cioba off-shore field (U.S.$30 million). See Note 10 (d) to Petrobras' consolidated financial statements for the year ended December 31, 2005.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 54.2% to U.S.$4,474 million for 2005, as compared to U.S.$2,901 million for 2004.

Selling expenses increased 38.7% to U.S.$2,141 million for 2005, as compared to U.S.$1,544 million for 2004. This increase was primarily attributable to the following:

- an increase of U.S.$338 million in expenses mainly associated with the transportation costs of oil products due mainly to an increase in the exports; and

- the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

General and administrative expenses increased 71.9% to U.S.$2,333 million for 2005, as compared to U.S.$1,357 million for 2004. This increase was primarily attributable to the following:

- an increase of approximately U.S.$287 million in employee expenses due to the increase in Petrobras' workforce and salaries; and an increase in the actuarial calculations relating to future health care and pension benefits due to changes in actuarial assumptions;

- an increase of approximately U.S.$212 million in expenses related to technical consulting services in connection with Petrobras' increased outsourcing of selected non-core general activities; and

- the 16.8% increase in the average value of the Real against the U.S. dollar in 2005, as compared to 2004.

Research and development expenses

Research and development expenses increased 60.9% to U.S.$399 million for 2005, as compared to U.S.$248 million for 2004. This increase was primarily related to additional investments in programs for environmental safety, to deepwater and refining technologies of approximately U.S.$101 million and to the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Other operating expenses

Other operating expenses amounted to U.S.$1,453 million for 2005, as compared to U.S.$480 million for 2004.

The charges for 2005 were:

- a U.S.$457 million expense for thermoelectric plants related to idle capacity and penalties and contingencies;

- a U.S.$397 million expense for institutional relations and cultural projects;

- a U.S.$255 million loss related to the exchange of assets between us and Repsol that occurred in 2001. See Note 10(b) to Petrobras' consolidated financial statements for the year ended December 31, 2006;

- a U.S.$139 million expense for losses resulting from legal proceedings and contingencies related to pending lawsuits;

- a U.S.$64 million expense for unscheduled stoppages of plant and equipment; and

- a U.S.$61 million expense related to contractual losses from compliance with Petrobras' ship or pay commitments with respect to Petrobras' investments in the OCP pipeline in Ecuador.

The charges for 2004 were:

- a U.S.$110 million expense for idle capacity from gas-fired power plants;

- a U.S.$85 million expense for unscheduled stoppages of plant and equipment; and
- a U.S.$64 million increase in contractual losses from compliance with Petrobras' ship or pay commitments with respect to its investments in the OCP pipeline in Ecuador.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies decreased 19.2% to a gain of U.S.$139 million for 2005, as compared to a gain of U.S.$172 million for 2004, primarily due to the results of Petrobras' investments in: (a) certain gas-fired power and petrochemical companies being lower as certain of these entities have been subsequently purchased and are now consolidated on a line by line basis; and (b) as a result of losses in investments in certain affiliated companies of Petrobras Energia Venezuela S.A, in the amount of U.S.$19 million.

Financial income

Petrobras derives financial income from several sources, including interest on cash and cash equivalents. The majority of Petrobras' cash equivalents are short-term Brazilian government securities, including securities indexed to the U.S. dollar. Petrobras also holds U.S. dollar deposits.

Financial income decreased 25.7% to U.S.$710 million for 2005 as compared to U.S.$956 million for 2004. This decrease was primarily attributable to the reduction of fair value adjustments on gas hedge transactions in the amount of U.S.$460 million.

This decrease was partially offset by an increase in financial interest income from short-term investments, in the amount of U.S.$138 million, primarily attributable to increased investments in securities in 2005 as compared to 2004, due to higher amount of cash and cash equivalents. A breakdown of financial income and expenses is shown in Note 14 to Petrobras' consolidated financial statements for the year ended December 31, 2005.

Financial expenses

Financial expenses decreased 31.4% to U.S.$1,189 million for 2005, as compared to U.S.$1,733 million for 2004. This decrease was primarily attributable to:

- a U.S.$345 million increase in Petrobras' interest expense capitalized as part of the cost of construction and development of crude oil and natural gas production projects. A breakdown of financial income and expenses is shown in Note 14 to Petrobras' consolidated financial statements for the year ended December 31, 2005;
- a U.S.$130 million decrease of expenses related to hedge transactions; and
- a U.S.$120 million decrease in expenses relating to repurchases of Petrobras' own securities.

Monetary and exchange variation on monetary assets and liabilities, net

Monetary and exchange variation on monetary assets and liabilities, net generated a gain of U.S.$248 million for 2005, as compared to a gain of U.S.$450 million for 2004. The decrease in monetary and exchange variation on monetary assets and liabilities, net is primarily attributable to the effect of the 11.8% year ended value appreciation of the Real against the U.S. dollar during 2005, as compared to the 8.1% appreciation of the Real against the U.S. dollar during 2004.

Employee benefit expense

The employee benefit expense consists of financial costs associated with expected pension and health care costs. Petrobras' employee benefit expense increased 52.9% to U.S.$994 million for 2005, as compared to U.S.$650 million for 2004. This increase in costs was primarily attributable to an increase of U.S.$212 million in the annual actuarial calculation of Petrobras' pension and health care plan liability and to the 16.8% average increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Other taxes

Other taxes, consisting of miscellaneous value-added, transaction and sales taxes, decreased 15.2% to U.S.$373 million for 2005, as compared to U.S.$440 million for 2004. This decrease was primarily attributable to the decrease of U.S.$149 million in the

PASEP/COFINS taxes on financial income, due to a reduction to zero in the applicable rate as of August 2, 2004. This decrease was partially offset by the 16.8% increase in the value of the Real against the U.S. dollar in 2005, as compared to 2004.

Other expenses, net

Other expenses, net are primarily composed of gains and losses recorded on sales of fixed assets and certain other non-recurring charges. Other expenses, net decreased 84.5% to U.S.$28 million for 2005, as compared to U.S.$181 million for 2004, primarily due to the decrease in expenses related to platforms that were not producing.

Income tax (expense) benefit

Income before income taxes, minority interest, extraordinary item and accounting changes increased 63.3% to U.S.$14,592 million for 2005, as compared to U.S.$8,935 million for 2004. The income tax expense increased 99.1% to U.S.$4,441 million for 2005, as compared to U.S.$2,231 million for 2004, primarily due to the increase in income, mentioned above. This increase was partially offset by the additional tax benefits related to interest on shareholders' equity that amounted to U.S.$791million for 2005, as compared to U.S.$650 million for 2004.

The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is shown in Note 4 to Petrobras' consolidated financial statements for the year ended December 31, 2005.

Extraordinary gain, net of taxes

Petrobras recorded an extraordinary gain, net of taxes, in the amount of U.S.$158 million due to the Escalators Liquidation Agreement entered into on December 29, 2005, and effective as from January 1, 2006, related to a contingent purchase price adjustment on the exchange of assets between Petrobras and Repsol that occurred in 2001. See Note 11(c) to Petrobras' consolidated financial statements for the year ended December 31, 2005.

Recent Developments

1. On June 30, 2006, Petrobras' board of directors approved Petrobras' new business plan for 2007-2011. The plan includes a long-term 2015 oil and natural gas production target, expansion of Petrobras' natural gas production chain, more emphasis on Petrobras' petrochemicals operations and refining and development of green fuels. The plan is based on the same fundamental premises and growth targets described in Petrobras' 2015 Strategic Plan, approved in May 2004. By 2011, Petrobras plans to reach a level of worldwide oil, natural gas liquids and gas production of 3,493 thousand barrels of oil equivalent (boe). A number of Petrobras' investment targets described in the new business plan for 2007-2011 are set forth in the table below:

Area	Investments for 2007-2011 (2007-2011 Business Plan) (U.S.$ billion)	Investments for 2007-2011 (2006-10 Business Plan) (U.S.$ billion)
Exploration and Production	40.7	25.0
Supply	23.1	14.3
Gas & Energy	7.2	4.6
International	12.1	6.7
Distribution	2.2	0.9
Corporate	1.7	1.0
Total	**87.1**	**52.4**

For further information, see the Petrobras Report on Form 6-K/A furnished to the SEC on July 5, 2006, which is hereby incorporated by reference in this Pricing Supplement.

2. On July 18, 2006, Petrobras launched a debt tender offer for the repurchase of any and all of five different series of its outstanding notes issued by its wholly-owned subsidiary PIFCo. These notes included PIFCo's 12.375% Global Step-Up Notes due 2008, 9.875% Senior Notes due 2008, 9.750% Senior Notes due 2011, 9.125% Global Notes due 2013 and 8.375% Global Notes due 2018. Petrobras announced on July 25, 2006 that by the expiration time of the tender offer, U.S.$888.26 million worth of notes in the five targeted series had been tendered. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on July 26, 2006, which is hereby incorporated by reference in this Pricing Supplement.

3. On September 1, 2006, Petrobras announced that its wholly-owned subsidiary Petrobras America, Inc. had acquired 50% of the shares of Pasadena Refinery System, Inc. from Astra Oil Company, Inc., a U.S.-based refining and trading company

owned by the Belgian group Compagnie Nationale a Portefeuille S.A. The purchase price was approximately U.S.$360 million. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on September 5, 2006, which is hereby incorporated by reference in this Pricing Supplement.

4. On September 27, 2006, Petrobras' wholly-owned subsidiary PIFCo issued yen-denominated bonds in the amount of ¥35.0 million. The bonds mature in 2016, with a semi-annual coupon of 2.15%, and they are supported by a partial guarantee of the Japan Bank for International Cooperation. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on September 27, 2006, which is hereby incorporated by reference in this Pricing Supplement.

5. On October 6, 2006, Petrobras' wholly-owned subsidiary PIFCo issued Global Notes in the amount of U.S.$500.0 million. The notes mature in 2016 and bear an annual interest rate of 6.125%. The 6.125% Global Notes have credit support of Petrobras through a standby purchase agreement. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on October 10, 2006, which is hereby incorporated by reference in this Pricing Supplement.

6. On January 12, 2007, Petrobras announced that it had proven reserves of oil, condensate and natural gas as of December 31, 2006, measured in accordance with the SEC criteria, of 11.458 billion barrels of oil equivalent (boe), representing a decrease of 2.7% as compared to December 31, 2005, as set forth in the tables below:

Proven Reserves	**Volume (billion boe)**	**Proportion (%)**
Brazil	10.573	92
International	0.885	8
Total	**11.458**	**100**

Proven Reserves Breakdown	**Volume (billion boe)**
A) Proven Reserves as of December 31, 2005	11.775
B) Additional Proven Reserves in 2006	0.475
C) Total Production in 2006	0.792
D) Annual Change (B - C)	(0.317)
E) Proven Reserves as of December 31, 2006 (A + D)	**11.458**

For further information, see the Petrobras Report on Form 6-K/A furnished to the SEC on January 16, 2007, which is hereby incorporated by reference in this Pricing Supplement.

7. On January 19, 2007, Petrobras announced that its board of directors had approved changes to the Petrobras Annual Business Plan for 2007. Among these changes was a R$7,542 million increase in Petrobras' annual budget, to a total of R$54,998 million for 2007. The revised total budget for 2007 includes expenditures in six different areas in the following proportions: 1% for distribution; 3% for corporate purposes; 13% international activities; 17% for energy efficiency; 19% for downstream activities; 47% for gas production planning. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on January 19, 2007, which is hereby incorporated by reference in this Pricing Supplement.

8. On January 23, 2007, Petrobras announced that the Growth Acceleration Plan launched by the Brazilian federal government on January 22, 2007 includes 183 of Petrobras' Strategic Plan projects, which include investments of approximately R$171.7 billion. These investments are to be made by Petrobras and its partners in oil and gas and renewable fuel programs in Brazil through 2010, and they have already been accounted for in Petrobras' 2007-2011 Business Plan, as adjusted for revisions in costs of certain approved projects. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on January 23, 2007, which is hereby incorporated by reference in this Pricing Supplement.

9. On February 5, 2007, Petrobras' wholly-owned subsidiary PIFCo completed an exchange offer launched on January 4, 2007. PIFCo had offered to exchange five target series of outstanding notes for new notes and a cash amount, as well as an early tender payment for noteholders who participated in the exchange on or before January 22, 2007. The five target series of notes included PIFCo's 12.375% Global Step-Up Notes due 2008; 9.875% Senior Notes due 2008; 9.75% Senior Notes due 2011; 9.125% Global Notes due 2013 and 7.750% Global Notes due 2014. The new notes issued in the exchange constituted a further issuance of, and form a single fungible series with, PIFCo's 6.125% Global Notes due 2016. At settlement of the exchange offer, U.S.$399.053 million worth of old notes were tendered and U.S.$399.053 million worth of new notes were issued. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on February 8, 2007, which is hereby incorporated by reference in this Pricing Supplement.

10. On February 9, 2007, Petrobras announced that it would appeal the first instance decision delivered by a court in Rio de Janeiro awarding damages of R$1.1 billion as compensation for damages suffered by fishermen in connection with the oil spill that occurred in Guanabara Bay, State of Rio de Janeiro on January 18, 2000. As a result of the spill, several individual damage lawsuits were filed by fishermen, with claims for an aggregate of approximately R$52 million, and the Federation of Fishermen of the State of Rio de Janeiro filed a lawsuit against Petrobras claiming damages of approximately R$537 million. These individual lawsuits are in various stages of litigation and appeal at present. On February 2, 2007, the judge who heard the case in the first instance accepted in part the court expert report that changed the parameters for calculating the indemnity due and calculated damages in the amount of R$1.1 billion through December 2005 (without interests and monetary indexation after that date). For further information, see the Petrobras Report on Form 6-K furnished to the SEC on February 9, 2007, which is hereby incorporated by reference in this Pricing Supplement.

11. On September 12, 2006, the Bolivian Ministry of Hydrocarbons and Energy publicly announced new conditions for oil and liquefied petroleum gas production, transportation, refining, storage and marketing in Bolivia, encompassing all phases of the sector's byproduct price chain. Petrobras announced its disagreement with these new conditions on September 14, 2006, given that Petrobras believed that they would render its operations in Bolivia unfeasible. Petrobras engaged in negotiations with the Bolivian government in order to reach a mutually satisfactory set of new terms, which eventually led to the execution of a new GSA with YPFB, described below.

On February 15, 2007, Petrobras confirmed the terms of its agreements with Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), Bolivia's state-owned oil and gas company. The companies agreed that there would be no change in the volume and pricing terms of their existing Gas Purchase and Sale Agreement (GSA), and that Petrobras would pay YPFB at market prices for the natural gas delivered to Petrobras. On October 30, 2006, Petrobras announced the initial terms of its 30-year GSA with YPFB, which would involve Petrobras' continued management of operations in the San Alberto and San Antonio fields; YPFB's increased role in the commercialization of hydrocarbons produced in those fields; a new pricing mechanism based on natural resource extraction and infrastructure investments made; YPFB's increased supervision of Petrobras' operations in Bolivia; a plan to transfer ownership of Petrobras' existing assets to YPFB at the end of the contract; and a plan for YPFB to acquire Petrobras' materials and equipment directly linked to oil and gas exploration and production in Bolivia once completely amortized. For further information, see the Petrobras Reports on Form 6-K furnished to the SEC on September 14, 2006, October 31, 2006 and February 15, 2007, each of which is hereby incorporated by reference in this Pricing Supplement.

12. On February 28, 2007, approximately 70% of eligible employees, retirees and pensioners adhered to the new regulations of the pension plan for Petrobras and its affiliates, the Petros Complementary Retirement Plan Fund. The plan includes 80,118 participants, and negotiations for the terms of the new plan have been ongoing since 2003. The financial incentives to be granted to participants due to the changes in the pension plan, as negotiated by the relevant labor union representatives, are estimated at R$900 million, to be paid in March 2007. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on March 1, 2007, which is hereby incorporated by reference in this Pricing Supplement.

13. On March 19, 2007, Ultrapar Participações S.A. ("Ultrapar") entered into a sale and purchase agreement with the controlling shareholders of Refinaria de Petróleo Ipiranga S.A, Distribuidora de Produtos de Petróleo Ipiranga S.A. and Companhia Brasileira de Petróleo Ipiranga (together, the "Ipiranga Group") for the acquisition of their total interest in those companies, including petrochemical, refining and distribution assets. Petrobras and Braskem S.A. ("Braskem") acknowledged and agreed to the terms of the proposed transaction.

After completion of the proposed acquisition, the businesses of the Ipiranga Group will be managed by Ultrapar, Braskem and Petrobras. Ultrapar will hold a 100% interest of the oil products and lubricant distribution businesses located in the South and Southeast regions of Brazil, and Petrobras will hold a 100% interest in the oil products and lubricant distribution businesses located in the North, Northeast and Central-West regions of Brazil. Petrobras and Braskem will jointly hold the petrochemical assets in the proportion of 60% and 40%, respectively. The assets related to refining operations will be equally shared between Ultrapar, Braskem and Petrobras. This proposed transaction is expected to close during the fourth quarter of 2007. The consummation of the transaction is expected to take place in several phases, including the acquisition and incorporation of shares, a mandatory tender offer, delisting of public companies on the São Paulo Stock Exchange, an exchange offer, and segregation of the distribution and petrochemical assets.

The total value estimated for the operation is U.S.$4.0 billion and Petrobras is expected to pay approximately U.S.$1.3 billion for its respective interest. The transaction will be subject to the approval of the Brazilian anti-trust authorities (CADE – Administrative Board for Economic Defense), the Secretary for Economic Rights and the Secretary for Economic Monitoring. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on March 20, 2007, which is hereby incorporated by reference in this Pricing Supplement.

14. On March 23, 2007, Petrobras announced that an internal commission had been established to investigate the events arising from a statement issued on the same day by the Brazilian Securities and Exchange Commission (CVM). That statement described the CVM's allegations of insider trading involving the shares of the Ipiranga Group by a middle management employee of one of the companies set to acquire the Ipiranga Group, which allegedly took place prior to the disclosure of the acquisition of the Ipiranga Group by Petrobras, Ultrapar and Braskem. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on March 26, 2007, which is hereby incorporated by reference in this Pricing Supplement.

15. On April 2, 2007, Petrobras' board of directors approved Petrobras' capital expenditure budget for fiscal year 2007, totaling approximately R$35.8 billion. For further information, see the Petrobras Report on Form 6-K furnished to the SEC on April 4, 2007, which is hereby incorporated by reference in this Pricing Supplement.

Incorporation by Reference of Certain Documents of the Standby Purchaser

In addition to the Petrobras Reports on Form 6-K and Form 6-K/A incorporated by reference in this Pricing Supplement above, the annual report of Petrobras on Form 20-F for the year ended December 31, 2005, filed with the SEC on June 28, 2006 (the "Petrobras 2005 20-F") and the Report on Form 6-K containing the audited consolidated financial statements of Petrobras as at and for the year ended December 31, 2006 and other financial information of Petrobras, prepared in accordance with U.S. GAAP, furnished to the SEC on April 10, 2007 (the "2006 Results 6-K"), are hereby incorporated by reference in this Pricing Supplement. Any statement contained in the Petrobras 2005 20-F shall be deemed to be modified or superseded for purposes of this Pricing Supplement and the Offering Memorandum to the extent that a statement contained in this Pricing Supplement (including the Reports on Form 6-K and Form 6-K/A incorporated by reference above) or in the 2006 Results 6-K modifies or supercedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Pricing Supplement or the Offering Memorandum.

For further information about Petrobras, please refer to the Petrobras 2005 20-F, the 2006 Results 6-K and the other information about Petrobras incorporated by reference in this Pricing Supplement

ADDITIONAL PROVISIONS RELATING TO THE SERIES S NOTES

General

The Series S Notes are governed by the Indenture, the terms of which Indenture are incorporated into the Series S Notes by reference. The following description of the particular terms of the Series S Notes offered hereby supplements, and to the extent inconsistent therewith, replaces, the description of the general terms and provisions of the notes described in the Offering Memorandum under "Description of Notes," to which reference is hereby made.

The Series S Notes will be issued in an aggregate principal amount of up to U.S.$300,000,000 in minimum denominations of U.S.$2,000 and integral multiples of U.S.$1,000 in excess thereof. We may, from time to time, without the consent of the holders of the Series S Notes, issue additional notes under the Indenture in addition to the Series S Notes offered hereby.

The Series S Notes will bear interest at the rate of 5.875% per year. Interest on the Series S Notes is payable on May 15 and November 15 of each year, beginning November 15, 2007 (each, an "Interest Payment Date") to holders of record on the prior May 1 and November 1.

Issuance of Additional Notes

The Indenture will provide that the Issuer may reopen the Series S Notes and issue additional Series S Notes without consent from the holders of Series S Notes. The Series S Notes, including the Series S Notes offered hereby and additional Series S Notes, if any, would be treated as a single class for all purposes under the Indenture. The Issuer will not issue any additional Series S Notes unless such additional Series S Notes would be fungible with all other Series S Notes for U.S. federal income tax purposes.

Resale of "Restricted Securities"

The Indenture will state that the Issuer covenants that if the Issuer acquires any Series S Notes after the Original Issue Date, the Issuer shall not, and shall cause its affiliates not to, resell any Series S Notes acquired by it which are "restricted securities" (as such term is defined under Rule 144(a)(3) under the Securities Act), whether as beneficial owner or otherwise (except as agent acting as a securities broker on behalf of and for the account of customers in the ordinary course of business in unsolicited broker's transactions), until the expiration of two years after the Original Issue Date.

Optional Redemption

General

We will not be permitted to redeem the Series S Notes before their stated maturity, except as set forth below. The Series S Notes will not be entitled to the benefit of any sinking fund—meaning that we will not deposit money on a regular basis into any separate account to repay your Series S Notes. In addition, you will not be entitled to require us to repurchase your Series S Notes from you before the stated maturity, except as provided below in "Repurchase at the Option of the Holders of the Series S Notes."

Optional Redemption With "Make-Whole" Amount

We will have the right at our option to redeem any of the Series S Notes in whole or in part, at any time or from time to time prior to their maturity, on at least 30 days' but not more than 60 days' notice, at a redemption price equal to the greater of (1) 100% of the principal amount of such Series S Notes and (2) the sum of the present values of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 25 basis points (the "Make-Whole Amount"), plus in each case accrued interest on the principal amount of the Series S Notes to the date of redemption.

"*Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"*Comparable Treasury Issue*" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Series S Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Series S Notes.

"*Independent Investment Banker*" means one of the Reference Treasury Dealers appointed by us.

"*Comparable Treasury Price*" means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"*Reference Treasury Dealer*" means each of HSBC Securities (USA) Inc. and Morgan Stanley & Co. Incorporated or their affiliates which are primary United States government securities dealers and two other leading primary United States government securities dealers in New York City reasonably designated by us; provided, however, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a "Primary Treasury Dealer"), we will substitute therefore another Primary Treasury Dealer.

"*Reference Treasury Dealer Quotation*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 pm New York time on the third business day preceding such redemption date.

On and after the redemption date, interest will cease to accrue on the Series S Notes or any portion of the Series S Notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the Trustee money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued interest to the redemption date on the Series S Notes to be redeemed on such date. If less than all of the Series S Notes of any series are to be redeemed, the Series S Notes to be redeemed shall be selected by the Trustee by such method as the Trustee shall deem fair and appropriate.

Redemption for Taxation Reasons

The Series S Notes will be redeemable at our option, in whole but not in part, in the event of certain changes in or amendments to the laws or regulations of Argentina, or certain changes in the application or official interpretation of such laws or regulations, as set forth in the Offering Memorandum under "Description of Notes—Redemption for Taxation Reasons."

Repurchase at the Option of the Holders of the Series S Notes

Not later than 60 days following a Change of Control (as defined below), we will be required to make an Offer to Repurchase (as defined below) all outstanding Series S Notes at a repurchase price equal to 101% of the outstanding principal amount plus accrued interest up to (but not including) the date of repurchase.

An "Offer to Repurchase" must be made by written offer to all holders of the Series S Notes at their addresses shown in the security register of the Issuer, which offer will specify, among other things:

- the applicable repurchase price,
- the date and time by which the repurchase right must be exercised by the holders of the Series S Notes (the "expiration date"),
- a settlement date for the repurchase (the "repurchase date"),
- instructions and materials necessary to enable holders of the Series S Notes to tender their Series S Notes pursuant to the repurchase offer, and
- any information required by the Securities Act, the Securities and Exchange Act of 1934, as amended (the "Exchange Act") or any other applicable laws.

You may tender all or any portion of your Series S Notes pursuant to an Offer to Repurchase, subject to the requirement that any portion of a Series S Note tendered must be in a principal amount of U.S.$2,000 and integral multiples of U.S.$1,000 in excess thereof. You will be entitled to withdraw tendered Series S Notes up to the close of business on the expiration date. On the repurchase date, we shall pay the repurchase price for each Series S Note accepted for repurchase pursuant to the Offer to Repurchase, and interest on Series S Notes purchased will cease to accrue on and after the repurchase date.

We shall be deemed to have satisfied in full our obligation to repurchase any Series S Notes tendered for repurchase in accordance with the terms of the Indenture by causing or otherwise arranging for the repurchase of such tendered Series S Notes by another person (which, for the avoidance of doubt, could be Petrobras or any of its Affiliates or any of our Subsidiaries or Affiliates, in each case as such terms are defined in the Indenture) at the repurchase price and subject to the other terms and conditions provided in the Indenture (any such Person, a "Third Party Purchaser"). In the event that we cause or otherwise arrange for a Third Party Purchaser to repurchase the Series S Notes as provided in the preceding sentence, then we shall also cause or arrange for such Third Party Purchaser to pay, in connection with the repurchase of any tendered Series S Notes, such additional amounts as may be necessary to ensure that the repurchase price received by the holders of such tendered Series S Notes after any applicable withholding or deduction imposed or assessed by any tax authority of the Third Party Purchaser's place of incorporation or domicile, or of any other jurisdiction of any paying agent of such Third Party Purchaser, shall equal the repurchase price that such holders would have received in respect of such tendered Series S Notes in the absence of such withholding or deduction; *provided*, *however*, that the Third Party Purchaser shall not be required to make any such payments in respect of any withholding or deduction in relation to which Petrobras Energía would not be required to pay Additional Amounts under the terms of the Indenture if the tendered Series S Notes were repurchased by Petrobras Energía rather than the Third Party Purchaser (other than withholding or deduction in relation to which Petrobras Energía would not be required to pay Additional Amounts solely because the jurisdiction of incorporation or domicile of the Third Party Purchaser or its paying agents is not Argentina or any political subdivision thereof).

We will (and will cause or arrange for any Third Party Purchaser to) comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Repurchase, and the above procedures will be deemed modified as necessary to permit such compliance. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, we will (and will cause or arrange for any Third Party Purchaser to) comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Indenture by virtue of such conflict. Our obligation under the Indenture to make an Offer to Repurchase the Series S Notes as a result of a Change of Control may be waived or amended as provided in the Indenture.

For purposes of the Indenture, a "Change of Control" shall be deemed to have occurred if, at any time after the date of the Supplemental Indenture, (i) any "person" or "group" (as such terms are defined in Sections 13(d) and 14(d) of the Exchange Act), other than a Permitted Holder, shall become, directly or indirectly, the "beneficial owner" (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) of more than 50% of our shares of voting capital stock or otherwise shall obtain the power to elect (directly or indirectly) a majority of the members of our board of directors, or (ii) we consolidate with, or merge with or into, another person, or we sell all or substantially all of our assets, to any person, other than in a transaction where the person(s) (the "Controlling Person") that, immediately prior to such transaction beneficially owned in the aggregate a majority of our voting capital stock is, by virtue of such prior ownership, or any Permitted Holder is, the beneficial owner in the aggregate of a majority of the voting capital stock of the surviving or transferee person (or if such surviving or transferee person is a direct or indirect wholly-owned subsidiary of another person, such person who is a Permitted Holder or a Controlling Person). A "Permitted Holder" means Petrobras or any of its Affiliates (as defined in the Offering Memorandum).

Payments in respect of the Series S Notes

Principal of the Series S Notes will be payable against surrender of such Series S Notes at the corporate trust office of the Trustee or, subject to applicable laws and regulations, at the office of any paying agent, by U.S. dollar check drawn on, or in the case of a holder of U.S.$5 million aggregate principal amount of Series S Notes and upon the application of such holder to the Trustee at least ten days prior to the payment date of any such principal, with appropriate wire transfer instructions, by transfer to a U.S. dollar account maintained by the registered holder with a bank located in New York City. Payment of interest on the Series S Notes will be made to the person in whose name such Series S Notes are registered at the close of business on the date (the "Regular Record Date") being the 15th day prior to the relevant Interest Payment Date whether or not such day is a Business Day, notwithstanding the cancellation of such Series S Notes upon any exchange or transfer subsequent to the Regular Record Date and prior to the Interest Payment Date.

If the maturity date or any earlier redemption or repayment date of a Series S Note would fall on a day that is not a Business Day, the payment of principal and interest will be made on the next succeeding Business Day, and no interest on such payment will accrue for the period from and after such maturity, redemption or repayment date.

Trustee and Agents

The Trustee will be Principal Paying Agent and Co-Security Registrar with respect to the Series S Notes and Banco Santander Río S.A. will be Security Registrar, Transfer Agent and Paying Agent in Argentina. The Issuer may vary or terminate the appointment of any Paying or Transfer Agent or Security Registrar, appoint additional or other Paying or Transfer Agents and other

Security Registrars, which may include the Issuer, and approve any change in the office through which any Paying Agent or Security Registrar acts; provided that there will at all times be a Paying Agent in the City of New York and in Buenos Aires, Argentina and there will be no more than one Security Registrar for the Series S Notes.

Events of Default

The following events will be events of default with respect to the Series S Notes only:

(a) default by the Issuer in the payment of any principal of, or premium (if any) on, the Series S Notes when the same becomes due and payable whether at maturity, upon redemption or otherwise, non-payment of which shall continue for a period of three calendar days and the Trustee has not received such amounts from Petrobras under the Standby Purchase Agreement by the end of such three calendar day period; or

(b) default by the Issuer in the payment of any interest or additional amounts, if any, on the Series S Notes when the same becomes due and payable, and such default continues for a period of 30 consecutive days and the Trustee has not received such amounts from Petrobras under the Standby Purchase Agreement by the end of such 30 calendar day period; or

(c) the Issuer defaults in the performance of or breaches any one or more of its material obligations in the Series S Notes or the Indenture, other than a default specified in paragraphs (a) or (b) above, and such default or breach continues for a period of 60 consecutive days after written notice by the Trustee or the holders of 25% or more in aggregate principal amount of the Series S Notes is received by the Issuer; or

(d) the maturity of any Indebtedness (or any guarantee for, or indemnity in respect of, any Indebtedness) of the Issuer or any of its Material Subsidiaries is accelerated in accordance with the terms of such Indebtedness, it being understood that prepayment or redemption by the Issuer or the relevant Material Subsidiary of any Indebtedness is not considered acceleration for this purpose, *provided* that the aggregate amount of such Indebtedness equals or exceeds the greater of U.S.$25 million or 1% of the total shareholders equity of the Issuer or such Material Subsidiary, in each case, at the time of such event and such acceleration shall not be cured or annulled within 30 days after notice by the Trustee or the holders of at least 25% of the principal amount of the Series S Notes outstanding is received by the Issuer or the relevant Material Subsidiary, as the case may be; or

(e) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Material Subsidiaries in an amount that equals or exceeds the greater of U.S.$25 million or 1% of the total shareholders equity of the Issuer or such Material Subsidiary, in each case, at the time of such event or its equivalent and (i) such distress, attachment, execution, seizure before judgment or other legal process is not discharged or stayed within 60 Court Days after having been notified to the Issuer or the relevant Material Subsidiary, as the case may be; or (ii) if such distress, attachment, execution, seizure before judgment or other legal process shall not have been discharged within such 60 Court Day period, the Issuer or the relevant Material Subsidiary, as the case may be, shall have within such 60 Court Day period contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof or upon posting a bond in connection therewith; provided, however, that in no event shall the grace period provided by clause (ii) of this paragraph (e) extend beyond the 360th day after the notification to the Issuer or the relevant Material Subsidiary, as the case may be, of such proceedings; or

(f) a court having jurisdiction enters a decree for (i) relief in respect of the Issuer or any of its Material Subsidiaries in an involuntary case under Argentine Law No. 24,522 or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect in any applicable jurisdiction, or (ii) appointment of an administrator, receiver, trustee or intervenor for the Issuer or any of its Material Subsidiaries for all or substantially all of the property or assets of the Issuer or any of its Material Subsidiaries and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 Court Days; or

(g) the Issuer or any of its Material Subsidiaries consents to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any Bankruptcy Law, or the consent by it to the filing of any such petition or the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any Bankruptcy Law, including a "*sindico*") of the Issuer or any such Material Subsidiary or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors pursuant to the Bankruptcy Law, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer or any such Material Subsidiary in furtherance of any such action; or

(h) an order is made or an effective resolution is passed for the winding up or dissolution or administration under judicial supervision of the Issuer or any of its Material Subsidiaries and is not discharged or stayed within 30 Court Days (as defined in the Indenture) of having been notified to the Issuer or the relevant Material Subsidiary, as the case may be, or the Issuer ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger, demerger or consolidation (i) on terms approved by a Resolution of the holders of the Series S Notes, or (ii) completed as provided in Article 8 of the Base Indenture; or

(i) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under, the Series S Notes and the Indenture, (b) to ensure that those obligations are legally binding and enforceable and (c) to make the Series S Notes and the Indenture admissible in evidence in the courts of the relevant jurisdiction, is not taken, fulfilled or done, and is not taken, fulfilled or done within 60 Court Days after notice therefor shall have been given to the Issuer by the Trustee; or

(j) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Series S Notes or the Indenture, as the case may be; or

(k) any event occurs which, under the laws of any relevant jurisdiction, has substantially the same effect as any of the events referred to in any of paragraphs (f), (g) or (h) above;

(l) Petrobras shall fail to perform, or breach, any term, covenant, agreement or obligation contained in the Indenture or the Standby Purchase Agreement and such failure (other than any failure to make any payment under the Standby Purchase Agreement, for which there is no cure) is either incapable of remedy or continues for a period of 60 calendar days (inclusive of any time frame contained in any such term, covenant, agreement or obligation for compliance thereunder) after there has been received by Petrobras from the Trustee or the Holders of at least 25% in principal amount of the outstanding Series S Notes a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Indenture; or

(m) the maturity of any Indebtedness of Petrobras or any of its Material Subsidiaries in a total aggregate principal amount of U.S.$100,000,000 or more is accelerated in accordance with the terms of that Indebtedness, it being understood that prepayment or redemption by Petrobras or the relevant Material Subsidiary of any Indebtedness is not acceleration for this purpose; or

(n) one or more final and non-appealable judgments or final decrees is entered against Petrobras or any of its Material Subsidiaries involving in the aggregate a liability (not theretofore paid or covered by insurance) of U.S.$100,000,000 (or its equivalent in another currency) or more, and all such judgments or final decrees shall not have been vacated, discharged or stayed within 120 calendar days after the rendering thereof; or

(o) Petrobras or any of its Material Subsidiaries stops payment of, or is generally unable to pay, its debts as and when they become due except (i) as is otherwise expressly provided under the Indenture or the Standby Purchase Agreement, or (ii) in the case of a winding-up, dissolution or liquidation for the purpose of and followed by a consolidation, merger, conveyance or transfer, the terms of which shall have been approved by a resolution of a meeting of the holders of the Series S Notes; or

(p) proceedings are initiated against Petrobras or any of its Material Subsidiaries under any applicable bankruptcy, reorganization, insolvency, moratorium or intervention law or law with similar effect, or under any other law for the relief of, or relating to, debtors, and any such proceeding is not dismissed or stayed within 90 days after the entering of such proceeding, or an administrator, receiver, trustee, manager, fiduciary, statutory manager, intervener or assignee for the benefit of creditors (or other similar official) is appointed to take possession or control of, or a distress, execution, attachment or sequestration or other process is levied, enforced upon, sued out or put in force against, all or any material part of the undertaking, property, assets or revenues of Petrobras or any Material Subsidiary thereof and is not discharged or removed within 90 days; or

(q) Petrobras or any of its Material Subsidiaries commences voluntarily or consents to judicial, administrative or other proceedings relating to it under any applicable bankruptcy, reorganization, insolvency, moratorium or intervention law or law with similar effect, or under any other law for the relief of, or relating to, debtors, or makes or enters into any composition, *concordata* or other similar arrangement with its creditors, or appoints or applies for the appointment of an administrator, receiver, trustee, manager, fiduciary, statutory manager, intervener or assignee for the benefit of creditors (or other similar official) to take possession or control of the whole or any material part of its undertaking, property, assets or revenues, or takes any judicial, administrative or other similar proceeding under any law for a readjustment or deferment of its Indebtedness or any part of it; or

(r) an effective resolution is passed for, or any authorized action is taken by any court of competent jurisdiction, directing the winding-up, dissolution or liquidation of Petrobras or any of its Material Subsidiaries (other than in any of the circumstances referred to as exceptions in paragraph (o) above); or

(s) any event occurs that under the laws of any relevant jurisdiction has substantially the same effect as any of the events referred to in any of paragraphs (o), (p), (q) or (r) above; or

(t) the Indenture, the Series S Notes, the Standby Purchase Agreement or any part thereof shall cease to be in full force and effect or binding and enforceable against Petrobras, it becomes unlawful for Petrobras to perform any material obligation under the Indenture, the Series S Notes or the Standby Purchase Agreement, or Petrobras shall contest the enforceability of the Indenture, the Series S Notes or the Standby Purchase Agreement or deny that it has liability under the Indenture, the Series S Notes or the Standby Purchase Agreement.

For purposes of the events of default:

- "*Material Subsidiary*" means (A) with respect to the Issuer, any corporation or other entity whose total assets exceed 10% of the Issuer's total assets on a consolidated basis (as resulting from the most recent annual balance sheet) and of which the Issuer either (i) is a shareholder or member and controls the composition of its board of directors, or (ii) holds more than 50% in nominal value of its equity share capital; and (B) with respect to Petrobras, a subsidiary of Petrobras which on any given date of determination accounts for more than 10% of Petrobras' total consolidated assets (as set forth on Petrobras' most recent balance sheet prepared in accordance with U.S. GAAP).

Consent to Jurisdiction

Any suit, action or proceeding against us, our property, assets or revenues with respect to any Series S Note may be brought by holders of the Series S Notes, on a non-exclusive basis, in (a) any court of the State of New York or any United States federal court sitting in the Borough of Manhattan, The City of New York, New York; (b) the Ordinary Courts in commercial matters sitting in the City of Buenos Aires; or (c) if the Series S Notes are listed in the Buenos Aires Stock Exchange, before the Permanent Arbitral Tribunal of the Buenos Aires Stock Exchange under the provisions of Section 38 of the Annex to Decree No. 677/2001.

DESCRIPTION OF THE STANDBY PURCHASE AGREEMENT

The following summary describes the material provisions of the Standby Purchase Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Standby Purchase Agreement.

General

In connection with the execution and delivery of the Supplemental Indenture and the Series S Notes offered by this Pricing Supplement and the Offering Memorandum, Petrobras, the Issuer and the Trustee entered into a Standby Purchase Agreement dated as of April 16, 2007 for the benefit of the holders of the Series S Notes and will enter into an Amended and Restated Standby Purchase Agreement dated as of the closing date (the "Standby Purchase Agreement"). The Standby Purchase Agreement will provide that, in the event of a nonpayment of principal, interest and other amounts on the Series S Notes, Petrobras will be required to purchase the noteholders' rights to receive those payments on the terms and conditions described below and in the Standby Purchase Agreement. The Supplemental Indenture provides that the Standby Purchase Agreement will be considered part of it. As a result, the holders of the Series S Notes will have the benefit of the Standby Purchase Agreement. The Standby Purchase Agreement is designed to function in a manner similar to a guarantee and obligates Petrobras to make the payments discussed in this Pricing Supplement. The Standby Purchase Agreement entails certain risks described below in "Risks Relating to the Standby Purchase Agreement."

Despite the Brazilian government's ownership interest in Petrobras, the Brazilian government is not responsible in any manner for Petrobras Energía's obligations under the Series S Notes or Petrobras' obligations under the Standby Purchase Agreement.

In consideration for entering into the Standby Purchase Agreement, Petrobras Energía will pay Petrobras on each Interest Payment Date an amount equal to (i) the aggregate principal amount of the Series S Notes outstanding on such Interest Payment Date multiplied by (ii) the SPA Yield. The "SPA Yield" means the rate, calculated at the date of pricing of the Series S Notes, equal to (A) the product of (i) 0.6667 multiplied by (ii) the difference between (a) the yield to maturity (expressed in decimals) on a hypothetical Series S Note that does not have the benefit of the credit support provided by Petrobras under the Standby Purchase Agreement (which yield will be calculated on the basis of the yields on the other notes of the Issuer then outstanding) and (b) the actual yield to maturity (expressed in decimals) on the Series S Notes as priced on such date, divided by (B) two.

Ranking

The obligations of Petrobras under the Standby Purchase Agreement constitute general unsecured obligations of Petrobras that at all times will rank *pari passu* with all other senior unsecured obligations of Petrobras that are not, by their terms, expressly subordinated in right of payment to the obligations of Petrobras under the Standby Purchase Agreement.

Purchase Obligations

Partial Purchase Payment

In the event that, prior to the maturity date of the Series S Notes, Petrobras Energía fails to make any payment on the Series S Notes on the date that payment is due under the terms of the Series S Notes and the Indenture, including pursuant to any redemption or repurchase obligation of Petrobras Energía (which is referred to herein as the "partial non-payment due date"), other than in the case of an acceleration of that payment in accordance with the Indenture:

- Petrobras will be obligated to purchase the rights of the holders of the Series S Notes to receive such payments by paying immediately to the Trustee, for the benefit of the holders of the Series S Notes under the Indenture, the amount that Petrobras Energía was required to pay but failed to pay on that date (which is referred to herein as the "partial non-payment amount"); and

- the Trustee will provide notice to Petrobras of Petrobras Energía's failure to make such payment.

To the extent that Petrobras fails to purchase the rights of the holders of the Series S Notes to receive such payments by paying the partial non-payment amount immediately when required, Petrobras will be obligated to pay, in addition to that amount, interest on that amount at the default rate from the partial non-payment due date to and including the actual date of payment by Petrobras. Such interest is referred to herein as the "partial non-payment overdue interest" and, together with the partial non-payment amount, as the "partial non-payment amount with interest."

Payment of the partial non-payment amount with interest will be in exchange for the purchase by Petrobras of the rights of the holders of the Series S Notes to receive that amount from Petrobras Energía. The holders of the Series S Notes will have no right to retain those rights, and, following the purchase and sale described above, the Series S Notes will remain outstanding with all amounts due in respect of the Series S Notes adjusted to reflect the purchase, sale and payment described above. Upon any such payment, Petrobras will be subrogated to the holders of the Series S Notes to the extent of any such payment.

The obligation of Petrobras to purchase the rights of the holders of the Series S Notes to receive the partial non-payment amount with interest will be absolute and unconditional upon Petrobras Energía's failure to make, prior to the maturity date of the Series S Notes, any payment on the Series S Notes on the date any such payment is due. All amounts payable by Petrobras under the Standby Purchase Agreement in respect of any partial non-payment amount with interest will be payable in U.S. dollars and in immediately available funds to the Trustee. Petrobras will not be relieved of its obligations under the Standby Purchase Agreement unless and until the Trustee indefeasibly receives all amounts required to be paid by Petrobras under the Standby Purchase Agreement (and any related event of default under the Indenture has been cured), including payment of the partial nonpayment overdue interest as described in this Pricing Supplement.

Total Purchase Payment

In the event that, at the maturity date of the Series S Notes (including upon any acceleration of the maturity date in accordance with the terms of the Indenture), Petrobras Energía fails to make any payment on the Series S Notes on the date that payment is due (which is referred to herein as the "total non-payment due date"),

- Petrobras will be obligated to purchase the rights of the holders of the Series S Notes to receive such payments by paying immediately to the Trustee, for the benefit of the holders of the Series S Notes under the Indenture, the amount that Petrobras Energía was required to pay but failed to pay on that date (which is referred to herein as the "total non-payment amount"); and

- The Trustee will provide notice to Petrobras of Petrobras Energía's failure to make such payment.

To the extent that Petrobras fails to purchase the rights of the holders of the Series S Notes to receive such payments by paying the total non-payment amount immediately when required, Petrobras will be obligated to pay, in addition to that amount, interest on that amount at the default rate from the total non-payment due date to and including the actual date of payment by Petrobras. Such interest is referred to herein as the "total non-payment overdue interest" and, together with the total non-payment amount, as the "total non-payment amount with interest."

Payment of the total non-payment amount with interest by Petrobras will be in exchange for the purchase by Petrobras of the rights of the holders of the Series S Notes to receive that amount from Petrobras Energía. The holders of the Series S Notes will have no right to retain those rights, and, following the purchase and sale described above, Petrobras will be subrogated to the holders of the Series S Notes to the extent of any such payment.

The obligation of Petrobras to purchase the rights of the holders of the Series S Notes to receive the total non-payment amount with interest will be absolute and unconditional upon Petrobras Energía's failure to make, at the maturity date of the Series S Notes, or earlier upon any acceleration of the Series S Notes in accordance with the terms of the Indenture, any payment in respect of principal, interest or other amounts due under the Indenture and the Series S Notes on the date any such payment is due. All amounts payable by Petrobras under the Standby Purchase Agreement in respect of any total nonpayment amount with interest will be payable in U.S. dollars and in immediately available funds to the Trustee. Petrobras will not be relieved of its obligations under the Standby Purchase Agreement unless and until the Trustee receives all amounts required to be paid by Petrobras under the Standby Purchase Agreement (and any related event of default under the Indenture has been cured), including payment of the total non-payment overdue interest.

Covenants

For so long as any of the Series S Notes are outstanding and Petrobras has obligations under the Standby Purchase Agreement, Petrobras will, and will cause each of its subsidiaries (as applicable) to, comply with the terms of the covenants set forth below:

Performance Obligations Under the Standby Purchase Agreement and Indenture

Petrobras will pay all amounts owed by it and comply with all its other obligations under the terms of the Standby Purchase Agreement and the Indenture in accordance with the terms of those agreements.

Maintenance of Corporate Existence

Petrobras will, and will cause each of its subsidiaries to, maintain in effect its corporate existence and all necessary registrations and take all actions to maintain all rights, privileges, titles to property, franchises, concessions and the like necessary or desirable in the normal conduct of its business, activities or operations. However, this covenant will not require Petrobras or any of its subsidiaries to maintain any such right, privilege, title to property or franchise or require Petrobras to preserve the corporate existence of any subsidiary, if the failure to do so does not, and will not, have a material adverse effect on Petrobras and its subsidiaries taken as a whole or have a materially adverse effect on the rights of the holders of the Series S Notes.

Maintenance of Office or Agency

So long as any of the Series S Notes are outstanding, Petrobras will maintain in the Borough of Manhattan, The City of New York, an office or agency where notices to and demands upon Petrobras in respect of the Standby Purchase Agreement may be served. Initially this office will be located at Petrobras' existing principal U.S. office at 570 Lexington Avenue, 43rd Floor, New York, New York 10022-6837. Petrobras will agree not to change the designation of its office without prior notice to the Trustee and designation of a replacement office in the same general location.

Ranking

Petrobras will ensure at all times that its obligations under the Standby Purchase Agreement will be its general senior unsecured and unsubordinated obligations and will rank *pari passu*, without any preferences among themselves, with all other present and future senior unsecured and unsubordinated obligations of Petrobras (other than obligations preferred by statute or by operation of law) that are not, by their terms, expressly subordinated in right of payment to the obligations of Petrobras under the Standby Purchase Agreement.

Notice of Certain Events

Petrobras will give notice to the Trustee, as soon as is practicable and in any event within ten calendar days after Petrobras becomes aware, or should reasonably become aware, of the occurrence of any event of default or a default under the Indenture, accompanied by a certificate of Petrobras setting forth the details of that event of default or default and stating what action Petrobras proposes to take with respect to it.

Limitation on Consolidation, Merger, Sale or Conveyance

Petrobras will not, in one or a series of transactions, consolidate or amalgamate with or merge into any corporation or convey, lease or transfer substantially all of its properties, assets or revenues to any person or entity (other than a direct or indirect subsidiary of Petrobras) or permit any person (other than a direct or indirect subsidiary of Petrobras) to merge with or into it unless:

- either Petrobras is the continuing entity or the person (the "successor company") formed by such consolidation or into which Petrobras is merged or that acquired or leased such property or assets of Petrobras will be a corporation organized and validly existing under the laws of Brazil and will assume (jointly and severally with Petrobras unless Petrobras will have ceased to exist as a result of such merger, consolidation or amalgamation), by an amendment to the Standby Purchase Agreement (the form and substance of which will be previously approved by the Trustee), all of Petrobras' obligations under the Standby Purchase Agreement;

- the successor company (jointly and severally with Petrobras unless Petrobras will have ceased to exist as part of such merger, consolidation or amalgamation) agrees to indemnify each holder of Series S Notes against any tax, assessment or governmental charge thereafter imposed on such holder of Series S Notes solely as a consequence of such consolidation, merger, conveyance, transfer or lease with respect to the payment of principal of, or interest on, the Series S Notes;

- immediately after giving effect to the transaction, no event of default, and no default has occurred and is continuing;

- Petrobras has delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that the transaction and the amendment to the Standby Purchase Agreement comply with the terms of the Standby Purchase Agreement and that all conditions precedent provided for in the Standby Purchase Agreement and relating to such transaction have been complied with; and

- Petrobras has delivered notice of any such transaction to Moody's describing that transaction to Moody's to the extent that Moody's is at that time rating the Series S Notes.

Notwithstanding anything to the contrary in the foregoing, so long as no default or event of default under the Indenture or the Series S Notes has occurred and is continuing at the time of such proposed transaction or would result from it:

- Petrobras may merge, amalgamate or consolidate with or into, or convey, transfer, lease or otherwise dispose of all or substantially all of its properties, assets or revenues to a direct or indirect subsidiary of Petrobras in cases when Petrobras is the surviving entity in such transaction and such transaction would not have a material adverse effect on Petrobras and its subsidiaries taken as whole, it being understood that if Petrobras is not the surviving entity, Petrobras will be required to comply with the requirements set forth in the previous paragraph; or

- any direct or indirect subsidiary of Petrobras may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any person (other than Petrobras or any of its subsidiaries or affiliates) in cases when such transaction would not have a material adverse effect on Petrobras and its subsidiaries taken as a whole; or

- any direct or indirect subsidiary of Petrobras may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any other direct or indirect subsidiary of Petrobras; or

- any direct or indirect subsidiary of Petrobras may liquidate or dissolve if Petrobras determines in good faith that such liquidation or dissolution is in the best interests of Petrobras, and would not result in a material adverse effect on Petrobras and its subsidiaries taken as a whole and if such liquidation or dissolution is part of a corporate reorganization of Petrobras.

Negative Pledge

So long as any Series S Note remains outstanding, Petrobras will not create or permit any lien, other than a Petrobras permitted lien (as defined below), on any of its assets to secure (i) any of its indebtedness or (ii) the indebtedness of any other person, unless Petrobras contemporaneously creates or permits the lien to secure equally and ratably its obligations under the Standby Purchase Agreement or Petrobras provides other security for its obligations under the Standby Purchase Agreement as is duly approved by a resolution of the holders of the Series S Notes in accordance with the Indenture. In addition, Petrobras will not allow any of its subsidiaries to create or permit any lien, other than a Petrobras permitted lien, on any of Petrobras' assets to secure (i) any of its indebtedness, (ii) any of the subsidiary's indebtedness or (iii) the indebtedness of any other person, unless Petrobras contemporaneously creates or permits the lien to secure equally and ratably Petrobras' obligations under the Standby Purchase Agreement or Petrobras provides such other security for its obligations under the Standby Purchase Agreement as is duly approved by a resolution of the holders of the Series S Notes in accordance with the Indenture.

As used in this "Negative Pledge" section, the following terms have the respective meanings set forth below:

A "*guarantee*" means an obligation of a person to pay the indebtedness of another person including without limitation:

- an obligation to pay or purchase such indebtedness;

- an obligation to lend money, to purchase or subscribe for shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;

- an indemnity against the consequences of a default in the payment of such indebtedness; or

- any other agreement to be responsible for such indebtedness.

"*Indebtedness*" means any obligation (whether present or future, actual or contingent and including, without limitation, any guarantee) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and all

leases which, under generally accepted accounting principles in the country of incorporation of the relevant obligor, would constitute a capital lease obligation).

A "*lien*" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance on any property or asset including, without limitation, any equivalent created or arising under applicable law.

A "*project financing*" of any project means the incurrence of indebtedness relating to the exploration, development, expansion, renovation, upgrade or other modification or construction of such project pursuant to which the providers of such indebtedness or any Trustee or other intermediary on their behalf or beneficiaries designated by any such provider, Trustee or other intermediary are granted security over one or more qualifying assets relating to such project for repayment of principal, premium and interest or any other amount in respect of such indebtedness.

A "*qualifying asset*" in relation to any project means:

- any concession, authorization or other legal right granted by any governmental authority to Petrobras or any of Petrobras' subsidiaries, or any consortium or other venture in which Petrobras or any subsidiary has any ownership or other similar interest;

- any drilling or other rig, any drilling or production platform, pipeline, marine vessel, vehicle or other equipment or any refinery, oil or gas field, processing plant, real property (whether leased or owned), right of way or plant or other fixtures or equipment;

- any revenues or claims that arise from the operation, failure to meet specifications, failure to complete, exploitation, sale, loss or damage to, such concession, authorization or other legal right or such drilling or other rig, drilling or production platform, pipeline, marine vessel, vehicle or other equipment or refinery, oil or gas field, processing plant, real property, right of way, plant or other fixtures or equipment or any contract or agreement relating to any of the foregoing or the project financing of any of the foregoing (including insurance policies, credit support arrangements and other similar contracts) or any rights under any performance bond, letter of credit or similar instrument issued in connection therewith;

- any oil, gas, petrochemical or other hydrocarbon-based products produced or processed by such project, including any receivables or contract rights arising therefrom or relating thereto and any such product (and such receivables or contract rights) produced or processed by other projects, fields or assets to which the lenders providing the project financing required, as a condition therefore, recourse as security in addition to that produced or processed by such project; and

- shares or other ownership interest in, and any subordinated debt rights owing to Petrobras by, a special purpose company formed solely for the development of a project, and whose principal assets and business are constituted by such project and whose liabilities solely relate to such project.

"*Petrobras permitted lien*" means a:

(a) lien granted in respect of indebtedness owed to the Brazilian government, Banco Nacional de Desenvolvimento Econômico e Social or any official government agency or department of Brazil or of any state or region of Brazil;

(b) lien arising by operation of law, such as merchants', maritime or other similar liens arising in Petrobras' ordinary course of business or that of any subsidiary or lien in respect of taxes, assessments or other governmental charges that are not yet delinquent or that are being contested in good faith by appropriate proceedings;

(c) lien arising from Petrobras' obligations under performance bonds or surety bonds and appeal bonds or similar obligations incurred in the ordinary course of business and consistent with Petrobras' past practice;

(d) lien arising in the ordinary course of business in connection with indebtedness maturing not more than one year after the date on which that indebtedness was originally incurred and which is related to the financing of export, import or other trade transactions;

(e) lien granted upon or with respect to any assets hereafter acquired by Petrobras or any subsidiary to secure the acquisition costs of those assets or to secure indebtedness incurred solely for the purpose of financing the acquisition of those assets, including any lien existing at the time of the acquisition of those assets, so long as the

maximum amount so secured will not exceed the aggregate acquisition costs of all such assets or the aggregate indebtedness incurred solely for the acquisition of those assets, as the case may be;

(f) lien granted in connection with the indebtedness of a wholly-owned subsidiary owing to Petrobras or another wholly-owned subsidiary;

(g) lien existing on any asset or on any stock of any subsidiary prior to its acquisition by Petrobras or any subsidiary so long as that lien is not created in anticipation of that acquisition;

(h) lien over any qualifying asset relating to a project financed by, and securing indebtedness incurred in connection with, the project financing of that project by Petrobras, any of Petrobras' subsidiaries or any consortium or other venture in which Petrobras or any subsidiary has any ownership or other similar interest;

(i) lien existing as of the date of the Supplemental Indenture;

(j) lien resulting from the transaction documents;

(k) lien, incurred in connection with the issuance of debt or similar securities of a type comparable to those already issued by Petrobras Energía, on amounts of cash or cash equivalents on deposit in any reserve or similar account to pay interest on such securities for a period of up to 24 months as required by any rating agency as a condition to such rating agency rating such securities investment grade, or as is otherwise consistent with market conditions at such time, as such conditions are satisfactorily demonstrated to the Trustee;

(l) lien granted or incurred to secure any extension, renewal, refinancing, refunding or exchange (or successive extensions, renewals, refinancings, refundings or exchanges), in whole or in part, of or for any indebtedness secured by any lien referred to in paragraphs (a) through (k) above (but not paragraph (d)), provided that such lien does not extend to any other property, the principal amount of the indebtedness secured by the lien is not increased, and in the case of paragraphs (a), (b), (c) and (f), the obligees meet the requirements of that paragraph, and in the case of paragraph (h), the indebtedness is incurred in connection with a project financing by Petrobras, any of Petrobras' subsidiaries or any consortium or other venture in which Petrobras or any subsidiary have any ownership or other similar interest; and

(m) lien in respect of indebtedness the principal amount of which in the aggregate, together with all liens not otherwise qualifying as Petrobras permitted liens pursuant to another part of this definition of Petrobras permitted liens, does not exceed 15% of Petrobras' consolidated total assets (as determined in accordance with U.S. GAAP) at any date as at which Petrobras' balance sheet is prepared and published in accordance with applicable law.

A "*wholly-owned subsidiary*" means, with respect to any corporate entity, any person of which 100% of the outstanding capital stock (other than qualifying shares, if any) having by its terms ordinary voting power (not dependent on the happening of a contingency) to elect the board of directors (or equivalent controlling governing body) of that person is at the time owned or controlled directly or indirectly by that corporate entity, by one or more wholly-owned subsidiaries of that corporate entity or by that corporate entity and one or more wholly-owned subsidiaries.

Provision of Financial Statements and Reports

Petrobras will provide to the Trustee, in English or accompanied by a certified English translation thereof, (i) within 90 calendar days after the end of each fiscal quarter (other than the fourth quarter), its unaudited and consolidated balance sheet and statement of income calculated in accordance with U.S. GAAP, (ii) within 120 calendar days after the end of each fiscal year, its audited and consolidated balance sheet and statement of income calculated in accordance with U.S. GAAP and (iii) such other financial data as the Trustee may reasonably request. Petrobras will provide, together with each of the financial statements delivered hereunder, an officers' certificate stating that a review of Petrobras' and Petrobras Energía's activities has been made during the period covered by such financial statements with a view to determining whether Petrobras and Petrobras Energía has kept, observed, performed and fulfilled its and Petrobras Energía's respective covenants and agreements under the Standby Purchase Agreement and the Indenture, as applicable, and that no event of default has occurred during such period. In addition, whether or not Petrobras is required to file reports with the SEC, Petrobras will file with the SEC and deliver to the Trustee (for redelivery to all holders of Series S Notes) all reports and other information it would be required to file with the SEC under the Exchange Act if it were subject to those regulations. If the SEC does not permit the filing described above, Petrobras will provide annual and interim reports and other

information to the Trustee within the same time periods that would be applicable if Petrobras were required and permitted to file such reports with the SEC.

Additional Amounts

Except as provided below, Petrobras will make all payments of amounts due under the Standby Purchase Agreement and each other document entered into in connection with the Standby Purchase Agreement without withholding or deducting any present or future taxes, levies, deductions or other governmental charges of any nature imposed by Brazil, the jurisdiction of Petrobras Energía's incorporation or any other jurisdiction in which Petrobras Energía appoints a paying agent under the indenture, or any political subdivision of such jurisdictions (the "taxing jurisdictions"). If Petrobras is required by law to withhold or deduct any taxes, levies, deductions or other governmental charges, Petrobras will make such deduction or withholding, make payment of the amount so withheld to the appropriate governmental authority and pay the holders of the Series S Notes any additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

Petrobras will not, however, pay any additional amounts in connection with any tax, levy, deduction or other governmental charge that is imposed due to any of the following ("excluded additional amounts"):

- the holder of the Series S Notes or Trustee has a connection with the taxing jurisdiction other than merely holding the Series S Notes or receiving principal or interest payments on the Series S Notes (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the taxing jurisdiction);

- any tax imposed on, or measured by, net income;

- the holder of the Series S Notes or Trustee fails to comply with any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with the taxing jurisdiction, if (x) such compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the tax, levy, deduction or other governmental charge, (y) the holder of the Series S Notes or Trustee is able to comply with such requirements without undue hardship and (z) at least 30 calendar days prior to the first payment date with respect to which such requirements under the applicable law, regulation, administrative practice or treaty will apply, Petrobras has notified all holders of the Series S Notes or the Trustee that they will be required to comply with such requirements;

- the holder of the Series S Notes or Trustee fails to present (where presentation is required) its note within 30 calendar days after Petrobras has made available to the holder of the Series S Notes or Trustee a payment under the Standby Purchase Agreement, provided that Petrobras will pay additional amounts which a holder of the Series S Notes or Trustee would have been entitled to had the Series S Note owned by such holder of the Series S Notes or Trustee been presented on any day (including the last day) within such 30 calendar day period;

- any estate, inheritance, gift, value added, use or sales taxes or any similar taxes, assessments or other governmental charges;

- where such taxes, levies, deductions or other government charges are imposed on a payment on the Series S Notes to an individual and are required to be made pursuant to any European Council Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation savings income or any law implementing or complying with, or introduced in order to conform to, such directive;

- where the holder of the Series S Notes or Trustee could have avoided such taxes, levies, deductions or other government charges by requesting that a payment on the Series S Notes be made by, or presenting the relevant notes for payment to, another paying agent of Petrobras located in a member state of the European Union; or

- where the holder of the Series S Notes or Trustee would have been able to avoid the tax, levy, deduction or other governmental charge by taking reasonable measures available to such holder of the Series S Notes or Trustee.

Petrobras undertakes that, for periods during which European Council Directive 2003/48/EC or any other Directive implementing the conclusions of ECOFIN council meeting of November 26-27, 2000 is in effect, Petrobras will ensure that it maintains a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the Directive.

Petrobras will pay any stamp, administrative, excise or property taxes arising in a taxing jurisdiction in connection with the execution, delivery, enforcement or registration of the notes and will indemnify the holders of the Series S Notes for any such stamp, administrative, excise or property taxes paid by holders of the Series S Notes.

Events of Default

There are no events of default under the Standby Purchase Agreement. The Supplemental Indenture, however, contains events of default relating to Petrobras that may trigger an event of default and acceleration of the Series S Notes. See "Additional Provisions Relating to the Series S Notes—Events of Default." Upon any such acceleration (including any acceleration arising out of the insolvency or similar events relating to Petrobras), if Petrobras Energía fails to pay all amounts then due under the Series S Notes and the Indenture, Petrobras will be obligated to make a total purchase payment as described above.

Amendments

The Standby Purchase Agreement may only be amended or waived in accordance with its terms pursuant to a written document that has been duly executed and delivered by Petrobras and the Trustee, acting on behalf of the holders of the Series S Notes. The Standby Purchase Agreement may be amended by Petrobras and the Trustee, in some cases without the consent of the holders of the Series S Notes.

Except as contemplated above, the Indenture will provide that the Trustee may execute and deliver any other amendment to the Standby Purchase Agreement or grant any waiver thereof only with the consent of the holders of a majority in aggregate principal amount of the Series S Notes then outstanding.

Governing Law

The Standby Purchase Agreement will be governed by the laws of the State of New York.

Jurisdiction

Petrobras has consented to the non-exclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan, The City of New York, New York, United States and any appellate court from any thereof. Service of process in any action or proceeding brought in such New York State federal court sitting in New York City may be served upon Petrobras at Petrobras' New York office. The Standby Purchase Agreement provides that if Petrobras no longer maintains an office in New York City, then it will appoint a replacement process agent within New York City as its authorized agent upon which process may be served in any action or proceeding.

Waiver of Immunities

To the extent that Petrobras may in any jurisdiction claim for itself or its assets immunity from a suit, execution, attachment, whether in aid of execution, before judgment or otherwise, or other legal process in connection with the Standby Purchase Agreement (or any document delivered pursuant thereto) and to the extent that in any jurisdiction there may be immunity attributed to Petrobras, the Issuer or their assets, whether or not claimed, Petrobras has irrevocably agreed with the Trustee, for the benefit of the holders of the Series S Notes, not to claim, and to irrevocably waive, any such immunity to the full extent permitted by law.

Currency Rate Indemnity

Petrobras has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any of its obligations under the Standby Purchase Agreement is expressed in a currency (the "judgment currency") other than U.S. dollars (the "denomination currency"), Petrobras will indemnify the Trustee, on behalf of the holders of the Series S Notes, against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from Petrobras' other obligations under the Standby Purchase Agreement, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect.

RISK FACTORS RELATING TO THE STANDBY PURCHASE AGREEMENT

Enforcement of Petrobras' obligations under the Standby Purchase Agreement might take longer than expected.

Petrobras has entered into a Standby Purchase Agreement in support of our obligations under the Series S Notes and Indenture. Petrobras' obligation to purchase from the holders of the Series S Notes any unpaid amounts of principal, interest and other amounts due under the Series S Notes and the Indenture applies, subject to certain limitations, irrespective of whether any such amounts are due at maturity of the Series S Notes or otherwise. See "Description of the Standby Purchase Agreement."

Petrobras has been advised by its counsel that the enforcement of the Standby Purchase Agreement in Brazil against it, if necessary, will occur under a form of judicial process that, while similar, has certain procedural differences from those applicable to enforcement of a guarantee and, as a result, the enforcement of the Standby Purchase Agreement may take longer than would otherwise be the case with a guarantee.

Petrobras may not be able to pay its obligations under the Standby Purchase Agreement in U.S. dollars.

If Petrobras is required to make payments under the Standby Purchase Agreement, Central Bank of Brazil approval will be necessary. Any approval from the Central Bank of Brazil may only be requested when such payment is to be remitted abroad by us, and will be granted by the Central Bank of Brazil on a case-by-case basis. It is not certain that any such approvals will be obtainable at a future date. In case the holders of Series S Notes receive payments in *reais* corresponding to the equivalent U.S. dollar amounts due under the Series S Notes, it may not be possible to convert those amounts into U.S. dollars. Petrobras will not need any prior or subsequent approval from the Central Bank of Brazil to use funds it holds abroad to comply with its obligations under the Standby Purchase Agreement.

***Petrobras would be required to pay judgments of Brazilian courts enforcing its obligations under the Standby Purchase Agreement only in* reais.**

If proceedings were brought in Brazil seeking to enforce Petrobras' obligations under the Standby Purchase Agreement, Petrobras would be required to discharge its obligations only in *reais*. Under the Brazilian exchange control limitations, an obligation to pay amounts denominated in a currency other than *reais*, which is payable in Brazil pursuant to a decision of a Brazilian court, may be satisfied in *reais* at the rate of exchange, as determined by the Central Bank of Brazil, in effect on the date of payment.

A finding that Petrobras is subject to U.S. bankruptcy laws and that the Standby Purchase Agreement executed by it was a fraudulent conveyance could result in holders of the Series S Notes losing their legal claim against Petrobras.

Our obligation to make payments on the Series S Notes is supported by Petrobras' obligation under the Standby Purchase Agreement to make payments on our behalf in the event of non-payment by us. Petrobras has been advised by its external U.S. counsel that the Standby Purchase Agreement is valid and enforceable in accordance with the laws of the State of New York and the United States. In addition, Petrobras has been advised by its general counsel that the laws of Brazil do not prevent the Standby Purchase Agreement from being valid, binding and enforceable against it in accordance with its terms. In the event that U.S. federal fraudulent conveyance or similar laws are applied to the Standby Purchase Agreement, and Petrobras, at the time it entered into the Standby Purchase Agreement:

- was or is insolvent or rendered insolvent by reason of its entry into the Standby Purchase Agreement;
- was or is engaged in business or transactions for which the assets remaining with it constituted unreasonably small capital; or
- intended to incur or incurred, or believed or believes that it would incur, debts beyond its ability to pay such debts as they mature; and
- in each case, intended to receive or received less than reasonably equivalent value or fair consideration therefor,

then Petrobras' obligations under the Standby Purchase Agreement could be avoided, or claims with respect to the Standby Purchase Agreement could be subordinated to the claims of other creditors. Among other things, a legal challenge to the Standby Purchase Agreement on fraudulent conveyance grounds may focus on the benefits, if any, realized by Petrobras as a result of our issuance of the Series S Notes. To the extent that the Standby Purchase Agreement is held to be a fraudulent conveyance or unenforceable for any other reason, the holders of the Series S Notes would not have a claim against Petrobras under the Standby Purchase Agreement and

will only have a claim against us. We cannot assure you that, after providing for all prior claims, Petrobras will have sufficient assets to satisfy the claims of the holders of the Series S Notes relating to any avoided portion of Petrobras obligations under the Standby Purchase Agreement.

For additional risk factors relating to Petrobras, please see the risk factors starting on page 11 of the 2005 Petrobras 20-F.

PLAN OF DISTRIBUTION

General

Subject to the terms and the conditions set forth in the Terms Agreement dated the date of this Pricing Supplement, the Issuer has agreed to sell to HSBC Securities (USA) Inc. and Morgan Stanley & Co. Incorporated (the "Initial Purchasers"), and the Initial Purchasers have agreed to purchase from the Issuer, the entire principal amount of the Series S Notes.

The Series S Notes will be sold pursuant to an offering that meets the public offering requirements in Argentina. The Initial Purchasers propose to purchase and accept delivery of the Series S Notes subject to certain conditions set forth in the Terms Agreement and immediately offer and resell on the Issue Date the Series S Notes (including the credit support provided by Petrobras under the Standby Purchase Agreement) in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. The Initial Purchasers will not offer or sell the Series S Notes except

- to persons they reasonably believe to be qualified institutional buyers, or
- pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S.

Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act.

Each purchaser of the Series S Notes will be deemed to have made acknowledgments, representations and agreements as described under "Notice to Investors" in the Offering Memorandum.

We and Petrobras have agreed to indemnify, severally but not jointly, the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make in respect of any such liabilities.

The Initial Purchasers are offering the Series S Notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its counsel, including the validity of the Series S Notes, and other conditions contained in the Terms Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers have advised us that they propose initially to offer the Series S Notes to investors at the price set forth on the cover page of this Pricing Supplement. After the initial offering, the offering price may change.

In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

New Issue of Notes

The Series S Notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the Series S Notes on any U.S. national securities exchange or for quotation of the Series S Notes on any U.S. automated dealer quotation system. Application has been made to list the Series S Notes on the Buenos Aires Stock Exchange and to make the Series S Notes eligible for trading in the MAE. We have also applied to have the Series S Notes admitted for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange. However, even if admission to listing is obtained, we will not be required to maintain it. The Initial Purchasers have advised us that they presently intend to make a market in the Series S Notes after completion of this offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice.

We cannot assure you that a liquid or active public trading market for the Series S Notes will develop. If an active trading market for the Series S Notes does not develop, the market price and liquidity of the Series S Notes may be adversely affected. If the Series S Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

Price Stabilization and Short Positions

In connection with the offering, the Initial Purchasers may engage in transactions that stabilize the market price of the Series S Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Series S Notes. If the Initial Purchasers create a short position in the Series S Notes in connection with the offering, i.e., if it sells more Series S Notes than are listed on the cover page of this Pricing Supplement, the Initial Purchasers may reduce that short position by purchasing Series S Notes in the open market. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases. In Argentina, all such market stabilization activities shall be conducted in accordance with Articles 16 and 17 of Decree No. 677/2001.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series S Notes. In addition, neither we nor the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. Such transactions, if commenced, shall be brought to an end after a limited period.

Argentine Placement Agent

Under the terms and subject to the conditions contained in the Argentine placement agent agreement dated April 19, 2007, HSBC Bank Argentina S.A. will act as the exclusive Argentine Placement Agent in connection with the offering of the Series S Notes in Argentina. The role of the Argentine Placement Agent will be to receive indications of interest from Argentine investors in connection with the public offering of the Series S Notes in Argentina and to perform a variety of marketing and public offering placement efforts in connection with the offering of the Series S Notes in Argentina subject to applicable laws (including Argentine Law No. 17,811, as amended, the Negotiable Obligations Law, Decree No. 677/2001 and the Joint Resolution). We have agreed to indemnify the Argentine Placement Agent against certain liabilities, including liabilities under the Securities Act, or to contribute payments that the Argentine Placement Agent may be required to make in connection with any such liabilities.

Other Relationships

The Initial Purchasers and the Argentine Placement Agent and their affiliates have engaged, and may in the future engage, in investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

Selling Restrictions

European Economic Area

In relation to each Member State of the EEA that has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Series S Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Series S Notes to the public in that Relevant Member State at any time:

(i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(iii) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive,

For purposes of this provision, the expression an "offer of Series S Notes to the public" in relation to any Series S Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Series S Notes to be offered so as to enable an investor to decide to purchase or subscribe the Series S Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each of the Initial Purchasers has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the U.K. Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Series S Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Series S Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each of the Initial Purchasers has represented, warranted and agreed that it has not offered or sold any notes by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

Japan

Each of the Initial Purchasers has represented, warranted and agreed that it has not offered or sold and will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

Each of the Initial Purchasers has represented, warranted and agreed that it has not offered or distributed an will not circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, and it has not offered or sold, and will not offer or sell the notes, and has not made and will not make an invitation for subscription or purchase of the notes, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the notes to the public in Singapore.

Netherlands

Each of the Initial Purchasers has represented, warranted and agreed that the notes may not be offered, sold, transferred or delivered in or from the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to banks, pension funds, insurance companies, securities firms, investment institutions, central governments, large international and supranational institutions and other comparable entities, including, among others, treasuries and finance companies of large enterprises, which trade or invest in securities in the course of their profession or trade. Individuals or legal entities who or which do not trade or invest in securities in the course of their profession or trade may not participate in the offering of the notes, and this offering memorandum or any other offering material relating to the notes may not be considered an offer or the prospect of an offer to sell or exchange the notes.

Brazil

Neither the Series S Notes nor this Pricing Supplement (and the Offering Memorandum) have been approved by or registered with the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*). Accordingly, the Series S Notes may not and will not be offered, sold or delivered, nor may or will copies of this Pricing Supplement (and the Offering

Memorandum) or any other documents relating to the Series S Notes or the offer thereof be distributed in Brazil other than pursuant to Law 6,385 of December 7, 1976, as amended.

PLACEMENT EFFORTS AND ALLOCATION PROCESS

The Series S Notes will be offered and placed pursuant to a "book-building" process. Any offers or sales of the Series S Notes by the Initial Purchasers (i) in the United States will be made to qualified institutional buyers pursuant to the exemption from registration provided by Rule 144A under the Securities Act and (ii) outside the United States will be made to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. The Series S Notes will be offered to qualified institutional buyers in the United States, Europe and Asia, European qualified investors, and Argentine institutional and retail investors, as more fully described in this Pricing Supplement and the Offering Memorandum. We and the Argentine Placement Agent plan to make a series of marketing and public offering placement efforts in connection with the offering of the Series S Notes in Argentina, subject to applicable laws, including Argentine Law 17,811, as amended, the Negotiable Obligations Law, Decree No. 677/2001 and the Joint Resolution. Our credit profile and history represents an important tool to potential investors in familiarizing themselves with our business, financial situation and strategy.

The public offering placement efforts in and outside of Argentina may consist of various marketing methods and actions customarily undertaken in transactions of this type, including:

- road shows in Asia, Europe, United States and the City of Buenos Aires in which potential institutional investors such as pension funds, insurance companies and brokerage firms can participate;

- one-on-one conference calls, one-on-one and group meetings with potential investors in Asia, Europe, United States and Argentina arranged by our management team together with the Initial Purchasers and/or the Argentine Placement Agent, as applicable and in accordance with demand requirements;

- distribution of the preliminary and final offering memorandum (including this Pricing Supplement) to investors in Asia, Europe, United States and Argentina (electronically and/or in hard copy);

- a hard copy of this Pricing Supplement and the Offering Memorandum made available to potential investors at our principal office and the office of the Argentine Placement Agent; and

- communications and advertisements published in an Argentine newspaper of general circulation and in the bulletin of the Buenos Aires Stock Exchange, in accordance with applicable rules.

For purchases made in Argentina, in accordance with the terms of the Joint Resolution, non-binding expressions of interest in connection with the purchase of the Series S Notes have to be made to the Argentine Placement Agent during the nine (9) Argentine business days period (the "Solicitation Period") commencing on the date of publication of this Pricing Supplement on the BASE bulletin (unless such period is extended by us upon notice from the Argentine Placement Agent, and notice of such extension is provided through the BASE bulletin prior to the expiration of the Solicitation Period).

Non-binding expressions of interest will include the interest rate offered and any other information contained in the form provided by the Argentine Placement Agent to potential investors. Non-binding expressions of interest may be submitted to the Argentine Placement Agent, during regular business hours, at its address indicated in the relevant form.

In accordance with the terms of the Joint Resolution, once the issue price and the interest rate for the Series S Notes have been determined on the last Argentine business day of the Solicitation Period (the "Pricing Date"), a notice will be published on the BASE bulletin. During the next Argentine business day following the publication of such notice, investors will be able to withdraw any non-binding expressions of interest submitted during the Solicitation Period. Any non-binding expressions of interest submitted during the Solicitation Period that are not so withdrawn will be considered final and binding on the relevant investors.

Expressions of interest are non-binding. Expressions of interest that are not withdrawn in writing by the relevant investors during the Argentine business day following publication of the notice on the BASE's daily bulletin (the "Reconfirmation Date") will be considered final and binding offers and may no longer be withdrawn.

Allocation Process

Investors interested in purchasing Series S Notes must file, within the applicable solicitation period, non-binding expressions of interest specifying the requested nominal amount, which shall be no less than U.S.$2,000 and integral multiples of U.S.$1,000 in excess thereof, and the interest rate thereon. Upon expiration of the solicitation period, we shall review the expressions of interest and

determine the interest rate on the Series S Notes, which is based on the lowest interest rate submitted and which shall be a multiple of 0.125%.

The criteria for allocating the Series S Notes among investors who have placed orders in the order book with a yield that is below or equal to the final yield indicated by the Initial Purchaser, the Argentine Placement Agent and us will be based on the interest demonstrated by the investor during the marketing process and such investor's intention to maintain a long-term position in the Series S Notes. The rationale behind such criteria is that the secondary market price of the Series S Notes will benefit from a stable, credit-oriented base of long-term holders, thus creating an effective and valid benchmark for us and facilitating our future access to the international capital markets.

All investors who place orders with a yield below or equal to the final yield indicated by the Initial Purchasers, the Argentine Placement Agent and us will receive Series S Notes, subject to compliance with all applicable laws. However, in case there is an oversubscription of the order book, the Series S Notes are expected to be placed principally among qualified institutional buyers in the United States, Europe, Asia and Argentina as well as private and retail banking accounts in Europe, Asia and Argentina. Pension funds, insurance companies, brokerage firms, money managers, private banking and retail accounts are expected to receive the largest portion of the Series S Notes to be allocated. Accordingly, in case of oversubscription of the Series S Notes, and as a consequence of the pro rata distributions conducted in accordance with applicable law and the criteria described in this Pricing Supplement, investors may be allocated an amount of Series S Notes that is lower than the amount indicated by them in their respective expressions of interest.

The criteria to be applied to allocate the Series S Notes among investors with similar characteristics will be based on the size of the investor's order, the aggressiveness of the investor's yield indication during the book-building process, the investor's interest in our credit profile throughout the marketing period, and the investor's history of participation in transactions involving issuers from the Latin American oil and gas and energy industry. Additionally, it is expected that investors with similar characteristics will be allocated comparable amounts of Series S Notes.

We, the Initial Purchasers and the Argentine Placement Agent shall determine the allocation of the Series S Notes on the basis of an analysis of the rates tendered by the investors in light of prevailing market conditions, and taking into account the primary objective sought by this issue.

TAXATION

Argentine Tax Considerations and U.S. Federal Income Tax Considerations

For a description of Argentine Tax Considerations and U.S. Federal Income Tax Considerations relating to an investment in the Series S Notes, please see "Taxation" in the Offering Memorandum.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the Series S Notes by a nonresident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date of this Pricing Supplement and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the Series S Notes.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE CONSEQUENCES OF PURCHASING THE SERIES S NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE SERIES S NOTES.

Generally, an individual, entity, trust or organization domiciled for tax purposes outside Brazil ("Nonresidents") is taxed in Brazil only when income is derived from Brazilian sources. Therefore, any gains or interest (including original issue discount), fees, commissions, expenses and any other income paid by the Issuer in respect of the Series S Notes issued by it in favor of Nonresident holders of the Series S Notes are not subject to Brazilian taxes.

Interest, fees, commissions, expenses and any other income payable by a Brazilian resident to a Nonresident are generally subject to income tax withheld at source. The rate of withholding tax in respect of interest payments is 15% or such other lower rate as provided for in an applicable tax treaty between Brazil and another country. If the recipient of the payment is domiciled in a tax haven jurisdiction, as defined by Brazilian tax regulations, the rate of withholding tax in respect of interest payments will be 25%.

If the payments with respect to the Series S Notes are made by Petrobras, as provided for in the Standby Purchase Agreement, the holders of the Series S Notes will be indemnified so that, after payment of all applicable Brazilian taxes collectable by withholding, deduction or otherwise, with respect to principal, interest and additional amounts payable with respect to the Series S Notes (plus any interest and penalties thereon), a holder of Series S Notes will retain an amount equal to the amounts that such holder of Series S Notes would have retained had no such Brazilian taxes (plus interest and penalties thereon) been payable. The Brazilian obligor will, subject to certain exceptions, pay additional amounts in respect of such withholding or deduction so that the holder receives the net amount due.

Gains on the sale or other disposition of the Series S Notes made outside Brazil by a Nonresident, other than a branch or a subsidiary of Brazilian resident, to another Nonresident are not subject to Brazilian taxes. Gains made by a Brazilian Nonresident from the sale or other disposition of these notes to a Brazilian resident, subject to certain assumptions and conditions, are not subject to Brazilian taxes.

Generally, there are no inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or any other disposition of the Series S Notes by a Nonresident, except for gift and inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states.

LEGAL MATTERS

Certain legal matters relating to the Series S Notes and the Standby Purchase Agreement as to U.S. federal and New York law will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, New York, New York. Certain legal matters relating to the Series S Notes and the Standby Purchase Agreement as to Argentine law will be passed upon for us by Nicolás Martin Mordeglia, our legal counsel, and by Marval, O'Farrell & Mairal, Buenos Aires, Argentina.

Certain legal matters relating to the Series S Notes and the Standby Purchase Agreement will be passed upon for the Initial Purchasers as to U.S. federal and New York law by Shearman & Sterling LLP, New York, New York. Certain legal matters relating to the Series S Notes and the Standby Purchase Agreement will be passed upon for the Initial Purchasers as to Argentine law by Perez Alati, Grondona, Benites, Arntsen & Martinez de Hoz, Buenos Aires, Argentina. Certain legal matters relating to the Series S Notes and the Standby Purchase Agreement as to Brazilian law will be passed upon for the Initial Purchasers by Machado, Meyer Sendacz e Opice Advogados, São Paulo, Brazil.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as of and for the year ended December 31, 2006 included in the Offering Memorandum were audited by Sibille, member firm of KPMG International. Our consolidated financial statements as of and for the years ended December 31, 2005 and 2004 included in the Offering Memorandum were audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global. Petrobras' consolidated financial statements as of and for the year ended December 31, 2006 included in the 2006 Results 6-K were audited by KPMG Auditores Independentes. Petrobras' consolidated financial statements as of and for the years ended December 31, 2005 and 2004 included in the Petrobras 2005 20-F were audited by Ernst & Young Auditores Independentes S/S.

LISTING AND GENERAL INFORMATION

1. We have applied to have the Series S Notes admitted for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF, the exchange-regulated market of the Luxembourg Stock Exchange. However, even if admission to listing is obtained, we will not be required to maintain it.

2. The Series S Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The CUSIP numbers, ISIN numbers and common codes for the notes are as follows:

	CUSIP Number	ISIN Number	Common Code
Restricted Global Notes	71646J AB5	US71646JAB52	030008057
Regulation S Global Notes	P7873P AD8	USP7873PAD89	030008138

3. We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Series S Notes. Resolutions of our board of directors, dated March 6, 2007, authorized the issuance of the Series S Notes. Resolutions of Petrobras' board of directors, dated February 28, 2007, authorized Petrobras' execution, delivery and performance of its credit support obligations under the Standby Purchase Agreement.

4. Except as described in this Pricing Supplement and the Offering Memorandum, including the documents incorporated by reference herein and therein, there are no pending actions, suits or proceedings against or affecting us or any of our subsidiaries or any of their respective properties, which, if determined adversely to us or any such subsidiary, would individually or in the aggregate have an adverse effect on our financial condition and that of our subsidiaries taken as a whole or would adversely affect our ability to perform our obligations under the Series S Notes or which are otherwise material in the context of the issue of the Series S Notes, and, to the best of our knowledge, no such actions, suits or proceedings are threatened.

5. Except as described in this Pricing Supplement and the Offering Memorandum, since December 31, 2006, there has been no change (or any development or event involving a prospective change of which we are or might reasonably be expected to be aware) which is materially adverse to our financial condition and that of our subsidiaries taken as a whole.

6. For so long as any of the Series S Notes are outstanding and admitted for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF, copies of the following items in English will be available free of charge from The Bank of New York (Luxembourg) S.A., our listing agent, at its office at Aerogolf Center, 1A Hoehenhof, L-1736 Senningerberg, Luxemburg:

- our audited consolidated financial statements as at and for the years ended December 31, 2006, 2005 and 2004; and
- any related notes to these items.

During the same period, the Indenture and a copy of our articles of incorporation will be available for inspection at the offices of The Bank of New York and The Bank of New York (Luxembourg) S.A. We will, for so long as any Series S Notes are admitted for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF, maintain a paying agent in New York as well as in Luxembourg.

7. Copies of our constitutive documents are available at the office of The Bank of New York (Luxembourg) S.A., the paying agent in Luxembourg.

8. Petrobras Energía S.A. is a corporation (*sociedad anónima*) organized and existing under the laws of the Republic of Argentina with its principal executive offices at Maipú 1, C1084ABA, Buenos Aires, Argentina. We were incorporated in Argentina and registered in the Public Registry of Commerce on November 17, 1947, under No. 759, folio 569, book 47, volume A, for a term expiring on June 18, 2046. Our corporate purpose, as stated in Article 3 of our bylaws, is among other things the exploration and production of oil and gas, oil refining, petrochemicals production, electricity generation, transmission and distribution, and hydrocarbons marketing and transportation.

9. Petróleo Brasileiro S.A. – PETROBRAS, also known as "Petrobras," is a state-controlled company organized under the laws of Brazil with its principal executive offices at Avenida República do Chile, 65, 20031-912 – Rio de Janeiro – RJ, Brazil. Petrobras was incorporated in 1953. Petrobras' corporate purpose, as stated in Article 3 of its bylaws, is the research, mining, refining, processing, trade and transport of oil from wells, shale and other rocks, its derivatives, natural gas and other fluid hydrocarbons, in addition to other energy related activities; it may promote the research, development, production, transport, distribution and marketing of all forms of energy, as well as other related activities or similar ones. Petrobras was registered in the City of Rio de Janeiro, Brazil, on October 3, 1953 under the number 81.281.882.

10. The Trustee for the Series S Notes is The Bank of New York (as successor to Citibank, N.A.), having its office at 101 Barclay Street, Floor 21 West, New York, New York 10043. The terms and conditions of our appointment of The Bank of New York as Trustee, including the terms and conditions under which The Bank of New York may be replaced as Trustee, are contained in the Indenture and the Supplemental Indenture available for inspection at the offices of The Bank of New York and The Bank of New York (Luxembourg) S.A.

11. The amount of our paid-in, authorized capital stock was P$1,010 million as of December 31, 2006. Our capital stock is comprised of two classes of ordinary shares, the Class A shares and the Class B shares, each with a par value of P$1. Each Class A share carries five votes and each Class B share carries one vote. Petrobras' subscribed and fully paid-in capital at December 31, 2006 consisted of 2,536,673,672 common shares and 1,850,364,698 preferred shares. For further information about our capital structure, including information about the number of shares outstanding in each class, see the Offering Memorandum. For further information about Petrobras' capital structure, including information about the number of shares outstanding in each class, see the section on "Major Shareholders and Related Party Transactions" of the Petrobras 2005 20-F.

12. For information regarding our board of directors and executive officers, see "Management, Audit Committee and Statutory Syndic Committee" in the Offering Memorandum.

REGISTERED OFFICE
OF THE ISSUER
Petrobras Energía S.A.
Maipú 1
C1084ABA Buenos Aires
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TEL.(54-11) 4344-6000

REGISTERED OFFICE
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Corporate Trust Administration
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SECURITY REGISTRAR AND TRANSFER AGENT IN ARGENTINA
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INDEPENDENT AUDITORS OF THE ISSUER
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In respect of Argentine law:

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Petrobras Energía S.A.
Maipú 1 C1084ABA—
Buenos Aires
Argentina

and

Marval, O'Farrell & Mairal
Av. Leandro N. Alem 928 – (1001)
Capital Federal
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Argentina

LEGAL ADVISORS TO THE INITIAL PURCHASERS

In respect of U.S. Federal and New York law:

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U.S.A.

In respect of Argentine law:

Perez Alati, Grondona, Benites, Arntsen & Martinez de Hoz
Suipacha 1111, Piso 18
C1008AAW – Buenos Aires
Argentina

In respect of Brazilian law:

Machado, Meyer Sendacz e Opice Advogados
Avenida Brigadeiro Faria Lima 3144 - 11th Floor
01451-000 São Paulo SP
Brazil

U.S.$300,000,000

Petrobras Energía S.A.

5.875% Series S Notes due 2017

Payments supported by a standby purchase agreement provided by

Petróleo Brasileiro S.A. – PETROBRAS

HSBC **Morgan Stanley**

May 2, 2007

Offering Memorandum

PETROBRAS ENERGÍA S.A.

(Incorporated in the Republic of Argentina)

U.S.$2,500,000,000
Medium-Term Non-Convertible Notes Program
Notes due not less than seven days from the date of issue

Petrobras Energía S.A. may from time to time offer non-convertible unsecured or secured and unsubordinated Medium Term Notes (the "Notes") in one or more series (each, a "Series"), with an aggregate principal amount at any time outstanding not to exceed U.S.$2,500,000,000 or the equivalent thereof in other currencies (the "Program Amount"), at prices and on terms to be determined at or prior to the time of sale of each Series or Tranche (as defined below), under the Medium Term Note Program herein described (the "Program"). The Notes will have maturities of not less than seven days from the date of issue. Notes that are of the same Series, and have identical terms except as to principal amount and date of issuance, shall constitute a "Tranche." Unless stated otherwise or required by the context, references to the "Company," "Petrobras Energía," "we," "us," "our" and similar terms refer to Petrobras Energía S.A. and its controlled subsidiaries, but excluding affiliates and companies under joint control.

The Notes will constitute negotiable obligations (*obligaciones negociables*) under, and will be issued pursuant to and in compliance with all the requirements of, the Argentine Negotiable Obligations Law, Law No. 23,576, as amended by Law No. 23,962 (as so amended, the "Negotiable Obligations Law") and will be entitled to the benefits set forth therein and will be subject to the procedural requirements thereof, and to any other applicable Argentine laws and regulations. Offers of the Notes to the public in the Republic of Argentina ("Argentina") are being made by a separate but substantially similar Offering Memorandum in the Spanish language (the "Argentine Memorandum") which has been filed with the Argentine National Securities Commission (*Comisión Nacional de Valores*) (the "CNV").

Notes will be sold in off-shore transactions in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act"). Notes sold in the United States will be sold in reliance on Rule 144A ("Rule 144A") under the Securities Act. Unless otherwise set forth in the applicable accompanying pricing supplement (the "pricing supplement"), Notes will be issued in denominations of U.S.$1,000 and integral multiples of U.S.$1,000 in excess thereof.

The Notes are expected to be listed on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*) and application may be made to have the Notes designated for trading on the Argentine Over-the-Counter Market (*Mercado Abierto Electrónico S.A.*) (the "Argentine OTC Market"). In addition, Petrobras Energía may also apply to have the Notes admitted for listing and trading on the exchange-regulated markets of the Luxembourg Stock Exchnage (Euro MTF) and/or the London Stock Exchange; however, Petrobras Energía may issue Notes that will not be listed on any exchange or that are listed on an exchange not named above. The applicable pricing supplement will indicate whether the Notes of a relevant Series will be listed on an exchange.

See the "Risk Factors" section on page 19 for a discussion of certain factors that should be considered by prospective investors.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS IN ACCORDANCE WITH RULE 144A AND TO CERTAIN NON-U.S. PERSONS IN OFF-SHORE TRANSACTIONS (AS DEFINED IN REGULATION S). SEE "NOTICE TO INVESTORS."

The Notes will be offered from time to time by Petrobras Energía through one or more agents appointed from time to time under the Program by Petrobras Energía (each, an "Agent," and, collectively, the "Agents"), each of which will agree to use its best efforts to solicit offers to purchase Notes. Petrobras Energía also may sell Notes directly to investors on its own behalf. There can be no assurance that the Notes offered by this Offering Memorandum or any pricing supplement will be sold. Subject to applicable law, Petrobras Energía reserves the right to withdraw, cancel or modify the Program without notice. Petrobras Energía or an Agent soliciting any offer or to which any offer is made may at its sole reasonable discretion reject such offer to purchase Notes, whether or not solicited, in whole or in part, for any reason. Any Agent involved in such an offer or sale of the Notes will be named, and any commissions payable by Petrobras Energía to such Agent will be set forth in the applicable pricing supplement. See "Plan of Distribution." **This Offering Memorandum cancels and replaces the Offering Memorandum dated April 22, 2004.**

The establishment of the Program has been authorized by the CNV pursuant to Certificate No. 202, dated May 4, 1998, Certificate No. 290 dated July 3, 2002 and Certificate No. 296 dated September 16, 2003. Such authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in the Argentine Offering Memorandum. The truthfulness of the accounting, financial, economic and all other information contained in the Argentine Offering Memorandum is the sole responsibility of our Board of Directors and, insofar as is applicable, the Syndics (as defined under Argentine law).

April 16, 2007

INVESTORS IN THE NOTES OFFERED UNDER THE PROGRAM ARE MADE AWARE OF THE UNCERTAINTIES REGARDING OUR FUTURE OPERATIONS AND FINANCIAL CONDITION AND OF THE RISKS ASSOCIATED WITH SUCH EVENTS. SEE "RISK FACTORS."

IN CONNECTION WITH THE ISSUE OF ANY SERIES OF NOTES, THE RELEVANT AGENT (IF ANY) DISCLOSED AS THE STABILIZING MANAGER IN THE APPLICABLE PRICING SUPPLEMENT OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF SUCH NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON SUCH STABILIZING MANAGER OR ANY AGENT OF IT TO DO THIS. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. ALL SUCH STABILIZATION ACTIVITIES SHALL BE CONDUCTED IN ACCORDANCE WITH ARTICLES 16 AND 17 OF DECREE NO. 677/2001. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "PLAN OF DISTRIBUTION."

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANS-ACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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We, having made all reasonable inquiries, hereby confirm that this Offering Memorandum, taken as a whole, does not as of the date hereof contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading. The opinions and the intentions expressed in this Offering Memorandum with regard to us are honestly held and are based on reasonable assumptions. Based on the foregoing, we accept responsibility for the information contained in this Offering Memorandum.

The information included in this Offering Memorandum under "Regulation of Our Businesses" has been extracted, summarized or derived only from information contained in official publications or publicly available and other independent sources. We accept responsibility for the correct extraction of such information, but we make no representation as to its accuracy or completeness or that there has not occurred any event that would affect the accuracy or completeness thereof.

This paragraph relates only to offers and sales in the United States in reliance on Rule 144A. We have prepared this Offering Memorandum solely for use in connection with the proposed private placement of the Notes described herein. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this Offering Memorandum to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective purchaser, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no photocopies of this Offering Memorandum or any documents attached hereto.

Each person receiving this Offering Memorandum acknowledges that (i) this Offering Memorandum does not contain all the information that would be included in a prospectus for this offering were this offering registered under the Securities Act, (ii) the financial statements included herein have been prepared in accordance with Argentine generally accepted accounting principles or Argentine GAAP, which differ in certain significant respects from United States generally accepted accounting principles or U.S. GAAP, and thus are not comparable to the financial statements of a U.S. company and (iii) no person has been authorized to give any information or to make any representation concerning us or the Notes other than as contained herein and in any applicable pricing supplement and, if given or made, any such information or representation should not be relied upon as having been authorized by us or any Agent.

This Offering Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offering or solicitation. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall under any circumstances imply that the information with respect to us or our financial condition or results of operations contained herein is correct as of any date subsequent to the date hereof.

This Offering Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment

activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

Pursuant to Argentine Law No. 24,587 and Decree No. 259/96, Argentine companies are not allowed to issue notes in bearer form or in registered endorsable form, except if the same are authorized by the CNV to be publicly offered in Argentina and are represented by global or individual certificates, registered or deposited with common depositary systems authorized by the CNV. By General Resolution No. 368/01 of the CNV, the Euroclear System ("Euroclear"), Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), The Depository Trust Company ("DTC") and the Argentine Securities Depositary (*Caja de Valores S.A.*) have been authorized as such common depositary systems. Accordingly, as long as the provisions of such laws are applicable, we will only issue Notes in a form that complies with the requirements of such law under the Program and the Indenture (as defined herein).

The establishment of the Program has been authorized by the resolution of the Shareholders meeting of the Company adopted on April 8, 1998 and June 20, 2002, and Board of Directors resolution adopted on April 17, 1998 and June 20, 2002. The extention of its lasting by five years since its due date was established by the Shareholders meeting of July 8, 2003 and by the resolution of the Board of Director of July 15, 2003.

The establishment of the Program has been authorized by the CNV pursuant to Certificate No. 202, dated May 4, 1998, Certificate No. 290 dated July 3, 2002 and Certificate No. 296 dated September 16, 2003 authorizing issues of Notes during the ten year period between May 4, 1998 and May 4, 2008; provided, however, that any update and any amendment of the information contained in the Argentine Offering Memorandum, including the yearly and quarterly update required by the CNV, must be authorized before any additional offerings of Notes may be made using such updated or amended Argentine Offering Memorandum. Such authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the information contained in the Argentine Offering Memorandum. The truthfulness of the accounting, financial, economic and all other information contained in the Argentine Offering Memorandum is the sole responsibility of our Board of Directors and, insofar as is applicable, the Syndics (as defined under Argentine law).

This Offering Memorandum is subtantially identical to the Argentine Memorandum in the Spanish language that has been filed with the CNV and the Issuer confirms that it is responsible for the accuracy of the translation.

Unless stated otherwise or required by the context, references to the "Company," "Petrobras Energía," "we," "us," "our" and similar terms refer to Petrobras Energía S.A. and its controlled subsidiaries, but excluding affiliates and companies under joint control. References in this Offering Memorandum to "U.S. dollars," or "U.S.$" are to the lawful currency of the United States. References in this prospectus to "pesos," "P$" or "P$" are to the lawful currency of Argentina. References to "Pounds Sterling " or "£" are to the lawful currency of the United Kingdom. Amounts in the Offering Memorandum are rounded, and the totals may therefore not precisely equal the sums of the numbers presented.

ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated in Argentina. All of our directors and executive officers named herein reside in Argentina or in Brazil and all or substantially all of our assets and those of such persons are located in Argentina or elsewhere in Latin America. As a result, it may not be possible for investors to effect service of process upon us or such persons within the United States or to enforce, in U.S. courts, judgments against us or such persons obtained in the United States. The enforceability in Argentine courts of judgments of U.S. courts predicated upon the civil liabilities provisions of the federal securities laws of the United States will be subject to compliance with procedural requirements under Argentine law, including the condition that such judgments do not violate Argentine public policy.

FORWARD LOOKING STATEMENTS

This Offering Memorandum contains forward-looking statements found principally in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Regulation of Our Business," including statements regarding, among other items, our future earnings and operating results, capital expenditures, competition and sales, oil and gas reserves, and prospects and trends in the oil and gas, refining and petrochemicals and electricity industries.

Other statements contained in this Offering Memorandum are forward-looking statements and are not based on historical fact, such as statements containing the words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar words.

These forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in "Risk Factors" and elsewhere in this Offering Memorandum. Factors that could cause actual results to differ materially and adversely include, but are not limited to:

- changes in general economic, business, political or other conditions in Argentina or changes in general economic or business conditions in Latin America;
- changes in the price of hydrocarbons;
- availability of local and foreign financing;
- changes to our capital expenditure plans;
- changes in laws affecting our operations;
- increased costs; and
- the other factors discussed under "Risk Factors" in this Offering Memorandum.

We believe that our statements are reasonable, but we urge you not to rely unduly on these statements, which are based on our current expectations. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Furthermore, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statements.

OFFERING MEMORANDUM SUMMARY

In addition to this summary, you are urged to read the entire Offering Memorandum carefully, especially the discussion of the risks of investing in the Notes under "Risk Factors," before deciding to purchase any Notes.

The Company

General

Petrobras Energía is an integrated energy company engaged in oil and gas exploration and production, refining and distribution, petrochemicals, electricity generation, transmission and distribution, and hydrocarbons marketing and transportation. Petrobras Energía conducts operations in Argentina, Bolivia, Brazil, Colombia, Ecuador, Peru and Venezuela.

Petrobras Energía was founded in 1946 as a shipping company by the Perez Companc family. In 1960, Petrobras Energía began servicing oil wells and, over time, its maritime operations were gradually discontinued and replaced by oil-related activities. In January 2000, Petrobras Energía Participaciones S.A. (which at the time was known as PC Holdings S.A. and later Perez Companc S.A.) completed an exchange offer for 69.29% of Petrobras Energía's outstanding capital stock, giving it ownership of 98.21% of Petrobras Energía's outstanding capital stock.

On October 17, 2002, Petrobras Participaciones, S.L., a wholly-owned subsidiary of Petróleo Brasileiro S.A. – PETROBRAS ("Petrobras") acquired 58.62% of Petrobras Energía Participaciones S.A.'s capital stock from the Perez Companc Family and Fundación Perez Companc. In 2005, a corporate reorganization and merger was consummated by which Petrobras Energía Participaciones S.A.'s ownership interest in Petrobras Energía decreased from 98.21% to the current level of 75.82%. See "Information About the Company—Petrobras Energía's Corporate Reorganization." Petrobras Energía Participaciones S.A. is a holding company whose sole asset is its 75.82% holding of our shares. Petrobras Energía Participaciones S.A.'s and Petrobras' American Depository Receipts are listed on the New York Stock Exchange under the symbol "PZE" and "PBR," respectively.

Our Strategy

Our long-term strategy is to grow as an integrated energy company with an international presence, while focusing on profitability as well as social responsibility.

The main points of this strategy are:

Increasing oil and gas reserves and production in Argentina and elsewhere in Latin America to secure sustainable growth;

Growing downstream in Argentina, while balancing the crude production – refining – logistics – distribution chain and differentiating ourselves through the quality of our products and services;

Developing businesses in the gas and energy areas that will allow for the best overall use of our gas reserves;

Consolidating our leading position in the regional petrochemicals market, by maximizing the use of our raw materials; and

Using capital in a disciplined manner, with a view to optimizing our debt to capital ratio and maintaining our financial solvency.

We will continue to integrate our business in order to take full advantage of our significant hydrocarbon reserves.

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

- A commitment to protect the quality of our goods and services, the environment and the health and safety of our employees, contractors and neighboring communities;
- Adoption of, and compliance with, corporate governance practices in line with recognized best practices;
- Maintenance of a style of management that favors communication and teamwork, fostered by the value of the people that work in our organization; and
- Developing new business opportunities by maximizing potential synergies and capitalizing on complementary business opportunities with Petrobras.

We currently manage our activities, with the support of corporate staff, in four business segments: (1) Oil and Gas Exploration and Production, (2) Gas and Energy, (3) Refining and Distribution, and (4) Petrochemicals.

PROGRAM SUMMARY

Issuer	Petrobras Energía S.A.
Program Amount............................	U.S.$2,500,000,000 (or its equivalent in other currencies calculated as set forth herein) aggregate principal amount of Notes. Under the Distribution Agreement (as defined below), the nominal amount of Notes that may be issued under the Program may be increased, subject to the satisfaction of certain conditions set forth therein including compliance with Argentine or other laws or directives (including the approval of the CNV).
Ranking of the Notes	Unless otherwise set forth in the applicable pricing supplement, the Notes will, other than in the case of certain obligations granted preferential treatment pursuant to Argentine law, rank *pari passu* in right of payment with all other unsecured and unsubordinated obligations of Petrobras Energía that are not, by their terms, expressly subordinated in right of payment to the Notes.
Maturities..	Subject to compliance with all relevant laws and directives, the Notes will have any maturity of not less than seven days. The maturities of a Series or Tranche of Notes will be determined in accordance with any laws or regulations applicable to the relevant currency or currencies or as may be allowed or required from time to time by the relevant central bank or equivalent governmental body.
Use of Proceeds	As set forth in the applicable pricing supplement. See "Use of Proceeds."
Term of the Program......................	The Program has been authorized by the CNV pursuant to Certificate No. 202 dated May 4, 1998, Certificate No. 290 dated July 3, 2002 and Certificate No. 296 dated September 16, 2003, authorizing issues of Notes during the ten year period between May 4, 1998 and May 4, 2008. No Notes may be issued under the Program after May 4, 2008. See "Description of Notes—General."
Specified Currencies.......................	U.S. dollars, Pesos, Australian Dollars, Canadian Dollars, Danish Kroner, Euros, Hong Kong Dollars, New Zealand Dollars, Pounds Sterling, Swiss Francs and Yen, or such other currency as may be agreed between Petrobras Energía and the relevant Agent(s), subject to compliance with all applicable legal and regulatory requirements. Specifically, the Program will allow for the issue of Notes denominated in U.S. dollars and Pesos.
Issue Price	Notes may be issued at par or at a discount to or a premium over par, as set forth in the applicable pricing supplement.
Method of Issue...............................	The Notes will be issued on a continuous basis, which may include syndicated or non-syndicated placements with a minimum issue of U.S.$1,000 or any other smaller or larger amount, as set forth in the applicable pricing supplement. Further Notes may be issued as part of an existing Series provided that all the Notes of such Series have been duly subscribed.
Interest Rate....................................	The Notes may be issued on a fixed rate, variable rate or zero coupon

basis, or as otherwise set forth in the applicable pricing supplement. See "Description of Notes—Interest."

Optional Redemption .... Petrobras Energía may reserve the right to redeem and pay before maturity all or any part of the Notes of any Series as set forth in the applicable pricing supplement, so long as it ensures the equal treatment of all holders of the same Series of Notes.

Optional Tax Redemption .... Petrobras Energía may redeem the Notes of any Series in whole but not in part at their principal amount, together with interest accrued to the date fixed for redemption and, if specified in the applicable pricing supplement, a premium, if Petrobras Energía has or will become obligated to pay certain additional amounts as a result of any change in or amendment to the laws or regulations of Argentina, or any change in the application or official interpretation of such laws or regulations, as described under "Description of Notes—Redemption for Taxation Reasons" and "—Payment of Additional Amounts."

Withholding Taxes; Additional Amounts..................................... All payments of or in respect of principal, interest and premium, if any, on each Note shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, penalties, fines, duties, assessments or other governmental charges of whatsoever nature, imposed, levied, collected, withheld or assessed by, Argentina or any political subdivision or governmental authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event Petrobras Energía shall, subject to certain exceptions, pay such additional amounts as may be necessary to ensure that the amounts received by the holder after such withholding or deduction shall equal the respective amount of principal, interest and premium, if any, that would have been receivable in respect of such Note in the absence of such withholding or deduction. See "Taxation—Argentine Tax Considerations" and "Description of Notes—Payment of Additional Amounts."

Listing... The Notes are expected to be listed on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*) and application may be made to have the Notes designated for trading on the Argentine Over-the-Counter Market (*Mercado Abierto Electrónico S.A.*) (the "Argentine OTC Market"). In addition, Petrobras Energía may also apply to have the Notes admitted for listing and trading on the exchange-regulated markets of the Luxembourg Stock Exchange (Euro MTF) and/or the London Stock Exchange; however, Petrobras Energía may issue Notes that will not be listed on any exchange or that are listed on an exchange not named above. The applicable pricing supplement will indicate whether the Notes of a relevant Series will be listed on an exchange.

Form and Denominations .... Notes will be in denominations of U.S.$1,000 and integral multiples thereof or such denominations as may be agreed between Petrobras Energía and the relevant Agent(s) specified in the applicable pricing supplement, in accordance with any laws or regulations applicable to the relevant currency or currencies or as may be allowed or required from time to time by the relevant central bank or equivalent governmental body.

Notes may be sold only (i) to qualified institutional buyers in reliance on Rule 144A under the Securities Act and (ii) in off-shore transactions in reliance on Regulation S under the Securities Act.

Notes sold to qualified institutional buyers in reliance on Rule 144A will be issued in the form of beneficial interests in one or more permanent global securities ("DTC Restricted Global Notes") in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes sold to non-U.S. persons in off-shore transactions in reliance on Regulation S will be issued in the form of beneficial interests in one or more permanent global securities ("Regulation S Global Notes") in fully registered form and deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream Luxembourg or such other depositary as set forth in the applicable pricing supplement. See "Description of Notes—Form and Denomination."

Pursuant to Argentine Law No. 24,587 and Argentine Decree No. 259/96, Argentine companies are not allowed to issue Notes in bearer form, unless such Notes are authorized by the CNV to be publicly offered in Argentina and are represented by global certificates, registered or deposited with common depositary systems authorized by the CNV. By General Resolution No. 368/01 of the CNV ("Resolution 368/01"), Euroclear, Clearstream, Luxembourg, DTC and the Argentine Securities Depositary (*Caja de Valores S.A.*) have been authorized as such common depositary systems. Accordingly, as long as the provisions of such law are applicable, under the Program and the Indenture (as defined herein), Petrobras Energía will only issue Notes in a form that complies with the requirements of such law.

Covenants.. The Indenture contains covenants including, among others, a limitation on liens. The limitation on liens covenant does not limit our ability to pledge our assets to the extent that the debt secured by the pledge relates to the oil and gas, petrochemical, refining, mining or electrical energy businesses. Those businesses constitute substantially all of our businesses. See "Description of Notes—Covenants."

Events of Default .... The Indenture contains a set of events of default relating to Petrobras Energía. See "Description of Notes—Events of Default" and the applicable pricing supplement.

Selling Restrictions.......................... There are restrictions on the sale of Notes and the distribution of offering material in various jurisdictions, including those of the United States, the United Kingdom and Argentina. See "Plan of Distribution."

Transfer Restrictions...................... The Notes have not been registered under the Securities Act and are subject to certain restrictions on transfer, including, but not limited to, restrictions on the transfer of Notes sold pursuant to Rule 144A and Regulation S under the Securities Act. See "Notice to Investors."

Clearing Systems .... Euroclear; Clearstream, Luxembourg; and DTC.

Pricing Supplement .... The issue price, issue date, maturity date, principal amount, interest rate (if any) applicable to any Notes and any other relevant provisions of such Notes will be agreed between Petrobras Energía and the relevant Agent(s) at the time of agreement to issue such Notes and will

be set forth in the applicable pricing supplement.

Risk Factors .... See the "Risk Factors" section for a discussion of certain factors that prospective investors should consider prior to making an investment in the Notes.

Governing Law .... The Notes will constitute negotiable obligations (*obligaciones negociables*) under the Negotiable Obligations Law and will be entitled to the benefits set forth therein. The authorization, execution, issuance and delivery of the Notes by Petrobras Energía, and the approval of the Program by the CNV and qualification of the Notes as negotiable obligations (*obligaciones negociables*) are governed by Argentine law. All other matters in respect of the Notes, the Indenture and the Distribution Agreement are governed by, and shall be construed in accordance with, the laws of the State of New York.

Argentine Summary Proceedings... Under Argentine law, holders of negotiable obligations (*obligaciones negociables*) such as the Notes are entitled to a summary executive proceeding or "*acción ejecutiva*" to claim principal, interest and other amounts owed under the Notes. In accordance with Argentine Decree No. 677/01, any depositary will be able to deliver certificates in respect of the Notes represented by any global note in favor of any beneficial owner. These certificates enable beneficial owners to institute suit before any competent court in Argentina, including summary executive proceedings and to obtain any overdue amount under the Notes without any other requirement. However, this does not limit the right of holders to commence other proceedings before the courts of New York, Argentina or other applicable jurisdictions to enforce such claims.

Placement .... The Notes may be offered to the public in Argentina through informative meetings with prospective investors and the Company, the publication of this Offering Memorandum and the publication of applicable pricing supplements in the Buenos Aires Stock Exchange Bulletin (*Boletín de la Bolsa de Comercio de Buenos Aires*), or other methods considered convenient or appropriate.

SELECTED FINANCIAL DATA

The financial information set forth below may not contain all of the financial information that you should consider when making an investment decision. This information should be read in conjunction with, and is qualified in its entirety by reference to, the risk factors described in this Offering Memorandum. See "Risk Factors". You should also carefully read our financial statements and "Management's Discussion and Analysis of Consolidated Financial Condition and Result of Operations" included in this Offering Memorandum for additional financial information about us.

This Offering Memorandum contains our consolidated financial statements as of and for the years ended December 31, 2006, 2005 and 2004.

Our financial statements as of and for the year ended December 31, 2006 were audited by Sibille, a member firm of KPMG International, with its principal place of business at Bouchard 710, 2nd floor, C1106ABL, Buenos Aires, Argentina, whose report is included in this Offering Memorandum.

Our financial statements as of and for the years ended December 31, 2005 and 2004 were audited by Pistrelli, Henry Martin y Asociados S.R.L., a member firm of Ernst & Young Global, with its principal place of business at 25 Avenida de Mayo 487, C1002ABI, Buenos Aires, Argentina.

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

a) The date of discontinuance of the restatement in constant money provided for in the Technical Resolution No. 6 of the Argentine Federation of Professional Associations of Economic Sciences ("FACPCE").

b) The possibility of capitalizing the financial costs of financing with the Company's own capital may not be applied.

c) The alternative treatment prescribed in the professional accounting standards in connection with the capitalization of financial costs attributable to certain assets is considered mandatory.

For a summary of certain differences between Argentine GAAP and U.S. GAAP as they relate to our financial statements, see "Annex A—Summary of Certain Differences Between Argentine GAAP and U.S. GAAP."

Proportional Consolidation of Joint Control Companies.

Pursuant to the procedure set forth by Technical Resolution No. 21 of FACPCE, the Company has consolidated its financial statements line by line with the relevant financial statements of those companies of which it holds joint control. In the consolidation of companies under joint control, the amounts of the investment in the company under joint control and the share in its results and cash flows are replaced by the proportion corresponding to the Company according to its shareholding in its assets, liabilities, results and cash flows. Credits and debts and transactions among members of the consolidated group and companies under joint control are eliminated from the consolidation in proportion to the Company's shareholding.

Shareholdings in Distrilec Inversora S.A. ("Distrilec"), Compañía de Inversiones de Energía S.A. ("CIESA") and Compañía Inversora en Transmisión Eléctrica Citelec S.A. ("Citelec") qualify under the classification of companies under joint control. The Company did not proportionally consolidate line by line the assets, liabilities, results and cash flows of the shareholding in Citelec S.A. by reason of the commitment to divest such shareholding assumed by Petrobras Energía S.A. upon approval of the transfer of 58.62% of the shares of Petrobras Energía Participaciones S.A. to Petróleo Brasileiro S.A. - PETROBRAS ("Petrobras").

Petrobras Energía's Corporate Reorganization

On January 21, 2005, the Special Shareholders' Meeting of Petrobras Energía, Eg3 S.A. ("Eg3") and Petrobras Argentina S.A. ("PAR"), and the Special Partners' Meeting of Petrolera Santa Fe S.R.L. ("PSF"), in their respective meetings, approved the merger of Eg3, PAR, and PSF with and into Petrobras Energía, with the former companies being dissolved without winding up. The effective merger date was set as January 1, 2005, as from when all assets, liabilities, rights and obligations of the absorbed companies would be considered incorporated into Petrobras Energía. On March 3, 2005, the final merger agreement was executed. On June 28, 2005, the CNV (Argentine Securities Commission) approved the merger and authorized the public offering of the Petrobras Energía shares. On September 16, 2005, the merger was registered with the Public Registry of Commerce.

As the result of the merger, (a) Petrobras, owner of 99.6% of Eg3's capital stock and 100% of PAR's and PSF's capital stock through its subsidiary Petrobras Participaciones, S.L., received, through such subsidiary, 229,728,550 new shares of class B stock in Petrobras Energía, with a nominal value of Argentine Pesos 1 each and entitled to one vote per share, representing 22.8% of Petrobras Energía's capital stock, and (b) Petrobras Energía Participaciones S.A.'s ownership interest in Petrobras Energía decreased from 98.21% to 75.82%. After the merger, the new capital stock of Petrobras Energía was set at Argentine pesos 1,009,618,410.

Petrobras Energía recorded the effects of the corporate reorganization in accordance with the pooling-of-interest method. Although Argentine GAAP and IFRS, which are applied on a suppletory basis, refer to business combinations, they do not address such transactions when carried out among companies of the same economic group. IFRS establish that in case that a situation or topic is not subject of an International Accounting Standard, management could consider other standards-issuing institutions' pronouncements that apply similar frameworks, as well as other accounting literature and general practices accepted by different sectors of activity, insofar as they are not inconsistent with IFRS framework.

In this regard, taking into account that the "Class B" shares of Petrobras Energía Participaciones S.A., our controlling company, are listed on the New York Stock Exchange, the accounting standards effective for this market (Statement of Financial Accounting Standard No. 141) provided that the merger between entities under common control be accounted for using the pooling-of-interest method.

According to such method, the assets, liabilities and components of the shareholders' equity of the transferring entities are recognized in the combined entity based on their carrying amounts as of the effective merger date.

Changes in professional accounting standards

On August 10, 2005, the Board of the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (*CPCECABA*) approved Resolution CD No. 93/2005, which introduced a series of changes to professional accounting standards, effective for fiscal years beginning on or after January 1, 2006. In addition, it contemplates transition standards that defer the mandatory effectiveness of certain changes for fiscal years beginning on or after January 1, 2008. Through General Resolution Nos. 485 and 487, dated December 29, 2005, and January 26, 2006, respectively, the CNV approved these changes, which are effective for fiscal years beginning on or after January 1, 2006.

Figures for the years 2005 and 2004 have been restated to give effect to the preceding changes in our financial statements.

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

	Gain (loss)		Increase (decrease)	
	Income for		Shareholders´equity as of December 31,	
	2005	2004	2005	2004
Comparison with recoverable values (i)	(169)	(35)	(143)	(53)
Deferred tax (ii)	285	132	(804)	(1,010)
Total effect on unapropiated retained earnings			(947)	(1,063)
Deferred loss (iii)			(22)	(49)
Total effect on Shareholders´equity	116	97	(969)	(1,112)

(i) In calculating the recoverability of Property, Plant and Equipment and certain intangible assets, the recoverable value is considered to be the higher of the net realizable value and the discounted value of the expected cash flows, eliminating the first comparison with the nominal value of expected cash flows.

(ii) The difference between the inflation-adjusted book value of Property, Plant and Equipment and other non-monetary assets and their tax basis is considered to be a temporary difference that gives rise to the recognition of a deferred liability, which – as provided by CNV General Resolution No. 487 – can either be booked or disclosed in notes to financial statements. The Company's Management opted to book this effect in accordance with the International Financial Reporting Standards (IFRS).

(iii) The effects of the translation of foreign operations net of the foreign-exchange differences generated by the debt denominated in foreign currency designated as hedge of net investment abroad no longer classified between liabilities and shareholders' equity are classified in shareholders' equity.

In addition, an amendment was introduced in the measurement of deferred tax assets and liabilities, which shall not be discounted for the entities included in the public offering, thus unifying the treatment thereof with CNV standards.

The following table sets forth selected financial data, including data for joint control companies consolidated under the proportional consolidation method, as of and for the years ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Income

	Year ended December 31,		
	2006	**2005**	**2004**
	(In millons of pesos, except earnings per share)		
Net sales	11,745	10,655	8,763
Cost of sales	(8,251)	(7,046)	(5,781)
Gross profit	**3,494**	**3,609**	**2,982**
Administrative and selling expenses	(1,092)	(938)	(845)
Exploration expenses	(117)	(34)	(133)
Other explotation expenses, net	(135)	(329)	(324)
Operating income	**2,150**	**2,308**	**1,680**
Equity in earnings of affiliates	219	281	102
Financial expense and holding losses	(504)	(897)	(1,264)
Other income (expenses), net	99	(456)	(36)
Income before income tax and minotity interest in subsidiaries	**1,964**	**1,236**	**482**
Income tax provision	(465)	(211)	317
Minority interest in subsidiaries	(83)	(54)	26
Net income	**1,416**	**971**	**825**
Earnings per share - Stated in Argentine pesos	1.403	0.962	1.058

Consolidated Balance Sheets (including data for joint control companies consolidated under the proportional consolidation method)

	As of December 31,		
	2006	2005	2004
	(In millons of pesos)		
Assets			
Current Assets			
Cash and banks	86	104	139
Investments	1,512	881	946
Trade receivables	1,416	1,596	1,181
Other receivables	1,181	627	756
Inventories	888	782	627
Other assets	1	-	1
Total current assets	5,084	3,990	3,650
Non-current Assets			
Trade receivables	124	78	47
Other receivables	691	672	943
Inventories	81	79	71
Investments	3,630	1,072	1,107
Property, plant and equipment	10,838	12,657	12,277
Other assets	41	47	65
Total non-current assets	15,405	14,605	14,510
Total assets	20,489	18,595	18,160
Liabilities			
Current liabilities			
Accounts payable	1,603	1,483	1,180
Short-term debt	2,646	1,805	1,709
Payroll and social security taxes	276	177	98
Taxes payable	326	224	207
Reserves	95	48	31
Other current liabilities	192	168	657
Total current liabilities	5,138	3,905	3,882
Non-current liabilities			
Accounts payable	49	14	26
Short-term debt	4,716	5,708	6,248
Payroll and social security taxes	36	17	12
Taxes payable	1,492	1,404	1,692
Reserves	85	103	76
Other liabilities	366	339	178
Total non-current liabilities	6,744	7,585	8,232
Total liabilities	11,882	11,490	12,114
Minority interest in subsidiaries	771	688	1,869
Shareholders´ Equity			
Capital stock	1,010	1,010	779
Adjustment to capital stock	1,230	1,230	934
Merger premium	960	960	-
Additional paid-in capital on sales of own stock	56	56	56
Legal Reserve	403	362	342
Treasury stock	(33)	(33)	(33)
Unappropiated retained earnings	4,221	2,846	2,148
Deferred results	(11)	(14)	(49)
Total shareholders´equity	7,836	6,417	4,177
Total liabilities, minority interest in subsidiaries and shareholders´equity	20,489	18,595	18,160

Other Consolidated Information (including data for joint control companies consolidated under the proportional consolidation method)

	Year ended December 31,		
	2006	2005	2004
	(In millons of pesos, except as otherwise noted)		
Total capitalization at book value (1)	15,969	14,618	14,003
Depreciation and amortization	1,121	1,209	1,156
Adjusted EBITDA (2)	3,454	3,883	3,195
Interest Expense	611	586	609
Interest Income	110	88	53
Dividends collected	116	72	84
Capital expenditures (8)	2,202	1,758	1,195
Cash and current investment	1,598	985	1,085
Ratios			
Current ratio	0.99	1.02	0.94
Ratio of non - current assets to total assets	0.75	0.79	0.80
Shareholders´aquity to total liabilities	0.66	0.56	0.34
Profitability (Net Income / average shareholders´equity)	0.20	0.18	0.22
Gross Margin (% of Net Sales)	0.30	0.34	0.34
Explotation Margin (% of Net Sales)	0.18	0.22	0.19
Adjusted EBITDA Margin (% of Net Sales) (2)	0.29	0.36	0.36
Net Margin (% of Net Sales)	0.12	0.09	0.09
Adjusted EBIDTA / Interest Expense (2)	5.65	6.63	5.25
Adjusted EBIDTA / Net Interest Expense (2)	6.89	7.80	5.75
Total debt / Adjusted EBIDTA (2)	2.13	1.93	2.49
Total debt less cash and current investment / Adjusted EBIDTA (2)	1.67	1.68	2.15
Short term debt / Total debt	0.36	0.24	0.21
Total debt / Total capitalization (at book value)	0.46	0.51	0.57
Operating Data			
Total proved reserves of oil - affiliates and subsidiaries (3) (4)	323.9	538.4	582.8
Total proved reserves of gas - affiliates and subsidiaries (5)	1,219.8	1,330.7	1,465.5
Production of oil average per day - affiliates and subsidiaries (6)	103.4	122.5	128.4
Production of gas average per day - affiliates and subsidiaries (7)	304.7	293.7	327.0

(1) Total capitalization at book value is equal to total debt plus shareholders' equity plus minority interest.

(2) The adjusted EBITDA is defined as gross profit less administrative, selling and exploration expenses, plus the sum of depreciation and amortization, collected fees from advisory services to other companies, which amounted to P$48 million, P$37 million and P$35 million for fiscal years ended December 31, 2006, 2005 and 2004, respectively.

(3) "Total reserves of oil" include reserves of crude oil, condensed and liquid natural gas. See "Business Overview—Oil and Gas Exploration and Production—Reserves."

(4) In MMbbl.

(5) In MM cubic feet.

(6) In Mbbl/d.

(7) In MM cubic feet/d.

(8) Includes acquisition of property, plant and equipment and investments in affiliates.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated debt and total capitalization at December 31, 2006, including joint control companies consolidated under the proportional consolidation method. Petrobras Energía does not guarantee any debt of such joint control companies and the debt of such companies does not include cross-default covenants in relation to Petrobras Energía.

Our authorized and issued share capital at December 31, 2006 amounted to P$1,010 million.

	As of December 31, 2006 (In millons of pesos)	As of December 31, 2006 (In millons of U.S. Dollars) (2) (Unaudited)
Short-term debt		
Petrobras Internacional Braspetro B.V.	20	8
Financial Institutions	1,148	374
Notes (1)	960	313
Other	6	2
Distrilec Inversora SA	45	15
Compañía de Inversiones de Energía SA	467	152
Total short-term debt	2,646	864
Long-term debt		
Petrobras Internacional Braspetro B.V.	768	250
Financial Institutions	273	89
Notes	2,505	816
Distrilec Inversora SA	183	60
Compañía de Inversiones de Energía SA	987	321
Total long-term debt	4,716	1,536
Minority interest	771	251
Shareholder´s equity		
Capital stock par value P$1.00 per share	1,010	329
Adjustment to capital stock	1,230	401
Merger Premium	960	313
Additional paid-in capital on sales of own stock	56	18
Treasury stock	(33)	(11)
Reserves	403	131
Unappropiated retained earnings	4,221	1,375
Deferred results	(11)	(4)
Total shareholders´equity	7,836	2,552
Total capitalization	15,969	5,203

(1) In January 2007, all of the outstanding Series G Notes were paid in full and cancelled at maturity for an aggregate total of U.S.$250 million (P$768 million, at the exchange rate in effect as of December 31, 2006).

(2) The amounts are converted at an exchange rate of P$3.07 per each U.S. dollar.

USE OF PROCEEDS

The net proceeds of any Series or Tranche of Notes will be used by Petrobras Energía, unless otherwise specified in the relevant pricing supplement, in accordance with Article 36 of the Negotiable Obligations Law, for one or more of the following: (i) working capital in Argentina, (ii) investments in tangible assets located in Argentina, (iii) refinancing of debt and (iv) contributions to the capital of a controlled or related corporation, provided that we use the proceeds of these contributions in the manner specified above.

RISK FACTORS

Factors Relating to Argentina

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

We are an Argentine corporation (*sociedad anónima*). As of December 31, 2006, approximately 59% of our total assets, 71% of our net sales, 62% of our combined crude oil and gas production and 53% of our proved oil and gas reserves were located in Argentina. Fluctuations in the Argentine economy and actions adopted by the Argentine government have had and can be expected to continue to have a significant impact on us. Specifically, we have been affected and may continue to be affected by inflation, interest rates, the value of the peso against foreign currencies, price controls, business and tax regulations and in general by the political, social and economic scenario in Argentina and in other countries that may affect Argentina.

The Argentine economy has experienced a significant volatility in recent decades, characterized by periods of low or negative growth, high and variable levels of inflation and currency devaluation. During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. See "Business Overview–Our Principal Market".

The crisis had significant and adverse consequences on our company, including (1) losses derived from the effects of the peso devaluation on our affiliates and our affiliates' net borrowing position, which primarily was denominated in U.S. dollars, (2) the impairment of the book value of certain gas areas and tax assets due to material changes in the prospects of our operations, (3) a decrease in U.S. dollar cash flows due to the imposition of export taxes, (4) limits on the availability in the financial market to renew our short-term lines of credit and the current portion of our medium and long-term financings at maturity and (5) restrictions on our ability of passing through the effects of inflation to the prices of products sold by us in the domestic market. In 2002, we reported a net loss of P$1,573 million compared to a gain of P$109 million in 2001, which was a significant departure from the historical evolution of our results. Within this context and in order to secure compliance with our financial commitments, we reduced our investment plan and reached an agreement with our financial creditors and holders of notes to extend the maturity profile of a substantial portion of our debt, at face value. As a result, capital expenditures in 2002, net of divestments, totaled only P$139 million, a relatively low amount compared to our historical average investment.

Although the economy has recovered significantly over the past four years, uncertainty remains as to whether the current growth and relative stability is sustainable. Sustainable economic growth is dependent on a variety of factors, including international demand for Argentine exports, the stability and competitiveness of the peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable and relatively low rate of inflation. As in recent years, Argentina's economy may suffer if political and social pressures inhibit the implementation by the Argentine government of policies designed to maintain price stability, generate growth and enhance consumer and investor confidence. We cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not adversely affect our financial condition or results of operations including our ability to pay our debts at maturity.

The lack of financing alternatives may impact on the execution of our strategic business plan.

After the default on the Argentine sovereign debt, Argentine companies have had significantly fewer opportunities to access the international credit market. In spite of the renegotiation of a significant portion of the Argentine sovereign debt and the improvement in the financing capacity of Argentine companies, the prospects for all Argentine companies, including us, of accessing financial markets could be limited in terms of amounts, terms and financial costs. If we are unable to have access to the international financial markets to refinance our indebtedness at reasonable cost or under adequate conditions, we may have to reduce our projected capital expenditures, which, in turn, may affect the implementation of our business plan.

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

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

The significant peso devaluation during 2002 adversely affected our results and financial position. Substantially all of our financial debt and a significant portion of our affiliates' debt were denominated in U.S. dollars. Before the enactment of the Public Emergency Law, our cash flow, generally denominated in U.S. dollars or dollar-adjusted, provided a natural hedge against exchange rate risks. The Argentine regulatory framework after the enactment of the Public Emergency Law (which included the pesification of utility rates, regulatory issues related to the renegotiation of pesified utility rates, new taxes on hydrocarbon exports, the implementation of regulations to prevent an increase in prices to final users in the domestic market and restrictions on exports), however, limited our ability to mitigate the impact of the peso devaluation.

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

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

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

In the past, inflation has undermined the Argentine economy and the government's ability to stimulate economic growth. During 2002, the Argentine consumer price index increased by 41%, and the wholesale price index increased by 118.2%.

From 2003 to 2005 inflation showed clear signs of acceleration (the consumer price index decreased by 3.7% in 2003, but increased again 6.1% in 2004 and 12.3% in 2005 and the wholesale price index rose 2% in 2003, 7.9% in 2004 and 10.8% in 2005). In 2006, both indexes maintained an upward trend, with increases of 9.8% and 7.1%, respectively. Uncertainty surrounding future inflation may result in a slowdown in the activity level and thus reduce economic growth. A return to a high inflation environment would also undermine Argentina's foreign competitiveness by diluting the effects of the peso devaluation, with the same negative effects on the level of economic activity and employment. Sustained inflation in Argentina, without a corresponding increase in the price of our products in the local market, would have a negative effect on our results of operations and financial position. The variability of inflation in Argentina makes it impossible to estimate with a reasonable degree of certainty how our activities and results of operations will be affected in the future.

Argentina has imposed exchange controls in recent periods that may impair our ability to service our foreign currency-denominated debt obligations and pay dividends.

After December 2001, Argentine authorities implemented a number of monetary and currency exchange control measures that included restrictions on the withdrawal of funds deposited with banks, the obligation to deposit with the Argentine Central Bank foreign currency from exports, restrictions on the transfers of funds abroad

as well as restrictions relating to the servicing of foreign debt. The Central Bank has since issued a number of regulations aimed at gradually normalizing the domestic exchange market and, as a result, most restrictions in connection with the repayment of foreign creditors and the payment of dividends to foreign shareholders have been lifted.

We cannot assure you as to how long these more flexible regulations will be in effect or whether they will become more restrictive again in the future. If the Argentine government decides further to tighten the restrictions on the transfer of funds, we may be unable to make principal or interest payments on our debt when they become due or to pay dividends.

On June 9, 2005, the federal executive branch issued Executive Order 616/05, establishing that any cash inflow to the domestic market derived from foreign loans to the Argentine private sector shall have a maturity for repayment of at least 365 days as from the date of the cash inflow. In addition, 30% of the amount shall be deposited with domestic financial institutions. This deposit must be registered, non-transferable, non-interest bearing, in U.S. dollars, for a term of 365 days and cannot be used as security or collateral in connection with other credit transactions. Export and import financing and primary public offerings of debt securities listed on self-regulated markets are exempt from the foregoing provisions.

This Executive Order may limit our capacity to finance our operations through new intercompany loans or other kinds of foreign financial loans.

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

In recent periods, Argentina has faced difficulties in satisfying its domestic energy needs. As a result, the government has enacted a series of measures limiting the export of hydrocarbons and related oil products.

On May 23, 2002, the Argentine government enacted Executive Order No. 867/02 declaring a state of emergency in the supply of hydrocarbons in Argentina until September 30, 2002 and empowering the Secretary of Energy to determine the volumes of crude oil and liquefied petroleum gas produced in Argentina that should be used to supply the domestic market and be sold in the local market.

In March 2004, the Secretary of Energy issued Resolution No. 265/04, which authorizes the imposition of limits on natural gas exports. This resolution instructs the Undersecretary of Fuels to create a program for the rationing of gas exports and for the regulation of the use of gas transportation capacity. Temporary limits on certain natural gas exports have been imposed under the program to avoid a crisis in the local supply of natural gas. In April 2004, in order to facilitate the recovery of natural gas prices, the Secretary of Energy entered into an agreement with natural gas producers requiring them to sell a specified amount of gas in the local regulated market.

During 2005 and 2006, the Secretary of Energy requested producers to redirect gas for export to supply thermal plants and gas distribution companies. This decision limited our total gas export volumes by a daily average of about 110 thousand cubic meters or 339 thousand cubic meters, depriving us of the higher margins offered by export prices. See “Business Overview—Regulation of Our Businesses—Argentine Regulatory Framework—Natural Gas” for further details.

Pursuant to Resolution No.1679/04, enacted in December 2004, producers must obtain the approval of the Argentine government prior to exporting crude oil or diesel oil. To obtain this approval, exporters must demonstrate that they have either satisfied local demand requirements or have granted the domestic market the opportunity to acquire oil or diesel oil under terms similar to current domestic market prices and, in the case of diesel oil, they must also demonstrate, if applicable, that commercial terms offered to the domestic market are at least equal to those offered to their own gas station network. See “Business Overview—Regulation of Our Businesses—Argentine Regulatory Framework—Petroleum—Refining”.

In January 2007, pursuant to Resolution No.1886, the Secretary of Energy declared that hydrocarbon exports are subject to the adequate supply of domestic demand and that exports will be subject to the prior

authorization, on a case-by-case basis, by the Executive Branch, with the Secretary of Energy having the discretion to approve or deny export applications.

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

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

In order to discourage exports, secure domestic supply and fix a reference price for crude between producers and refineries, on March 1, 2002, the Argentine government imposed, for a five-year term, a 20% tax on exports of crude oil and a 5% tax on exports of certain oil related products. In May 2004, taxes on exports of crude oil and LPG increased to 25% and 20%, respectively, and a 20% tax was levied on exports of natural gas. Effective August 4, 2004, the Argentine government increased taxes on exports of crude oil by 25% when the price per barrel is U.S.$32 or lower and applied additional incremental taxes ranging between 3% and 20% when the price per barrel of oil ranges between U.S.$32.01 and U.S.$45, with a cap set at 45% when the price exceeds U.S.$45. In 2006, the Argentine government increased taxes on natural gas exports to 45% in the price of gas imported from Bolivia. See "Management's Discussion and Analysis of Consolidated Financial Condition and Result of Operations – Factors Affecting our Consolidated Results of Operations – Argentine Economic Situation – Price Stabilization and Supply – Hydrocarbons."

This tax regime has prevented us from fully benefiting from the significant increases in international oil, oil products and natural gas prices.

We cannot assure you that the Argentine government will reduce the current export tax rates or will not increase them further. We do not know the government's future intentions in regard to export taxes. As a consequence, we cannot predict the impact that any changes may have on our results of operations.

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

For purposes of reducing inflationary pressures generated by the sharp Argentine peso devaluation in 2002, the Argentine government issued a set of regulations aimed at controlling the increase in prices to end users. These regulations were particularly focused on the energy sector. See "Regulation of our Businesses".

Gas and electricity

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

In April 2004, we, along with the remaining gas producers, entered into an agreement with the Argentine government, which provides for a schedule of gradual increases in gas prices in the domestic market.

With respect to electricity generation, in December 2004, the Secretary of Energy agreed to approve successive seasonal electricity price increases to reach values covering at least total monomic costs by November 2006. However, this situation was not reflected in practice and price increases do not account for costs actually incurred in terms of generation. In addition, as soon as the market returns to normal following the start of commercial operations of the new generation capacity derived from the FONINVEMEM, the Secretary of Energy has committed to pay for energy at the marginal price obtained in the spot market and to pay for power capacity at the U.S. dollar values that were in effect prior to the enactment of the Public Emergency Law. See "Management's Discussion and Analysis of Consolidated Financial Condition and Result of Operations – Factors Affecting our Consolidated Results of Operations – Argentine Economic Situation – Price Stabilization and Supply".

Through these combined measures, the Argentine government is expected to gradually restore the economic and financial balance in the natural gas and electricity sectors. Our results and capital expenditure plans, however, may be adversely affected if (1) the agreed schedule of increases in natural gas prices or the commitments with respect to electricity price increases fail to be fully implemented by the Argentine government or (2) the government applies its regulatory emergency authority or adopts other regulations to control prices or supply.

Downstream margins

The downstream business in Argentina has been and may continue to be subject to extensive regulatory changes that affect prices and profitability, and these changes had and may continue to have an adverse effect on the results of our operations.

Downstream margins have significantly declined since the enactment of the Public Emergency Law. As part of its effort to control inflation, the Argentine government has limited the increase in prices of gasoline and diesel oil at the retail level that would have resulted from (1) higher costs due to increases in the West Texas Intermediate Crude reference price, or WTI, (2) the peso devaluation and (3) domestic inflation. These measures affected the sector's profitability.

In line with Argentine macroeconomic indicators and the economic recovery started in 2003, in 2006 the diesel oil domestic market grew for the fourth year in a row, ending a four-year period of decline since 1999. Total sales volumes increased 7% and 8% in 2006 and 2005, respectively. In terms of supply, refining units in Argentina are operating at levels very close to the maximum installed capacity. The lack of elasticity in supply could result in temporary shortages.

Since this situation might hinder the evolution of the Argentine economy, regulatory framework changes led refining companies to take all actions necessary to meet the growing demand for diesel oil, including import of the product. In addition, in October 2006, the Secretary of Domestic Trade issued Resolution No. 25, which provided that refining companies are obliged to cover the total market demand for diesel oil with a minimum calculated on the basis of previous year's demand plus an estimated market variation. In order to comply with this resolution, we were required to import 85 thousand cubic meters of diesel oil during the year. Considering the differential between import and retail prices and the impossibility of passing it through to consumers, imports of diesel oil have resulted in significant losses to refining companies. Specifically, in 2006 and 2005 we posted P$38 million and P$82 million losses in relation to import operations.

In the future, and subject to the production capacity of our plants and the actual market growth, pursuant to Resolution No.25, we may be required to import additional diesel oil volumes, which may adversely impact our results of operations.

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

The macroeconomic state of the country after the enactment of the Public Emergency Law impacted the economic and financial balance of utility companies in Argentina. The combined effect of (1) the peso devaluation, (2) the pesification of rates on a one-to-one basis and (3) financial debts primarily denominated in foreign currency, adversely affected the utility companies' financial position, results of operations and ability to satisfy financial obligations and pay dividends. Although some of these utility companies have been successful in restructuring their indebtedness, their return to financial stability and profitability on a long-term basis depends on a successful negotiation of tariff increases with the Argentine government. UNIREN (the agency created by the Argentine government to, among other things, provide assistance in the utility renegotiation process, execute comprehensive or partial agreements with utility companies and submit regulatory projects related to provisional rate adjustments) is currently in the process of renegotiating contracts with our affiliates Edesur S.A. ("Edesur"), TGS, Transener and Empresa de Transporte de Energía Eléctrica por Distribución Troncal de la Provincia de Buenos Aires S.A. ("Transba"). These discussions are in different stages, and some of our affiliates have stated that UNIREN's latest proposals were not sufficient. See "Business Overview - Gas and Energy - Gas Transportation – TGS - Regulated Energy Segment" and "Business Overview - Gas and Energy – Electricity - Electricity Transmission: Transener,

Yacylec and Enecor - Transener" and "Regulation of Our Businesses - Argentine Regulatory Framework – Natural Gas".

We cannot assure you that these discussions will ultimately result in a level of tariff increases sufficient for our affiliated utility companies to return to financial stability and profitability in the near future.

Factors Relating to the Company

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

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

Changes in crude oil prices generally result in changes in prices for related oil products. International oil prices have fluctuated widely over the last ten years. In 2006, crude oil prices continued their upward trend, exceeding 2005 historical records. The WTI closed at U.S.$60.8 per barrel, with an average of U.S.$66 per barrel during the year. During 2005 and 2004 the average WTI was U.S.$56.6 and U.S.$41.5 per barrel, respectively, compared to an average of U.S.$22.56 per barrel for the 1994-2003 period.

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

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

The proved crude oil and natural gas reserves set forth in this Offering Memorandum account for our estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions (i.e. with prices and costs as of the estimate date). Our proved crude oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Our reserve estimates have been audited by Gaffney, Cline & Associates, an international technical consulting firm for the oil and gas industry. As of December 31, 2006, the auditors' technical review covered 93% of the Company's estimated reserves for 2006. See "Business Overview - Oil and Gas Exploration and Production - Reserves". Crude oil and natural gas reserves are reviewed annually taking into consideration many factors, including:

new production or drilling activities;

field reviews;

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

changes in the international prices of oil and gas;

the application of improved recovery techniques; and

new economic conditions.

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

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

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

We have limited capital resources to implement an ambitious capital expenditure program. Moreover, we face strong competition in bidding for new production blocks, especially those blocks with the most attractive crude oil and natural gas reserves.

Without successful exploration activities or reserve acquisitions, our proved reserves will decline as our oil and gas production will be forced to rely on our existing proved developed reserves.

The decline in reserves and production may limit the integration of our upstream and downstream operations, since, in order to maximize the volumes of crude oil processed in our refineries, we would require a greater supply of crude oil from third parties, including imports.

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

Production of oil in Block 31 in Ecuador may be delayed significantly.

Block 31 is principally located in the Yasuní National Park, a highly ecologically sensitive area in the Amazon region of Ecuador (an area included in the National Heritage of Natural Areas and Protective Woods and Vegetation). Indigenous associations, Non-governmental Agencies and environmental groups have made public demonstrations against the development of Block 31 arguing that hydrocarbon activities would endanger the Park's biodiversity.

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 us access to Parque Nacional Yasuní. Petrobras Energía changed the Development Plan for Block 31 in order to address the objections posed by the Ecuadorian Ministry of the Environment and ultimately, after a process involving participation of the affected communities, submitted a new Environmental Impact Assessment (EIA). The new EIA was approved by the Ministry of the Environment and the Ministry of Energy and Mines, and the issuance of a new environmental license to resume development works in Block 31 was officially requested on January 4, 2007. All relevant formalities have been completed in connection with this request, and the request for a license is awaiting approval by the Ecuadorian Minister of the Environment.

We cannot predict when or to what extent competent authorities will ultimately authorize us to commence planned works to develop the block. Further delays in the development of Block 31 could have an adverse impact on our results of operations and financial position, in light of our Ship or Pay obligations pursuant to a transportation agreement executed with OCP, under which we must fulfill our contractual obligations for the total volume committed even if no crude oil is transported.

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

Our operations are concentrated in Latin America, a region that has experienced significant economic, social, political and regulatory volatility. In recent periods, many governments in Latin America have taken steps to assert greater control or increase their share of revenues from the energy sector, spurred by soaring oil and gas prices and nationalistic politics. See "Regulation of our Businesses – Venezuelan Regulatory Framework – Petroleum and Gas".

These steps have included:

<u>Venezuela</u>

In March 2006, Petrobras Energía, through its controlled and affiliated companies in Venezuela, entered with PDVSA and Corporación Venezolana de Petróleo S.A. (CVP) into memoranda of understanding (MOUs) in order to effect the migration of the operating agreements. These MOUs established that private investors would hold a 40% share in these mixed-owned companies, with the Venezuelan Government being entitled to a 60% ownership interest. As a result, the direct and indirect interests of Petrobras Energía in the mixed-owned companies that would operate the areas of Oritupano Leona, La Concepción, Acema and Mata would be 22%, 36%, 34.5% and 34.5%, respectively. The MOUs establish that CVP will recognize a divisible and freely transferable credit in favor of Petrobras Energía in the amount of U.S.$88.5 million. These credits will not bear interest and may be used only for the payment of investments in any new mixed company for the development of oil exploration and production activities in Venezuela or licenses for the development of gas exploration and production operations in Venezuela.

In August 2006, the relevant conversion agreements were signed for the Oritupano Leona, La Concepción, Acema and Mata areas, which were consistent with the terms agreed in the MOUs. Subsequently, the companies Petroritupano S.A., Petrowayú S.A., Petrovenbras S.A. and Petrokariña S.A. were organized and registered with the Public Registry of Commerce of Venezuela. The Venezuelan government has issued the relevant decrees granting the necessary powers to these four companies, and the respective shareholders subsequently made the required capital contributions.

The MOUs established that the economic effects of the migration would become effective on April 1, 2006. Since this date and until the mixed companies are operational, the operations of the consortia have been conducted and financed by Petrobras Energía Venezuela and the other members of the consortia, under the supervision of a provisional executive committee formed mostly by PDVSA representatives. See "Business Overview – Oil and Gas Exploration and Production – Oil and Gas Exploration and Production Interests – Production – Production outside of Argentina – Venezuela."

In view of the new contractual framework, as of December 31, 2005, we recognized impairment charges of P$424 million to adjust the book value of our assets in Venezuela to their estimated recoverable values.

<u>Bolivia</u>

In May 2006, the Bolivian government enacted Supreme Decree No. 28,701, which provides, among other things, for the nationalization of hydrocarbon resources in Bolivia. This decree provides that, as from May 1, 2006, oil companies must deliver to Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB") the property of all hydrocarbon production for sale. Oil companies had a 180-day transition period to subscribe the new agreements, which would be individually authorized and approved by the Bolivian Congress. The Ministry of Hydrocarbons and Mines would determine, on a case-by-case basis, the interest in each field corresponding to oil companies by means of audits of investments, operational costs and profitability indicators.

Accordingly, in October 2006, our Bolivian branch signed with YPFB a new agreement for the Colpa Caranda area, which was approved by the Bolivian Legislature on November 21, 2006 and enacted on January 11, 2007. See "Business Overview – Oil and Gas Exploration and Production – Oil and Gas Exploration and Production Interests – Production – Production outside of Argentina – Bolivia".

In addition, Supreme Decree No.28,701 provides that the Bolivian government shall recover full participation in the entire oil and gas production chain and to that end provides for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one of the shares in a number of companies, among which is Petrobras Bolivia Refinación S.A., our branch in Bolivia. Such stock transfer will be made once both parties have agreed on the economic compensation YPFB will pay us and once certain corporate and legal requirements have been complied with.

We are not able to estimate the effects, if any, of the new business scenario arising from the new law.

Ecuador

In April 2006, the Ecuadorian government approved the Oil & Gas Reform Law, which assigns to the government an interest of at least 50% of the excess revenues resulting from the increase in the price of Ecuadorian crude (effective monthly average price of FOB price) over the average monthly sales price of such oil at the execution date of the relevant production agreement, expressed in constant values for the month in which settlement occurs. In July 2006, the competent authorities published the relevant regulations implementing the law, and subsequently Ecuadortlc, our subsidiary in Ecuador, and Petroecuador expressed divergent interpretations of the regulations.

In order to resolve these differences and after the request of Ecuadortlc, Petroecuador asked the Attorney General to issue an opinion on this matter. In October 2006, Ecuadortlc was informed that the Attorney General's opinion exempted the income derived from the Palo Azul field from the scope of application of the new law, given that the development agreement for Palo Azul contains provisions under which the Ecuadorian Government receives more than 50% of the benefits. Notwithstanding the Attorney General's opinion, however, in January 2007, Petroecuador submitted a claim to Ecuadortlc in favor of the government for U.S.$26 million in respect of the benefits corresponding to the government under the new law from April 2006 to December 2006. In its counsel's opinion, Ecuadortlc has legal grounds to consider this claim as invalid. In 2006, Ecuadortlc paid U.S.$12 million in aggregate to Petroecuador, which payments correspond to amounts purportedly owed to the Ecuadorian Government under the new law prior to the Attorney General's opinion.

Although Ecuardortlc is of the view that it has valid legal grounds not to make payments under the new law, as of December 31, 2006, Ecuadortlc maintained an allowance of P$37 million (U.S.$12 million) on receivables in respect of such payments.

On February 15, 2007, Ecuadortlc paid the remaining amount of Petroecuador's claim (U.S.$14 million), reserving its right to seek reimbursement.

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

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

Some of our operations are subject to environmental risks that may arise unexpectedly, and result in material adverse effects on our results of operations and financial position. In 2006, 2005 and 2004, environmental remediation costs charged to income totaled P$5 million, P$29 million and P$51 million, respectively. We may have to incur additional costs related to the environment in the future, which may negatively impact our results of operations.

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

Factors relating to the Notes

No market, volatility and developments in other emerging markets

While an application may be filed to the London Stock Exchange, the Luxembourg Stock Exchange and the Buenos Aires Stock Exchange to list one or more Classes of Notes on those exchanges and an application may be filed to have the Notes designated for trading on the Argentine OTC Market and the exchange-regulated markets of the London Stock Exchange and the Luxembourg Stock Exchange, we cannot assure that an active trading market will be established for Notes or that such market will last if established. Should such a trading market not be establish or not last, the market price and liquidity of Notes may be adversely affected.

The market for notes issued by Argentine companies is influenced by economic, political and market conditions prevailing in Argentina and, to a lesser extent, by other Latin American countries' market conditions and interest rates. Though economic conditions are different in each country, the value of the Notes issued under the Program may also be adversely affected by economic and political events in one or more of the other Latin American countries, the instability of financial markets in general or by a reduction in the value of securities in one emerging market that may cause a reduction in value of similar securities in other emerging markets. We cannot assure you that the financial and exchange markets will not be adversely affected by events in Argentina, other Latin American countries or other emerging markets, or that such effects will not have an adverse impact on the value of the Notes.

INFORMATION ABOUT THE COMPANY

Petrobras Energía S.A. is a corporation organized and existing under the laws of the Republic of Argentina and registered on November 17, 1947 with the Public Registry of Commerce, under No.759, page 569, Book 47, Volume A, with a term of duration expiring June 18, 2046. Our principal place of business is located at Maipú 1, (C1084ABA), Buenos Aires, Argentina. Telephone: 54-11-4344-6000, fax 54-11-4344-6315 and web site at www.petrobras.com.ar.

We are an integrated energy company**,** engaged in oil and gas exploration and production, refining, petrochemicals, electricity generation, transmission and distribution and hydrocarbon marketing and transportation. We conduct operations in Argentina, Bolivia, Brazil, Ecuador, Mexico, Peru and Venezuela.

Our operations are currently divided into four business segments that are in turn supported by corporate functions. The four business units are: (1) Oil and Gas Exploration and Production, (2) Gas and Energy, (3) Refining and Distribution, and (4) Petrochemicals.

Our History and Development

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

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

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

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

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

As from 1997, and through successive divestments, Petrobras Energía restructured its business strategy with a focus on the energy sector. The change in the controlling group of Petrobras Energía Participaciones S.A. has strengthened the strategy of focusing the Company's businesses.

In January 2000, PC Holdings S.A. (currently Petrobras Energía Participaciones S.A.) completed the exchange offer for 69.29% of Petrobras Energía S.A.'s capital stock and acquired control of 98.21% of Petrobras Energía S.A.'s capital stock.

On October 17, 2002, Petrobras Participaciones, S.L., a wholly owned subsidiary of Petróleo Brasileiro S.A. – PETROBRAS ("Petrobras") acquired from the Perez Companc family and Fundación Perez Companc 58.62% of Petrobras Energia Participaciones S.A.'s capital stock and became our controlling company.

Petrobras Energía's Corporate Reorganization

On November 12, 2004, the Boards of Directors of Petrobras Energía, Eg3 S.A. (Eg3) and Petrobras Argentina S.A. (PAR) and the management of Petrolera Santa Fe S.R.L. (PFS), approved at their meetings the preliminary merger commitment of these companies, by virtue of which Petrobras Energía would be the absorbing company of Eg3, PAR and PSF, which will be dissolved without winding up.

On January 21, 2005, the Special Shareholders' Meetings of Petrobras Energía, Eg3, PAR, and the quotaholders meetings of PSF, approved the proposed merger. Subsequently, on March 3, 2005, the definitive merger agreement was executed. The effective merger date was set at January 1, 2005, as from such date all assets, liabilities, rights and obligations of the absorbed companies are considered incorporated into Petrobras Energía.

On June 28, 2005, the CNV approved the merger and the same was registered with the Public Registry of Commerce on September 16, 2005.

Through this merger, Petrobras, holder of a 99.6% interest in Eg3, a 100% interest in PAR and PSF through its controlled company Petrobras Participaciones S.L., received 229,728,550 newly issued Class B common shares of Petrobras Energía, of a nominal value of P$1 each and entitled to one vote per share representing 22.8% of Petrobras Energía's capital stock, and the interest of Petrobras Energía Participaciones S.A. in Petrobras Energía declined from 98.21% to 75.82%. After the merger, the new capital stock of Petrobras Energía amounted to P$1,009,618,410.

Considering its 58.62% shareholding in Petrobras Energía Participaciones S.A., Petrobras has a total indirect shareholding in Petrobras Energía of 67.2%.

This merger transaction allowed the vertical integration of the businesses of PAR, PSF and Eg3 into the Company, thus optimizing the business value chain of these companies. Through this merger, the Company enlarged its oil and gas assets through the incorporation of six oilfields (one gas field in the Noroeste basin and five oilfields in the Neuquén, San Jorge and Cuyo basins). As of the date of the merger, these areas produced 19,000 barrels of crude oil per day and its reserves amounted to 95 million barrels of oil equivalent. In addition, the Company increased its refining capacity through the Bahía Blanca refinery (with a processing capacity of 31,000 barrels of oil per day), strategically located to receive crude oil coming from the Neuquén basin, and a wide network of approximately 719 gas stations located throughout the country and mostly operating under the Petrobras brand.

BUSINESS OVERVIEW

Our strategy

Our long-term strategy is to grow as an integrated energy company with an international presence, while focusing on profitability as well as social and environmental responsibility.

The main points of this strategy are:

Increasing oil and gas reserves and production in Argentina and Latin America, to secure sustainable growth.
Growing downstream in Argentina, while balancing the crude production – refining – logistics – distribution chain and differentiating ourselves through the quality of our products and services.
Developing businesses in the gas and energy areas that will allow for the best overall use of our gas reserves, capitalizing on the natural gas reserves in the Petrobras system.
Consolidating our leading position in the regional petrochemicals market, by maximizing the use of our raw materials.
Using capital in a disciplined manner, with a view to optimizing our debt to capital ratio and maintaining our financial solvency.

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

A commitment to protect the quality of our goods and services, the environment and the health and safety of our employees, contractors and neighboring communities.
Adoption of, and compliance with, corporate governance practices in line with recognized best practices.
Maintenance of a management style that favors communication and teamwork, fostered by the value of the people that work in our organization.
Developing new business opportunities by maximizing potential synergies and capitalizing on complementary business opportunities with Petrobras.

We currently manage our activities, with the support of corporate staff, in four business segments: (1) Oil and Gas Exploration and Production, (2) Gas and Energy, (3) Refining and Distribution, and (4) Petrochemicals. In keeping with management's evaluation of our businesses, during 2005 we implemented certain minor changes to our segment information. We grouped electricity and gas marketing and transportation under the Gas and Energy segment. The marketing and transportation of gas formerly comprised, along with the marketing and transportation of oil, the Hydrocarbon Marketing and Transportation business segment. We grouped marketing and transportation of oil with the Oil and Gas Exploration and Production segment. The information in this Offering Memorandum for all periods is presented in accordance with the current management's evaluation.

Our Principal Market

We are an Argentine corporation and, as of December 31, 2006, 59% of our total assets, 71% of our net sales, 62% of our combined oil and gas production and 53% of our proved oil and gas reserves were located in Argentina. Fluctuations in the Argentine economy and actions adopted by the Argentine government have had and may continue to have a significant effect on Argentine private sector entities, including us. Specifically, we have been affected and may be affected by inflation, interest rates, the value of the peso against foreign currencies, price controls, business regulations, tax regulations and in general by the political, social and economic environment in and affecting Argentina and other countries. See "Risk Factors – Factors Relating to Argentina".

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

In April 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy, and enacted the Convertibility Law. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar and required that the Central Bank maintain reserves in gold and foreign currency at least equivalent to the monetary base. Following the enactment of the Convertibility Law, inflation declined steadily and the economy experienced growth through most of the period from 1991 to 1997. In the fourth quarter of 1998, however, the Argentine economy entered into a recession that caused the gross domestic product to decrease by 3.4% in 1999, 0.8% in 2000 and 4.4% in 2001.

Beginning in the second half of 2001, Argentina's recession worsened significantly. As the public sector's creditworthiness deteriorated, interest rates reached record highs, bringing the economy to a virtual standstill. The lack of confidence in the country's economic future and its ability to sustain the peso's parity with the U.S. dollar led to a massive withdrawal of deposits from banks and capital outflows. To prevent further capital flights, on December 1, 2001, the Argentine government implemented a number of monetary and exchange control measures which further paralyzed the economy, for the benefit of the financial system, and caused a sharp rise in social discontent, ultimately triggering public protests, outbreaks of violence and the looting of stores throughout Argentina.

On December 20, 2001, after declaring a state of emergency and suspending civil liberties, President Fernando de la Rúa tendered his resignation to Congress. After a series of interim presidents, on January 1, 2002, Eduardo Duhalde was appointed by Congress at a joint session to complete the remaining term of former President de la Rúa. The new president, among other measures, ratified the suspension of payment of a portion of Argentina's sovereign debt declared by Interim President Rodríguez Saá.

On January 6, 2002, the Argentine Congress enacted the Public Emergency Law, which introduced dramatic changes to Argentina's economic model and put an end to the U.S. dollar-peso parity established since the enactment of the Convertibility Law in 1991, leading to a significant devaluation of the Argentine peso. The Public Emergency Law also empowered the Federal Executive Branch of Argentina to implement, among other things, additional monetary, financial and exchange measures to overcome the economic crisis in the short term, such as determining the rate at which the peso was to be exchanged into foreign currencies.

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

Pesification of certain assets and liabilities denominated in foreign currency and held in the country;

Amendment of the charter of the Central Bank authorizing it to issue money in excess of the foreign currency reserves, grant short-term loans to the federal government and provide financial assistance to financial institutions with liquidity or solvency problems;

Pesification and elimination of indexing clauses on utility rates, fixing those rates in pesos at the P$1=U.S.$1 exchange rate; and

Implementation of taxes on hydrocarbon exports and certain oil products, among others.

In 2002, our financial results were negatively impacted by significant political and economic changes that resulted from the severe crisis that broke out in Argentina late in 2001. Due to high level of institutional instability, which included social conflicts, the default on most of Argentina's sovereign debt, the abandonment of convertibility, the freeze on and rescheduling of banking deposits, the pesification and the elimination of indexation on utility rates and, in general, active intervention by the government in the development of the economy, commercial and financial activities were virtually paralyzed in 2002, further aggravating the economic recession, which included a 10.9% decline in GDP. In addition, as a consequence, the peso devalued 238% against the dollar, the wholesale price index rose 118.2% and the consumer price index increased 41%. Towards the end of 2002, the Argentine government implemented different measures aimed at stimulating the economy and abrogating certain restrictions to gradually normalize the foreign exchange market and the commercial and financial flow of foreign currency.

In May 2003, Mr. Kirchner took office as Argentina's President. Under his leadership, Argentina conducted several rounds of negotiations with the IMF. In September 2003, Argentina and the IMF entered into a three-year standby credit agreement. This new agreement guaranteed the refinancing of all principal maturities of credit facilities granted by multilateral agencies. The agreement specified a series of quantitative and qualitative conditions to be met by the Argentine government during the 2003-2004 period.

In 2003, the Argentine economy began to recover with GDP growing 8.7%. Reflecting the economic recovery, Argentine stock exchange indexes displayed significant improvements as well as labor indicators and salary purchasing power. The balance of trade exhibited a strong surplus, favored by an increase in commodity prices, which, together with the partial foreign debt payment default, caused an excess supply of foreign currency. The peso appreciated significantly against the U.S. dollar during 2003, even as the Central Bank made numerous currency purchases to attempt to maintain a high rate of exchange. Inflation was below 4% during 2003.

During 2004, the Argentine economy continued to exhibit signs of stability. Real GDP growth was 9.0% for the year. Both inflation and the peso nominal exchange rate were stable during 2004, with 6.1% and 7.9% increases in the consumer price and wholesale price indexes, respectively, while the peso devaluated 1.3%. Furthermore, the employment situation improved, the unemployment rate reaching 12.1% during the fourth quarter of 2004, a 26% decline compared to the period 2002-2003. During 2005, Argentina experienced high growth rates. Real GDP growth was 9.2% for the year. All GDP components improved significantly, particularly investment and imports. After three years of growth at around 9%, the Argentine economy was able to surpass the levels recorded in 1998, before the crisis. Argentine exports hit a historic record of U.S.$40 billion, although it was not enough to keep the trade surplus of the last years due to increased imports (around 30%). In line with the explicit decision of the government to maintain a stable exchange rate between the U.S. dollar and the peso, the Central Bank systematically intervened in the foreign exchange market to prevent the Argentine peso from appreciating. Continued purchases by the Central Bank put international reserves over U.S.$28 billion by late December 2005. Furthermore, in 2005, inflation notably accelerated and reached 12.3% for retail prices and 10.8% for wholesale prices. In 2005, the administration was able to restructure the government debt in default (76% of creditors accepted the government's exchange proposal) with a significant nominal reduction in principal amount, a term extension and a reduction in interest coupons. It also called for the first debt auction after the default. These factors, together with an international favorable climate, helped reduce the country risk to an annual average of 450 basis points (Boden 2012).

In 2006, and for the fourth consecutive year, Argentina experienced high growth rates. The GDP grew approximately 8.5%, especially in terms of investments, and even more significantly in terms of construction and consumption, boosted by a sizeable increase in credit and the recovery of wages in real terms. Industrial production recorded a growth slightly below the rate of GDP growth with several industrial sectors increasingly making use of their installed capacity. Labor indicators also improved, with a drop of approximately 10% in the unemployment rate. The Argentine Government addressed inflationary pressures through a wide range of sectoral agreements and specific actions that prevented the official rate of inflation from exceeding 10%. Adjustments of utility rates have been postponed once again.

Excess supply of foreign currency continued as a result of the large surplus in the balance of trade, with record exports notwithstanding the strong growth in imports and significant capital flows favored by high liquidity worldwide. As in previous years and in line with the official strategy of maintaining a high rate of exchange, the Central Bank bought the excess supply of dollars and adopted several sterilization actions in accordance with the goals of the monetary program. International reserves were approximately U.S.$32 billion dollars at year end, notwithstanding the advance debt payment of approximately U.S.$10 billion to the IMF at the beginning of the year with freely available reserves. The rate of exchange averaged and closed the year at P$3.07 per U.S. dollar.

OIL AND GAS EXPLORATION AND PRODUCTION

Overview

The core of our operations is the oil and gas exploration and production business segment, as it is a key link in our business chain. The business segment's strategy is to increase oil and gas reserves and production in Argentina and other countries in Latin America, in order to secure our sustainable growth. In line with this strategy, our business goals are:

Increasing oil and gas production and reserves by capitalizing on our experience and presence in nearly all Latin American oil producing countries;

Optimizing our investment portfolio by balancing exploration projects with development projects; and

Performing efficient operations under high safety and environmental care standards.

We currently conduct oil and gas exploration and production operations in Argentina, Venezuela, Peru, Ecuador, Bolivia and Colombia. In addition, we act as contractor and provide technical and operating support in Mexico.

As of December 31, 2006, our combined crude oil and natural gas proved reserves, including our share of the reserves of our unconsolidated investees, were estimated at 527.2 million of oil equivalent, approximately 56.4% of which were proved developed reserves and approximately 43.6% of which were proved undeveloped reserves. Crude oil accounted for approximately 61.4% of our combined proved reserves, while natural gas accounted for about 38.6%. As of December 31, 2006, 53.2% of our total combined proved reserves were located in Argentina and 46.8% were located abroad.

As of December 31, 2006, combined crude oil and natural gas production, including our share of the production of our unconsolidated investees, averaged 154,200 barrels of oil equivalent per day, a decrease of 10% compared to 171, 400 barrels of oil equivalent per day in 2005. This decline was mainly attributable to the conversion of operating agreements in Venezuela to mixed companies resulting in an approximately 60% reduction in our production in Venezuela (which in 2005 accounted for 27.9% of our total production). Crude oil production volume decreased 15.6% to 103,400 barrels per day and gas volumes increased 3.7% to 304.7 million cubic feet per day. Approximately 47.6% of our oil production and 17.9% of our gas production were outside of Argentina.

As of December 31, 2006, estimated proved oil and gas reserves attributable to operations in Venezuela amounted to 78.6 million barrels of oil equivalent, accounting for 14.9% of our total reserves. See "Business Overview – Oil and Gas Exploration and Production – Oil and Gas Exploration and Production Interests – Production – Production outside of Argentina – Venezuela." As of December 31, 2005, reserves in Venezuela totaled 269 million barrels of oil equivalent, accounting for 35.4% of consolidated reserves. This decline was attributable to the conversion of operations in Venezuela into mixed companies.

Integration with our Refining and Distribution business segment enables us to process a large part of our crude oil production in Argentina. The Genelba Thermal Power Plant, which we refer to as Genelba, allows us to use approximately 2.8 million cubic meters of natural gas per day of our own reserves. In addition, we supply gas to our Petrochemical and Refining operations in Argentina.

Our Oil and Gas Exploration and Production Interests

As is commonplace in the oil and gas exploration and production business, we generally participate in exploration and production activities in conjunction with joint venture partners. Contractual arrangements among participants in a joint venture are usually governed by an operating agreement, which provides that costs, entitlements to production and liabilities are to be shared according to each party's percentage interest in the joint venture. One party to the joint venture is usually appointed as operator and is responsible for conducting the operations under the overall supervision and control of an operating committee that consists of representatives of

each party to the joint venture. While operating agreements generally provide for liabilities to be borne by the participants according to their respective percentage interest, licenses issued by the relevant governmental authority generally provide that participants in joint ventures are jointly and severally liable for their obligations to that governmental authority pursuant to the applicable license. In addition to their interest in field production, contractual operators are generally paid their direct administrative expenses on a monthly basis by their partners in proportion to their participation in the relevant field.

As of December 31, 2006, we had interests in forty six blocks: twenty four oil and gas production blocks (sixteen in Argentina and eight outside of Argentina) and twenty two exploration blocks located within exploration areas or pending authorization for production (fifteen in Argentina and seven outside of Argentina). We are directly or indirectly the contractual operator of thirty two of the forty six blocks in which we have an interest.

As of December 31, 2006, our total gross and net productive wells were as follows:

	Oil	Gas	Total
Gross productive wells[1]	5,585	323	5,908
Net productive wells [2]	3,913	213	4,127

(1) Refers to number of wells completed.
(2) Refers to fractional ownership working interest in gross wells.

As of December 31, 2006, our total producing and exploration acreage, both gross and net, was as follows:

	Average			
	Producing[1]		Exploration[2]	
	Gross	Net[3]	Gross	Net [3]
	(in thousands of acres)			
Argentina	4,807	3,233	18,274[4]	6,639[5]
Peru	116	116	14,219	11,734
Venezuela	485	126	157	79
Ecuador	62	54	714	637
Bolivia	56	56	–	–
Total	5,526	3,585	33,364	19,089

(1) Includes all areas in which we produce commercial quantities of oil and gas or areas in the development stage.
(2) Includes all areas in which we are allowed to perform exploration activities but where commercial quantities of oil and gas are not produced or areas that are not in the development stage.
(3) Represents our fractional ownership working interest in the gross acreage.
(4) Includes 14,300 thousand exploration acres in off-shore areas.
(5) Includes 4,138 thousand exploration acres in off-shore areas.

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

	Year ended December 31,					
	2006		2005		2004	
	Argentina	Outside of Argentina	Argentina	Outside of Argentina	Argentina	Outside of Argentina
Gross wells drilled:						
Production:						
Productive wells:						
Oil	217	60	256	85	275	45
Gas	3	2	7	2	5	—

	Year ended December 31,					
	2006		2005		2004	
	Argentina	Outside of Argentina	Argentina	Outside of Argentina	Argentina	Outside of Argentina
Dry wells	3	—	2	—	2	1
Total	223	62	265	87	282	46
Exploration:						
Discovery wells:						
Oil	15	—	11	—	3	1
Gas	—	—	—	—	—	—
Dry wells	—	—	—	—	—	1
Total	15	—	11	—	3	2
Net wells drilled:						
Production:						
Productive wells:						
Oil	100.4	57.4	110.7	75.2	131.1	35.2
Gas	0.6	1.0	2.9	1.0	2.8	—
Dry wells	0.6	—	1.7	—	1.7	0,9
Total	101.6	58.4	115.3	76.2	135.6	36.1
Exploration:						
Discovery wells:						
Oil	11.4	—	8.5	—	2.0	2.0
Gas	—	—	—	—	—	—
Dry wells	—	—	—	—	—	0.7
Total	11.4	—	8.5	—	2.0	2.7

Production

Argentine Production

Our proved reserves in Argentina as of December 31, 2006 were 122.4 million barrels of crude oil and 949.2 billion cubic feet of natural gas. For the year 2006, our daily production was 54.2 thousand barrels of crude oil and 250.0 million cubic feet of natural gas. Oil and gas production activities in Argentina are mainly developed in mature fields undergoing secondary recovery operations, which are capital-intensive projects.

Oil and natural gas reserves in Argentina have had a downward trend during the last few years. According to official data from the Argentine Oil and Gas Institute, proved oil and gas reserves for the 2001-2005 period dropped approximately 34%.

Oil production declined for the ninth year in a row, though to a lesser extent compared to previous years. Considering accumulated production for the first eleven months of 2006, oil production totaled 640,000 barrels per day, a decline of about 4% compared to 2005.

In 2006 our oil and gas reserves in Argentina declined 7% for the fourth year in a row. During the same year, production of oil equivalent increased about 3% compared to 2005.

Exploration is our main vehicle for growth and reserve replacement, including exploration of off-shore fields. Due to the risks inherent in exploration activities, we cannot assure that the downward trend in reserves will be reversed in the future.

In fiscal year ended December 31, 2006, our oil and gas production accounted for 7.4% and 6.7% of total oil and gas production in Argentina, respectively, and positioned us as the third largest producer in the country. Rights to develop oil and gas fields in Argentina are granted through concessions and exploration permits. Concessions are generally granted for periods of 25 years and are typically renewable for a maximum term of ten years, and permits are generally granted for initial periods of four years. Concessionaires in Argentina are entitled to gross proceeds from production sales. All permanent fixtures, materials and equipment are under the control of the concessionaire, although they revert to the Argentine government at the end of the concession. Royalties based

on production are paid to the respective Argentine provinces. These royalties are in general 12% of the wellhead price for oil and gas. The wellhead price is calculated by deducting from the sales price obtained in transactions with third parties, or from the product price prevailing in the domestic market in case the product is subject to industrialization processes, freight and other expenses to make it available for sale.

Our production is concentrated mainly in four basins, the Neuquén, Austral, San Jorge and Noroeste basins. The Neuquén basin is the most important basin in Argentina in terms of oil and gas production. We own approximately 664,000 net acres under production concessions. Our most important fields in the Neuquén basin are Puesto Hernández, 25 de Mayo-Medanito S.E. and Sierra Chata. In the Austral basin, we own approximately 2,459,000 net acres under production concessions, with Santa Cruz I and Santa Cruz II being our main concessions.

In October 2006, divestment of our assets in Atamisqui and Refugio-Tupungato areas in the Cuyo basin was fully effected. In addition, we assigned a 13.33% interest in the Atuel Norte area in the Neuquén basin. Combined production from these assets accounted for less than 2% of our production and reserves in Argentina. This divestment accounts for a P$85 million gain in the 2006 fiscal year.

Production outside of Argentina

As of December 31, 2006, 46.8% of our combined proved reserves were located outside of Argentina. In addition, approximately 47.6% of our oil production and 17.9% of our gas production came from outside of Argentina in 2006. We have working interests in eight oil and gas production blocks outside of Argentina: Oritupano Leona, La Concepción, Acema and Mata (these four through 22%, 36%, 34.5% and 34.5% direct and indirect interest in Petroritupano S.A., Petroven-Bras S.A., Petrowayu S.A. and Petrokariña S.A.) in Venezuela, Lote X in Peru, Block 18 and Block 31 in Ecuador and Colpa Caranda in Bolivia. In addition, we have an interest in the consortium that operates the Tibú area in Colombia.

Venezuela

As of December 31, 2006, estimated proved oil and gas reserves attributable to operations in Venezuela amounted to 78.6 million barrels of oil equivalent, accounting for 14.9% of our total reserves. In 2006, our net production in Venezuela was approximately 24,600 barrels of oil equivalent per day, or 16% of our total production. Information on oil and gas producing activities as of December 31, 2006 attributable to our operations in Venezuela was calculated on the basis of three months of production under operating agreements and nine months of production as mixed company.

In April 2005, the Venezuelan Energy and Oil Ministry instructed Petróleos de Venezuela S.A. (PDVSA) to review the 32 operating agreements signed by PDVSA with oil companies from 1992 through 1997, including agreements with Petrobras Energía, through our subsidiaries and affiliates in Venezuela, in connection with production in the areas of Oritupano Leona, La Concepción, Acema and Mata. The Venezuelan Energy and Oil Ministry instructed PDVSA to take measures in order to convert all effective operating agreements into mixed companies and grant the Venezuelan government, through PDVSA, more than 50% ownership of each field.

During 2005, through different actions, PDVSA exercised pressure on the effective operating agreements as a way to promote migration. Among others: (a) PDVSA approved a reduced amount of investments for the development of the Oritupano Leona area, (b) The SENIAT (National Integrated Tax Administration Service) performed several tax inspections on the companies that operate the 32 oil operating contracts and, as a result, challenged prior tax filings, and (c) the applicable income tax rate was increased from 34% to 50%.

On September 29, 2005, as a step toward the adjustment of the operating agreements in force to the new business scheme, Petrobras Energía, through its subsidiaries and affiliates in Venezuela, signed provisional agreements with PDVSA, whereby it agreed to negotiate the terms and conditions for conversion of the operating agreements of the Oritupano Leona, La Concepción, Acema and Mata areas into mixed companies. The provisional agreement for the Oritupano Leona area was signed subject to approval by Petrobras Energía's Regular Shareholders' Meeting and Petrobras Energía Participaciones S.A.'s Special Shareholders' Meeting. These Shareholders' meetings adopted favorable resolutions.

In March 2006, Petrobras Energía, through its controlled and affiliated companies in Venezuela, entered with PDVSA and Corporación Venezolana de Petróleo S.A. (CVP) into memoranda of understanding (MOUs) in order to effect the migration of the operating agreements. These MOUs established that private investors would hold a 40% share in these mixed-owned companies, with the Venezuelan Government being entitled to a 60% ownership interest. As a result, the direct and indirect interests of Petrobras Energía in the mixed-owned companies that would operate the areas of Oritupano Leona, La Concepción, Acema and Mata would be 22%, 36%, 34.5% and 34.5%, respectively. The MOUs establish that CVP will recognize a divisible and freely transferable credit in favor of Petrobras Energía in the amount of U.S.$88.5 million. These credits will not bear interest and may be used only for the payment of investments in any new mixed company for the development of oil exploration and production activities in Venezuela or licenses for the development of gas exploration and production operations in Venezuela.

In August 2006, the relevant conversion agreements were signed for the Oritupano Leona, La Concepción, Acema and Mata areas, which were consistent with the terms agreed in the MOUs. Subsequently, the companies Petroritupano S.A., Petrowayú S.A., Petrovenbras S.A. and Petrokariña S.A. were organized and registered with the Public Registry of Commerce of Venezuela. The Venezuelan government has issued the relevant decrees granting the necessary powers to these four companies, and the respective shareholders subsequently made the required capital contributions.

The MOUs established that the economic effects of the migration would become effective on April 1, 2006. Since this date and until the mixed companies are operational, the operations of the consortia have been conducted and financed by Petrobras Energía Venezuela and the other members of the consortia, under the supervision of a provisional executive committee formed mostly by PDVSA representatives.

In accordance with the corporate and governance structure defined for mixed companies, as from April 1, 2006, consolidation on a line-by-line basis of the assets, liabilities, income (loss) and cash flow of the above operations was discontinued, the related assets and net income being shown under Equity in Affiliates and Equity in Earnings of Affiliates, respectively.

As of December 31, 2005, pursuant to the new operating conditions resulting from conversion of the agreements, the Company adjusted the book value of assets in Venezuela to their estimated recoverable value, and recorded an impairment charge of P$424 million (P$255 million on fixed assets, P$110 million on deferred tax assets and P$59 million on equity in affiliates).

As of December 31, 2006, the Company estimated equity in earnings of its investments in the mixed-owned companies based on the best available information. As of such date, investments in mixed companies in Venezuela (P$2,510 million) are stated net of an impairment allowance of P$186 million to adjust their book value to their estimated recoverable cost. In addition, as of such date, the Company recorded an asset in respect of the divisible and transferable credit assigned to it upon execution of the conversion agreements, since all of the conditions for the recognition of the credit have been satisfied. This asset, net of an impairment allowance of P$92 million to adjust its book value to its estimated recoverable cost, amounts to P$180 million. The realization of the recorded estimated value of these assets depends on future events, some of which are beyond the Company's direct control. As a result, actual results could vary significantly from these estimates.

In the future, mixed companies will be subject to royalty payments of 33.33% based on production. In addition, they will be required to pay to the government an amount equivalent to any difference between (1) 50% of the value of oil and gas sales during each calendar year and (2) total royalty payments made during such year plus income tax and any other tax or duty calculated on the basis of the sales revenues paid during such year. Each mixed company will be the operator of the areas, and the crude oil produced by the mixed companies will have to be sold and delivered to PDVSA at market prices.

The Venezuelan government may set a limit on the oil production of mixed companies. Venezuela is a member of OPEC and has set forth a policy of strict compliance with the production quotas decided upon within OPEC. According to the Venezuelan Hydrocarbon Law, any decisions made by the federal administration in connection with agreements or international treaties involving hydrocarbons are applicable to any party that carries out the activities governed by the law. As a result, if there are production cuts approved by OPEC, these cuts will

affect PDVSA and mixed companies. See "- Regulation of Our Businesses - Venezuelan Regulatory Framework - Petroleum and Gas - Additional Matters - OPEC".

Peru

In 1996, the Company acquired through a public bidding process 30-year oil and 40-year natural gas production rights in Lote X, an approximately 116,000-acre block in Peru's Talara Basin. The purchase included all of the then existing assets on the site. As of December 31, 2006, Lote X had 2,472 productive wells. Perupetro S.A.'s Talara refinery is the sole customer of our crude oil production.

As of December 31, 2006, estimated proved oil and gas reserves attributable to operations in Peru amounted to 88 million barrels of oil equivalent, accounting for 16.7% of the Company's total reserves. In 2006, our net daily production in Peru was 14.5 thousand barrels of oil equivalent or 9.4% of the Company's total production.

In November 2003, the Peruvian government approved the National Law for the Promotion of Investment in the Exploitation of Resources and Marginal Reserves of Hydrocarbons (*Ley para la Promoción de la Inversión en la Explotación de Recursos y Reservas Marginales de Hidrocarburos a Nivel Nacional*), which authorizes Perupetro to reduce royalty payments.

In accordance with the new law, the Company entered into an agreement with the Peruvian government whereby we undertook to make investments of approximately U.S.$97 million in Lote X during the 2004-2011 period. By December 31, 2006, almost all the amount committed (U.S.$95 million) had been used. Works covered by this agreement include the drilling of 51 wells, the workover of 525 wells, the reactivation of 177 temporarily abandoned wells, the implementation and expansion of the water injection project and the development of a gas injection project. The Peruvian government, in turn, reduced the royalty rate for crude oil and gas production. As a consequence of this reduction in royalties, our economic projections in connection with operations in Peru have improved.

In Peru, the 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 the rate of 13% for prices of up to U.S.$23.9 per barrel. The royalty rate applicable in 2006 was 25.3%. Production of natural gas in Peru is subject to a fixed royalty of 24.5%.

Ecuador

In Ecuador we operate Blocks 18 and 31 under participation agreements, in which as of December 31, 2006, we hold a 70% and 100% interest, respectively. Under these agreements, Petroecuador, the Ecuadorian national oil company, is entitled to a share in production, which fluctuates depending on oil prices and production levels.

As of December 31, 2006, estimated proved oil and gas reserves attributable to operations in Ecuador amounted to 53.9 million barrels of oil equivalent, accounting for 10.2% of the Company's total reserves. In 2006, our oil production in Ecuador totaled 11.8 thousand barrels per day, accounting for 7.7% of our total average production in barrels of oil equivalent in 2006.

In January 2005, we entered into a preliminary agreement with Teikoku Oil Co. Ltd. (Teikoku), whereby, subject to obtaining approval from the Ministry of Energy and Mines of Ecuador, we would transfer 40% of our working interest in Blocks 18 and 31. On January 11, 2007, the Ecuadorian Ministry of Energy and Mines approved the agreement.

As a result of this authorization, the parties are currently in the process of completing the necessary formalities, including the necessary steps towards obtaining amendments to the participation contracts (which Petroecuador must sign), in order to incorporate Teikoku as a partner in the agreements for Blocks 18 and 31.

Once the amendments are finalized, the terms and economic conditions of the Teikoku transaction will go into effect.

In 2001, we acquired a working interest in Block 18, located in the Oriente Basin. Block 18 covers approximately 180,000 net acres and has a significant potential of 28° to 33° API light crude oil reserves. The concession for production activities in Block 18 is for an initial 20-year term, which commenced in October 2002. Once this term expires, Ecuadorian hydrocarbon laws provide for the possibility of a five-year extension period.

Block 18 comprises the Pata and Palo Azul fields. In the Palo Azul field the agreement includes differential production sharing percentages according to a formula that considers the sales price and total proved reserves. If the sales price of crude from Palo Azul is lower than U.S.$15 per barrel, the government receives about 30% of the crude produced, but, if the sales price of crude is U.S.$24 or higher, the government receives about 50% of production. The sales price of the Palo Azul crude is calculated considering as reference the WTI, net of the standard market discount for Oriente crude. In the Pata field, the government receives a production share ranging from 25.8%, if daily production is lower than 35,000 bbl/d, to 29%, if production exceeds 45,000 bbls/d. As of December 31, 2006, the government's share of oil produced at the Pata and Palo Azul fields was 33.78% and 50.5%, respectively.

As of December 31, 2006, Block 18 had twenty five productive wells, twenty two located at the Palo Azul field and three located at the Pata field. In 2006 drilling of eight productive wells resulted in a significant increase in production. The oil treatment plant and ducts became operational in December 2006 and will allow the treatment of 40,000 barrels of dry oil per day and increase gross production that had been limited by the former production facilities.

A large part of Block 31 is located in Parque Nacional Yasuní, a highly sensitive ecological area of the Amazon jungle in the central part of the eastern border of the upper Amazon basin and covers an area of approximately 460,000 net acres. Pursuant to the block's production sharing agreement between Petroecuador and us, Petroecuador is entitled to a crude oil production share ranging between 12.5% and 18.5%, depending on daily production volumes and oil density.

We have conducted extensive exploratory work in the block, including the drilling of four exploratory wells in Apaika, Nenke, Obe and Minta. These wells were successful and led to the discovery of the Apaika/Nenke, Obe, and Minta fields. In order to further develop the block, significant investments are required prior to the production phase.

In August 2003, the Ministry of Energy and Mines approved the development plan for the Apaika Nenke field. In August 2004, the Ecuadorian Ministry of the Environment approved the environmental management plan for the development and production of Block 31 and granted an environmental license in connection with the development phase for the Nenke and Apaika fields. In addition, in August 2004, the Ministry of Energy and Mines approved the development plan for Block 31, thereby establishing the start of the 20-year exploitation term. Native and environmentalist groups made public statements against the Block 31 development, arguing that oil and gas activities endangered the park's biodiversity.

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 us access to Parque Nacional Yasuní. Petrobras Energía changed the Development Plan for Block 31 in order to address the objections posed by the Ecuadorian Ministry of the Environment and finally, after a process involving participation of the affected communities, submitted a new Environmental Impact Assessment (EIA). The new EIA was approved by the Ministry of the Environment and the Ministry of Energy and Mines, and the issuance of a new environmental license to resume development works in Block 31 was officially requested on January 4, 2007. All relevant formalities have been completed in connection with this request, and the request for a license is awaiting approval by the Ecuadorian Minister of the Environment.

In April 2006, the Ecuadorian government approved the Oil & Gas Reform Law, which assigns to the government an interest of at least 50% of the excess revenues resulting from the increase in the price of Ecuadorian crude (effective monthly average price of FOB price) over the average monthly sales price of such oil at the

execution date of the relevant production agreement, expressed in constant values for the month in which settlement occurs. In July 2006, the competent authorities published the relevant regulations implementing the law, and subsequently Ecuadortlc and Petroecuador expressed divergent interpretations of the regulations.

In order to resolve these differences and after the request of Ecuadortlc, Petroecuador asked the Attorney General to issue an opinion on this matter. In October 2006, Ecuadortlc was informed that the Attorney General's opinion exempted the income derived from the Palo Azul field from the scope of application of the new law, given that the development agreement for Palo Azul contains provisions under which the Ecuadorian Government receives more than 50% of the benefits. Notwithstanding the Attorney General's opinion, however, in January 2007, Petroecuador submitted a claim to Ecuadortlc in favor of the government for U.S.$26 million in respect of the benefits corresponding to the government under the new law from April 2006 to December 2006. In its counsel's opinion, Ecuadortlc has legal grounds to consider this claim as invalid. In 2006, Ecuadortlc paid U.S.$12 million in aggregate to Petroecuador, which payments correspond to amounts purportedly owed to the Ecuadorian Government under the new law prior to the Attorney General's opinion.

Although Ecuardortlc is of the view that it has valid legal grounds not to make payments under the new law, as of December 31, 2006, Ecuadortlc maintained an allowance of P$37 million (U.S.$12 million) on receivables in respect of such payments.

On February 15, 2007, Ecuadortlc paid the remaining amount of Petroecuador's claim (U.S.$14 million), reserving its right to seek reimbursement.

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

With respect to the exploitation of Blocks 18 and 31, the Company executed a transportation agreement with OCP whereby we acquired an oil transportation capacity of 80,000 barrels per day for a 15-year term, starting November 10, 2003. Under the "Ship or Pay" clause included in the agreement, we, as well as all other producers, must pay a fee covering OCP operating costs and financial services even when no crude oil is transported. As of December 31, 2006, such fee amounted to U.S.$2.27 per barrel. Costs in connection with the transportation capacity are invoiced by OCP and charged to expenses on a monthly basis.

We expect that during the effective term of the transportation agreement, oil production will be lower than the aggregate committed transportation capacity. This assumption is based on: (i) the estimated delays in the development of Block 31 and (ii) the current vision of reserve potential in Block 31. Considering this situation, we sold transportation capacity under the following transportation agreements:

1. Under a transportation agreement signed in June 2004, Murphy Oil will be able to transport its working interest (an average of 8,000 bbls/d between December 2004 and June 2006) from Block 16 through Petrobras' committed capacity in the OCP. The expiration date of this agreement is January 31, 2012.

2. Under the transportation agreement signed in December 2006 and retroactively applied to May 2006, Petroecuador will be able to transport production from Block 15 (an average of 80,000 bbl/d) through all shippers' committed capacity, except for Occidental, in the OCP. As a result of this agreement, expiring on December 14, 2008, Petrobras will be able to reduce by 16,380 bbls/d the 80,000 bbls/d committed transportation capacity in connection with OCP.

Pursuant to the preliminary agreement signed with Teikoku, subject to the terms and conditions mentioned above, Teikoku has agreed to assume 40% of our rights and obligations resulting from the crude oil transportation agreement with OCP. Allocation of the transportation capacity to Teikoku will enable us to reduce the current oil production deficit to comply with the SOP commitment.

Bolivia

Petrobras Energía has operated the Colpa Caranda Block since 1989 under a share risk contract signed with YPFB, under which Petrobras Energía had free oil production availability. As of December 31, 2006, we hold a

100% interest in the Colpa Caranda Block. Colpa Caranda is an approximately 56,000 net acre block located in the Sub Andina Central basin and has 49 producing wells.

As of December 31, 2006, estimated proved oil and gas reserves attributable to operations in Bolivia amounted to 26.1 million barrels of oil equivalent, accounting for 4.1% of our total reserves. In 2006, our net daily production in Bolivia was 7.4 thousand barrels of oil equivalent or 4.8% of our total production. Approximately 87% of our proved developed reserves in Bolivia are gas reserves. These fields, which originally exported gas to Argentina, currently have priority in the delivery of gas to the Santa Cruz-São Paulo pipeline that transports gas to Brazil.

In January 2005, we entered into an assignment agreement with Petrobras Bolivia whereby we transferred, subject to the approval of YPFB, a 5% interest in Colpa Caranda. As of the date of this Offering Memorandum, approval by YPFB is pending.

On May 19, 2005, the new Hydrocarbons Law No. 3,058 became effective and abrogated former Hydrocarbons Law No. 1689 dated April 30, 1996. Under the current law a higher tax burden is imposed on the sector companies by means of an 18% royalty percentage and a 32% Direct Tax on Hydrocarbons (DTH) directly applicable to 100% of production. These taxes are in addition to the taxes in force under Law No. 843. In May 2006, the Bolivian government enacted Supreme Decree No. 28,701, which provides that as from May 1, 2006 oil companies will have to deliver to YPFB the property of all hydrocarbon production for sale. Oil companies will have a 180-day transition period to subscribe new agreements, which must be individually authorized and approved by the Bolivian Legislature. The Ministry of Hydrocarbons and Mines would determine, on a case by case basis, the interest in each field corresponding to oil companies by means of audits of investments, operational costs and profitability indicators. During the transition period, in the case of fields with a certified average production of natural gas for 2005 lower than 100 million cubic feet per day, such as the Colpa Caranda area, the previous distribution of the oil and gas production value was maintained. In addition, the above mentioned decree provides that the Bolivian government shall recover full participation in the entire oil and gas production chain, and for this purpose provides for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one of the shares in a number of companies, among which is Petrobras Bolivia Refinación S.A.

On October 28, 2006, Petrobras Energía and YPFB entered into a new operating agreement for the Colpa Caranda area, pursuant to the terms of the Hydrocarbon Law No.3,058 and Supreme Decree No. 28,701, whereby Petrobras Energía will perform at its own risk and for its own account, in the name of and on behalf of YPFB, exploration and production activities within the area that is the subject of the agreement. Pursuant to the agreement, YPFB will own the hydrocarbons and pay royalties, direct interest, and direct tax on hydrocarbons, which in the aggregate will amount to 50% of the production valued on the basis of sales prices, and will apply the remaining amount to pay operating services provided by Petrobras Energía, including depreciation, and the rest of the operating costs will be shared by YPFB and Petrobras Energía on the basis of an index calculated based on production volumes, depreciation rate, prices and taxes paid, among other items, securing the free availability of foreign currency. This agreement will become effective upon approval by the Bolivian Legislature. The Company's Management believes the new contractual conditions will not have a significant impact on the book value of such assets.

Colombia

With a 30% working interest, Petrobras Energía formed the Tibú Consortium for the exploitation of the Tibú Field in the Catatumbo basin, Colombia. This consortium signed with the state-owned company Ecopetrol an agreement for the additional development of the Tibú field. This project —to which Petrobras Energía will contribute its know-how in the development and exploitation of mature fields— is aimed at promoting our strategy for international growth and diversification of the portfolio of assets.

During the initial phase of the project (for a term of two and a half years from January 2007), the Tibú Consortium will make investments in the amount of U.S.$40 million in studies and works to determine the actual potential of the field currently producing 1,800 barrels of oil per day (Bpd). During the second phase, the Tibú Consortium will be in charge of 55% of the investments (Ecopetrol being responsible for the remaining 45%) and will be entitled to 40% of the field's production after royalties. The Tibú Consortium will execute investment projects to generate additional production while Ecopetrol will continue to operate the field.

Statistical Information Relating to Oil and Gas Production

The following table sets forth our oil and gas production during 2006. In addition, the table includes our working interest in each field, the number of producing wells and the expiration date of the concessions, in each case as of December 31, 2006. Although some of these concessions may be extended at their expiration, the expiration dates set forth below do not include any extensions.

Production Areas	Location	Basin	2006 Production Oil [1]	2006 Production Gas[2]	Oil and Gas Wells	Interest	Expiration
Argentina:							
25 de Mayo – Medanito S.E.	La Pampa and Río Negro	Neuquén	5,447	2,599	555	100.00%	2016
El Mangrullo	Neuquén	Neuquén	—	579	6	100.00%	2025
Jagüel de los Machos	Río Negro and La Pampa	Neuquén	1,013	3,023	90	100.00%	2015
Puesto Hernández	Mendoza and Neuquén	Neuquén	4,082	—	769	38.45%	2016
Bajada de Palo	Neuquén	Neuquén	69	—	4	80.00%	2015
Santa Cruz II	Santa Cruz	Austral	2,126	10,393	74	100.00%	2017/2024
Río Neuquén	Neuquén and Río Negro	Neuquén	535	6,844	131	100.00%	2017
Entre Lomas	Neuquén and Río Negro	Neuquén	855	1,437	396	17.90%	2016
Veta Escondida and Rincón de Aranda U.T.E.	Neuquén	Neuquén	—	—	—	55.00%	2016
Aguada de la Arena	Neuquén	Neuquén	69	7,296	10	80.00%	2022
Santa Cruz I U.T.E.	Santa Cruz	Austral	2,655	44,073	92	71.00%	2016/2023
Sierra Chata	Neuquén	Neuquén	157	6,399	38	19.89%	2022
Atamisqui	Mendoza	Cuyana	107	—	—	— [5]	2016
Refugio Tupungato	Mendoza	Cuyana	352	—	—	— [5]	2016
Atuel Norte	Mendoza	Cuyana	6	—	6	36.70%	2016
La Tapera – Puesto Quiroga	Chubut	San Jorge	—	—	—	21.95%	2016
El Tordillo	Chubut	San Jorge	2,139	46	753	21.95%	2016
Aguaragüe	Salta	Noroeste	182	8571	48	15.00%	2017/2021
Total Argentina			**19,795**	**91,261**	**2,972**		
Outside of Argentina:							
Colpa Caranda	Bolivia	Sub Andina	509	13.063	49	100.00%	2029
Oritupano Leona[3]	Venezuela	Oriental Maturín	2,403	—	—	—	—
Acema[3]	Venezuela	Oriental Maturín	151	—	—	—	—
La Concepción[3]	Venezuela	Lago Maracaibo	1,070	223	—	—	—
Mata[3]	Venezuela	Oriental Maturín	258	26	—	—	2006
Oritupano Leona[4]	Venezuela	Oriental Maturín	2,780	—	231	22.00%	2025
Acema[4]	Venezuela	Oriental Maturín	182	64	27	34.49%	2025
La Concepción[4]	Venezuela	Lago Maracaibo	1,333	2,411	86	36.00%	2025
Mata[4]	Venezuela	Oriental Maturín	264	476	46	34.49%	2025
Lote X	Peru	Talara	4,680	3,694	2,472	100.00%	2024
Bloque 31	Ecuador	Oriente	—	—	—	100.00%	2024
Bloque 18	Ecuador	Oriente	4,321	—	25	70.00%	2022
Total Outside of Argentina			**17,951**	**19,957**	**2,936**		
Total			**37,746**	**111,218**	**5,908**		

(1) In thousands of barrels
(2) In millions of cubic feet

(3) Correspond to former operating agreements
(4) Indirect interests through mixed companies
(5) Sold in October 2006

The following table sets forth our average daily production of oil, including other liquid hydrocarbons, for the three fiscal years ended December 31, 2006, 2005 and 2004. This table includes our net share of production for both consolidated subsidiaries and unconsolidated investees.

	Year ended December 31,		
	2006	**2005**	**2004**
	(average barrels per day)		
Argentina	54,233	54,516	61,427
Outside of Argentina	49,181	67,962	66,973
Total	103,414	122,478	128,400

The following table sets forth our average daily gas production for the three fiscal years ended December 31, 2006, 2005 and 2004. This table includes our net share of production for both consolidated subsidiaries and unconsolidated investees.

	Year ended December 31,		
	2006	**2005**	**2004**
	(average thousand cubic feet per day)		
Argentina	250,030	231,830	262,371
Outside of Argentina	54,677	61,855	64,657
Total	304,707	293,685	327,028

The following table sets forth the average sales price per barrel of oil and per million cubic feet of gas for each geographic area for the three fiscal years ended December 31, 2006, 2005 and 2004, of our consolidated subsidiaries.

	Year ended December 31		
	2006	**2005**	**2004**
Argentina:			
Oil (in pesos per barrel of oil equivalent)	124.4	99.91	86.72
Gas (in pesos per million cubic feet)	3.54	2.74	2.01
Outside of Argentina:			
Oil (in pesos per barrel of oil equivalent)	144.3	94.65	61.91
Gas (in pesos per million cubic feet)	10.52	5.21	3.79

The following table sets forth our average lifting cost, royalties and depreciation cost of oil and gas fields in each geographic area for the three fiscal years ended December 31, 2006, 2005 and 2004. This table includes the net share of production of our consolidated subsidiaries.

	Year ended December 31,		
	2006	2005	2004
	(in pesos per barrel of oil equivalent)		
Argentina:			
Lifting Cost	13.50	11.05	7.91
Royalties	9.42	7.73	6.35
Depreciation	13.91	12.95	11.28
Total	36.83	31.73	25.54
Outside of Argentina:			
Lifting Cost	12.10	10.03	8.92
Royalties	23.72	8.08	5.08
Depreciation	13.91	13.97	11.67
Total	49.73	32.08	25.67

Exploration

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

The following table lists exploration areas as of December 31, 2006, the location and basin of each area, our working interest and the expiration date for the exploration authorization.

	Location	Basin	Interest	Expiration
In Argentina:				
Glencross	Santa Cruz	Austral	87.00%	1999
Estancia Chiripá	Santa Cruz	Austral	87.00%	2001
Cerro Manrique	Rio Negro	Neuquén	50.00%	– (2)
Parva Negra	Neuquén	Neuquén	47.63%	2001(1)
Cerro Hamaca	Mendoza	Neuquén	39.64%	2004(1)
Gobernador Ayala	La Pampa	Neuquén	22.51%	2004(1)
Cañadón del Puma	Neuquén	Neuquén	50.00%	2008
Estancia Agua Fresca	Santa Cruz	Austral	50.00%	(1)
Puesto Oliveiro	Santa Cruz	Austral	50.00%	(1)
El Campamento	Santa Cruz	Austral	50.00%	(1)
El Cerrito Oeste	Santa Cruz	Austral	50.00%	(1)
Chirete	Salta	Noroeste	100.00%	2010
Hickman	Salta	Noroeste	50.00%	2011
Enarsa 1	Continental Shelf	Off-shore Argentina	25.00%	–
Enarsa 3	Continental Shelf	Off-shore Argentina	35.00%	–
Outside of Argentina:				
Tinaco	Venezuela	Guarico	50.00%	2007
Block 57	Peru	Madre de Dios	35.15%	2008
Block 58	Peru	Madre de Dios	100.00%	2007
Block 103	Peru	Marañon	30.00%	2008
Block 110	Peru	Madre de Dios	100.00%	2007
Block 112	Peru	Marañon	100.00%	2007
Block 117	Peru	Marañon	100.00%	2008

(1) We have requested an exploitation concession with respect to this field, which is still pending.
(2) Granting of the exploration permission is pending.

Exploration in Argentina

As of December 31, 2006, we held interests in approximately 18,274 thousand gross production acres in Argentina. In 2006, the Company and Energía Argentina S.A. (Enarsa) signed an association agreement whereby two consortia (Enarsa 1 and 3) were created for the exploration, development, production and distribution of hydrocarbons in off-shore areas located on the Argentine continental shelf. During 2006, the Company signed two Master Agreements with the Province of Santa Cruz to continue demarcation and production activities in connection with two gas fields: Glencross and Estancia Chiripa. In addition, two exploration blocks were pre-awarded to Petrobras Energía on the First Round of Bids of the Province of Salta.

In 2006, we completed a 118 km^2 3D seismic survey in El Cerrito area in the Austral basin, and shooting of approximately 1900 km2 in Enarsa 1 off-shore area started. In the Neuquén and Austral basins, 15 exploratory wells were drilled, 11 of which were successful. In 2006, we discovered 35 million barrels of oil equivalent in Argentina through exploration. Additional investments are required in reservoir demarcation and characterization to determine the possibility of adding proved reserves.

Exploration Outside of Argentina

Peru

In 2004, we entered into an agreement with Repsol Exploración Perú S.A. to jointly perform exploration activities in Block 57, located in the Ucayali basin. Pursuant to this agreement, our interest in the Block is 35.15%. In 2005, we pursued an aggressive policy to increase our acreage position, through exploration license applications and farm-ins. During 2005, we applied for four exploration blocks: Blocks 58 and 110 in the Madre de Dios basin and Blocks 112 and 117 in the Marañón basin (the first three were granted during 2005 and the last one was granted during 2006).

As of December 31, 2006, the total gross exploration area was 14,219 thousand acres.

In addition, through a farm-in, we acquired a 30% working interest in Lote 103, operated by Occidental, in the Huallaga basin.

In Peru, exploration licenses are granted for a total of seven years. The first exploration period of 12 to 24 months generally requires a low level of capital expenditures, primarily on geological studies or seismic reprocessing. Subsequent periods require more substantial investments in seismic registration and drilling.

Venezuela

In Venezuela, the company has a 50% working interest in the Tinaco area under a license for the exploration and production of gas. In 2006, drilling of La Yaguara well in the Tinaco area yielded no encouraging results. If gas from these reserves is sold in the future, we will be required to pay 23.21% in royalties. In Venezuela, gas licenses are granted for a 35-year period, including exploration and exploitation.

Colombia

In 2005, we agreed to acquire a 10% working interest in the Tierra Negra Block from Petrobras, who operates the block with a 60% working interest. The block has a high reserve potential and is located in the Llanos Orientales basin, adjacent to the main oilfields and pipelines in Colombia. Entry into Colombia, in association with Petrobras, gives rise to new prospects for the development of our exploration and production business in such country. Completion of the first exploratory well is expected for the first half of 2007.

Ecuador

The concession contract for Block 31 allows us to perform additional exploratory works for a period of three years following commencement of the development stage. We therefore may perform exploratory activities until August 2007. The Block 31 exploration drilling and seismic acquisition program was suspended because the competent authorities have not issued the necessary environmental licenses. Furthermore, for planned exploration activity in the western part of Block 18, local communities did not allow the Company to enter the area to carry out fieldwork. This prompted us to invoke *force majeure* and request an extension of the remaining exploration period until the problem is solved. As of the date of this Offering Memorandum, we have not been granted the extension.

Moreover, since March 9, 2007, crude oil production in Block 18, which we operate through our subsidiary Ecuadortlc S.A., has been curtailed as a result of coercive actions taken by local communities, including the occupation of the Palo Azul Field. As of the date of this Offering Memorandum, this situation has not been resolved.

Service Agreement in Mexico

In 2003, as part of a bidding process launched by Petróleos Mexicanos, or PEMEX, for the operation of areas under multiple service agreements, agreements for the Cuervito and Fronterizo areas were awarded to a joint venture composed of Petrobras, Teikoku and Diavaz. Under the relevant operating agreement, the Company act as

contractor and provide the joint venture with the administrative, technical and operating support required for the operation of these blocks.

Reserves

We believe our estimates of remaining proved recoverable oil and gas reserve volumes to be reasonable. Proved oil and natural gas reserves are those estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs, under existing economic, operating and regulatory conditions, i.e. prices and cost at the date of estimation. These estimates have been prepared in accordance with Rule 4-10 of Regulation S-X under the U.S. Securities Act. Gaffney, Cline & Associates, Inc., an international technical and management advisory firm for the oil and gas industry, audited our oil and gas reserves as of December 31, 2006, 2005 and 2004. The technical audit covered 93%, 95% and 95% of the Company's estimated reserves for the years 2006, 2005 and 2004, respectively. Reserves that have not been certified are mainly attributable to estimated reserves related to areas where the Company does not act as operator.

As of December 31, 2006, liquid hydrocarbon and natural gas proved developed and undeveloped reserves amounted to 527.2 million barrels of oil equivalent (323.9 million barrels of oil and 1,219.8 billion cubic feet of natural gas), representing a 30.6% decline compared to reserves certified as of December 31, 2005 (a decline of 39.8% for liquid hydrocarbons and 8.3% for natural gas).

Liquid hydrocarbons and natural gas accounted for 61.4% and 38.6%, respectively, of our total proved reserves as of December 31, 2006. Approximately, 46.8% of our total proved reserves as of December 31, 2006 were located outside of Argentina as compared to 60.2% as of December 31, 2005. As of December 31, 2006, proved developed reserves of crude oil equivalent represented 56.4% of our total proved reserves of crude oil equivalent.

During 2006, a review of net reserves of approximately 172 million barrels of oil equivalent was recorded as detailed below:

A review of 181 million barrels of oil equivalent was recorded in connection with conversion of agreements related to assets in Venezuela. This was mainly attributable to the change in interest compared to interest in operating agreements.

In Peru, 16 million barrels of oil equivalent were reviewed.

Through extensions of known accumulations 25 million barrels of oil equivalent were added in Argentina and in Ecuador.

In addition, as a result of divestment of assets in the Cuyo basin in Argentina, reserves dropped approximately 5 million barrels of oil equivalent.

As of December 2006, we had proved reserves equal to 9.4 years of production at 2006 rates.

The table below sets forth, by geographic area, total proved reserves and proved developed reserves of crude oil, condensate and natural gas liquids and reserves of natural gas at the indicated dates. This table includes our net share of the proved reserves of our consolidated subsidiaries and unconsolidated investees. Our net share of the proved reserves of our unconsolidated investees represented 16% of our total proved reserves as of December 31, 2006.

	Crude oil, condensate and natural gas liquids			Natural gas			
	Argentina	Outside of Argentina	Total	Argentina	Outside of Argentina	Total	Combined
	(in thousands of barrels)			(in millions of cubic feet)			(in millions of barrels of oil equivalent)
Total proved developed and undeveloped reserves as of December 31, 2004	176,290	406,466	582,756	1,099,515	365,987	1,465,502	827.0
Proved developed reserves as of December 31, 2004	118,654	168,119	286,773	554,138	208,436	762,574	413.9
Increase (decrease) originated in:							
Revisions of previous estimates	(7,165)	4,183	(2,982)	(87,864)	22,612	(65,252)	(13.9)
Improved recovery	(9,485)	-	(9,485)	56	-	56	(9.5)
Extensions and discoveries	4,082	8,762	12,844	23,774	13,787	37,561	19.1
Purchase of proved reserves in place	—	—	—	—	—	—	—
Sale of proved reserves in place	—	—	—	—	—	—	—
Year's production	(19,889)	(24,814)	(44,703)	(84,618)	(22,577)	(107,195)	(62.6)
Total proved developed and undeveloped reserves as of December 31, 2005	143,833	394,597	538,430	950,863	379,809	1,330,672	760.2
Proved developed reserves as of December 31, 2005	98,093	176,227	274,320	457,378	203,255	660,633	384.4
Increase (decrease) originated in:							
Revisions of previous estimates	(2,636)	(186,724)	(189,360)	25,264	(96,042)	(70,778)	(201.2)
Improved recovery	38	4.705	4,743	724	6,830	7,554	6.0
Extensions and discoveries	5,510	6,900	12,410	63,595	—	63,595	23.0
Purchase of proved reserves in place	—	—	—	—	—	—	—
Sale of proved reserves in place	(4,541)	—	(4,541)	—	—	—	(4.5)
Year's production	(19,795)	(17,951)	(37,746)	(91,261)	(19,957)	(111,218)	(56.3)
Total proved developed and undeveloped reserves as of December 31, 2006	122,409	201,527	323,936	949,185	270,640	1,219,825	527.2
Proved developed reserves as of December 31, 2006	81,845	102,735	184,580	497,680	179,884	677,564	297.5

The following table sets forth the breakdown of our total proved reserves of liquid hydrocarbons and natural gas into proved developed and undeveloped reserves as of December 31, 2006, 2005 and 2004.

	2006		2005		2004	
	Millions of barrels of oil equivalent	% of total proved reserves	Millions of barrels of oil equivalent	% of total proved reserves	Millions of barrels of oil equivalent	% of total proved reserves
Proved developed reserves	297.5	56.4%	384.4	50.6%	413.9	50.0%
Proved undeveloped reserves	229.7	43.6%	375.8	49.4%	413.1	50.0%
Total Proved Reserves	527.2	100%	760.2	100%	827.0	100%

Approximately 5% of our proved developed reserves as of December 31, 2006 are non-producing reserves.

Estimated reserves were subject to economic evaluation to determine their economic limits. Estimated reserves in Argentina, Peru and Bolivia are stated before royalties, as the latter have the same attributes as taxes on production and as they are not paid in kind, and therefore are treated as operating costs. In Ecuador, due to the type of contract involved in which the government has the right to a share of production and takes it in kind, reserves are stated after royalties. Reserve volumes in Venezuela are computed by multiplying our working interest in each company by the net reserve volumes in each area.

In addition, in Bolivia, as from the effective date of the new agreements (October 2006), reserves are calculated using the "economic method".

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

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

As detailed under "Information About the Company – Our History and Development — Petrobras Energía's Corporate Reorganization," pursuant to a merger agreement, the effective date of which is January 1, 2005, Eg3, PAR and PSF merged into the Company. If the merger had occurred as of December 31, 2004, the proved reserves volume of crude oil, condensate and natural gas liquids and natural gas in Argentina as of December 31, 2004 would have increased 20.7% and 54.7%, respectively.

Transportation and Sales

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

Oleoducto de Crudos Pesados (OCP)

The government of Ecuador awarded OCP with the construction and operation for a 20-year term of the 503 km long pipeline that runs from the northeastern region of Ecuador to the Balao distribution terminal on the Pacific Ocean coast. As of December 31, 2006, we held an 11.42% interest in OCP. OCP's other shareholders are Encana, Perenco, Occidental, Repsol-YPF and AGIP.

The oil pipeline has a transportation capacity of approximately 450,000 barrels per day, of which at least 350,000 barrels per day have been committed under transportation agreements that include a ship or pay clause.

Because the oil pipeline runs across ecologically sensitive areas, the pipeline was constructed under stringent environmental protection and technical standards.

The construction of the oil pipeline was completed in 2003. After testing the system at its maximum capacity and obtaining approval by the Ministry of Energy and Mines of Ecuador, the oil pipeline officially started operations on November 10, 2003.

In connection with production from Blocks 18 and 31 in Ecuador (Block 31 has no production yet as it is in the early stages of development), we, through our subsidiaries in Ecuador, entered into a transportation agreement that includes a ship or pay clause with OCP, whereby OCP has committed to transport 80,000 barrels per day for a 15-year term, as from November 2003. For a more detailed discussion see "Business Overview – Oil and Gas Exploration and Production – Oil and Gas Exploration and Production Interests – Production – Production outside of Argentina – Ecuador".

Oleoductos del Valle S.A. – Oldelval

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

The pipeline between Allen and Puerto Rosales has a transportation capacity of approximately 265,000 barrels per day, with one million barrels of storage capacity.

During 2006, oil volumes transported by Oldelval from Allen to Puerto Rosales totaled 70.5 million barrels, accounting for an 8% increase compared to 2005.

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

Competition

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

REFINING AND DISTRIBUTION

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

Our main strategy in the Refining and Distribution segment is to grow in the Argentine market while balancing the crude oil production – refining – logistics - distribution chain with quality differentiated products and services.

Our Refining and Distribution operations are developed in Argentina and Bolivia. In Argentina, we operate two refineries and a network of 719 gas stations. One of the refineries is located in San Lorenzo (Province of Santa Fe) and the other in Bahía Blanca (Province of Buenos Aires). In addition, we have a 28.5% interest in Refinería del Norte S.A. ("Refinor"). In Bolivia, the Company has a 49% interest in Petrobras Bolivia Refinación S.A. ("PBR").

The refining and distribution business in Argentina

The Argentine fuel market grew in 2006 for the third year in a row at an improved pace compared to the two previous years. Gasoline and diesel oil sales volumes were over 17 million cubic meters (the highest level since 1998), accounting for an 8.1% increase compared to 2005. Diesel oil sales increased 5.9% to 12.7 million cubic meters, boosted by the strong agricultural, industrial and transportation demand. Gasoline sales volumes grew 16% compared to 2005, totaling 4.3 million cubic meters. This variation was driven by a strong growth in the Argentine economy during recent years, the increase in the purchasing power, higher sales of new cars and stabilization of fuel prices since 2004. Premium gasoline increased 42.5% compared to regular gasoline which dropped 16.0%.

Compressed Natural Gas ("CNG") sales volumes, in turn, dropped 2.9% in 2006 and reverted the upward trend of recent years due to a reduction in the conversion rate of gasoline-powered cars, the increase in CNG prices vis-à-vis the stabilization of naphta prices and the uncertainty as to gas availability, especially during wintertime.

In terms of prices, the Argentine government continued exerting pressure to limit the increase in retail prices for gasoline and diesel oil and issued many resolutions to ensure supply to the domestic market. The inability to raise sales prices since 2004 adversely affected the sector's profitability. The Company's nature as an oil producer allowed it to partially mitigate the distortive effect of the government's actions. In terms of supply, in October 2006, the Secretary of Domestic Trade issued Resolution No.25 under which refining companies are obliged to cover the total market demand for diesel oil with a minimum calculated on the basis of 2005's demand plus an estimated market variation. To comply with this resolution, we had to import 85 thousand cubic meters of diesel oil during the year. Considering the differential between import and retail prices and the impossibility of passing it through to consumers, imports of diesel oil have resulted in significant losses to refining companies. Specifically, in 2006 and 2005 we posted P$38 million and P$82 million losses in relation to import operations. In the future, and subject to the production capacity of our plants and the actual market growth, under Resolution No.25 we may be obliged to import diesel oil volumes, with the consequent adverse impact on the results of operations.

Refining Division

In Argentina, the Company has a total refining capacity of 80,800 barrels of oil per day: 50,300 from the San Lorenzo refinery and 30,500 from the Ricardo Eliçabe refinery.

San Lorenzo Refinery

The San Lorenzo Refinery, located in the Province of Santa Fé, is strategically located along the main distribution system. The refinery's processing capacity is approximately 50,300 barrels of oil per day after an expansion in October 2006 from 37,700 barrels. The refinery has three atmospheric distillation units, two vacuum distillation units, a heavy diesel oil thermal cracking unit and an aircraft fuel production unit which produce the following products: premium, Podium and regular gasoline, jet fuel, diesel oil, fuel oil, kerosene, solvents, aromatics and asphalts. We are one of the few oil companies in Argentina that owns facilities for the production of asphalt products. This unique feature has enabled us to supply asphalt products for many of the most important road construction works in the country.

The Refinery has two fuel storage and dispatch plants located in the Provinces of Santa Fé and Buenos Aires, respectively. At our Dock Sud facilities, in the Province of Buenos Aires, crude oil is received, stored and dispatched. The Dock Sud facility has a total storage capacity of approximately 238,000 barrels of heavy products and 525,000 barrels of light products. Crude oil is received from the oil pipeline connecting Bahía Blanca with Dock Sud and is dispatched to tankers transporting the oil to the San Lorenzo refinery. In addition, the San Lorenzo refinery, located on the right bank of the Paraná River, with access from the so-called hydroway forming part of the Océano-Santa Fé trunk navigation route, has three docks for 250 meter-long vessels having 70,000 ton displacement. The refinery has a storage capacity for 817,000 barrels of heavy products and 312,000 barrels of light products.

Ricardo Eliçabe Refinery

The Ricardo Eliçabe Refinery is located in Bahía Blanca, Province of Buenos Aires, in a strategic location for the reception of crude oil coming through an oil pipeline from the Neuquén Basin or other Argentine crude oils coming by sea from the Golfo San Jorge or Santa Cruz Sur basins or for imports from international markets. With a crude processing capacity of approximately 30,500 barrels per day, it manufactures a wide variety of products: regular gasoline (86 octanes), high-grade gasoline (95 octanes), and Podium gasoline (100 octanes), kerosene, diesel oil, fuel oil, asphalts and liquefied gases (propane and butane). Since February 2007, and as the San Lorenzo Refinery was producing Podium gasoline at full capacity, we started to produce this type of fuel at the Ricardo Eliçabe Refinery. That way, we capitalize on the plant strategic location, supplying the South and Center of the country more efficiently and increasing the supply of this product.

This refinery also produces intermediate fuel oil mixes used as fuel in vessels, raw materials for solvents and varieties for the petrochemical industry. The refinery has a storage capacity of 420,000 barrels of heavy products and 230,000 barrels of light products.

In 2006, works aimed at improving the liquid and gaseous effluent quality at the refinery were successfully completed. Works at the Light Reformate Plant (grade with high benzene content) and the Sulfur Recovery Unit also continued, with both works estimated to be completed by December 2006.

Refining Master Plan

In line with our business strategy, we have designed and begun to implement the Refining Master Plan aimed at adjusting diesel oil and motor gasoline qualities to Argentine standards, increasing conversion to diesel oil and processing higher fractions of heavy crude oils.

The plan encompasses a significant number of works, which are expected to be completed by 2011. By that time, our own production of diesel oil is expected to have increased and our fuels are expected to have met the most stringent standards in terms of sulfur content in diesel oil and sulfur, benzene and aromatics content in gasoline.

Works will allow for increasing total crude oil processing capacity to approximately 83,600 barrels of oil per day. The San Lorenzo Refinery capacity has already increased in 2006 from 37,700 barrels/day to 50,300 barrels/day. The Ricardo Eliçabe Refinery in Bahía Blanca, in turn, will increase its production capacity from 30,500 barrels/day to 33,300 barrels/day. Works to be performed include revamping of the primary distillation and vacuum units that will allow for processing heavier crude oils, with increased availability and reduced purchase costs compared to current light crude oils.

Distribution division

As of December 31, 2006 we had a significant commercial network of gas stations, wholesale customers and final consumers to deliver products and services to a number of regions in Argentina.

We have a network of 719 gas stations, located all around the country. We have pursued a business strategy involving the development and growth of Petrobras' image across gas stations from our former SL and Eg3 brands. Throughout 2006, 41 retail outlets were rebranded to Petrobras, making for a total of 492 gas stations under the Petrobras brand as of December 31. As a result, 68% of retail outlets already operate under the Petrobras brand. In addition, we also have 41 agro-centers (outlets designed to meet the needs of the agricultural sector), of which 38 are identified under Petrobras brand. The rebranding of gas stations and agro-centers to the Petrobras brand is aimed at strengthening the positive attributes associated with our brand. Petrobras has built an excellent image for Petrobras brands, products and services in Argentina, currently competing with the image of the leading companies in the country.

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

	As of December 31, 2006
Owned (1)	144
Franchised (2)	575
Total	719

(1) Owned or controlled by Petrobras Energía under long-term commercial contracts or other types of contractual relationships that secure a long-term direct influence over such points of sale.
(2) The term "franchised" is used to refer to gas stations owned by third parties with which Petrobras Energía has signed a franchise agreement that provides Petrobras Energía with the right (i) to become the gas stations' exclusive supplier and (ii) to brand the gas station with its corporate image. Current laws establish that the duration of contracts with gas stations should be 5 years for existing stations, and 8 years for new constructions.

Petrobras Energía sells fuels to the public in Argentina under the Petrobras, Eg3, and San Lorenzo brand names with the following distribution at December 31, 2006:

Gas Stations

Petrobras	492
Eg3	190
San Lorenzo	37
Total Gas Stations	**719**

We are developing convenience stores, named Spacio 1, throughout our gas station network. In this first stage, we are opening convenience stores exclusively in gas stations owned by us. The Company currently has 20 Spacio 1 convenience stores.

As part of our marketing strategy to offer products and services of high quality and technology to the Argentine market, in mid 2004 we launched Podium, Petrobras Energía's premium gasoline and the first 100-octane gasoline in the Argentine market. With Podium, our share in the premium gasoline market increased from 5.3% in 2003 to 9.2% in 2006. Podium gasoline sales increased 58.1% during 2006.

In November 2006, Petrobras Energía launched Premmia, a brand loyalty program in Rosario (Santa Fe) for final consumers of liquid fuels and lubricants. The program involves the accumulation of points resulting from the purchase of fuels and lubricants that can be later exchanged for a reward or benefit. In addition, instant rewards and benefits are also granted by means of the Premmia checks. The program aims at generating a database with accurate and true information on customers, strengthening the relationship with them, retaining the most profitable ones and optimizing marketing actions. In the short term, the Strategic Plan aims at implementing this program throughout the country.

The Distribution business is also significantly focused on lubricants. In recent years, we aimed at consolidating the Lubrax brand in the Argentine market through the development of exclusive lubricant customers, the leverage of combined sales with liquid fuels, promotions at retail outlets and mass media communication involving the brand. As a result, Lubrax sales hit a new record in 2006 with sales volumes amounting to 32,611 cubic meters in the Argentine market. This figure accounts for a 28.7% growth compared to 2005, while the market recorded only a 2.6% increase. Thus, our share in the lubricant market was 11.1%.

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

As of December 31, 2006, our share in the gasoline market was 14.6% and 13.6% in the diesel oil market.

In Argentina, with a market share of 47.9%, we are a leading company in the bunkering segment (production and supply of marine fuels and lubricants).

With respect to the road asphalt market, our sales volumes were 13% higher compared to 2005, ranking second in the market. In addition, we maintained a leading position in the asphalts market in Bolivia and Paraguay and continued sales to Chile and Uruguay.

The following table shows production and sales for our consolidated Refining and Distribution business segment for fiscal years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,		
	2006	**2005**	**2004**
Production (thousands of tons):			
Virgin naphtha	737	810	742
Diesel oil	1,282	1,226	1,220
Other products	1,229	1,156	1,203
Sales:			
Aromatics (thousands of tons)	30	46	37
Benzene (thousands of tons)	51	58	54
Gasoline (thousands of m3)	837	715	689
Diesel oil (thousands of m3)	1,767	1,741	1,787
Other medium distillates (thousands of m3)	15	13	15
Asphalts (thousands of tons)	184	188	153
Reformer plant products (thousands of tons)	118	135	93
Other heavy products (thousands of tons)	819	686	674
Paraffins (thousands of tons)	163	163	193
Sales (in millions of pesos):			
Argentina	3,361	2,991	2,594
Outside of Argentina	1,170	865	765
Total	4,531	3,856	3,359

During 2006, 2005 and 2004 the Company processed, respectively, an average of 63,100, 62,900 and 63,100 barrels per day through our two refineries. In October 2006, the revamping works of the San Lorenzo Refinery were completed and allowed us to increase consolidated crude processing capacity by 18% to 80,800 barrels per day.

Refinor

We have a 28.5% interest in Refinería del Norte S.A. (“Refinor”). Refinor’s other shareholders are Repsol-YPF (50%) and Pluspetrol S.A. (21.5%). Refinor is engaged in crude refining, gas production, product transportation, marketing and sales.

Refinor owns the only refinery in the northern region of Argentina, which is located in Campo Duran, Province of Salta. Refinor’s refining capacity is approximately 26,400 barrels of oil per day and its natural gas processing capacity is 19.5 million cubic meters per day.

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

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

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

Throughout 2006, the refinery processed all the crude oil and condensate of the Argentine northwestern basin. However, the supply of condensate from Bolivia was irregular as from May and lower than expected as a result of the hydrocarbon nationalization policy implemented in the neighboring country. Nevertheless, crude oil volumes processed during the year averaged 17.1 Mbbl/day accounting for a 65% use of the processing installed capacity at the Topping unit. Sales of fuels produced from crude oil amounted to 9,565 bbl/day in the domestic market and 11,456 bbl/day in the foreign market, of which 86% were attributable to virgin naphtha.

Regarding LPG production at the Turboexpander plants, during 2006 Refinor recorded a monthly average of 29.5 thousand tons, setting a historical record for us and increasing sales of this product to 354.2 thousand tons per year.

As of December 31, 2006, Refinor has a commercial network of 75 gas stations (14 operated by Refinor) located in the Provinces of Salta, Tucumán, Jujuy, Córdoba, Santiago del Estero, La Rioja, Catamarca and Chaco. Through these gas stations, Refinor sells a high performance fuel line: Refinor 97 (97 octanes), High grade (95 octanes), Regular (85 octanes) and Eco Diesel.

In 2006 we maintained our interest of approximately 23% and 21% in the motor gasoline and diesel oil markets, respectively, in the northwestern region of Argentina. Considering the size of its gas station network, Refinor continues to be the oil company with the second highest number of retail outlets and sales volumes in the northwestern region of Argentina.

	Year ended December 31,		
	2006	**2005**	**2004**
Production:			
Gasoline (thousands of m3)	93	102	101
Virgin naphtha (thousands of m3)	420	441	387
Diesel oil (thousands of m3)	331	358	354
Natural gasoline (thousands of m3)	130	121	132
Propane/butane (thousands of tons)	357	357	363
Other products (thousands of m3)	127	138	158
Sales:			
Gasoline (thousands of m3)	95	106	109
Virgin naphtha (thousands of m3)	573	573	529
Diesel oil (thousands of m3)	450	505	406
Propane/butane (thousands of tons)	354	352	354
Other products (thousands of m3)	101	111	81
Sales (in millions of pesos):			
Argentina	731	696	557
Outside of Argentina	785	733	533
Total	1,516	1,429	1,090

Petrobras Bolivia Refinación (PBR)

The Company has a 49% interest in PBR. Petrobras is our strategic partner, with a 51% interest.

PBR owns two refineries located in Cochabamba and Santa Cruz de la Sierra, Bolivia, with an estimated maximum production capacity of 60,000 barrels of oil per day, accounting for 92% of Bolivia's total refining capacity. During 2006, PBR processed levels of crude oil averaging 39,900 barrels per day. During 2005 and 2004, crude oil processed averaged 39,800 and 37,460 barrels per day, respectively.

In May 2006, the Bolivian government issued Supreme Decree N° 28,701, which provides, among other things, that the Bolivian government shall recover full participation in the entire oil and gas production chain, and for this purpose provides for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one of the shares in a number of companies, including PBR. We are currently in the process of evaluating the effects of the recently announced measures on our operations. The implementation of these measures requires a number of steps that have not yet been fully defined, including a comprehensive restructuring of YPFB. Until April 2006, the refinery, through its subsidiary Petrobras Bolivia Distribución, increased the market share in the domestic market to almost 34%. Thereafter, and pursuant to new government regulations, YPFB (Yacimientos Petrolíferos Fiscales Bolivianos) became the only wholesaler in the market.

The following table sets forth PBR's sales and production for fiscal years ended December 31, 2006, 2005 and 2004:

	Year ended December 31,		
	2006	**2005**	**2004**
Production:			
Gasoline (thousands of m3)	612	600	618
Diesel oil (thousands of m3)	668	669	660
Propane/butane (thousands of tons)	76	76	69
Reconstituted Oil (thousands of tons)	574	565	467
Other products (thousands of m3)	216	398	360
Sales:			
Gasoline (thousands of m3)	601	552	606
Diesel oil (thousands of m3)	648	655	666
Propane/butane (thousands of tons)	76	80	71
Reconstituted Oil (thousands of m3)	616	427	379
Other products (thousands of m3)	272	386	280
Sales (in millions of pesos):			
Bolivia	1,974	1,812	1,886
Outside of Bolivia	705	535	674
Total	2,679	2,347	2,560

Competition

We compete in Argentina principally with Repsol-YPF S.A., Shell CAPSA and Esso S.A., with shares in the motor gasoline and diesel oil domestic market of approximately 54.7%, 14.3% and 12.4%, respectively.

PETROCHEMICALS

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

Maximizing the use of our own petrochemical raw materials.

Capitalizing on current conditions in the styrenics market by expanding its regional demand and particularly supporting, in the local market, the growth currently experienced by customers.

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

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

Through Innova, a wholly owned subsidiary in Brazil, and our operations in Argentina, we have the region's largest installed capacity to produce styrene and polystyrene, and can provide services to clients in both Brazil and Argentina. We also have a 40% interest in Petroquímica Cuyo S.A ("Cuyo"), a producer and marketer of polypropylene.

Argentine operations

Argentine styrenics division

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

The styrenics division has the following plants:

A styrene and synthetic rubber plant at Puerto General San Martín, Province of Santa Fé, with a production capacity of 160,000 tons of styrene per year and 57,000 tons of synthetic rubber per year. In 2006 the plant capacity was expanded from 110,000 to 160,000 tons per year. This expansion allows us to consolidate our leadership and support the growth of markets in the region.

A polystyrene plant located at Zárate, Province of Buenos Aires, with a production capacity of 66,000 tons of polystyrene per year and 14,000 tons of bioriented polystyrene ("Bops"), per year. This state-of-the-art plant of Bops is the only one of its type in South America.

An ethylene plant located in San Lorenzo, with a production capacity of 20,000 tons per year. It is located along the Paraná river coast, near our San Lorenzo refinery, which provides the oil feedstock necessary for operation, and the Puerto General San Martín petrochemical complex, which uses ethylene as raw material for the production of ethylbenzene and ultimately styrene. This ethylene plant allows us to expand our business value chain and our product offering, resulting in an increase in our share of the plastic raw material market. The plant, which was acquired in 2004, has allowed us to increase production capacity at the Puerto General San Martín ethylbenzene plant from 116,000 to 180,000 tons per year.

With a view to capitalizing on the business opportunities offered by a rapidly expanding regional market for synthetic rubber, particularly due to the growth in the tire industry, and by good margins in the international market due to limited supply, we made capital expenditures that will enable us to expand our production capacity for synthetic rubber to 59,000 tons per year by 2007.

As of December 31, 2006, our estimated share in the Argentine market was:

Styrene - 100%

Styrene butadiene rubber ("SBR") - 97%.

In addition, we are market leaders in the Argentine polystyrene market, with a 26% sales increase in 2006 and an 82.4% market share.

Exports are a significant part of our business. In 2006, we exported 35%, 52% and 24% of our total sales volumes of styrene, rubber and polystyrene, respectively. Exports were primarily to Mercosur member countries and Chile. In 2006, we exported 10.5 tons of bioriented polystyrene, primarily to Europe, the United States and South America.

Fertilizers division

We are pioneers in the production and distribution of fertilizers in Argentina. We supply approximately 25% of the market with a wide array of specific solutions and are the only producer of liquid fertilizers in Latin America.

The fertilizers division has an industrial complex at Campana, Province of Buenos Aires, with a production capacity of 200,000 tons per year of urea and 560,000 tons per year of liquid fertilizers.

Liquid fertilizers storage capacity totals 75,000 tons, which, together with automatic loading and mixing facilities, allow us to manage the growth in liquid fertilizer production.

In line with the strategy associated with liquid fertilizers, in November 2006, a new Plant for the production of potassium thiosulphate became operational at the Campana complex. Production of liquid potassium offers several competitive advantages: it results in strong cost synergies in connection with the production of ammonium thiosulphate, improves the liquid fertilizer technological portfolio devoted to regional intensive crops and also opens up prospects for the production of water treatment industrial components.

We have 600 customers throughout Argentina. Of these, 130 are distributors with their own storage facility centers, complementing our warehouses and assistance centers in twelve different strategically-located agronomic regions.

The following table sets forth production and sales by major product for both the styrenics and fertilizers divisions for fiscal years ended December 31, 2006, 2005 and 2004:

	Year ended December 31,		
	2006	**2005**	**2004**
Production (thousands of tons):			
Styrene [(1)]	95	107	111
Synthetic rubber [(2)]	53	55	58
Urea	54	169	188
UAN and other liquid fertilizers	492	261	248
Polystyrene	57	58	62
Bops	13	13	12
Sales (thousand of tons):			
Styrene [(1)]	100	89	52
Synthetic rubber [(2)]	56	53	60
Fertilizers	747	676	713
Polystyrene and Bops	72	65	63
Propylene	23	23	20
Ventas (en millones de pesos):			
Argentina Sales	1,084	963	873
Outside of Argentina	500	413	270
TotalArgentina	1,584	1,376	1,143

(1) Including ethylbenzene.
(2) Including SBR, NBR and butadiene.

Petroquímica Cuyo (Cuyo)

Cuyo is primarily involved in the production and marketing of polypropylene. Admire Trading Company and Petrobras Energia S.A. are Cuyo's main shareholders, with a 50.5% and a 40% interest, respectively. Cuyo's industrial plant, located at Luján de Cuyo, Province of Mendoza, has a production capacity of approximately 120,000 tons per year. The quality and specialization of its products have enabled Cuyo to access international markets and export to several countries, especially to Mercosur member countries and Chile.

Approximately 82% of the propylene feedstock required for Cuyo's operations is supplied by Repsol-YPF from its Luján de Cuyo refinery under a long-term contract scheduled to expire in 2014. In addition, in 2005 Cuyo signed an agreement with us, scheduled to expire in 2015, for the supply of 22,000 tons of propylene per year.

Cuyo is a licensee of Novolen Technology Holding, a company engaged in the production and marketing of polypropylene. In addition, Cuyo maintains transfer, assistance and technology upgrade agreements, allowing it to be a leading company in product applications and to serve the market with world-class processes and products.

During 2006, works related to the installation and start up of the third extrusion line were completed and resulted in an increase in production volumes of approximately 20%.

The following table sets forth Cuyo's production and sales for fiscal years ended December 31, 2006, 2005 and 2004.

	Year ended December 31,		
	2006	**2005**	**2004**
Production (thousands of tons)	97.0	85.6	88.7
Sales (in millions of pesos)	470	337	293

Brazilian Operations

Our petrochemical operations in Brazil are conducted through Innova, our wholly owned subsidiary.

Innova has the first integrated complex in Latin America for the production of ethylbenzene, styrene and polystyrene. It is located at Triunfo Petrochemical Pole, Rio Grande do Sul, in the south of Brazil. The styrene plant has a production capacity of 250,000 tons per year and the polystyrene plant has a production capacity of 135,000 tons per year. Copesul, a Brazilian company, supplies the benzene and ethylene feedstock necessary for the production of styrene pursuant to a long-term contract.

The polystyrene plant uses approximately 127,000 tons of styrene monomer as feedstock to produce two grades of polystyrene (Crystal and High Impact). The remaining styrene is sold mainly in the Brazilian market for the production of synthetic rubber, expanded polystyrene, polyester and acrylic resins.

Innova is the leading styrene and polystyrene producer and supplier in Brazil with a combined market share of approximately 38%.

In maintaining its leading position in the region, in an increasingly competitive regional market, the Company approved the construction of a new ethylbenzene plant at Innova, with investments in an amount of approximately U.S.$70 million. The plant will have a potential production capacity of 540,000 tons per year. At the start of production, scheduled for May 2008, the plant is expected to operate at 50% of this capacity (270,000 tons per year) in order to supply feedstock to the current styrene plant. The plant's state-of-the-art technology and its location on the same styrene plant site will allow for reduced costs.

The following table sets forth Innova's styrene and polystyrene production and sales for fiscal years ended December 31, 2006, 2005 and 2004.

	2006	2005	2004
Production (in thousands of tons):			
Styrene	234	205	202
Polystyrene	113	95	105
Sales (in thousands of tons):			
Styrene	136	118	101
Polystyrene	114	95	103
Other	94	53	58
Sales (in millions of pesos):			
Brazil	1,007	856	720
Outside of Brazil	207	116	53
Total sales	1,214	972	773

Competition

The petrochemical market in which the Company competes is highly cyclical, and world market conditions have a strong impact on results in these operations. The Company is the only producer of styrene monomer, polystyrene and elastomers in Argentina, but compete with other foreign producers, especially those in Brazil. In the fertilizers market, we compete with Profertil S.A., a local urea and ammonia producer with a production capacity of one million tons per year and other companies who import and mix fertilizers such as Cargill, Nidera and Yara. Profertil is owned by Repsol-YPF and Agrium S.A. In the polypropylene business, Petroken S.A is Cuyo's main competitor, with a production capacity of 180,000 tons per year.

In Brazil, we mainly compete with Dow Chemical, Basf and Videolar, the latter being the leading player in the polystyrene market, with significant tax benefits in the Trade Free Zone of Manaus. Videolar only produces polystyrene, with an annual capacity of 120,000 tons. Dow and Basf each have a polystyrene production capacity of 190,000 tons per year and a styrene production capacity of 160,000 and 120,000 tons per year, respectively.

GAS AND ENERGY

The Gas and Energy segment serves to link the Company's energy businesses. As part of this segment, we provide oil and gas and liquefied petroleum gas (LPG) brokerage and trading services. In addition, through our stake in Transportadora de Gas del Sur S.A. or TGS, we are engaged in the transportation of gas in the south of Argentina and in the processing and marketing of natural gas liquids. In the electricity business, we are engaged in all the industry segments: generation, transmission and distribution, and has emerged as a major player in the Argentine electricity market.

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

Growing profitably in the gas business by generating solutions for local operations and the market in general.

Growing profitably in the LPG business by increasing sales volumes.

Growing profitably in the electricity market.

Marketing

We provide oil, gas and liquefied petroleum gas (LPG) brokerage and trading services in order to expand our production opportunities. This business segment enables us to position ourselves as a leading commercial service provider because we assist clients not only in sales but also in logistics, foreign trade and market knowledge.

During 2006, sales volumes in Argentina for gas produced by us and imported gas totaled 267.8 million cubic feet per day. We sold 157.3 million cubic feet per day in the gas brokerage service. LPG sales volumes totaled 181.6 thousand tons, while in the LPG brokerage service, we sold 73.4 thousand tons.

During 2006, the start of LPG sales in bulk, directly to final users, was a major event. The first step was the installation of tanks on more than 25 customers' premises, mainly for chicken breeding facilities and grain dryers. Sales volumes of LPG in bulk amounted to 486 tons.

Gas Transportation – TGS

Our interest in TGS and Corporate Developments

We hold indirectly a 27.65% interest in TGS. TGS's controlling shareholder is CIESA, which as of the date of this Offering Memorandum holds approximately 55.3% of TGS's capital stock. A portion of TGS's capital stock (30%) is listed on the Buenos Aires Stock Exchange and on the New York Stock Exchange. The remaining 14.7% is owned by third parties. As of the date of this Offering Memorandum, the common stock of CIESA is owned 50% by Petrobras Energía (directly and indirectly through its subsidiary Petrobras Hispano Argentina S.A.), 40% by an Argentine affiliate of ABN AMRO BANK N.V Trust (the trust), and the remaining 10% by subsidiaries of Enron Corp. The current ownership of CIESA's and TGS's common stock is the result of the implementation of the first stage of the Master Settlement Agreement and the Mutual Release Agreement, signed by Petrobras Energía and certain Enron subsidiaries on April 16, 2004 (the "Master Settlement Agreement") in connection with the restructuring of CIESA's indebtedness.

CIESA's Board of Directors is composed of three of our representatives, two Trustee's representatives and one Enron representative. TGS' Board of Directors is composed of six representatives of CIESA (three of whom are our representatives, two are the Trustee's representatives and one is an Enron representative.). Pursuant to a Shareholders' Agreement entered into on August 29, 2005 by Enron (the "Shareholders' Agreement"), the Trust and us, we appointed the chairman of the Board of Directors of both TGS and CIESA and the chief executive officer of TGS.

Due to the abrupt changes subsequent to the enactment of the Public Emergency Law in Argentina, CIESA and TGS both defaulted on their debt. CIESA failed to repay corporate notes having a principal amount of U.S.$220 million and derivative instruments of approximately U.S.$2 million in value. CIESA's shareholders, including us, have not assumed any financial obligations to assist CIESA.

In 2004, TGS successfully restructured substantially all of its debt (U.S.$1,019 million), pursuant to a proposal accepted by almost 100% of its creditors.

Regarding CIESA's debt restructuring, in July 2005, ENARGAS approved the implementation of the first stage of the transactions contemplated by the Master Settlement Agreement, and as a result, on August 29, 2005, (a) Enron transferred 40% of CIESA's shares to a newly created trust and (b) Petrobras Energía and its subsidiary, Petrobras Hispano Argentina transferred class "B" common shares of TGS representing 7.35% of TGS's capital stock to subsidiaries of Enron, which in turn were subsequently sold to D.E. Shaw Laminar Emerging Markets.

On September 1, 2005, CIESA, its current shareholders and creditors entered into a Restructuring Agreement, which provides for the implementation of the second phase of the transactions contemplated by the Master Settlement Agreement. As a first step, CIESA refinanced approximately U.S.$23 million in debt. As a second step, CIESA's creditors will cancel all of CIESA's remaining debt in exchange for TGS class "B" common shares representing approximately 4.3% of TGS's capital stock (which will be simultaneously exchanged for the 10% of CIESA's outstanding shares held by a subsidiary of Enron), and the issuance of new CIESA´s shares to the creditors in such amount that the creditors will own 50% of CIESA's common stock. At that time, the Trust will be automatically terminated. This second step is subject to, and will be implemented upon, receipt of approvals from ENARGAS and the Argentine Antitrust Commission (*Comisión Nacional de Defensa de la Competencia*). Upon the implementation of this second step, we will own 50% of CIESA's capital stock and the creditors will own the remaining 50%, and CIESA will own 51% of TGS's common stock.

We provide services to TGS related to the operation and maintenance of the gas transportation system and related facilities and equipment to ensure that the performance of the system is in conformity with international standards and in compliance with certain environmental standards, pursuant to a Technical Assistance Agreement entered into by Enron Pipeline Company Argentina S.A. and TGS in 1992. This agreement was assigned to us on July 15, 2004, pursuant to the terms of the Master Settlement Agreement. For these services, TGS pays us an annual fee equal to the greater of (1) P$3 million or (2) 7% of the amount obtained after subtracting P$3 million from TGS's net income before financial income (expense) and holding gains (losses) and income taxes. Nevertheless, according to the terms agreed upon in restructuring CIESA's debt, we assigned 40% of these fees to creditors. The assignment was effective on January 1, 2007.

Business

TGS began operations in late 1992 as a part of the privatization of the Argentine energy sector. Currently, TGS is the leading gas transportation company in Argentina, delivering about 62% of total gas demand. TGS is also one of the leading natural gas liquids producers and traders, both in the domestic and international markets, and an important provider of midstream services, including business and financial structuring, turnkey construction and operation and maintenance of facilities used for gas storage, conditioning and transportation.

The following chart shows statistical information relating to TGS's business segments for fiscal years ended December 31, 2006, 2005 and 2004.

	2006	2005	2004
Regulated Segment:			
Average firm committed capacity(1)	71.6	68.3	63.6
Average daily deliveries(1)	61.2	64.6	61.5
Annual load factor(2)	94%	95%	97%
Unregulated Segment:			
Liquids total production(3)	1,036.4	885.5	969.0
Processing capacity at year end(1)	43.0	43.0	43.0

(1) In millions of cubic meters per day.
(2) Corresponds to the quotient of the average daily deliveries and the average firm contracted capacity.
(3) In thousands of tons.

Regulated Energy Segment

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

TGS transports gas through more than 7,900 km of pipelines, of which almost 7,500 km belong to TGS, with a current firm contracted capacity, as of December 31 2006, of 71.6 million cubic meters per day (annual average of 71.5 million cubic meters per day). Pursuant to these contracts, the capacity is reserved and paid for irrespective of the actual use by the customer. Almost all capacity of the gas transportation pipelines in Argentina is currently apportioned among gas distribution companies, large industrial customers and gas-fired power plants under firm long-term contracts. The total average life of its firm transportation contracts is approximately eight years. In addition, TGS provides interruptible transportation services under which gas transportation is dependent on the availability of capacity.

Transportation services begin with the receipt of gas owned by a shipper (e.g., distribution companies, producers, marketers or large users) at one or more reception points. It is then transported and delivered to delivery points along the system. The total service area includes approximately 4.9 million end users, approximately 3.4 million of which are in Greater Buenos Aires. Direct services to residential, commercial, industrial users and electric power plants are mainly rendered by four gas distribution companies, which are connected to the TGS

system: Metrogas S.A., Gas Natural Ban S.A., Camuzzi Gas Pampeana S.A. and Camuzzi Gas del Sur S.A. Some important industries and electric power plants are also located within TGS's operational area, to which TGS renders direct gas transportation services and represent approximately 19% of TGS' total firm transportation capacity.

TGS has made significant investments in its business since the privatization. As a result, approximately 833 km of gas pipelines have been laid in addition to the existing pipelines, compression power has been increased from 429,030 HP in 1992 to 579,090 HP in 2006 and transportation capacity has been increased from 42.9 million cubic meters per day to 71.7 million cubic meters per day by the end of 2006.

As a consequence of the enactment of the Public Emergency Law, which pesified and froze tariffs, revenues from the regulated segment have significantly decreased. In 2006, the gas transportation segment accounted for 38% of TGS's total revenues compared to 43%, 44% and 47% in 2005, 2004 and 2003, respectively, and approximately 80% since the start of the service until 2001.

Gas Trust

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

In June 2004, TGS submitted to the Secretary of Energy a project for the expansion of transportation capacity of the San Martín pipeline by approximately 2.9 million cubic meters per day. This project involved the construction of approximately 509 km of pipeline and an increase in compression capacity of 30,000 HP, through the construction of a new compressor plant and the revamping of some existing units. The project was completed in August 2005. In its role as project manager, TGS rendered engineering, project management and control, procurement and administrative services. TGS is responsible for the operation and maintenance of the new pipelines, which are owned by the Trust Fund.

The Gas Trust financed U.S.$311 million of this project, while TGS invested approximately U.S.$40 million. TGS investment will be recovered by applying 80% of the revenues obtained from the additional transportation capacity. The remaining 20% and a specific tariff charge will be allocated to repay the investment to the Gas Trust. This tariff charge will be effective until the total amount invested by the Gas Trust is recovered.

In April 2006, the Ministry of Federal Planning and Public Service, the Secretary of Energy and gas transporters, among others, signed a letter of intent to carry out the second expansion of the gas pipeline system.

In December 2006, TGS entered into an agreement under which TGS will manage the expansion of its pipeline system to an incremental capacity of 7.0MMm3/d, starting in 2007. TGS will be paid P$50 million plus Value-Added Tax ("VAT") for the services by means of securities to be issued by a trust specific to the construction work. The term of the trust securities will be eight years, with interest accruing at an annual rate adjusted by the *Coeficiente de Estabilización de Referencia* ("CER") plus a mark-up, payable on a quarterly basis in the same way as principal amortization. The construction work will be fully financed by the customers who subscribed to the incremental capacity by means of three new gas financial trusts and will be repaid with a new tariff charge equivalent to 380% of the applicable transportation tariffs, to be paid by industries, generation companies and large and medium users. The works will involve the installation of 705km of loops in different sections of the San Martín and Neuba II gas pipelines, the construction of a new compressor plant and the upgrading of existing plants, which will increase compression capacity by 146,500 HP. Ownership of the new assets will belong to a financial trust relating to construction work.

Renegotiation process

TGS is still engaged in discussions with UNIREN regarding the renegotiation of its tariffs. As a result, and despite of contracted capacity increases, the profitability of the regulated business has not yet been restored.

After several proposals aimed at adjusting TGS's license contractual terms, which were rejected by TGS considering that they did not reflect preliminary agreements, in 2005, UNIREN proposed a 10% tariff increase and an overall tariff review effective in 2006. This proposal requires that TGS and its shareholders waive any future claim against the Argentine government resulting from the Public Emergency Law and/or the failure to adjust tariffs during 2000 and 2001 based on the United States Industrial Goods Producer Price Index. TGS responded by rejecting the initial 10% increase as insufficient, and jointly with Petrobras Energía agreed not to pursue any such claims if the parties reach a reasonably satisfactory agreement on tariff adjustments. Currently, the tariff renegotiation process is delayed by, among other issues, the refusal by Ponderosa Assets L.P. to abandon a claim jointly initiated with Enron Corp. against the Republic of Argentina before the International Centre for the Settlement of Investment Disputes ("ICSID"). Ponderosa has stated that it will only consider the abandonment of this claim if Ponderosa is fairly compensated. During 2006, UNIREN made two proposals to TGS under terms identical to those previously stated.

Non-regulated Businesses

In addition to the regulated segment of natural gas transportation, TGS is also one of the leading processors of natural gas and one of the largest traders of natural gas liquids (NGL). NGL production and distribution involves the extraction of ethane, propane, butane, and natural gasoline from the gas flow that arrives to the General Cerri Complex, located near Bahía Blanca, in the Province of Buenos Aires, which is connected to TGS's main pipelines. TGS has two gas processing plants at the General Cerri Complex: (1) an ethane, propane, butane and natural gasoline turbo expander separating plant and (2) an absorption plant which extracts propane, butane and gasoline from the gas transported through the TGS pipeline system, with a gas processing capacity of 44 million cubic meters per day and a storage capacity of 60,450 tons. After extraction, TGS sells these products in the domestic and international market. TGS also stores and ships the products at facilities located in Puerto Galván. These activities are not regulated by ENARGAS.

NGL production and distribution net revenues accounted for approximately 55%, 51% and 51% of TGS's net revenues in 2006, 2005 and 2004, respectively. TGS's operations were benefited by a significant increase in market price for exports of propane, butane and natural gasoline as well as by the renegotiation of the agreement for the sale of ethane resulting in improved sales prices as from January 1, 2006, among other things. In addition, NGL production rose 16% in 2006 and allowed an increase in export volumes, to 35% of total production.

The increase in production resulted from firm gas purchase agreements and other actions which helped mitigate the effects of redirecting gas and grades to industries which affected the General Cerri Complex. This production level allowed us to comply with the commitments contemplated under the regulations in force relating to the supply of propane and butane to the domestic market provided for in the agreements with the Secretary of Energy, as well as to direct a significant volume for exports.

In addition, long term agreements were entered into for gas processing to producers in the Cerri Complex. In addition, operating agreements were executed to mitigate the risks of richness reduction of the natural gas and its consequent impact on liquids production.

Markets and principal customers

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

Midstream services

Through the provision of midstream services, TGS provides integral solutions for natural gas treatment at the wellhead, including conditioning, gathering and gas compression services. These services also include those related to the construction, operation and maintenance of gas pipelines and treatment plants provided by TGS or its

related companies, Gas Link S.A. and Transporte y Servicios de Gas en Uruguay S.A. TGS is developing a strategy geared towards becoming one of the main service providers in Argentina.

TGS has a 49% interest in Gas Link S.A., a company engaged in the construction, operation and maintenance of the gas pipeline connecting the TGS system and the Cruz del Sur gas pipeline, which links Argentina to Uruguay and is likely to be extended to Brazil. This pipeline is approximately 40 km long, has a current transportation capacity of 1 million cubic meters per day and started operations in October 2002.

During the second semester of 2006, TGS started a new expansion of its firm transportation system for a total of 1.6MMm3/d, by means of the installation of an 80km additional pipeline and the upgrading of a compressor plant, which will start operations in the first semester of 2007.

Competition

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

On a day-to-day basis, TGS competes, to a limited extent, with Transportadora de Gas del Norte S.A. for interruptible transportation services and for new firm transportation services made available as a result of expansion projects from the Neuquén basin to the Greater Buenos Aires area. Interruptible transportation services accounted for only 7% of TGS's regulated net revenues for 2006. The relative volumes of such services will depend mainly upon the specific arrangements between buyers and sellers of gas in such areas, the perceived quality of services offered by the competing companies, and the applicable rate for each company.

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

Electricity

In the electricity business, we are involved in all the industry segments: generation, transmission and distribution and emerge as a major player in the Argentine electricity market. Electricity generation allows us to accelerate the monetization of gas reserves. Integration in the business chain provides us with new growth opportunities, adding value through the sale of power and energy services to end users, as well as, through the development of cutting edge technology.

We conduct electricity generation activities through Genelba Power Plant in the Province of Buenos Aires and the Pichi Picún Leufú Hydroelectric Complex, or HPPL, in the Comahue region, on the Limay River, Province of Neuquén.

We are engaged in the transmission business through our interests in Transener (through Citelec), currently undergoing a divestment process, Enecor S.A. and Yacylec S.A. and in electricity distribution business through our interest in Edesur (through Distrilec).

The changes resulting from the enactment of the Public Emergency Law adversely impacted the economic and financial balance of the electricity business in Argentina. In particular, the devaluation of the peso and the subsequent inflation, within a context of fixed revenues from utility companies as a consequence of the pesification of rates, affected the financial position and results of operations of the electricity utility companies and significantly hindered their ability to comply with their financial obligations.

The Argentine Electricity Market

In Argentina, in the early 1990s, within the state-reform general framework, the Argentine government carried out a thorough restructuring of the electricity sector, transforming it into a more decentralized system with greater private sector participation. Up to then, the electricity system was characterized by the inability to meet short- and long-term demand and low service quality, all within a framework of a limited capacity on the part of the state to make necessary investments. Over the last ten years, electricity demand in Argentina has strongly increased at an average rate of 5.8%, exceeding the growth in gross domestic product for the same period. In 2006, electricity demand grew approximately 5.5% to 97,510 GWh from 87,779 GWh in 2005, mainly as result of increased industrial and residential consumption. Total electricity generation including imports and exports totaled 104,343 GWh (51.5% attributable to thermoelectric plants, 40.6% to hydroelectric plants, 6.9% to nuclear plants and 1.1% to imports).

As of December 2006, installed generation capacity reached 24,080 MW, accounting for a growth of approximately 70% from privatization of electricity services.

Serving as an integrating link, the system's transportation capacity increased by 20% between 1994 and 2005. These improvements in installed capacity have enabled plants to meet the growth in demand in Argentina.

Electricity Generation

As a consequence of the Public Emergency Law, the Argentine government implemented the pesification of U.S. dollar-denominated prices in the wholesale electricity market and set a price cap for the gas used to supply electricity generation. This had an impact on the determination of prices for the energy sold in the spot market and led generation companies to fix prices based on the price for natural gas, regardless of the fuel used in generation activities. This regulatory change caused a deviation from the marginal cost system which had been previously implemented. As a result of the distorted effects on the profitability of the electricity sector caused by the regulatory changes immediately following the enactment of the Public Emergency Law, infrastructure investments in the Argentine electricity sector declined significantly. In addition, there was a halt in the growth in electricity generation and transport, breaking the upward trend existing until 2001. This decline coupled with a growing demand led to an energy crisis.

As a result of the Argentine government's measures, electricity prices have failed to reflect total generation costs adequately. This discrepancy led to the gradual depletion of the Stabilization Fund (*Fondo de Estabilización*), causing an increasing deficit, which in turn prevented Compañía Administradora del Mercado Eléctrico S.A., or CAMMESA, from settling accounts with market agents. In an effort to restore the Stabilization Fund, the Argentine government first made successive contributions to the fund and subsequently reinstated seasonal adjustments for certain periods, recognizing increased costs resulting from the recovery of natural gas prices in the determination of wholesale spot prices.

In order to replenish the Stabilization Fund, the Secretary of Energy created an investment fund called "Fund for Investments Necessary to Increase Supply of Electric Power in the Wholesale Electricity Market" (FONINVEMEM). This fund encouraged WEM creditors to participate in investments in electric power generation in order to increase the available supply of electric power generation in Argentina. The Secretary of Energy invited WEM agents to participate in these investments by contributing outstanding credits balances against CAMMESA resulting from the spread between sale prices and generation variable costs, and determined that non-participating agents would only receive payment on any such credits as from the date on which the generators constructed with FONINVEMEM's resources provide sufficient funds. We participated with 65% of the credit balances recorded for the 2004-2006 period with respect to this spread. Total credit balances contributed as of December 31, 2006 amounted to U.S.$41 million.

On October 17, 2005 and under the terms of Resolution No. 1,193 of the Secretary of Energy we, together with other WEM creditors, formally announced our decision to participate in the construction, operation and maintenance of two plants of at least 800 MW each. Open cycle operations are scheduled to start in 2008 first semester and closing of the combined cycle is scheduled by the end of 2008. Construction costs for both plants are

estimated at approximately U.S.$1,080 million. Approximately 48% of this amount will be financed through contributions to the FONINVEMEM and the remaining balance through an additional demand charge.

Two trusts were created within CAMMESA's sphere of responsibility for the purchase of equipment and the construction, operation and maintenance of the power plants. The funds corresponding to the FONINVEMEM and the specific charge will be deposited in the trusts. Purchase of the equipment, construction, operation and maintenance of each power plant will be the responsibility of Termoeléctrica José de San Martín S.A. and Termoeléctrica Manuel Belgrano S.A., who will act on behalf of the respective trusts. These plants will be subject to a 10-year electric power supply agreement with CAMMESA for 80% of generated power, at a price covering all their costs and the payments to the FONINVEMEM. The companies may freely dispose of the remaining 20% of generated power. Upon expiration of the supply agreement, ownership of the assets under the trust will be transferred to the companies.

Petrobras Energía holds an interest of approximately 8% in both companies. The amount of funds to be contributed by all MEM creditors is initially estimated at U.S.$520 million, of which U.S.$41.3 million would be provided by Petrobras Energía. Petrobras Energía, as the other WEM creditors, will be reimbursed the amounts contributed, converted into U.S. dollars and adjusted at a rate of LIBOR plus 1% per year in 120 monthly installments out of the trust funds received during the life of the electric power supply agreement with CAMMESA.

During October 2006, the Argentine government preawarded the turnkey agreements to SIEMENS, which submitted a U.S.$1,080 million bid. Some technical aspects remain to be defined in connection with these agreements before their final award.

In order to restore the regular operation of the WEM as a competitive market that provides sufficient supply, in December 2004, the Secretary of Energy committed to approving successive seasonal price increases to reach values covering at least total monomic costs by November 2006. However, this situation was not reflected in practice and price increases do not account for costs actually incurred in terms of generation. The Secretary of Energy was committed to pay for energy at the marginal price obtained in the spot market and to pay for power capacity at the U.S. dollar values that were in effect prior to the enactment of the Public Emergency Law, as soon as the market returns to normal conditions following the start of commercial operations of the new generation capacity derived from the FONINVEMEM. Once this occurs, WEM prices are expected to be determined in the same manner as they were determined prior to the Public Emergency Law and the successive resolutions.

Electricity Generation—Genelba and HPPL

Genelba Thermal Power Plant is a 660MW combined cycle gas-fired generating unit located at the central node in the Argentine electricity network, at Marcos Paz, about 50 km from the City of Buenos Aires. As part of our strategy to increase vertical integration, Genelba allows us to use approximately 2.8 million cubic meters per day of our own gas reserves.

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

The allocation of electricity dispatch to the wholesale electricity market, whether the electricity is produced under firm contracts or for the spot market, is subject to market rules based on the lowest variable cost of electricity generation. See "Regulation of our Businesses—Argentine Regulatory Framework—Electricity". Since Genelba uses combined cycle technology for a natural gas-fired power plant, our short-run variable cost is expected to be lower than the cost of other thermoelectric power plants, granting significant competitive advantages for Genelba. Therefore, CAMMESA is expected to dispatch Genelba's generating capacity before that of most other thermoelectric plants.

The development and implementation of the Primary Frequency Response system, or PFR System, operation mode along with the full combined cycle represents a milestone in Genelba operation. Plant engineers

designed the associated system, and Genelba was the first of its type worldwide to provide this service to the interconnected system. In 2003, the U.S. Patent Office granted us patent rights on this system, and steps are now being taken to obtain patents in Europe and Argentina. The Genelba Power Plant stands out in the Argentine electricity market for its high reliability and efficiency. The Power Plant is recognized as one of the combined cycle electric power plant with highest availability.

In 2005, Genelba achieved certification to SA8000 Standard – A Social Accountability System – and Petrobras Energía thus became the first company in the Argentine energy sector and one of the three companies in the country to achieve this certification.

We were awarded a 30-year concession beginning in August 1999 for hydroelectric power generation at Pichi Picún Leufú Hydroelectric Complex. The complex has three generating units with an installed capacity of 285 MW. Units 1 and 2 began commercial operations during the third quarter of 1999, and Unit 3 started commercial operations in December 1999.

Pursuant to our concession contract and applicable law, since August 2003, we have paid 1% in hydroelectric royalties, which are increased by 1% annually until reaching a 12% maximum tax rate, on the amount resulting from applying to the energy sold the tariff corresponding to block sales. In addition, we pay the Argentine government a monthly fee for the use of the water source amounting to 0.5% of the same amount used for the calculation of these hydroelectric royalties.

Genelba and HPPL, together, account for approximately 6.17% of the power generated in the Argentine electricity system. The joint operation of the generating units minimizes income volatility, capitalizing on the natural barriers existing among the different energy resources used for power generation.

In 2006, Genelba Thermoelectric Plant generated 5,005 GWh, and set a historical record since start up in 1997, with a reliability factor of 99.4% and an availability factor of 99%.

In addition, in 2006, HPPL generation, taking advantage of the high flow of Limay and Collón Curá Rivers, totaled 1,430 GWh, accounting for a 21.5% increase compared to 2005 and also setting a record since start up.

The following chart details energy generation and sales figures for Genelba and HPPL for fiscal years ended December 31, 2006, 2005 and 2004.

	Year ended December 31,		
	2006	**2005**	**2004**
Power Generated (Gwh)	6,434	6,114	5,689
Power Sold (Gwh):			
Forward market	2,300	1,255	1,437
Spot market	4,621	5,486	4,719
Total sales	6,921	6,741	6,156
Sales (in millions of pesos)	500	355	280

Electricity Transmission: Transener, Yacylec and Enecor

Transener

We currently own a 26.8% indirect interest in Transener. Transener is the leading power transmission company in Argentina. Transener is controlled by Citelec, who owns 53.67% of Transener's capital stock. Citelec, in turn, is owned on a 50/50 basis by Petrobras Energía and Pampa Holding S.A. (which interest was previously owned by Dolphin Fund Management). We committed to divesting our aggregate equity interest in Citelec as required under the Argentine Antitrust Commission's resolution approving the purchase of Petrobras Energía Participaciones' majority stock by Petrobras. No time limit was set to effect this divestiture. Pursuant to Resolution

No. 941, Petrobras Energía presented to the Argentine Secretary of Energy a plan to divest completely its equity interest in Citelec. In June 2006, the Board of Directors of Petrobras Energía accepted the terms of the binding offer submitted by Eton Park Capital Management for the acquisition of our 50% equity interest in Citelec and, as part of this offer, our 22.22% interest in Yacylec. The terms of the offer provided for the transfer of the shareholding in Citelec at a fixed price of U.S.$54 million, plus an earn out relating to the result of the comprehensive rate review determined for Transener and its controlled company Empresa de Transporte de Energía Eléctrica por Distribución Troncal de la Provincia de Buenos Aires S.A. (Transba). In August 2006, Petrobras Energía entered into a stock purchase agreement with EP Primrose Spain S.L. (a company controlled by Eton Park Capital Management) with respect to Eton Park's offer. Under the terms of the stock purchase agreement and the terms of Petrobras Energía's divestment commitment, the consummation of the transaction with Eton Park is subject to the approval by the pertinent regulatory agencies and authorities. On February 9, 2007, the Argentine Antitrust Commission issued a resolution rejecting the sale of Citelec shares to Eton Park Capital Management.

In March 2007, Petrobras Energía received an offer from Energía Argentina S.A. (Enarsa) and Electroingeniería S.A. for the purchase of its shares in Citelec and Yacylec, proposing legal, economic and financial conditions identical to those previously agreed with Eton Park Capital Management. As a result of this offer, a letter of agreement was executed subject to approval by the Board of Directors of Petrobras Energía, Enarsa and Electroingeniería. The letter of agreement provides that the offer will be accepted if the rejection of EP Primrose Spain S.L.'s proposed transaction becomes final through administrative or legal proceedings or if the agreement entered into with EP Primrose Spain S.L. were terminated for failure to obtain all required governmental authorizations.

Under a 95-year concession, due to expire in 2088, Transener operates approximately 8,581 km of extra high and high voltage power lines (most of them 500 Kv lines) and 34 transformer stations. This network is the core of the power transmission system in Argentina.

Transener was awarded an exclusive license for the rest of the term of the original concession to construct, maintain and operate the fourth line of the Comahue-Buenos Aires electricity transmission system, which began operations late in 1999 and consists of 1,280 km of 500 Kv electricity lines.

In July 1997, Transener was awarded the exclusive 95-year concession to operate Transba, which expires in 2091. Transba operates approximately 6,005 km of electricity transmission lines (most of them 132 Kv lines) and 83 transformer stations.

Transener operates approximately 95% of the Argentine extra high voltage power transmission system. Transener and Transba jointly operate approximately 75% of the Argentine high-voltage power transmission system. We have agreed with Pampa (as assignee of Dolphin Fund Management) to jointly manage Transener and Transba and to share equally in the management fees received under a management agreement with Transener. In addition, shareholders have a right of first refusal in any transfer of Transener's shares. Under the concession agreement with the government, certain shares of Transener are pledged as guarantee for the execution of obligations under such agreement.

Transener generates additional income related to the supervision of the construction and operation of certain assets connected with the networks and other power transmission services provided to third parties. In this respect, efforts are being made by Transener to expand its activities abroad, supported by its quality engineering and experienced technical personnel.

In order to meet the commitments arising from two contracts with foreign joint ventures in Brazil, Transener organized Transener Internacional Limitada, with offices in Brasilia. In Brazil, Transener executed a five-year-term agreement with the ETIM Consortium (Expansión Itumbiara-Marimbondo Ltda.) to operate and maintain the 500 Kv Itumbiara-Marimbondo high voltage line and four transformer stations located in the Goias and Minas Gerais states.

In August 2005, Transener executed new agreements with MUNIRAH and TSN Consortium to operate and maintain 350 km and 1,000 km high voltage lines and eight transformer stations in Brazil. In addition, engineering

studies have begun in order to operate the NOVATRANS Consortium, that includes nine 1,100 km high voltage lines and six transformer stations.

During 2006, Transener continued working both in connection with transformer stations awarded under bidding processes and several works entrusted by the Argentine government in order to change the transformation capacity.

The following chart details the evolution of Transener's failure rate for fiscal years ended December 31, 2006, 2005 and 2004. The failure rate represents the service quality provided by the company to users. The maximum admissible failure rate under the concession contract is 2.50 failures per year per every 100 km.

	Year ended December 31,		
	2006	**2005**	**2004**
Transener failure rate	0.44	0.33	0.49

Maintenance of this low failure rate resulted from operating improvements, acquisition of special equipment and agreements with public safety agencies.

We endeavored to maintain service quality according to the standards provided for in the concession contract considering the significant growth in GDP and electricity consumption in Argentina. Since no major expansion works were performed, many lines and substations operated by Transener are overloaded or nearly overloaded, with the consequent danger to energy supply.

Notwithstanding that, and even though the network is operating at full capacity, we complied with most operating and maintenance requirements through works granting the system greater reliability and allowing it to continue offering high efficiency rates even in difficult scenarios.

During 2006, Transener continued working to reaffirm its commitment to quality with its customers, consolidate staff training and specialization and strengthen respect for the environment obtaining certification to ISO 14000.

The provisions of the Public Emergency Law severely affected the economic and financial balance of Transener's business. In April 2002, as a result of the changes caused by the Public Emergency Law, Transener publicly announced the suspension of principal and interest payments on all its financial debt. In June 2005, Transener concluded the restructuring of its financial debt, pursuant to a proposal accepted by 98.8% of its creditors. As part of the restructuring, Transener redeemed debt with a nominal value of about U.S.$460 million, in exchange for a combination of cash payments and new issuances of shares and corporate bonds. Following the restructuring, Citelec´s participation in Transener decreased from 65% to 53.67%. Also after this process, Transener S.A. is subject to certain restrictions including, among others, limits on the issue of debt, investments, sale of assets and distribution of profits.

On February 2, 2005, Transener entered into a Memorandum of Understanding (the "Transener MOU") with UNIREN, in connection with the renegotiation of its tariffs. The Transener MOU contemplates:

(i) a 31% increase in tariffs over those outstanding at the time of the agreement and other minor service adjustments, applicable until the completion of the integral revision of Transener's tariffs. In the case of TRANSBA, the increase is of 25%;

(ii) an investment plan for the refurbishment and maintenance of the company's assets and extension of the useful life of its equipment; and

(iii) the rules for an integral revision of Transener's tariffs, which should, within ENRE's framework, be applicable for the five-year period between 2006 and 2011. In that respect, in August 2005, Transener presented

to ENRE a proposal for the recalculation of its compensation for such five-year period, as well as revisions of its asset base and rate of return.

The Federal Executive Branch of Argentina ratified the Transener MOU in November 2005, and an increase in Transener and Transba tariffs was retroactively applied as from the date of the Transener MOU.

Regarding the tariff proposal submitted by Transener, in connection with the integral review contemplated by the Transener MOU, the ENRE, through Resolution N° 51/2006, called a Public Hearing for February 23, 2006. However, this Public Hearing was postponed by the ENRE through Resolution No.60/2006 citing observations made by the Unión Industrial Argentina (Argentine Industry Organization) at a similar hearing called by the ENRE regarding the distribution company EDELAP S.A. The ENRE has not yet established a new date for the hearing. See "Regulation of Our Businesses—Argentine Regulatory Framework—Electricity".

Yacylec S.A ("Yacylec")

Yacylec is an independent transmission company formed by a consortium of construction and engineering companies of Argentina and Europe, including Empresa Nacional de Electricidad S.A. of Spain, or ENDESA, Impregilo International Infrastructures N.V. of The Netherlands and Dumez S.A. of France, which currently hold 22.2%, 18.67% and 1.78% interests in Yacylec, respectively. We have a 22.22% interest in this consortium. In June 2006, the Board of Directors of Petrobras Energía accepted an offer for the transfer of its equity in Yacylec for U.S.$6 million (See "—Transener"). The consortium operates and maintains a 500 Kv and 280 km-long electric power transmission line from the Yacyretá hydroelectric complex to the Argentine national grid under a 95-year concession that expires in 2091. Under the concession agreement, ENRE's approval is necessary to transfer or sell shares representing up to 49% of the capital stock of Yacylec. The transfer of a higher percentage requires a public tender. Under the shareholders' agreement, shareholders have a right of first refusal in any transfer of shares.

Enecor S.A.

Enecor is an independent electricity transmission company. We own 69.99% of Enecor and Impregilo International Infrastructures N.V. of The Netherlands owns the remaining interest in the company. Enecor has a 95-year concession, expiring in 2088, to construct, operate and maintain approximately 22 km of electricity lines and a 500 Kv/132 Kv transformer station in the Province of Corrientes. Enecor has entered into a maintenance agreement with Transener until 2008. Under the concession contract, certain shares of Enecor are pledged in favor of the Province of Corrientes.

Electricity Distribution: Edesur

In 1992, Edesur was awarded an exclusive license by the Argentine government to distribute electricity in the southern area of the Federal Capital and 12 districts of the Province of Buenos Aires, serving a residential population of approximately 6 million inhabitants. By the end of 2006, Edesur's clients numbered 2,195,914, accounting for a 1.45% net increase compared to 2005. This indicator maintains the upward trend resumed in 2003 after two years of decline. Edesur has added more than 200,000 customers since its privatization. Some of these customers were added as a result of new electricity lines and others, who had been receiving electricity outside the system, are now fully connected and accurately billed.

The license will expire in 2087 and is renewable for an additional 10-year period. Edesur was created as part of the privatization of the Buenos Aires electricity distribution network. We own 48.5% of Distrilec which, in turn, owns 56.35% of Edesur.

We and the Enersis/Chilectra group, owned by ENDESA, are the only shareholders of Distrilec and, pursuant to a shareholders' agreement, we each have the right to elect an equal number of directors.

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

In compliance with the terms and conditions of the privatization, Edesur entered into an operating agreement with Chilectra S.A. for the provision of technical advisory services. This agreement is effective through August 2007, and we are reimbursed for costs incurred by us in connection with the management agreement.

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

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

In June 2005, Edesur signed a Letter of Agreement with the UNIREN as part of the renegotiation process involving the related concession contract. Based on this Letter of Agreement, in August 2005, the parties signed a Memorandum of Understanding (the "Edesur MOU") that includes, among other matters, the terms and conditions that, once the procedures established by regulations are fulfilled, shall form the substantive basis for amending the concession agreement. The Edesur MOU establishes that from its execution through June 30, 2006, an integral tariff review will be performed, which would allow Edesur to fix 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 dividend distributions and debt interest payments during 2006; (iv) investment commitments for 2006; (v) service provision quality standards; and (vi) restrictions on Distrilec regarding a change in its interest or the sale of its shares in Edesur. As a preliminary condition for the Executive Branch to ratify the Edesur MOU, Edesur and its shareholders shall suspend all pending claims that are based on the measures taken pursuant to or in furtherance of the Public Emergency Law. The Edesur MOU was ratified by Executive Order No. 1,509 issued in December 2006. As a result, on February 5, 2007, the ENRE published in the Official Gazette Resolution Nº 50/2007 approving the values stated in Edesur's Rate Schedule effective February 1, 2007 resulting from the Interim Rate Schedule provided for in the Edesur MOU. As a consequence, a 23% increase is applied on Edesur's own distribution rates (not affecting T1R1 and T1R2 residential rates), connection rates and the reconnection service charged by Edesur, and an additional average increase of 5% is also applied on the beforementioned distribution rates for the execution of a work plan. In addition, the ENRE authorized to apply to the beforementioned rates, effective May 1, 2006, the 9.962% positive variation in the cost monitoring system indexes provided under the Edesur MOU. 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 P$212 million.

Though this represents a significant progress, during 2006, Edesur was not able to restore the economic and financial balance that was adversely impacted by devaluation and pesification in January 2002. For that reason, Edesur was focused on minimizing the effects of this situation and endeavored to sustain supply of the service.

The chart below sets forth Edesur's annual power sales for each type of customer for fiscal years ended December 31, 2006, 2005 and 2004.

	Annual sales in Gwh		
	2006	2005	2004
Type of user:			
Residential (in Gwh)	5,638	5,046	4,796
General (in Gwh)	2,967	2,948	2,798
Large users (in Gwh)	6,232	6,024	5,729
Total	14,837	14,018	13,323
Sales (in millions of pesos)	1,412	1,339	1,104

In 2006, Edesur invested P$215 million, reaching an accumulated amount of approximately P$3,363 million from the start of the concession period, most of which was invested before the enactment of the Public Emergency Law. As a result of these investments, Edesur has been able to satisfy an increase in demand of over 35% – reaching its highest levels of output while maintaining a high quality of service.

Argentina's recent economic growth has had an impact on the demand for electricity, which surpassed consumption levels recorded prior to the 2001 crisis. Within Edesur's concession area, demand increased 4.9% compared to 2005, with a historical 3,028 MW maximum demand for power in December 2006. As a result, the network is close to overloading. In addition, electricity sales also hit maximum historical values with total annual sales of 14,837 GWh, accounting for a 6% increase compared to 2005.

In addition, Edesur increased its customer portfolio by 1.45% to 2,195,914 users. This indicator points towards an upward trend that resumed in 2005.

Competition

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

Divestment of Non-Core Assets

The sale of 58.6% of Petrobras Energía Participaciones S.A.'s capital stock to Petrobras represented a major milestone in the development of our strategy to focus on our core businesses.

The agreements executed in connection with the transfer of controlling stock granted Petrobras an option whereby, if within 30 days after closing of the stock purchase transaction we did not consummate the sale of assets related to the farming, forestry and mining businesses, Petrobras had the right to compel our former controlling shareholders (the Perez Companc family and Fundación Perez Companc) to acquire such assets for U.S.$190 million.

In line with the terms and conditions of the agreements mentioned above, during 2002 we sold the asset portfolio associated with our mining, farming and forestry businesses.

In addition, in April 2002, pursuant to an asset swap, we transferred our 50% interest in Pecom Agra S.A., a company engaged in the farming business. We, in turn, received (1) a 0.75% interest in the Puesto Hernández oilfield, (2) a 7.5% interest in Citelec and (3) a 9.19% interest in Hidroneuquén S.A. which was sold in February 2007.

In October 2006, divestment of our assets in the Atamisqui and Refugio–Tupungato areas in the Cuyo basin was fully effected. In addition, we assigned a 13.33% interest in the Atuel Norte area in the Neuquén basin. Combined production from these assets accounted for less than 2% of our production and reserves in Argentina. This divestment accounts for a P$85 million gain in 2006.

These transactions helped to enhance our asset portfolio and to move us forward with our strategy of focusing on energy operations and of becoming an integrated energy company.

INSURANCE

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

We also insure against business interruption as a consequence of material damages (except in oil and gas Exploration and Production fields), control of wells, especially where we have gas production and third-party liabilities including marine liabilities.

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

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

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

We carry insurance of up to U.S.$100 million for each and every loss in ocean marine and non-ocean marine third-party liability coverage.

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

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

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

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

Our main coverages include the following different types of deductibles:

U.S.$10,000,000 for combined claims for property damage and business interruption for all our businesses, except for the oil and gas exploration and production businesses;

U.S.$10,000,000 for claims for each property of our oil and gas exploration and production business;

U.S.$5,000,000 for control of wells;

U.S.$5,000,000 in non-ocean marine third-party liability; and

U.S.$5,000,000 in ocean-marine third-party liability.

Our insurance decisions are based on our requirements and available commercial and market opportunities.

Our facilities are regularly subject to risk surveys undertaken by international risk consultants

PATENTS AND TRADEMARKS

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

QUALITY, SAFETY, ENVIRONMENT AND HEALTH

We are a socially and environmentally responsible corporation in continued search for excellence in management. This commitment lies in the core of our corporate identity and is part of our corporate mission. We believe that caring for the environment in which we operate and for the safety and health of individuals is an essential condition for the activities we develop. Along these lines, our strategic and business plans include goals involving excellence in management and performance in Quality, Safety, Environment and Health (QSEH).

Our QSEH policy, which was launched in April 2004, incorporates state-of-the-art concepts, including: ecofficiency, life cycle, continuous improvement and leadership. This is implemented through the use of 15 guidelines for practical and customary action, each aimed at behavior-based responsible development. The foregoing policies and actions have been enhanced through our relationship with Petrobras.

We have complied with international audits and certifications with respect to environmental management, quality, safety and occupational health. We have 23 assets certified, including ISO 14001, ISO 9001 or OHSAS 18001/IRAM 3800, which are maintained through regular third-party audits.

Excellence in Management

Petrobras Energía is moving forward with our initiative "Excellence in Management" in order to achieve the highest standards of excellence in corporate management. This initiative is implemented through an ongoing evaluation process and the implementation of management enhancement programs based on Petrobras' Guide of Excellence in Management. In 2004 and 2005 we conducted the first evaluation cycle, comprising 10 organization units of all our businesses (Genelba, Lubricant Plant, Innova, E&P-Venezuela and E&P-Argentina, Pichi Picún Leufu Hidroelectric Complex, Bahía Blanca Refinery, Poliestirenos Argentina, our Own Network of Gas Stations and Information Technology) and in 2006, we commenced the second evaluation cycle at Genelba and Innova. Additionally, as from 2005, we have advanced in the implementation of permanent management enhancement programs in all the assessed units, which are subject to annual reviews in order to consider business priorities.

New policy and guidelines, new management tools – Process Safety Program

To guarantee the effective implementation of the new Safety, Environmental and Health (SEH) policy and guidelines, we have developed a set of corporate management tools in the Process Safety Program (PSP). This program was launched in April 2004 with a diagnosis of management that encompassed 23 production units and centralized functions and included interviews with over 300 members of management, our employees and contractors.

During this period, PSP sought to review business production unit action plans, production and centralized functions through the progress and enhancement of several projects. The major items are summarized below:

Safety

In order to reduce the 2005 increasing accident rate, a series of preventive measures have been developed and were implemented in January 2006, which focused on and were addressed to our own supervisors and contractors' supervisors as well as to Petrobras Energía's management staff through the Proactive Leadership Program. We have also launched the implementation of the Leadership Program in Injury Prevention, essentially addressed to contractors' supervisors, who are trained so that they may, in turn, provide employees in their area with specific training in safety movement and accident prevention. As for the Contractor Staff Ranking and Certification

process, during 2006, more than 4,000 employees were trained. Indicator traceability audits were also conducted to ensure the correct operation of the Integrated Management System.

Additionally, we have made significant advances in the analysis of Petrobras Energía's accident rate through the performance of a systematic simulation model based on the Systems General Theory, which allows us to define some important points of action for the development of accident prevention plans.

For the year 2007, we plan to continue implementing these actions and to deepen their contents and scope. We have also launched a significant program of asset audits in order to monitor the status of compliance with the prevention processes.

Environment

We implemented several actions to minimize the environmental impact of operations and reduce associated risks. Among them, we implemented a maintenance and replacement pipeline program, redefined our waste treatment plans and started projects to improve the performance of effluent treatment plants and fire fighting systems.

Since July 2003, we have put into operation a project called "Inventory System of Atmospheric Emissions," or SIGEA. The main goal of this project is the creation of a tool for the management of atmospheric emissions that will help in the decision-making process for new investments (especially related to energy conservation and ecoefficiency). In the second place, the purpose of SIGEA is to help us detect improvements that will support our participation in the carbon credit markets. At the San Lorenzo Refinery and at the Austral Basin, the survey helped to identify project prospects that could result in energy efficiencies and which could help meet the requirements of the Clean Development Mechanism (CDM) of the Kyoto Protocol.

Emergency Response

Quick and correct decisions-making is crucial to minimize eventual damages and rapidly restore previous conditions in the event of an accident. It is essential to have reliable, qualified and updated information available for this purpose. Geographical data platforms are among the newest technological tools used internationally to obtain this type of data.

We have developed a support system for contingencies named Geodatabase, which includes all relevant facilities and the information available at each operating unit.

Another technological tool used by us to solve contingencies is INFOPAE. INFOPAE was created to specifically respond to each scenario where an accident occurs, by providing key information for the initial decision-making process.

We signed a Mutual Assistance Agreement with Petrobras Brazil to help each other in coping with possible spill situations in our land and maritime operations.

In 2005, we created fourteen emergency response bases distributed throughout different strategic points in the country (five nautical bases, eight ground bases and a logistic base), all of them with the required equipment and personnel for effective performance in an emergency.

During 2006 we conducted eight land drills and five nautical drills. Drills are performed within the framework of the QSEH policy of our fifteen directives. The purpose of such drills is to develop skills and to generate competence by performing the contingency plans in the different sectors, to put into play the interlinked roles of the Coordinated Services of Emergencies, Fire Deptartment, Police, Customer Centers, the contractors and us, and to generate responses and to analyze the information, assess the situation by ranking the seriousness of each scenarios in the actual site, to establish response strategies and to study in depth the development of joint intervention techniques, rescue assistance and protection.

On November 21, 2006, we performed a major human lives rescue and environmental protection drill in an oil spill scenario in Río de la Plata. The drill was jointly conducted by Comisión Administradora del Río de la Plata (CARP), the Argentine Navy, the Argentine Coast Guard (*Prefectura Naval)*, the Uruguayan Navy, the Uruguayan Coast Guard and us.

We are the only company in Argentina that develops the Environmental Agents Program based in a growth oriented, proactive and responsible focus, and involving three players: the community, the authorities and the Company itself. During 2004 and 2005, approximately 450 people were trained and during 2006 an aggregate of 201 people participated in the Program.

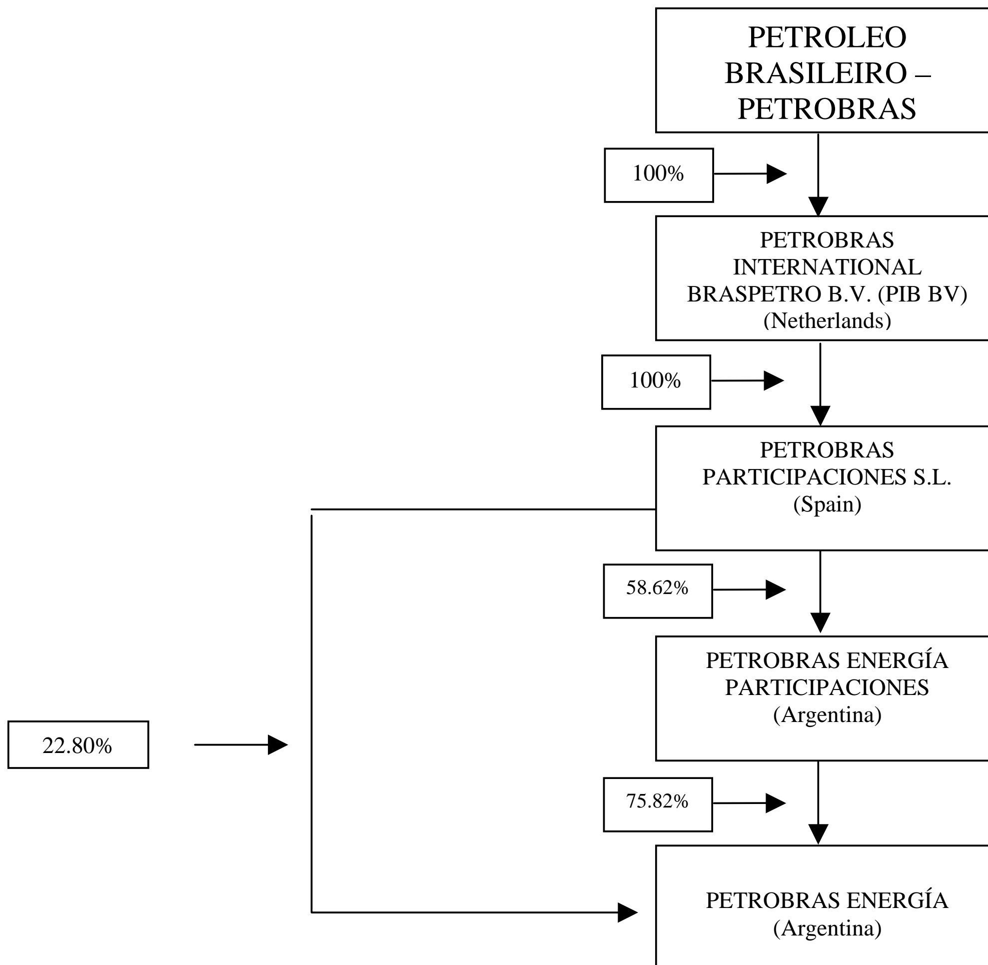
Health

We have implemented a Health Promotion and Protection Program (HPPP), which prioritizes the quality of life of our employees. The principal components of the program are health promotion, stress management, physical activity, healthy diet and accident prevention actions. Program activities include workshops on stress, sedentary life-style, healthy diet and a smoking reduction plan. In order to encourage physical activity, we opened health promotion centers – gyms and aerobics tracks – in several plants and executed agreements with fifteen private gyms in Buenos Aires. As a result, 1,500 of our staff and related family members are exercising at those facilities.

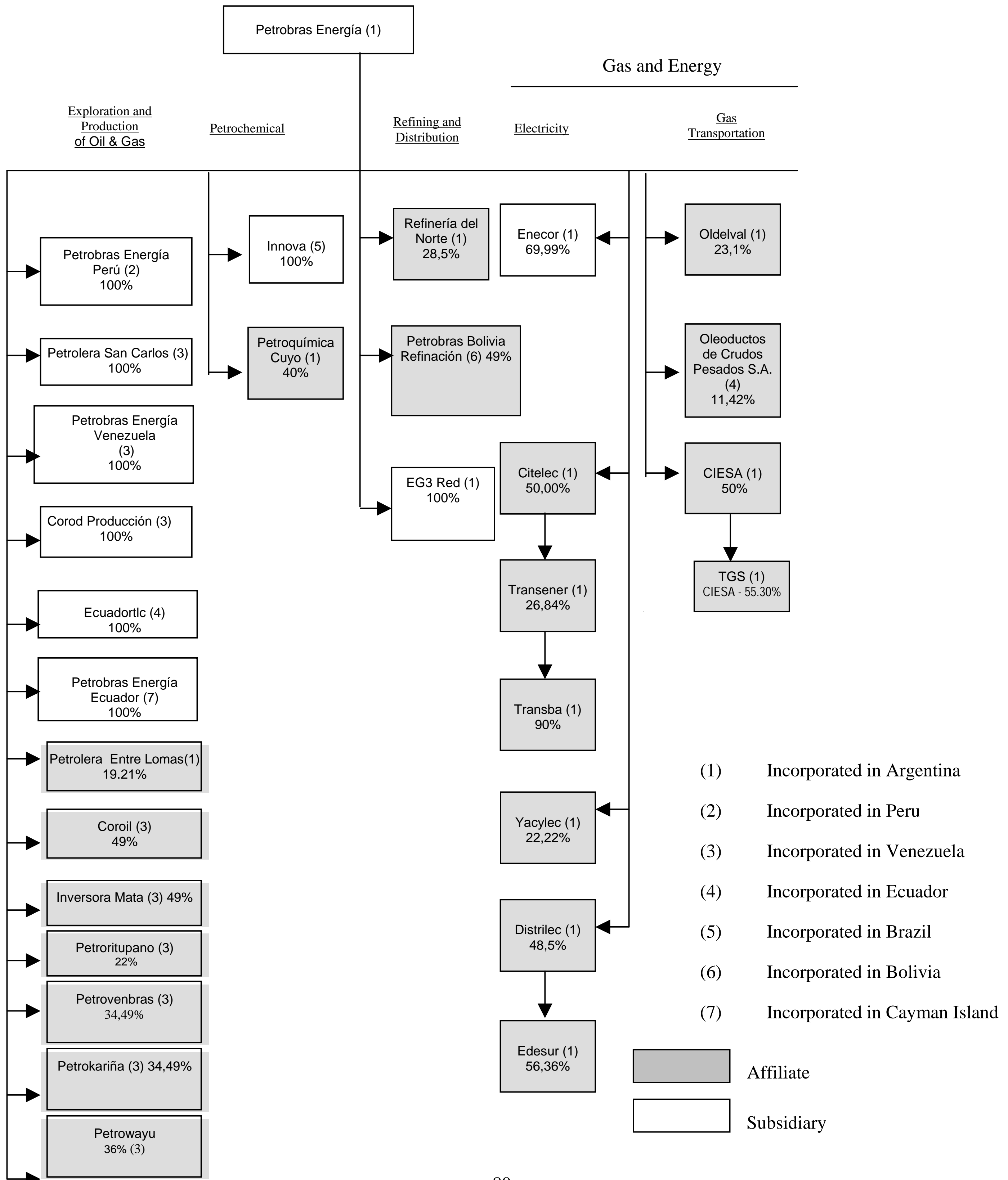
Actions undertaken in 2005 included over 160 workshops on stress reduction, changing sedentary life-style, giving up cigarette smoking and a healthy diet, with 1,600 individuals in attendance. In addition, the Company provided CPR (cardiopulmonary resuscitation) and first-aid training to 2,000 individuals, and more than 90 individuals participated in the cigarette smoking reduction plan. Family participation in the Health Promotion Program workshops was encouraged.

ORGANIZATION STRUCTURE

Below is a diagram of our corporate organization structure as of the date of this Offering Memorandum.



The following is a summary diagram of our material subsidiaries and affiliates as of the date of this Offering Memorandum, including information about ownership, business segment and location:



In addition to the companies included in this chart, we have wholly-owned holding companies in Spain, Austria, Bolivia, the Cayman Islands, Bermuda and Argentina, which are not reflected in the chart. Some of our material subsidiaries and affiliates are held through such holding companies.

Employees

The following table sets forth the number of our employees by business segment for the fiscal years ended December 31, 2006, 2005 and 2004.

	As of December 31,		
	2006	**2005**	**2004**
Oil and Gas Exploration and Production	959	1,053	987
Refining and Distribution	3,031	2,872	2,918
Petrochemical	214	210	208
Gas and Energy	111	104	95
Corporate	813	797	746
Total	5,128	5,036	4,954

We maintain an employee contribution plan and a pension benefits plan. In addition, we offer incentive programs to our employees.

PROPERTY, PLANTS AND EQUIPMENT

We have freehold and leasehold interests in various countries in South America, but there is no specific interest that is individually material to our company. The majority of our property, consisting of oil and gas reserves, service stations, refineries, petrochemical plants, power plants, manufacturing facilities, power distribution systems, stock storage facilities, gas pipelines, oil and gas wells, pipelines and corporate office buildings, is located in Argentina. We also have interests in crude oil and natural gas operations outside Argentina in Venezuela, Ecuador, Bolivia and Peru, a petrochemical plant in Brazil and interest in two refineries and a gas station network in Bolivia. For a more detailed description of our property, plants and equipment, including information on our oil and gas reserves and production see "—Oil and Gas Exploration and Production".

LEGAL AND REGULATORY QUESTIONS

We participate in minor litigations and regulatory hearings in the course of ordinary business.

REGULATION OF OUR BUSINESSES

Argentine Regulatory Framework

Petroleum

The Argentine oil and gas industry is regulated by Law No. 17,319, which we refer to as the Hydrocarbons Law, enacted in 1967, and the Natural Gas Act No. 24,076, enacted in 1992. The Hydrocarbons Law allows the federal executive branch of the Argentine government to establish a national policy for the development of Argentina's hydrocarbon reserves, with the principal purpose of satisfying domestic demand.

A new regulatory framework was required in order to respond to several changes in the Argentine oil and gas industry after the privatization of Yacimientos Petrolíferos Fiscales Sociedad del Estado, or YPF, and Gas del Estado, or GdE. Pursuant to Law No. 24,145, which is referred to as the Privatization Law, the Argentine government transferred to the provinces ownership of oil and gas reserves located within their territories. The transfers will be implemented once (1) the Hydrocarbons Law is modified for the purpose stated in Law No. 24,145 and (2) the rights of holders of existing exploration permits and production concessions, as applicable, have expired. In connection with this legislation, certain issues remain unresolved with respect to the relevant regulatory authority of the federal executive branch and the provinces, regarding oil and gas exploration, production, and transportation activities.

Exploration and Production

The Hydrocarbons Law sets forth the basic legal framework for the current regulation of oil and gas exploration and production in Argentina. The Hydrocarbons Law permits surface reconnaissance of territory not covered by exploration permits or production concessions upon authorization of the Secretary of Energy and with permission of the property owner. Information gained as a result of surface reconnaissance must be provided to the Secretary of Energy, who is prohibited from disclosing such information for a period of two years, without the permission of the party that conducted the reconnaissance, except in connection with the grant of exploration permits or production concessions.

The Hydrocarbons Law provides for the grant of exploration permits by the federal executive branch following submissions of competitive bids. Permits granted to third parties in connection with the deregulation and demonopolization process were granted in accordance with procedures specified in certain decrees, known as the Oil Deregulation Decrees, issued by the federal executive branch. In 1991, the federal executive branch established a program under the Hydrocarbons Law, known as the Argentina Exploration Plan, pursuant to which exploration permits may be auctioned. The holder of an exploration permit has the exclusive right to perform the operations necessary or appropriate for the exploration of oil and gas within the area specified by the permit. Each exploration permit may cover only unexplored areas up to 10,000 km^2 (15,000 km^2 off-shore), and may have a term of up to 14 years (17 years for off-shore exploration).

In the event that the holder of an exploration permit discovers commercially exploitable quantities of oil or gas, the holder may apply for, and is entitled to receive, an exclusive concession for the production and development of such oil and gas. A production concession vests in the holder the exclusive right to produce oil and gas from the area covered by the concession for a term of 25 years (plus, in certain cases, a part of the unexpired portion of the underlying exploration permit), which may be extended for an additional ten-year term by application to the federal executive branch. A production concession also entitles the holder to obtain a transportation concession for the transport of the oil and gas produced.

Holders of exploration permits and production concessions are required to carry out all necessary works to find or extract hydrocarbons, using appropriate techniques, and to make the investments specified in such holders' permits or concessions. In addition, these holders are required to avoid damage to oil fields and waste of hydrocarbons, to adopt adequate measures to avoid accidents and damage to agricultural activities, the fishing industry, communications networks and the water table, and to comply with all applicable federal, provincial and municipal laws and regulations.

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

Resolution No. 435/04 issued by the Secretary of Energy, which updates Resolution No. 155 dated December 23, 1992, (1) imposes additional reporting requirements with respect to royalties, (2) introduces certain changes with respect to the powers of provinces, (3) amends certain parts of the royalty determination system, including applicable deductions and exchange rates and (4) establishes penalties upon default of a reporting duty. This resolution has been applicable to permit and concession holders since June 2004.

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

The quantity and the quality of extracted hydrocarbons, including (1) the computable production levels of liquid hydrocarbons and (2) a break down of the crude oil (specifying the type), condensate and total natural gas recovered (with a 0.1% maximum error tolerance);

Sales to domestic and foreign markets;

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

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

Description of sales executed during the month.

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

Resolution No. 435/04 also provides that if a concession holder allots crude oil production for further industrialization processes at its or affiliated plants, the concession holder is required to agree with provincial authorities and the Secretary of Energy, as applicable, on the reference price to be used for purposes of calculating royalties and payments. Upon default by the concession holder, provincial authorities may fix this reference price. The concession holder is eligible for certain deductions including (1) inter-jurisdictional freight costs, which can be deducted from the selling price, as long as transportation is made by means other than a pipeline and monthly invoices and any relevant agreements are provided and (2) internal treatment costs (not exceeding 1% of the payment) incurred by authorized permit or concession holders.

By Decrees 225/2006 and 226/2006, the Province of Neuquén sought to change the reference price to be used for calculating royalties using the West Texas Intermediate Crude reference price, or WTI, for petroleum and import prices at the border for gas. Those decrees are currently being challenged by all the upstream companies which have activities in Neuquén Province.

Exploration permits and production or transportation concessions are subject to termination in the event of certain breaches or defaults of laws or regulations or upon the bankruptcy of the concessionaire. Upon the expiration or termination of a production concession, all oil and gas wells, operating and maintenance equipment and facilities ancillary thereto automatically revert to the Argentine government, without payment to the concessionaire.

Law 25,943, enacted on October 20, 2004, established the creation of a federal state-owned energy company called Energía Argentina S.A. ("ENARSA"), whose stated purpose is to carry out, through third parties or through joint ventures with third parties, (1) the study, exploration and exploitation of hydrocarbon natural reserves,

(2) the transportation, processing and sale of hydrocarbons and their direct and indirect by-products, (3) the transportation and distribution of natural gas and (4) the generation, transportation, distribution and sale of electricity.

Furthermore, Law 25,943 granted to ENARSA exploration permits over all the national off-shore areas not covered by existing exploration permits or exploitation concessions at the time of its enactment. Therefore, any future exploration of off-shore areas must be done in joint venture with ENARSA.

Net Worth Requirements

Resolution No. 193/03 of the Secretary of Energy implements mandatory minimum net worth requirements for companies that wish to acquire or maintain exploration permits, exploration concessions and hydrocarbon transportation concessions in Argentina.

This resolution provides that, in order to be a holder of a permit or concession, the company or group of companies (for example, companies associated through a joint operating or joint venture agreement) shall have a minimum net worth of P$2,000,000 for land-based areas and U.S.$20,000,000 for off-shore areas. This minimum net worth amount must be maintained during the whole term of the permit or concession. The breach of this obligation may result in sanctions, including fines, or in the revocation of a company's registry with the Secretary of Energy as a petroleum company. To comply with these requirements, other companies, local or foreign, may grant financial support or guarantees of up to 70% of the minimum net worth requirements in favor of the entity requesting a permit or concession.

"Short Law"

Law No. 26,197 (the "Federalization Law" or "Short Law"), promulgated on December 6, 2006 and published in the Official Bulletin on January 3, 2007, amended the Hydrocarbons Law, which now provides that liquid and gaseous hydrocarbon fields belong either to the federal or provincial government, depending on the territory where they are located.

Fields located in the area lying between 12 nautical miles from the coast line and the outer boundary of the continental shelf belong to the federal government. All the fields lying on their territories and those located on the sea adjacent to the coast up to a distance of 12 nautical miles shall remain the property of the provinces and the City of Buenos Aires. On January 3, 2007, provincial governments took over original ownership and management over the fields located in their territories, pursuant to these provisions.

The Federalization Law also transfers, by operation of law, all hydrocarbons exploration permits and exploitation concessions as well as other types of exploration and/or exploitation contracts executed with the federal government, without affecting the rights or obligations of permit and concession holders.

In addition, the Federalization Law sets forth that the hydrocarbon royalties due upon the effective date of the Law shall be assessed according to the provisions of the respective permit or concession agreement and shall be paid to the jurisdictions where the fields are located. Before the Law, royalties were also paid directly to the provinces where the fields are located under Resolutions 155/1992 and 435/2004 of the Secretary of Energy.

Likewise, the provinces (as well as the federal government in relation to the fields located on federal jurisdiction) shall have the powers set forth in the Hydrocarbons Law and supplementary regulations to grant permits and concessions over the fields located within their respective territories and to determine the enforcement authorities. However, the Federalization Law provides that federal energy policies shall be implemented by the Federal Executive.

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

As of the date of this filing, we are evaluating the effects of this law on our petroleum and gas exploration and production activities.

Transportation

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

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

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

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

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

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

Upon expiration of a transportation concession, ownership of the pipelines and related facilities is transferred to the Argentine government at no cost.

Refining and Marketing

Hydrocarbon refining activities by oil producers and other third parties have been regulated ever since the enforcement of Executive Order No. 1212/89 by the regulations under Hydrocarbons Law No. 17,319. Together with other rules and regulations issued by the Secretary of Energy, this legal framework essentially regulates the commercial, environmental, quality and safety aspects related to refineries and gas stations. This law authorized imports, abolished oil assignments by the Secretary of Energy and deregulated the installation of refineries and gas stations. Certain supervisory and control powers of the Secretary of Energy have also been delegated to provincial and municipal authorities and therefore the refining and sale of refined products must also comply with provincial and municipal technical, health, safety and environmental regulations.

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

Refiners are authorized to freely sell their products in the domestic market and to freely install gas stations under their own brand or third-party brands. Gas stations directly operated by refiners must not exceed 40% of their total distribution network (Executive Order 1060/2000). In such respect, the Undersecretary for Fuel provides under Resolution No.157/06 that gas stations under an exclusive agreement with a refining and/or fuel distribution company which, for any reason, are determined to terminate the agreement, shall submit the decision to the affirmative or negative opinion of the Domestic Trade Secretary, and the necessary steps shall be taken so that the gas station in question enters into a new agreement with another refining and/or distribution company securing adequate supply.

Regarding exports of refined products, with priority given to the supply of the domestic market, producers must obtain the approval of the national government prior to performing export operations. (Executive Order 645/02 and Resolutions SE No.1679/04 and 1338/06).

The Secretary of Energy also regulates the quality content of fuels. These regulations have become significantly more stringent in recent periods. Under Resolution SE 1283/06, a new structure of economic sanctions for violations to applicable quality standards was approved. The new quality content regulations shall be gradually applied as from June 1, 2008.

The national government, in turn, issued certain rules and regulations that have an impact on the refining and marketing segment:

- Resolution No. 1104/04 issued by the Secretary of Energy requires refineries and gas station owners to submit monthly sales information; otherwise, they shall be subject to monetary penalties.

- Resolution No. 1679/04 issued by the Secretary of Energy requires oil producers to obtain governmental approval prior to exporting crude or diesel oil. In general, producers must demonstrate that they have either satisfied local demand requirements or granted the domestic market the opportunity to purchase oil on similar terms, in order to obtain approval to export. In addition, this resolution requires companies that wish to export diesel oil to register in order to obtain prior governmental approval to guarantee a sufficient domestic supply of oil.

This resolution is supplemented by the Secretary of Energy Resolutions No.1834/05 and 1879/05 that create a mechanism to guarantee the supply of diesel oil by refiners to gas stations and permit gas stations to acquire diesel oil from third parties if regular suppliers fail to deliver it. In the latter case, refiners must bear any additional costs borne by gas stations in procuring the diesel oil.

In addition, under Resolution No. 25/06 issued by the Domestic Trade Secretary, refining companies and/or wholesalers and/or retailers are obliged to reasonably cover total diesel oil demand (according to volumes required under usual market practice) by supplying on a regular and continuous basis every geographical area within the Republic of Argentina with at least the same volumes supplied during the corresponding month of the immediately preceding year, plus the existing positive correlation between the increase in diesel oil demand and the increase in the gross domestic product, accumulated from the reference month up to the relevant date.

- Resolution No. 1102/04 issued by the Secretary of Energy created a regulatory framework for new gas stations, other fuel retail outlets and distribution channels including the creation of a registry for the liquid fuel market. Severe sanctions are imposed on the execution of commercial transactions with unauthorized parties, and repetitive violations may result in suspension and withdrawal from the registry. The resolution also establishes several requirements for all fuel market participants and makes brand owners jointly and severally liable for breaches by companies operating under their brands.

- Resolution No.1103/04 issued by the Secretary of Energy provides, pursuant to Executive Order 1212/89, section 17, that in the case of gas stations operating under a brand, the holder of the

brand under which fuels are sold shall be responsible for the specification, quality and quantity of products sold and for compliance thereof with reported requirements, and in the case of gas stations operating under no brand, the operator shall be the responsible party and fuel suppliers may also be jointly and severally liable when duly identified.

- Law No. 26.022 exempts imports of up to 500,000 cubic meters of diesel oil for domestic consumption from the Fuel Liquids and Natural Gas Tax, as well as from the Diesel Oil Tax. In addition, this law establishes severe penalties applicable to the solid, liquid and gaseous hydrocarbons segment, for breaches relating to health, safety, environmental, product quality and reporting issues.

- Law No. 26.074 exempts imports of up to 800,000 cubic meters of diesel oil for domestic consumption from the Fuel Liquids and Natural Gas Tax, as well as from the Diesel Oil Tax. The Secretary of Energy is entitled to increase that amount by up to 20% for 2006 and to exempt an amount for 2007 that is up to 20% higher than the amount exempted during 2006.

- Regarding fuel sales prices at gas stations, under Resolutions SE N° 938/06 and 959/06, the Secretary of Energy provides an obligatory schedule of differential prices for fuel purchases by vehicles bearing foreign license plates at all gas stations located in bordering areas.

- Resolution N° 1334/06 issued by the Secretary of Energy provides that marketing of any new type of fuel within the Republic of Argentina, whether in compliance with applicable quality standards, technological improvements, environmental standards or business policies of the sector's companies, regardless of the brands or trade names used, shall be previously authorized by the Fuels Undersecretariat of the Republic of Argentina.

Market Regulation

Under the Hydrocarbons Law and the Oil Deregulation Decrees, the holders of exploitation concessions have the right to freely dispose of their production either through sales in the domestic market or abroad. However, as explained elsewhere in this report, since 2002, the Argentine government has imposed restrictions on the export of hydrocarbons. See "—Refining" and "—Taxation".

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

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

Taxation

Holders of exploration permits and production concessions are subject to federal, provincial, and municipal taxes and regular customs duties on imports. The Hydrocarbons Law grants such holders a legal guarantee against new taxes and certain tax increases at the provincial and municipal levels. Permit holders and concessionaires must pay an annual surface tax based on the area held.

In January 2002, the Public Emergency Law established a five-year export tax on hydrocarbon exports and empowered the federal executive branch to establish the applicable tax rate. On March 1, 2002, the Argentine

government imposed a 20% tax on exports of crude oil and a 5% tax on exports of certain oil products. In May 2004, the tax on exports of crude oil and liquefied petroleum gas was increased to 25% and 20%, respectively, and a 20% tax was levied on exports of natural gas. Effective August 4, 2004, the Argentine government further increased taxes on exports of crude oil by an additional 3% to 20%, with a cap set at 45%. The determination of the additional rate depends on the price per barrel of crude oil, increasing gradually from 3% when crude oil price is U.S.$32.01 per barrel to 20% when the price is U.S.$45 or more per barrel.

Through Resolution No. 77, the Secretary of Energy regulates the payment of tolls by persons and companies that are subject to audit and control under technical and security regulations for the fractionation and sale of liquid gas and the transportation of liquid hydrocarbons and its derivatives through pipelines. It provides the methods and terms and conditions for payment of the tolls.

Quarterly agreements for the supply of diesel oil to public transportation companies

In light of the request by the federal executive branch to maintain the conditions for the supply of diesel oil at differential prices for regulated-rate public transportation services, as provided under Executive Order No. 675/03 as amended by Executive Orders No. 159/04, 945/04, 280/05 and 564/05, several agreements were subsequently signed whereby refining companies agreed to supply diesel oil at lower than market price, depending on the kind of services provided by the transportation companies.

Refining companies, in turn, will receive economic compensation for the lower revenues resulting from compliance with the agreement. In order to calculate the lower revenues received, the government will consider the difference between net revenues from the sale of diesel oil at contractual prices and the net revenues that would have been obtained from the sale of the same diesel oil volumes at market price.

Refining companies processing the crude oil they produce, as is our case, will be entitled to a direct compensation, by deducting it from any amount payable for export duties. The Secretary of Energy will issue a fiscal credit certificate for the appropriate amount of compensation.

Stability of Fuel Prices

In an effort to mitigate the impact of the significant increase in the West Texas Intermediate Crude reference price, or WTI, on local prices and ensure price stability for crude oil, gasoline and diesel oil, since January 2003, at the request of the federal executive branch, hydrocarbon producers and refineries entered into a series of temporary agreements, which contained price limits with respect to crude oil deliveries. By the end of 2004, in light of further increases in the WTI, the Argentine government established a series of measures to ensure the supply of crude oil to local refiners at price levels consistent with the local retail price of refined products, which in the case of diesel oil, oil and gasoline have remained constant, in peso terms, from July 29, 2004 to present.

Royalties—Exchange Rates

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

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

Natural Gas

In 1992, the Natural Gas Act was passed providing for the privatization of Gas del Estado, or GdE, and the deregulation of the price for natural gas. To effect the privatization, the assets of GdE were divided among two new transportation companies and eight new regional distribution companies. The transportation assets were divided into

two systems on a geographical basis, the northern and southern area pipeline systems, designed to give both systems access to gas sources and to main centers of demand, including the greater Buenos Aires region. A majority of the shares of each of the transportation and distribution companies was sold to private bidders.

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

Regulatory framework

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

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

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

ENARGAS

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

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

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

Rate Regulation

Prior to the enactment of the Public Emergency Law, the provisions of the Natural Gas Act regulated the rates for gas transportation and distribution services, including those of TGS. Tariffs to end-users consist of the sum of three components: (1) the price of the gas purchased; (2) a transportation tariff for transporting gas from the production area through the distribution system; and (3) a distribution tariff. Under the Natural Gas Act and TGS license, TGS was permitted to adjust rates (1) semi-annually to reflect changes in the U.S. producer price index, and (2) every five years in accordance with efficiency and investment factors to be determined by ENARGAS. In addition, subject to ENARGAS's approval, rates were subject to adjustment from time to time to reflect cost variations resulting from changes in the tax regulations (other than income tax) applicable to TGS, and for objective,

justifiable and non-recurring circumstances. The ratemaking methodology contemplated by the Natural Gas Act and the TGS license is the "price-cap with periodic review" methodology, a type of incentive regulation designed to allow regulated companies to retain a portion of the economic benefits arising from efficiency gains.

UNIREN

The Public Emergency Law pesified tariffs for public utility services at a P$1=U.S.$1 parity and prohibited the increase of these tariffs based on indexation factors. Pursuant to this law, the Argentine federal executive branch was authorized to renegotiate the terms of contracts relating to the provision of public utility services without being constrained by the applicable regulatory framework. This authority was later delegated by the executive to the Ministry of the Economy, which created, in July 2003, the Unidad de Renegociación, or UNIREN, for the purpose of assisting in the renegotiation process. The renegotiation must take into account the following criteria, among others:

Impact of tariffs on economic competitiveness and on income distribution;

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

Interest of customers and accessibility to the services;

The safety of the systems; and

The company's profitability.

On October 1, 2003, the Argentine Congress passed a bill allowing the executive branch of the government to set public utility rates until the completion of the renegotiation process. TGS is in the process of re-negotiating a tariff structure with UNIREN. See "— Electricity—UNIREN".

Modifications to the regulatory framework

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

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

The creation of an electronic wholesale market to coordinate "spot" transactions of the sale of natural gas and secondary market transactions for transportation and distribution of natural gas. This electronic market was in full operation as of the date of this Offering Memorandum; and

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

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

The prices resulting from this new framework shall be used as a reference for calculating and paying royalties and will be used by ENARGAS in calculating any necessary adjustments in tariffs that result from variations in the price of purchased gas. In addition, the decree requires that all agreements for the sale of natural

gas be filed with the gas electronic market, and grants authority to the Secretary of Energy to regulate the sale of gas (1) between producers and (2) between producers and their affiliates.

On April 2, 2004, the Secretary of Energy entered into an agreement with natural gas producers, in which the following was agreed to:

Minimum volumes that natural gas producers must supply to the local market, including specified amounts to: (1) distributors for the supply to industrial users, (2) clients of distributors, or new direct consumers, who are required to buy directly from producers and (3) power stations that generate electricity for the local market;

Authorization for producers to increase the prices of natural gas for sales to industrial users, electric generation companies and direct consumers according to a price roadmap which differs for each basin and that culminates in complete deregulation of the wellhead price of natural gas by January 1, 2007;

Distribution and generation companies must renegotiate the price and volumes of their supply contracts with producers in line with this agreement. If an agreement is not reached after a 45-day period, producers are released from their obligation to supply natural gas to these distribution and generation companies;

Regulated prices through June 31, 2005 for new direct customers; and

Notice of all new supply agreements must be given to the Secretary of Energy and will be published in the electronic gas market once this market starts functioning.

This agreement was approved by Resolution No. 208 of the Ministry of Federal Planning, Public Investments and Utilities.

On May 23, 2005, pursuant to Resolution No. 752/05, the Secretary of Energy established a mechanism by which new direct consumers will be able to buy natural gas directly from producers. If no agreement is reached with producers, as from December 31, 2006 new direct consumers will be able to buy natural gas through the electronic gas market, which was originally created for "spot" transactions but now permits long-term operations. In order to purchase gas in the electronic market, new direct customers must post irrevocable purchase orders that contain the following minimum terms:

Term: 36 months;

Price: export parity; and

Volume: 1,000 cubic meters per day.

If the irrevocable offer is not accepted, new direct consumers may require the Secretary of Energy to require export producers to provide natural gas for a period of six months pursuant to the prices approved by Resolution No. 208 of the Ministry of Federal Planning, Public Investments and Utilities.

On December 28, 2006, pursuant to Resolution No. 1886/2006, Resolution No. 752/05 was extended until December 31, 2016.

Restrictions on Exports of Gas

In March 2004, in order to prevent a crisis in the supply of gas to the domestic market, the Secretary of Energy suspended all prior export authorizations and exports of natural gas surplus volumes and instructed the Undersecretary of Fuels to create a program for the rationing of gas exports and the use of the country's transportation capacity. The Undersecretary of Energy subsequently adopted a program, known as the Program for the Rationalization of Natural Gas Exports, that established a mechanism for the determination of export restrictions

based on various factors and contemplated monthly and quarterly limits on gas exports. In addition, during 2004, the Undersecretary of Fuels did not authorize exports of volumes (excluding surplus volumes) in excess of those exported during 2003. This program was replaced in June 2004 with the Complementary Program to Supply Natural Gas to the Domestic Market, which eased the monthly and quarterly limits established under the Program for the Rationalization of Natural Gas Exports.

During 2005, as part of the Complementary Program to Supply Natural Gas to the Domestic Market, the Secretary of Energy requested producers to redirect export gas to supply thermal plants and gas distribution companies. This decision limited our total gas export volumes by an average of about 110 thousand cubic meters per day, which deprived us of the higher margins offered by export prices. See "Risk Factors—Factors Relating to Argentina— Limits on exports of hydrocarbons and related oil products have affected and may continue to affect our results of operations".

Since March 2004, exports of natural gas have been subject to a 20% tax.

Transportation companies are prohibited from transporting natural gas for export purposes as long as local demand is not satisfied.

Compressed Natural Gas for Vehicles

Effective April 1, 2006, distributors may not provide compressed natural gas to gas stations. Instead, gas stations will be required to purchase compressed natural gas through the electronic wholesale market pursuant to a mechanism of irrevocable purchase orders designed by the Secretary of Energy. See "—Natural Gas—Modifications to the regulatory framework". The mechanism is decided to conceal the identity of buyers and sellers. Buyers will be able to make joint offers, and agreements may not have a term that expires after April 30, 2007. If any purchase orders are not satisfied through this system, exports of natural gas will be diverted to cover the unsatisfied demand. This mechanism is expected to continue until the Secretary of Energy determines that it is no longer necessary, in light of the status of the domestic supply of natural gas.

Liquefied Petroleum Gas

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

Regulatory framework

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

Prices. The Secretary of Energy determines reference prices (which must be below export parity prices) for the domestic market with the goal of guaranteeing regular supply in that market and may establish price stabilization mechanisms in order to avoid price fluctuations in the domestic market. The Secretary of Energy will determine and disseminate a reference price for each region every six months.

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

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

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

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

Electricity

By 1990, virtually all of the electricity supply in Argentina was controlled by the public sector (97% of total generation). In 1991, as part of the economic plan adopted by former President Carlos Menem, the Argentine government undertook an extensive program of privatization of all major state-owned industries, including the electricity generation, transmission and distribution sectors. In January 1992, the Argentine federal congress adopted the Regulatory Framework Law (Law No. 24,065), which established guidelines for the restructuring and privatization of the electricity sector. This Regulatory Framework Law, which continues to provide the framework for regulation of the electricity sector since the privatization of this sector, distinguished the generation, transmission and distribution of electricity as separate businesses and subjected each to appropriate regulation.

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

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

To address the electricity crisis generated by the economic crisis, the Argentine government has repeatedly intervened in and modified the rules of the wholesale electricity market since 2002. These modifications include the establishment of caps on the prices paid by distributors for electricity power purchases and the requirement that all prices charged by generators be calculated based on the price of natural gas (which are also regulated by the Argentine government), regardless of the fuel actually used in generation activities, which together have created a huge structural deficit in the operation of the wholesale electricity market. More recently, in December 2004, the Argentine government adopted new rules to readapt or readjust the marketplace, but these rules will not come into effect until the construction of two new 800 MW combined cycle generators is completed. The construction of these generators is scheduled to be completed in late 2008 and will be partially financed with credit balances of generators resulting from the spread between the sales price of energy and generation variable cost, which will be deposited

with the Fund for Investments Required to Increase Electricity Supply in the Wholesale Electricity Market (*Fondo de Inversiones Necesarias que permitan incrementar la oferta de energía eléctrica en el Mercado Eléctrico Mayorista*, or FONINVEMEM). We cannot assure you that the Argentine government will complete these projects in a timely manner, or at all.

The planned construction of these new generators reflects a recent trend by the Argentine government to take a more active role in promoting energy investments in Argentina. In addition to these projects, in April 2006 the Argentine congress enacted a law that authorized the executive branch to create a special fund to finance infrastructure improvements in the Argentine energy sector through the expansion of generation, distribution and transmission infrastructure relating to natural gas, propane and electricity. The fund will obtain funds through *cargos específicos* (specific charges) passed on to customers as an itemization on their energy bills. We cannot assure you that the Argentine government will complete the implementation of these new projects in a timely manner, or at all.

Regulatory authorities

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

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

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

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

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

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

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

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

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

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

arbitration of conflicts between electricity sector participants.

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

The Wholesale Electricity Market

Overview

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

The wholesale electricity market consists of:

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

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

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

Operation of the wholesale electricity market

The operation of the wholesale electricity market is administered by the Wholesale Electricity Market Administration Company (*Compañía Administradora del Mercado Mayorista Eléctrico S.A.,* or CAMMESA). CAMMESA was created in July 1992 by the Argentine government, which currently owns 20% of CAMMESA's capital stock. The remaining 80% is owned by various associations that represent wholesale electricity market participants, including generators, transmitters, distributors, large users and electricity brokers.

CAMMESA is in charge of:

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

- determining technical and economic dispatch of electricity in the national interconnection system;
- maximizing the system's security and the quality of electricity supplied;
- minimizing wholesale prices in the spot market;
- planning energy capacity needs and optimizing energy use pursuant to the rules set out from time to time by the Secretary of Energy; and
- monitoring the operation of the term market and administering the technical dispatch of electricity pursuant to any agreements entered into in such market;

acting as agent of the various wholesale electricity market participants;

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

providing consulting and other services related to these activities.

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

Wholesale electricity market participants

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

Generators

According to a recent report issued by CAMMESA, there are 43 generation companies in Argentina, most of which operate more than one generation plant. As of March 31, 2006, Argentina's installed power capacity was 24,080 MW. Of this amount, 55% was derived from thermal generation, 41% from hydraulic generation and 4% from nuclear generation, provided by 40 private companies using conventional thermal equipment and hydraulic generation technology, 2 bi-national companies using hydraulic generation technology and one national state-owned company using nuclear generation technology. Private generators participate in CAMMESA through the Argentine Association of Electric Power Generators (*Asociación de Generadores de Energía Eléctrica de la República Argentina*, or AGEERA), which is entitled to appoint two acting and two alternate directors of CAMMESA.

Transmitters

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

In Argentina, transmission is carried at 500 kV, 220 kV and 132 kV through the national interconnection system. The national interconnection system consists primarily of overhead lines and sub-stations and covers approximately 90% of the country. The majority of the national interconnection system, including almost all of the 500 kV transmission lines, has been privatized and is owned by Transener, which is partially owned by us. Regional transmission companies, most of which have been privatized, own the remaining portion of the national interconnection system. Supply points link the national interconnection system to the distribution systems, and there are interconnections between the transmission systems of Argentina, Brazil, Uruguay and Paraguay allowing for the import or export of electricity from one system to another.

Transmission companies also participate in CAMMESA by appointing two acting and two alternate directors through the Argentine Association of Electric Power Transmitters (*Asociación de Transportistas de Energía Eléctrica de la República Argentina*, or ATEERA).

Distributors

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

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

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

Large users

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

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

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

Traders

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

Spot market

Spot prices

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

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

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

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

Seasonal Prices

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

Prior to implementation of t`e emergency regulations, seasonal prices were regulated by CAMMESA as follows:

prices charged by CAMMESA to distributors and large users changed only twice per year (in summer and winter), with interim quarterly revisions in case of significant changes in the spot price of energy, despite prices charged by generators in the wholesale electricity market fluctuating constantly;

prices were determined by CAMMESA based on the average cost of providing one MW of additional energy (its marginal cost), as well as the costs associated with the failure of the system and several other factors; and

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

- o in determining supply, CAMMESA would consider energy supplies provided by generators based on their expected availability, committed imports of electricity and the availability declared by generators;
- o in determining demand, CAMMESA included the requirements of distributors and large users purchasing in the wholesale electricity market as well as committed exports.

Stabilization Fund

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

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

The stabilization fund was adversely affected as a result of the modifications to the spot price and the seasonal price made by the emergency regulations, pursuant to which seasonal prices were set below spot prices resulting in large deficits in the stabilization fund. As of February 2006, the stabilization fund deficit totaled P$1,710.6 million. This deficit has been financed by the Argentine government through loans to CAMMESA and by generators through contributions to FONINVEMEM.

Term market

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

Renegotiation of Utility Tariffs

Our affiliates Edesur, Transener and Transba are negotiating their utility contracts with UNIREN. These discussions are in different stages. See "— Gas and Energy — Gas Transportation - TGS—Regulated Energy

Segment" and "—Electricity—Electricity Transmission: Transener, Yacylec and Enecor—Transener". We cannot guarantee that these discussions will ultimately result in a level of tariff increases sufficient to restore the economic and financial position of these utility companies.

Concealment and Money Laundering

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

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

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

Furthermore, the financial entities are required to report to the Financial Information Unit any transaction that may be considered suspicious or unusual, or which lacks of economic or legal justification, or involves unjustified complexity, whether such transaction is recurring or not. Financial entities must pay special attention to transactions arising from or relating to jurisidictions included in the Central Bank's list of "non-cooperating" jurisdictions. As of the date of this Offering Memorandum, Myanmar is the only jurisdiction included in such list.

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

Venezuelan Regulatory Framework

Petroleum and Gas

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

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

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

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

The Hydrocarbons Organic Law regulates the exploration, exploitation, refinery, industrialization, transportation, storage, sale and conservation of hydrocarbons and refined products The law sets forth the following principles: (1) hydrocarbon fields are public property, (2) hydrocarbon activities are activities of public utility and of social interest, and (3) activities described in the law are subject to decisions of the Venezuelan state adopted in connection with international treaties and agreements on hydrocarbons.

The Performance of Hydrocarbon Related Activities

The primary activities expressly reserved by law to the Venezuelan state can only be performed by: (1) the executive branch, (2) wholly-owned state entities or (3) companies in which the Venezuelan state maintains direct control by owning fifty percent (50%) or more of the shares or quotas that represent the capital stock. The sale of natural hydrocarbons and certain specified by-products can only be performed by wholly-owned state entities. Installations and existing facilities dedicated to the refining of natural hydrocarbons in the country and to the transportation of products and gas are to the property of the Venezuelan state.

The National Assembly must grant prior approval to the creation of these entities and the conditions under which they will carry out their activities. These entities must meet the following minimum conditions: (1) each must have a maximum duration of 25 years (which may be extended for 15 years), (2) each must provide information regarding location, orientation and extension of the area, (3) all of the entity assets must be reserved and turned over to the Venezuelan state once the activity ends and (4) any dispute among its shareholders must be resolved through private negotiations or arbitration and shall be subject to the Venezuelan legal system.

Traditionally, our interest in Venezuelan oil and gas fields have been held through operating service agreements with PDVSA, which established the terms of our compensation for production activities and investments. These contracts were awarded during 1994 and 1997 through bidding processes known as second round bids and third round bids, respectively. In 2005, the Venezuelan government announced that these operating service agreements did not comply with the Hydrocarbons Organic Law and instructed the Ministry of Energy and Petroleum to commence negotiations with private operators to convert all operating agreements into mixed-ownership ventures where more than 50% of each field is state-owned. These negotiations were completed in March 2006, and as a result, all operating service agreements previously awarded during the second and third bidding rounds will be converted to mixed ownership companies (*empresa mixta*) in which the Venezuelan government, through the Corporación Venezolana de Petroleo, S.A. ("CVP"), will hold at least 60% of the share capital and private companies will hold the remainder. The shareholdings allocated to private companies were determined on the basis of the value attributed to the different operating service agreements during the negotiations.

The National Assembly has approved (i) the principal terms of the conversion agreements and the form of organizational documents for the mixed ownership companies, (ii) amendments to the Hydrocarbons Organic Law and certain tax laws to allow the mixed ownership companies to sell their production of crude oil to PDVSA and its affiliates and to qualify as exporters for value-added tax purposes and (iii) a new law, the Law for Regulating the Participation of Private Entities in Primary Activities, that allows private companies to participate in primary activities in Venezuela only through mixed ownership companies.

Licenses and permits

Entities that wish to carry out activities related to the refining of natural hydrocarbons must obtain a license from the Ministry of Energy and Mines. Entities that wish to carry out activities related to the processing or domestic sale of refined hydrocarbons must obtain a permit from the Ministry of Energy and Mines.

Relevant Tax Features

Income tax

Venezuelan income tax law imposes a tax at a rate of 50% on the net taxable income of persons involved in hydrocarbon related activities, or activities related to the purchase or acquisition of hydrocarbons and by-products for export. These persons may be authorized to deduct from their income tax 8% of the value of new investments in

fixed assets up to a maximum amount equal to 2% of their annual income for the relevant fiscal year. Any excess may be used in the following three fiscal years. Four percent of the value of certain investments in high waters may also be deducted. Accelerated amortization and depreciation of fixed assets and direct or indirect expenses necessary for the drilling of oil wells is permitted.

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

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

Value Added Tax

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

Municipal taxes

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

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

Additional Matters

OPEC

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

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

Royalties

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

Exchange control system

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

Ecuadorian Regulatory Framework

Petroleum and Gas

Petroleum activity in Ecuador is regulated by (1) the Ecuadorian Hydrocarbons Law and its regulations, (2) certain regulations of the Ministry of Energy and Mines and (3) the specific terms of a tender for public auction.

The executive branch regulates hydrocarbon policies. The Ministry of Energy and Mines is responsible for developing hydrocarbon policies for the President's consideration.

The National Directorate of Hydrocarbons, which is under the authority of the Ministry of Energy and Mines, is the technical and administrative entity in charge of controlling and auditing hydrocarbon operations. The National Directorate for Environmental Protection, also under the authority of the Ministry of Energy and Mines, is in charge of approving environmental impact studies and environmental management plans that apply to Natural Protected Areas.

Exploration and Exploitation of Hydrocarbons

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

The award of exploration and exploitation agreements is performed through a special tender mechanism. In order to reach the exploitation phase, the contractor may only retain those areas with commercially exploitable hydrocarbons. If the contractor fails to comply with this requirement, that contractor will be forced to return those areas to the state. The exploration and exploitation agreements for crude oil in Ecuador are generally divided into two stages. The first stage, or the exploration period, lasts four years and is renewable for another two years. The second stage, or the exploitation period, may be up to 20 years in duration and is renewable. A minimum average investment of U.S. $120 to U.S. $180 per hectare, either on land and/or in seawater, must be made during each of the first three years of the exploration period. Royalties are paid as follows: (1) 12.5% for daily gross production levels less than 30,000 barrels, (2) 14% when these daily levels are between 30,000 and 60,000 barrels, and (3) 18.5% when gross production exceeds 60,000 barrels per day. The contractor is not obliged to pay royalties on contracts for specified services or for marginal or participation fields. The contractor may not sell any of the assets related to the agreement without authorization from the Ministry of Energy and Mines. At the end of the term of the agreement, the contractor must deliver to Petroecuador, at no cost, all these assets.

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

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

In April 2006, the Ecuadorian Hydrocarbons Law was amended to require that the government benefit from at least 50% of any income derived from oil price increases over the average monthly sales price for such oil at the execution date of the relevant production agreement, expressed in constant values as of the calculation date. The government's share is only dependent on oil price fluctuations and not on the volume of oil produced. See "Business Overview – Oil and Gas Exploration and Production – Oil and Gas Exploration and Production Interests – Production – Production outside of Argentina – Bolivia".

Other Countries' Regulatory Framework

In addition to Argentina, Venezuela and Ecuador, our businesses must comply with regulations in the other countries where we are located, including Peru, Bolivia and Brazil.

In Peru, the petroleum, transportation, gas and liquefied petroleum gas industry are each regulated under Peru's regulatory framework, which includes taxation, environmental codes and payments of royalties. In 1993, Perupetro, a state owned company functioning under private law, was created under Organic Hydrocarbon Law No. 26221 and has assumed significant powers within the Peruvian energy industry. It represents the Peruvian State as contracting party and has authority to grant areas for hydrocarbon exploration and exploitation activities and to supervise the activities carried out in those areas. Perupetro was also given the authority to negotiate contracts, including the payment of royalties, which is further governed by a series of national decrees. Certain consultation and participation procedures must be followed.

In Bolivia, the petroleum and gas industry is regulated by the System of Regulation by Sectors, which regulates, controls and supervises telecommunications, electricity, hydrocarbons, transportation and water activities, to ensure that they operate efficiently and protect the interest of users, service providers and the Bolivian state by contributing to the development of the country. In May 2005, a new hydrocarbons law, Law No.3058 was enacted, which, among other things, significantly increased taxes for companies in the industry. The law imposed an 18% royalty and a 32% direct tax on hydrocarbons (DTH) applicable on 100% of production. These new taxes are in addition to applicable taxes under existing law, Law No.843.

In May 2006, the Bolivian government enacted the so-called "hydrocarbon nationalization" under Supreme Decree No. 28,701. This Decree provides that as from May 1, 2006 oil companies must deliver to YPFB the property of all hydrocarbon production for sale. Oil companies will have a 180-day transition period to subscribe new agreements, which must be individually authorized and approved by the Bolivian Legislature. The Ministry of Hydrocarbons and Mines will determine, on a case by case basis, the interest in each field corresponding to oil companies by means of investment audits, operational costs and profitability indicators. The current distribution of the oil and gas production value will be maintained during the transition period, in the case of fields whose certified average production of natural gas for 2005 was lower than 100 million cubic feet per day. In addition, the abovementioned decree provides, among other things, that the Bolivian government shall recover full participation in the entire oil and gas production chain, and for this purpose provides for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one of the shares in a number of companies, among which is Petrobras Bolivia Refinación. We are currently in the process of evaluating the effects of three recently announced measures on our operations. The implementation of these measures requires a number of steps that have not yet been fully defined, including a comprehensive restructuring of YPFB. See "Risk Factors—Factors Relating to the Company—Our activities may be adversely affected by events in countries in which we do business".

In Brazil, the petrochemical industry is regulated by laws affecting petrochemicals, as well as, certain environmental, health and safety regulations, which affect our subsidiary Innova.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULT OF OPERATIONS

Proportional Consolidation and Presentation of Discussion

In accordance with the procedures set forth in Technical Resolution No. 21 of the Argentine Federation of Professional Councils in Economic Sciences, or FACPCE, we are required to consolidate on a proportional basis the financial statements of companies over which we exercise joint control. Joint control exists where all shareholders, or shareholders representing a voting majority, have resolved, on the basis of written agreements, to share control over defining and establishing the company's operating and financial policies. When consolidating companies over which we exercise joint control, the amount of our investment in the companies under our joint control and the interest in their income (loss) and cash flows are replaced by our proportional interest in the company's assets, liabilities and income (loss) and cash flows. In addition, related party receivables, payables and transactions among members of the consolidated group and companies under joint control are eliminated on a pro rata basis pursuant to our ownership share in those companies.

The Company has joint control over the following companies:

Citelec, a company engaged in the electricity transmission business in Argentina through its subsidiary, Transener.

CIESA, a company mainly engaged in the gas transportation business in the south of Argentina through its subsidiary, TGS.

Distrilec, a company engaged in the electricity distribution business in the southern area of the Federal Capital and 12 districts of the Province of Buenos Aires, through its subsidiary, Edesur.

The three companies are considered part of the Gas and Energy Business segment.

Despite being a company under our joint control, we did not consolidate proportionally the financial statements of Citelec because we have committed to sell such interest as required in connection with the Argentine Antitrust Commission's Resolution approving the transfer of our control to Petrobras.

Even though we consolidate the results of CIESA and Distrilec proportionally in our financial statements, our management analyzes our results and financial condition separately from the results and financial condition of these companies. Accordingly, we believe financial information without proportional consolidation is useful to investors in evaluating our financial condition and results of operations.

Unless otherwise provided, the discussion below is presented on the basis of our consolidated financial data without proportionally consolidating CIESA or Distrilec, and, therefore, is not directly comparable to the corresponding financial data set forth in our financial statements. For the results of CIESA and Distrilec (both of which are presented under proportional consolidation in our consolidated financial statements) and Citelec (which is presented under the equity method of accounting in our consolidated financial statements) please refer to our discussion under "—Analysis of Consolidated Results of Operations—Equity in Earnings of Affiliates".

Factors Affecting our Consolidated Results of Operations

1) Argentine Economic Situation

Fluctuations in the Argentine economy and actions adopted by the Argentine government have had and will continue to have a significant effect on Argentine private sector entities, including the Company. Specifically, the Company has been affected and might be affected by inflation, interest rates, the value of the peso against foreign currencies, price controls, business regulations, tax regulations and in general by the political, social and economic environment in and affecting Argentina.

a) Peso Devaluation

As of December 31, 2006, the peso-U.S. dollar rate of exchange was P$3.07 per U.S., dollar as compared to P$ 3.03 and P$ 2.98 per U.S. dollar as at December 31, 2005 and 2004, respectively.

Almost all of the Company's financial debt, as well as a significant portion of the debt of its related companies, is denominated in U.S. dollars, which exposes the Company to exchange risks. The diversification of the Company's business, with foreign operations having a cash flow primarily denominated in U.S. dollars and commodity prices that are sensitive to U.S. dollar changes help us mitigate our Peso-U.S. dollar exchange exposure. Exchange differences arising from liabilities in foreign currency assumed to hedge the net investment in foreign entities are not directly charged to Results but to the item Deferred Results within Stockholders' Equity, to which results for conversion of operations abroad are also charged.

With the accounting considerations stated, the exchange differences determined for fiscal years 2006 and 2005 losses for P$6 million and P$11 million, respectively.

b) Inflation

In accordance with accounting principles generally accepted in Argentina, the Argentine Federation of Professional Councils in Economic Sciences is responsible for determining inflation.

Historically, the Argentine economy has exhibited significant volatility, characterized by periods with high rates of inflation.

In March 2003, the CNV, under Resolution No. 441, provided that starting on March 1, 2003, financial statements must be stated in nominal currency. Accordingly, we discontinued inflation accounting and the corresponding restatement of our financial statements, which was imposed in 2002.

Inflation has significantly accelerated since 2004, driven by the pace of economic growth in Argentina. The consumer price index increased by 6.1% in 2004, 12.3% in 2005 and 9.8% in 2006, while the wholesale price index increased by 7.9% in 2004, 10.8% in 2005 and 7.1% in 2006.

If inflation accounting were reinstated, financial statements would have to be stated in constant currency.

In the past, inflation has materially undermined the Argentine economy and the government's ability to stimulate economic growth. While inflation indexes currently are within reasonable parameters, we cannot assure you that this situation will remain stable. Sustained inflation in Argentina, without the passing through to prices of products sold by us in the domestic market, would have an adverse effect on our results of operations and financial position.

c) Investments in Utility Companies

The new macroeconomic scenario after enactment of the Public Emergency Law impacted the economic and financial balance of utility companies in Argentina. The combined effect of (1) the devaluation of the peso, (2) the pesification of tariffs at a rate of P$1.00 to U.S.$1.00 basis and (3) financial debts primarily denominated in foreign currency, adversely affected utility companies' financial position, results of operations and ability to satisfy certain loan agreement provisions.

In light of the adverse conditions faced by utility companies during 2002, CIESA, TGS, and Transener defaulted on their financial debt. TGS and Transener restructured their financial debt through restructuring proposals, which were accepted by about 99.8% and 98.8% of the related creditors, respectively. In September 2005, CIESA signed an agreement to restructure its financial debt with all its creditors. The consummation of the restructuring is subject to certain regulatory approvals. Until a successful restructuring of this debt, substantial doubt will remain surrounding the ability of CIESA to continue operating as a going concern.

The Public Emergency Law pesified tariffs for public utility services at a P$ $1=U.S.$1 parity and prohibited the increase of these tariffs based on indexation factors. In addition, the Argentine Federal Executive Branch was authorized to renegotiate the terms of contracts relating to the provision of public utility services, taking into account the following criteria: i) impact of tariffs on economic competitiveness and on income distribution; ii) quality of services to be provided and/or the capital expenditure programs provided for in the contracts; iii) interest of customers and accessibility to services; iv) the safety of the systems; and v) the companies' profitability.

On February 12, 2002, the Argentine federal executive branch enacted Decree No. 293/02 whereby the Ministry of Economy was entrusted the power to renegotiate contracts with public utility companies. In July 2003, the UNIREN ("Utilities Contract Renegotiation and Analysis Committee") under the joint jurisdiction of the Ministry of Economy and Production and the Ministry Federal Planning, Public Investment and Services. The UNIREN's mission is, among other purposes, to provide assistance in the utility renegotiation process, execute comprehensive or partial agreements with utility companies and submit regulatory projects related to transitory price and rate adjustments.

UNIREN is currently renegotiating the contracts with our affiliates Edesur, TGS and Transener. These discussions are in different stages, and some of our affiliates have stated that UNIREN's latest proposals were not sufficient.

We are unable to predict the future development of the renegotiation process involving rates and concession contracts or the impact it may have on the results of operations or the financial position of those companies.

d) Price Stabilization and Supply

For the purpose of lessening inflationary pressures caused by the sharp devaluation of the peso in 2002, the Argentine government issued a set of regulations aimed at controlling the increase in prices payable by the final customer. These regulations have focused particularly on the energy sector.

Gas

In February 2004, the Argentine government, through Decree No.181/04, mandated the creation of a plan for the recovery of natural gas prices, following the freezing provided for by the Public Emergency Law, which prohibited gas price increases in the domestic market. In April 2004, the Company, along with the remaining gas producers, entered into an agreement with the Argentine government, which provides for a schedule of gradual increases in gas prices in the domestic market that would culminate in complete deregulation of the wellhead price of natural gas by 2007. As from September 1, 2005, wellhead prices have been deregulated for sales to electricity generation companies and gas distribution companies supplying industrial clients directly, with the Gas Electronic Market (*Mercado Electrónico del Gas*) starting operations only for such gas surplus spot transactions. The Argentine government has imposed restrictions on the ability of producers to export gas, which have deprived us of the ability to benefit from the higher margins offered by export prices. The April 2004 agreement included minimum commitments from producers for supply to the domestic market. In January 2007, through Resolution 1886, the Secretary of Energy ratified that the ability to export hydrocarbons is subject to an adequate satisfaction of domestic needs and that exports sales must be authorized on a case-by-case basis by the Executive Branch, with the Secretary of Energy being authorized to approve or reject export applications.

During 2006, the Secretary of Energy requested producers to redirect export gas for supply to thermal power plants and gas distributors. This measure has restricted the total volume of exported gas by approximately an average of 109 thousand cubic meters per day from the Austral Basin and 230 thousand cubic meters per day from the Neuquén Basin.

During 2006, the governments of Argentina and Bolivia entered into long-term gas supply agreements, whereby gas imports became the responsibility of ENARSA, the state-owned energy company. As a result, the Company had to assign to ENARSA its gas import agreement with Bolivia. At present, the Company is in discussions with ENARSA regarding the terms on which ENARSA will supply the Company with imported gas.

The agreements between Argentina and Bolivia established an initial gas price U.S.$5 per million British thermal units (MMBtu), which is subject to adjustment pursuant to a formula based on international reference prices for gas and its byproducts. To prevent that this increase impact domestic consumers, the Argentine government has required that the increased import gas price be directed to exports, and as a result, tax withholdings on gas exports were increased to 45% over the gas import price from Bolivia. The Company has negotiated with most of its foreign customers new contractual terms to pass along the increased costs resulting from the increased withholdings.

Hydrocarbons

As from October 2004, hydrocarbon producing and refining companies have freely negotiated crude oil prices using the international market price net of export taxes.

With a view to discouraging exports and securing domestic supply, on March 1, 2002, the Argentine Government imposed, for a five-year term, a 20% tax on exports of crude oil and a 5% tax on exports of certain oil products. In May 2004, the tax on exports of crude oil and LPG increased to 25% and 20%, respectively, and a 20% tax was levied on exports of natural gas. Effective August 4, 2004, the Argentine government further increased taxes on exports of crude oil by 25% when the price per barrel is U.S.$32 or lower and applied additional incremental taxes ranging between 3% and 20% when the price per barrel of oil ranges between U.S.$32.01 and U.S.$45, with a cap set at 45% when the price exceeds U.S.$45.

This tax regime has adversely affected the profitability of our upstream operations and has prevented the Company from fully benefiting from the significant increases in international oil prices

Downstream margins

The downstream business in Argentina has been and may continue to be subject to extensive regulatory changes that have affected the sector's prices and profitability, and these changes have had and may continue to have an adverse effect on the results of the Company's operations.

Downstream margins have significantly declined since the enactment of the Public Emergency Law. As part of its effort to control inflation, the Argentine government has limited the increase in prices of gasoline and diesel oil at the retail level in the domestic market that would have resulted from (1) higher costs due to increases in WTI prices, (2) the peso devaluation and (3) domestic inflation.

During 2006, the Argentine government exerted increasing pressure on the fuel market, especially on diesel oil. Through a series of rules, regulations and actions, it sought to stabilize domestic prices of fuels and to secure supply for the domestic market. Resolution 25 of the Secretary of Domestic Trade, which was published in October 2006, requires refining companies to satisfy minimum levels of diesel oil demand in the domestic market, with a baseline equal to the prior year demand plus an estimated market variation.

In 2006, the domestic market grew for the fourth consecutive year. Total sales volumes increased by 7% and 8% in 2006 and 2005, respectively. Refineries in Argentina are operating at levels very close to maximum installed capacity. Capacity constraints could result in a temporary lack of supply. Within this context, refining companies have taken several actions to satisfy the growing diesel oil demand, including the import of diesel oil. In light of Resolution 25, we imported 85 thousand cubic meters of diesel oil during 2006.

Considering the gap between import and retail prices, and the restrictions against increasing local prices, the import of diesel oil results in significant losses for the Company. During 2006 and 2005, the Company recognized losses of P$ 38 million and P$ 82 million, respectively, in connection with these imports. Depending on the productive capacity of the Company's power plants and levels of real market growth, the application of Resolution 25 could require us to continue importing diesel oil, with the consequent adverse effect on our results of operations.

Electricity Generation

Following the enactment of the Public Emergency Law, the Argentine government implemented the pesification of dollar-denominated prices in the Wholesale Electricity Market, or WEM, and set a price cap for gas supplied for electric power generation. This had the impact of fixing the price for energy sold in the spot market and causing generators to set prices based on the price of natural gas, regardless of the fuel actually used in generation activities. This regulatory change implied a deviation from the marginal cost system previously applied.

As a result of the Argentine government's measures, electricity prices failed to reflect total generation costs adequately. This discrepancy led to the gradual depletion of the Stabilization Fund (*Fondo de Estabilización*), causing an increasing deficit, which in turn prevented Compañía Administradora del Mercado Eléctrico S.A., or CAMMESA from settling accounts with market agents. In an effort to restore the Stabilization Fund, the Argentine government first made successive contributions to the fund and subsequently reinstated seasonal adjustments for certain periods, recognizing increased costs resulting from the recovery of natural gas prices in the determination of wholesale spot prices.

In order to replenish the Stabilization Fund, the Secretary of Energy created an investment fund called the Fund for Investments Required to Increase the Electric Power Supply in the Wholesale Electricity Market (FONINVEMEM or the *Fondo para las Inversiones Necesarias que permitan incrementar la oferta de energía eléctrica en el Mercado Eléctrico Mayorista*). This fund encouraged WEM creditors to participate in investments in electric power generation in order to increase the available supply of electric power generation in Argentina. The Secretary of Energy invited WEM agents to participate in these investments by contributing outstanding credit balances against CAMMESA resulting from the spread between sale prices and generation variable costs, and determined that non-participating agents would only receive payment on any such credits as from the date on which the generators constructed with FONINVEMEM's resources provide sufficient funds. The Company participated with 65% of the credit balances recorded for the 2004-2006 period with respect to this spread. Total credit balances contributed as of December 31, 2006 amounted to U.S.$41 million.

On October 17, 2005, and under the terms of Resolution No. 1.193 issued by the Secretary of Energy, Petrobras Energía, together with other WEM creditors, formally announced their decision to participate in the construction, operation and maintenance of two plants, of at least 800 megawatts each. Commercial operations in open cycle are expected to commence during the first half of 2008, and in combined cycle by the end of that year. The estimated cost for construction of both plants is approximately U.S.$1,080 million, which is expected to be funded by approximately 48% with contributions made to FONINVEMEM and the remaining balance with an additional charge to demand.

To purchase units and construct, operate and maintain the power plants, two trusts were created within CAMMESA, and the funds corresponding to FONINVEMEM contributions and customer charges will be deposited in the trusts. The construction, operation and maintenance of the power plants will be the responsibility of Termoeléctrica José de San Martín S.A. and Termoeléctrica Manuel Belgrano S.A., which will act for the account of the relevant trusts. These companies are expected to enter into 10-year agreements for the supply of 80% of their electric generation to CAMMESA, at a price that covers all of their costs and allows the trust to reimburse FONINVEMEM contributions. The companies have the power to freely dispose of the remaining 20% of the generated energy. Upon expiration of the supply agreement, the ownership of the assets in trust shall be transferred to generation companies.

The Company has a share of about 8% in both companies. Petrobras Energía, as well as the other WEM creditors, are expected to recover the contributed funds, converted to U.S. dollars and adjusted at a rate of Libor + 1% per annum, in 120 monthly installments, with the funds received by the trusts during the effective term of the supply agreement.

In order to restore the regular operation of the WEM as a competitive market that provides sufficient supply, in December 2004, the Secretary of Energy committed to approving successive seasonal price increases to reach values covering at least total monomic costs by November 2006. However, established prices continue to fail to cover actual costs incurred in generation.

In addition, the Secretary of Energy has undertaken to compensate energy with the marginal cost of the system established in the spot market and capacity with values in U.S. dollars prior to the enactment of the Public Emergency Law, once the market returns to normal conditions with the start of commercial operation of the additional capacity contributed by FONINVEMEM.

e) *Recoverability of Assets*

Tax loss: As of December 31, 2003, Petrobras Energía recorded a P$1,397 million allowance on loss carry forwards. Considering the then-prevailing Argentine economic situation, the uncertainties related to recovery from the 2002 crisis, and particularly exposure of the Company's results to fluctuations in the Argentine economy and actions taken by the Argentine government, the recoverability of such tax loss carry forwards remained uncertain at December 31, 2003.

As of December 31, 2005 and 2004, taking into consideration profitability expectations under Petrobras Energía's business plan, the Company partially reversed this allowance and recorded P$197 million and P$268 million gains in 2005 and 2004, respectively. These reversals were due, among other key factors, to expectations of high and sustained prices for commodities, the recovery of the Argentine economy, the relative stability of and expectations for the main macroeconomic variables in Argentina and measures taken by the Argentine government in connection with the recovery of energy and gas prices. As of December 31, 2006, Petrobras Energía maintained a P$754 million allowance for tax loss carry forwards, which to a large extent expire during 2007.

Minimum presumed income tax credit: As of December 31, 2004, Petrobras Energía recorded a P$72 million allowance on credits paid as a minimum presumed income tax from 1998 to 2002, considering the uncertainty with respect to our ability to use amounts paid under alternative minimum tax rules for the reduction of our future income taxes.

The minimum presumed income tax is complementary to the income tax, since, while the latter is levied on the taxable income for the year, the former represents a minimum tax on potential income on certain assets at a 1% rate. During any given fiscal year, Petrobras Energía's tax liability is the higher of both taxes. However, if the taxpayer's liability under the minimum presumed income tax exceeds its liability under the income tax for a given year, the amount in excess may be credited against any income tax payment over the minimum presumed income tax during the following ten fiscal years.

As of December 31, 2005, since the Company's management believed that it was highly probable that those payments would be used within the statute of limitations period, the relevant allowance was reversed, accounting for a P$45 million gain (attributable to the discounted value of such payments).

Gas areas in Argentina: In 2005, taking into account the regulatory changes introduced by the Argentine government with a view to restoring profitability in the gas business, including the establishment of a framework for the recovery of gas prices, the Company recorded a P$44 million gain from the reversal of previously recorded allowances on the recoverability of investments in gas areas.

2) Migration of Operating Agreements in Venezuela

In April 2005, the Venezuelan Energy and Oil Ministry ("MEP") instructed Petróleos de Venezuela S.A. (PDVSA) to review the 32 operating agreements signed by PDVSA affiliates with oil companies from 1992 through 1997, including agreements signed with Petrobras Energía, through their controlled and affiliated companies in Venezuela to develop the Areas of Oritupano Leona, La Concepción, Acema and Mata. The instruction given by MEP established that PDVSA should take all required actions to convert the operating agreements into mixed-owned companies where the Venezuelan Government, through PDVSA, would be entitled to more than 50% ownership.

During 2005, through different actions, PDVSA exercised pressure on the effective operating agreements as a way to promote migration. Among others: (a) PDVSA approved a reduced amount of development investments for the Oritupano Leona area; (b) the SENIAT (National Integrated Tax Administration Service) performed several

tax inspections on the companies that operate the 32 oil operating contracts and, as a result, challenged prior tax filings (as a result of which, the Company recorded P$18 million and P$54 million in losses in 2006 and 2005, respectively); and (c) the applicable income tax rate was increased from 34% to 50%.

On September 29, 2005 and prior to the migration of operating agreement to the new business scheme, Petrobras Energía, through its controlled and affiliated companies in Venezuela, signed provisional agreements with PDVSA, whereby it agreed to negotiate the terms and conditions of the conversion of the operating agreements in the areas of Oritupano Leona, La Concepción, Acema and Mata into mixed-owned companies. The provisional agreement for the Oritupano Leona Area was signed subject to the condition of its prior approval by the Annual Shareholders' Meeting of the Company and by a Special Shareholders' Meeting of Petrobras Energía Participaciones S.A., which subsequently approved the agreement.

In March 2006, Petrobras Energía, through its controlled and affiliated companies in Venezuela, entered with PDVSA and Corporación Venezolana de Petróleo S.A. (CVP) into memoranda of understanding (MOUs) in order to effect the migration of the operating agreements. These MOUs established that private investors would hold a 40% share in these mixed-owned companies, with the Venezuelan Government being entitled to a 60% ownership interest. As a result, the direct and indirect interests of Petrobras Energía in the mixed-owned companies that would operate the areas of Oritupano Leona, La Concepción, Acema and Mata would be 22%, 36%, 34.5% and 34.5%, respectively. The MOUs establish that CVP will recognize a divisible and freely transferable credit in favor of Petrobras Energía in the amount of U.S.$88.5 million. These credits will not bear interest and may be used only for the payment of investments in any new mixed company for the development of oil exploration and production activities in Venezuela or licenses for the development of gas exploration and production operations in Venezuela.

In August 2006, the relevant conversion agreements were signed for the Oritupano Leona, La Concepción, Acema and Mata areas, which were consistent with the terms agreed in the MOUs. Subsequently, the companies Petroritupano S.A., Petrowayú S.A., Petrovenbras S.A. and Petrokariña S.A. were organized and registered with the Public Registry of Commerce of Venezuela. The Venezuelan government has issued the relevant decrees granting the necessary powers to these four companies, and the respective shareholders subsequently made the required capital contributions.

The MOUs established that the economic effects of the migration would become effective on April 1, 2006. Since this date and until the mixed companies are operational, the operations of the consortia have been conducted and financed by Petrobras Energía Venezuela and the other members of the consortia, under the supervision of a provisional executive committee formed mostly by PDVSA representatives.

Due to the ownership structure and governance system defined for the mixed companies, we discontinued the consolidation of our investments in Venezuela in our financial statements as from April 1, 2006. We now record our investments in our Venezuelan affiliates under the equity method, and present their net assets and results in our consolidated financial statements under non-current investments and equity in earnings of affiliates, respectively.

In view of the new contractual framework, as of December 31, 2005, we recognized impairment charges of P$424 million to adjust the book value of our assets in Venezuela to their estimated recoverable value. Of this amount, P$255 million related to property, plant and equipment, P$110 million to deferred tax assets, and P$59 million to non-current investments.

As of December 31, 2006, the Company estimated equity in earnings of its investments in the mixed-owned companies based on the best available information. As of such date, investments in mixed companies in Venezuela (P$2,510 million) are stated net of an impairment allowance of P$186 million to adjust their book value to their estimated recoverable cost. In addition, as of such date, the Company recorded an asset in respect of the divisible and transferable credit assigned to it upon execution of the conversion agreements, since all of the conditions for the recognition of the credit have been satisfied. This asset, net of an impairment allowance of P$92 million to adjust its book value to its estimated recoverable cost, amounts to P$180 million. The realization of the recorded estimated value of these assets depends on future events, some of which are beyond the Company's direct control. As a result, actual results could vary significantly from these estimates.

3) Commodity Prices

The Company's results of operations and cash flows are exposed to risks related to the volatility of international prices, mainly crude oil and by-product prices.

During 2006, oil prices reached a high of approximately U.S.$80 per barrel on a nominal basis and stabilized at approximately U.S.$60 per barrel. The WTI closed at U.S.$60.8 per barrel as of December 31, 2006, averaging U.S.$66 per barrel during the year (as compared to U.S.$61.1 per barrel as of December 31, 2005, and averaged U.S.$56.6 per barrel during 2005).

In line with our business integration strategy, the Company manages price risks with a focus on measuring its net risk exposure and monitoring the risks that affect its overall portfolio of assets. Within this policy, the Company's management regularly evaluates the possibility of using derivative instruments to hedge the exposure to commodity prices. In Argentina, as the Company grows as an integrated energy company and assigns a greater portion of its crude oil production to processing at the Company's own refineries, the Company's exposure to fluctuations in the price of crude oil is reduced and a risk profile is created that is increasingly tied to the price of oil byproducts.

4) Oil and gas production in Argentina

Oil and gas reserves in Argentina have followed a downward trend in recent years. According to official data from the Argentine Oil and Gas Institute, proved oil and gas reserves dropped by 34% in the 2001-2005 five-year period.

In 2006, oil production in Argentina declined for the ninth year in a row, though to a lesser extent than in previous years. During the first eleven months of 2006, oil production reached 660,000 barrels per day, a decline of approximately 1% over 2005.

In this context, the Company's oil and gas reserves in Argentina declined 7% in 2006 and 8.1% in 2005. During the same year, we recorded a 3% increase in production as compared to 2005. See "Business Overview – Oil and Gas Exploration and Production – Reserves".

As of December 31, 2005, as a result of the decline in reserves, the Company adjusted the book value of certain oil and gas assets to their relevant recoverable value, recognizing a P$132 million loss.

The Company's business plan provides for major exploratory investments in Argentina, both onshore and off-shore. Due to risks inherent in exploration activities, the Company's management cannot provide assurance that this downward trend in the Company's reserves in Argentina can be reversed in the future.

5) Operations in Ecuador

Block 31

Block 31 is mostly located in the Yasuní National Park, a highly ecologically sensitive area in the Amazon region of Ecuador (an area included in the National Heritage of Natural Areas and Protective Woods and Vegetation).

In August 2004, the Ecuadorian Ministry of the Environment approved the Environmental Management Plan in connection with the Project for the Development and Production of Block 31 and granted an environmental license in connection with the Nenke and Apaika fields for the construction stage of the project. In addition, in August 2004, the Ministry of Energy and Mines approved the development plan for Block 31, representing the start of the 20-year exploitation term. The concession contract for Block 31 provides for free oil production availability.

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 us access to Parque

Nacional Yasuní. Petrobras Energía changed the Development Plan for Block 31 in order to address the objections posed by the Ecuadorian Ministry of the Environment and finally, after a process involving participation of the affected communities, submitted a new Environmental Impact Assessment (EIA). The new EIA was approved by the Ministry of the Environment and the Ministry of Energy and Mines, and the issuance of a new environmental license to resume development works in Block 31 was officially requested on January 4, 2007. All relevant formalities have been completed in connection with this request, and the request for a license is awaiting approval by the Ecuadorian Minister of the Environment.

Block 18

Since March 9, 2007, crude oil production in Block 18, which we operate through our subsidiary Ecuadortlc S.A., has been curtailed as a result of coercive actions taken by local communities, including the occupation of the Palo Azul Field. As of the date of this Offering Memorandum, this situation has not been resolved.

Crude oil transportation agreement with Oleoductos de Crudos Pesados Ltd. (OCP)

Regarding the exploitation of Blocks 31 and 18, the Company entered into an agreement with OCP, whereby an oil transportation capacity of 80,000 barrels per day is secured for a 15-year term, starting November 10, 2003. Under the "ship or pay" transportation agreement clause, the Company must fulfill its ship or pay contractual obligations for the aggregate oil volume committed, even though no crude oil is transported, and pay, as well as all other producers, a fee covering OCP's operating costs and financial services. As of December 31, 2006, this fee amounted to U.S.$2.27 per barrel. Costs in connection with the transportation capacity are invoiced by OCP and charged to expenses on a monthly basis.

The Company expects that during the effective term of the "Ship or Pay" transportation agreement, oil production will be lower than the aggregate transportation capacity committed. This assumption is based on: estimated delays in the development of Block 31 and the current estimated reserve potential of Block 31. Considering this situation and with a view to mitigating its effects, the Company has sought to sell a portion of the contracted transportation capacity volumes. As of December 31, 2006, the Company had sold a transportation capacity of about 8,000 barrels of oil per day for the July 2004/December 2012 period and of 16,000 barrels per day of oil for a two-year period as from December 2006. The impact of the net shortfall is considered for the purpose of analyzing the recoverability of assets in Ecuador.

Tax credits derived from operations

In August 2001, the Ecuadorian Tax Authority (SRI) notified that it would not refund credits maintained with respect to value added taxes paid for the import and domestic purchase of goods and services required for the production of hydrocarbons intended for export, based on its position that these value added taxes were considered at the time of determining the sharing of oil production between the government and producers. This resolution was challenged in the competent tax court, but no decision has been made as of the date of this Offering Memorandum. On August 11, 2004, Ecuador's National Congress enacted a new law on value added taxes, which law established that the refund of value added taxes does not apply to oil activities. By reason of the degree of uncertainty related to the recoverability of VAT credits, as of December 31, 2005, the Company maintained an allowance of P$ 88 million.

On December 12, 2006, Ecuadortlc S.A., our subsidiary in Ecuador, signed a Memorandum of Agreement with SRI, the Attorney General's Office and Petroecuador for the assessment and settlement of credits on value added taxes paid upon purchase of goods and services related to hydrocarbon exploration and development in Block 18. Under the agreement, Ecuadortlc S.A. is entitled to a refund of U.S.$8 million in respect of credits accrued in the July 1999-May 2005 period. The agreement also provides that the same recognition criterion will be used to assess the refund of subsequent credits accumulated from June 2005 to December 2006, in respect of which period the Company estimates a U.S.$12 million recovery. This criterion will be valid until the time when the parties renegotiate their share in the production of the block to take into account the application of value added taxes.

Since as of the date of the financial statements included in this Offering Memorandum, the Company had not begun similar negotiations in connection with the refund of the VAT credits corresponding to Block 31, as of December 31, 2006, the Company maintained an allowance on such credits of P$46 million. The Company believes, however, that it is entitled to similar compensation, either by way of payment by SRI or by renegotiating its share in oil production, because the export of goods and the provision of services were not subject to VAT when the production sharing for the block was established.

Law Amending the Hydrocarbon Law in Ecuador

In April 2006, the Ecuadorian government approved the Oil & Gas Reform Law, which assigns to the government an interest of at least 50% of the excess revenues resulting from the increase in the price of Ecuadorian crude (effective monthly average price of FOB price) over the average monthly sales price of such oil at the execution date of the relevant production agreement, expressed in constant values for the month in which settlement occurs. In July 2006, the competent authorities published the relevant regulations implementing the law, and subsequently Ecuadortlc and Petroecuador expressed divergent interpretations of the regulations.

In order to resolve these differences and after the request of Ecuadortlc, Petroecuador asked the Attorney General to issue an opinion on this matter. In October 2006, Ecuadortlc was informed that the Attorney General's opinion exempted the income derived from the Palo Azul field from the scope of application of the new law, given that the development agreement for Palo Azul contains provisions under which the Ecuadorian Government receives more than 50% of the benefits. Notwithstanding the Attorney General's opinion, however, in January 2007, Petroecuador submitted a claim to Ecuadortlc in favor of the government for U.S.$26 million in respect of the benefits corresponding to the government under the new law from April 2006 to December 2006. In its counsel's opinion, Ecuadortlc has legal grounds to consider this claim as invalid. In 2006, Ecuadortlc paid U.S.$12 million in aggregate to Petroecuador, which payments correspond to amounts purportedly owed to the Ecuadorian Government under the new law prior to the Attorney General's opinion.

Although Ecuardortlc is of the view that it has valid legal grounds not to make payments under the new law, as of December 31, 2006, Ecuadortlc maintained an allowance of P$37 million (U.S.$12 million) on receivables in respect of such payments.

On February 15, 2007, Ecuadortlc paid the remaining amount of Petroecuador's claim (U.S.$14 million), reserving its right to seek reimbursement.

Preliminary Agreement with Teikoku Co. Ltd. - Teikoku

In January 2005, the Company entered into a preliminary agreement with Teikoku, whereby after receipt of approval and authorization from the Ministry of Energy and Mines of Ecuador, the Company would assign 40% of the rights and obligations resulting from the Blocks 18 and 31 participation agreements. In addition, the parties agreed that, when the production in Block 31 reaches an average of 10,000 barrels per day within a period of 30 calendar days, Teikoku would assume payment of 40% of the crude oil transportation agreement with OCP. On January 11, 2007, the agreement was approved by the Ministry of Energy and Mines of Ecuador. As a result of this authorization, the parties are currently in the process of completing the necessary formalities, including the necessary steps towards obtaining amendments to these participation contracts, which Petroecuador must sign, in order to incorporate Teikoku as a partner in the agreements. Once the amendments are finalized, the terms and economic conditions of this transaction will go into effect.

6) Operations in Bolivia

The new Hydrocarbons Law No.3058, effective May 19, 2005, abrogates former Hydrocarbons Law No. 1689 enacted on April 30, 1996. This law provides, among other things, increased taxes for companies in this sector by means of a 18% royalty percentage and a 32% Direct Tax on Hydrocarbons (DTH) directly applicable on 100% of production. Such taxes are in addition to the taxes in force under Law No. 843.

In May 2006, the Bolivian government established the so-called "hydrocarbon nationalization" under Supreme Decree No. 28,701. This Decree provides that as from May 1, 2006 oil companies must deliver to YPFB the property of all hydrocarbon production for sale. Under the Decree, oil companies had a 180-day transition term to subscribe new agreements, which must be individually authorized and approved by the Bolivian Legislature. The Ministry of Hydrocarbons and Mines would determine, on a case-by-case basis, the interest corresponding to oil companies by means of investment audits, operational costs and profitability indicators. The current distribution of the oil and gas production value was maintained during the transition period, in the case of fields, such as the Colpa Caranda field, that had certified average production of natural gas for 2005 lower than 100 million cubic feet per day.

In October 2006, our Bolivian branch entered into an agreement with Yacimientos Petrolíferos Fiscales Bolivianos, or YPFB, under which we agreed to conduct, at our expense and account, exploration and production activities at the Colpa Caranda field on behalf of YPFB. Under the agreement, YPFB is the owner of all hydrocarbons. YPFB is required to pay all royalties and taxes, which in the aggregate represent approximately 50% of the value of production, and apply the remainder first to the payment of 80% of the expenses and depreciation incurred by our Bolivian branch for the development and exploitation of the field and then distribute any remaining balance between YPFB and our branch on the basis of a formula that considers, among other factors, production volumes, the rate of depreciation, sales prices and taxes paid.

In addition, Decree No. 28,701 provides, among other things, that the Bolivian government shall recover full participation in the entire oil and gas production chain, and for this purpose provides for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one of the shares in a number of companies, among which is Petrobras Bolivia Refinación. This transfer will be made after both parties agree on the value of the economic compensation that YPFB shall pay to the Company and completion of certain corporate and legal steps. The Company's management does not have sufficient information to estimate the effects, if any, of the new business scenario arising from the new law.

7) Tax benefits regarding Innova operations – FUNDOPEM

The Company, through Innova's operations in Brazil, enjoys a tax benefit pursuant to an incentive program granted by the state of Rio Grande do Sul, in Brazil, for companies located in that state. The benefit consists of a 60% reduction of the ICMS (interstate goods transport tax) until 2007.

Under this program, the Company recorded P$46 million and P$42 million gains in 2006 and 2005, respectively.

In 2006, Innova started construction of a new ethylbenzene plant. This new plant is expected to meet the legal requirements necessary to extend Innova's rights to receive this tax benefit until 2015.

Analysis of Consolidated Results of Operations

The table below presents selected consolidated financial data of the Company for fiscal years ended December 31, 2006, 2005 and 2004 of Petrobras Energía, subsidiaries and companies under joint control and, for comparative purposes, the pro forma results excluding the effects of proportional consolidation of companies under joint control. To such effect, our proportional interest in the results of companies under joint control is shown under "Equity in Earnings of Affiliates".
(in millions of pesos)

	Petrobras Energía, Subsidiaries and Companies under Joint Control			Petrobras Energía and subsidiaries (without proportional consolidation) (Unaudited)		
	2006	2005	2004	2006	2005	2004
Net Sales	11,745	10,655	8,763	10,458	9,512	7,756
Cost of sales	(8,251)	(7,046)	(5,781)	(7,377)	(6,243)	(5,113)
Gross Profit	3,494	3,609	2,982	3,081	3,269	2,643
Administrative and selling expenses	(1,092)	(938)	(845)	(975)	(847)	(763)
Exploration expenses	(117)	(34)	(133)	(117)	(34)	(133)
Other operating income, net	(135)	(329)	(324)	(96)	(321)	(296)
Operating income	2,150	2,308	1,680	1,893	2,067	1,451
Equity in earnings of affiliates	219	281	102	253	315	122
Financial income (expense) and holding gains (losses)	(504)	(897)	(1,264)	(361)	(750)	(1,100)
Other income (loss), net	99	(456)	(36)	108	(445)	(29)
Subtotal	1,964	1,236	482	1,893	1,187	444
Income tax provision	(465)	(211)	317	(477)	(218)	310
Minority interest in subsidiaries	(83)	(54)	26	-	2	71
Net income (loss)	1,416	971	825	1,416	971	825

Year ended December 31, 2006 compared to year ended December 31, 2005

Net income: Net income for 2006 fiscal year increased P$445 million, or 46%, to P$1,416 million from P$971 million in 2005.

Net sales: Net sales increased P$1,090 million or 10.2% to P$11,745 million from P$10,655 million in 2005. Net sales for 2006 fiscal year include P$632 million and P$695 million attributable to our share of the net sales (net of intercompany sales of P$40 million) of CIESA and Distrilec, respectively. Net sales for 2005 fiscal year include P$513 million and P$651 million attributable to our share of the net sales (net of intercompany sales of P$21 million) of CIESA and Distrilec, respectively.

Without proportional consolidation, net sales increased P$946 million, or 9.9%, to P$10,458 million in 2006 from P$9,512 million in 2005, boosted by the significant increase in the WTI and in the price for the main petrochemical and refined products. Sales in the Oil and Gas Exploration and Production, Petrochemicals, Refining and Distribution, Gas and Energy business segments (including intercompany sales) increased P$124 million, P$312 million, P$675 million, P$188 million and P$146 million, respectively. Intercompany sales increased to P$2,650 million in 2006 from P$2,172 million in 2005. Most of these sales were attributable to the Oil and Gas Exploration and Production and the Refining and Distribution and Hydrocarbon Marketing and Transportation business segments or sectors.

Gross profit: Gross profit decreased P$115 million, or 3.2%, to P$3,494 million from P$3,609 million. Gross profit for 2006 includes P$312 million and P$101 million attributable to our share of the gross profit of CIESA and Distrilec, respectively. Gross profit for 2005 includes P$243 million and P$97 million attributable to our share of the gross profit of CIESA and Distrilec, respectively.

Without proportional consolidation, gross profit declined P$188 million, or 5.8%, to P$3,081 million in 2006 from P$3,269 million in 2005. This drop mainly resulted from a decline in gross profit from the Refining and Distribution (P$291 million) and the Petrochemicals (P$70 million) business segments, partially offset by increases in the Oil and Gas Exploration and Production (P$63 million) and Electricity (P$80 million) business segments or sectors.

*Administrative and selling expenses***:** Administrative and selling expenses increased P$154 million, or 16.4%, to P$1,092 million in 2006 from P$938 million in 2005. Administrative and selling expenses for 2006 include P$23 million and P$94 million attributable to our share of the administrative and selling expenses of CIESA and Distrilec, respectively. Administrative and selling expenses for 2005 include P$18 million and P$73 million attributable to our share of the administrative and selling expenses of CIESA and Distrilec, respectively.

Without proportional consolidation, administrative and selling expenses increased P$128 million, or 15.1%, to P$975 million in 2006 from P$847 million in 2005.

Exploration expenses: Exploration expenses increased P$83 million to P$117 million in 2006 from P$34 million in 2005.

Other operating expense, net: Other operating expense, net accounted for a P$135 million loss in 2006 compared to a P$329 million loss in 2005. Other operating expense, net for 2006 includes losses of P$1 million and P$38 million attributable to our share of other operating expense, net of CIESA and Distrilec, respectively. Other operating expense, net for 2005 includes losses of P$3 million and P$5 million, attributable to our share of other operating expense, net of CIESA and Distrilec, respectively.

Without proportional consolidation, other operating expense, net accounted for losses of P$96 million and P$321 million in 2006 and 2005, respectively.

Operating income: Operating income declined P$158 million, or 6.8%, to P$2,150 million in 2006 from P$2,308 million in 2005. Operating income for 2006 includes a P$288 million gain attributable to our share of the operating income of CIESA and a P$31 million loss attributable to our share of the operating income of Distrilec. Operating income for 2005 includes P$222 million and P$19 million gains attributable to our share of the operating income of CIESA and Distrilec, respectively.

Without proportional consolidation, operating income decreased P$174 million, or 8.4%, to P$1,893 million in 2006 from P$2,067 million in 2005. This decline was mainly attributable to operating losses reported by the downstream business.

Equity in earnings of affiliates: Equity in earnings of affiliates decreased P$62 million, or 22.1%, to P$219 million in 2006 from P$281 million in 2005. Without the proportional consolidation of CIESA and Distrilec, equity in earnings of affiliates decreased P$62 million, or 19.7%, to P$253 million in 2006 from P$315 million in 2005. See "Analysis of Equity in Earnings of Affiliates".

Financial (expense) income and holding (losses) gains: Financial (expense) income and holding (losses) gains decreased P$393 million, or 43.7%, to P$(504) million in 2006 from P$(897) million in 2005. Losses for 2006 include financial expenses of P$132 million and P$11 million attributable to our share of the financial income (expense) and holding gains (losses) of CIESA and Distrilec, respectively. Losses for 2005 include financial expenses of P$128 million and P$19 million attributable to our share of the financial income (expense) and holding gains (losses) of CIESA and Distrilec, respectively.

Without proportional consolidation, financial (expense) income and holding (losses) gains decreased P$389 million, or 51.9%, to P$(361) million in 2006 from P$(750) million in 2005. This decline reflects the absence of losses from derivative instruments in 2006, as compared to losses of a P$295 million loss recorded in 2005 from derivative instruments. In addition, this decrease also derived from the decline in interest expense 7.1% to P$378 million in 2006 from P$407 million in 2005, in line with a 4% reduction in average indebtedness, and improved results from the sale of securities, a P$48 million gain in 2006 compared to a P$4 million loss in 2005.

Other income (expenses), net: Other income (expenses), net totaled a P$99 million gain in 2006 compared to a P$456 million loss in 2005. Other income (expenses), net include P$9 million and P$11 million losses attributable to our share of other income (expenses), net of Distrilec in 2006 and 2005, respectively.

Without proportional consolidation, other income (expenses), net accounted for a P$108 million gain compared to a P$445 million loss in 2005.

Other income (expenses), net for 2006 mainly reflect:

a P$85 million gain from the sale of oil areas in Argentina.

a P$23 million gain from the reversal of an allowance on the investment in Citelec S.A.

a P$10 million gain from the reversal of an allowance on the investment in Hidroneuquén S.A.

a P$18 million assessment by SENIAT – Venezuela.

a P$6 million impairment charge on assets in Venezuela.

Other income (expenses), net for 2005 mainly reflect:

a P$310 million impairment charge on assets in Venezuela.

a P$88 million impairment charge on areas in Argentina.

a P$54 million assessment by SENIAT – Venezuela.

Income Tax: Income tax charge for 2006 and 2005 accounted for P$465 million and P$211 million losses, respectively. The income tax for 2006 reflects P$6 million and P$6 million gains attributable to our share of the income tax of CIESA and Distrilec, respectively. The income tax for 2005 reflects P$6 million and P$1 million gains attributable to our share of the income tax of CIESA and Distrilec, respectively.

Without proportional consolidation, income tax accounted for losses of P$477 million and P$218 million in 2006 and 2005, respectively.

Our income tax for 2005 includes a P$197 million gain from the reversal of previously created allowances for tax credits on tax loss carryforwards and a P$45 million gain from the reversal of a previously created allowance on credits recorded with respect to minimum presumed income taxes paid in Argentina from 1998 to 2002. In addition, during 2005, recoverability of the book value of assets in Venezuela was assessed and as a result a, P$110 million impairment charge on deferred tax assets was recorded in 2005.

Excluding the effects mentioned above, income tax charge for 2006 increased to P$477 million compared to P$350 million in 2005, mainly derived from improved results of operations in Ecuador and Peru.

Analysis of Operating Results by Business Segment

The following tables set forth net sales, gross profit and operating income for each of our business segments for the years ended December 31, 2006 and 2005 under Argentine GAAP and, for comparative purposes, the pro forma results excluding the effects of proportional consolidation of companies under joint control.

Without Proportional Consolidation
(Unaudited)

Net Sales (1)

	Year ended December 31,	
	2006	2005
	(in million of pesos)	
Oil and Gas Exploration and Production	4,781	4,657
Refining and Distribution	4,531	3,856
Petrochemical	2,490	2,178
Gas and Energy	1,306	972
Corporate and Eliminations	(2,650)	(2,151)
Total	10,458	9,512

Gross Profit (2)

	Year ended December 31,	
	2006	2005
	(in million of pesos)	
Oil and Gas Exploration and Production	2,662	2,635
Refining and Distribution	(184)	107
Petrochemical	307	377
Gas and Energy	267	190
Corporate and Eliminations	29	(40)
Total	3,081	3,269

Operating Income

	Year ended December 31,	
	2006	2005
	(in million of pesos)	
Oil and Gas Exploration and Production	2,179	2,039
Refining and Distribution	(468)	(149)
Petrochemical	162	267
Gas and Energy	280	209
Corporate and Eliminations	(260)	(299)
Total	1,893	2,067

With Proportional Consolidation

Net sales (1)

	Year ended December 31,	
	2006	2005
	(in million of pesos)	
Oil and Gas Exploration and Production	4,781	4,657
Refining and Distribution	4,531	3,856
Petrochemical	2,490	2,178
Gas and Energy	2,593	2,136
Corporate and Eliminations	(2,650)	(2,172)
Total	11,745	10,655

Gross Profit (2)

	Year ended December 31,	
	2006	2005
	(in million of pesos)	
Oil and Gas Exploration and Production	2,662	2,635
Refining and Distribution	(184)	107
Petrochemical	307	377
Gas and Energy	680	530
Corporate and Eliminations	29	(40)
Total	3,494	3,609

Operating Income

	Year ended December 31,	
	2006	2005
	(in million of pesos)	
Oil and Gas Exploration and Production	2,179	2,039
Refining and Distribution	(468)	(149)
Petrochemical	162	267
Gas and Energy	537	450
Corporate and Eliminations	(260)	(299)
Total	2,150	2,308

(1) Royalties with respect to the oil and gas business are accounted for as a cost or production and are not deducted in determining net sales. Eliminations correspond to sales between our business units.
(2) Net sales less cost of sales. Eliminations correspond to sales between our business units and their associated costs.

Oil and Gas Exploration and Production

Operating income: Operating income for the Oil and Gas Exploration and Production business segment increased P$140 million, or 6.9%, to P$2,179 million in 2006 from P$2,039 million in 2005. Operating income for 2006 and 2005 includes P$186 million and P$639 million gains, respectively, attributable to operations in Venezuela (see "—Factors Affecting our Consolidated Results of Operations—Migration of Operating Agreements in Venezuela"). Excluding such results, operating income increased P$593 million, or 42.4%, mainly as a consequence of the 36.6% increase in average sales prices of oil equivalent stemming from the 17% rise in the international reference price (WTI).

Net sales: Net sales for this business segment increased P$124 million, or 2.7%, to P$4,781 million in 2006 from P$4,657 million in 2005. This increase was predominately due a rise in the average sales price per barrel of oil which, including the effect of taxes on exports, rose 36.6% to P$132.5 in 2006 from P$97 in 2005, partially offset by a 19% reduction in oil and gas daily sales volumes to 138.4 thousand barrels of oil equivalent in 2006 from 170.9 thousand barrels of oil equivalent in 2005.

In 2006, oil sales volumes dropped 27.6% to 87.3 thousand barrels per day from 120.5 thousand barrels per day in 2005, while daily gas sales volumes increased 2% to 306.7 million cubic feet from 300.8 million cubic feet in 2005.

Net sales for 2006 and 2005 include P$312 million and P$1,175 million, respectively, attributable to the consolidation of operations in Venezuela. Without consolidation of these operations, net sales for the business segment rose P$987 million or 28.3%. As a result of changes in our operating regime in the operating framework in Venezuela, we discontinued the consolidation of our Venezuelan operations as from April 1, 2006. See "—Factors Affecting our Consolidated Results of Operations—Migration of Operating Agreements in Venezuela".

Net Sales in Argentina

Net sales in Argentina increased P$512 million, or 23.5%, to P$2,694 million in 2006 from P$2,182 million in 2005, mainly boosted by a 20.2% increase in average sales prices of oil equivalent and a 2.4% rise in combined oil and gas daily sales volumes, which averaged 94.1 thousand barrels of oil equivalent per day. We have made significant investments in oilfields, mainly to improve these basic production curves, which have allowed us to reverse the natural decline of mature fields in Argentina.

Crude oil sales increased P$405 million, or 20.8%, to P$2,349 million in 2006 from P$1,944 million in 2005. This increase was attributable to a 24.5% rise in the average sales price to P$124.4 per barrel in 2006 from P$99.9 per barrel in 2005, mainly from the rise in international reference prices. Average crude oil daily sales volumes dropped 3% to 51.7 thousand barrels in 2006 from 53.2 thousand barrels in 2005.

Total gas sales increased 41.8%, or P$97 million, to P$329 million from P$232 million, mainly as a result of a 29.2% rise in the average sales price and a 9.7% growth in average daily sales volumes. The average sales price for gas increased to P$3.54 per million cubic feet from P$2.74 per million cubic feet, mainly as a consequence of higher export prices for methanol, the renegotiation of Sierra Chata agreements as from May 2005, the deregulation of the gas price for industrial clients and electricity generation companies as from August 1, 2005 and the effect of the increase in international reference prices on some gas contracts. These factors were partially offset by higher taxes on exports. Daily gas sales volumes increased to 254.3 million cubic feet from 231.7 million cubic feet due to higher production at the Austral Basin.

Net sales outside of Argentina

Combined oil and gas sales outside of Argentina decreased P$390 million, or 15.8%, to P$2,072 million in 2006 from P$2,462 million in 2005 mainly due to our operations in Venezuela (see "—Factors Affecting our Consolidated Results of Operations—Migration of Operating Agreements in Venezuela"). Without consolidation of operations in Venezuela, combined oil and gas sales increased P$473 million, or 36.8%, mainly due to a 29.9% rise in the average sales prices of oil equivalent to P$146 and, to a lesser extent, a 5.3% rise in sales volumes.

Net Sales in Ecuador

In Ecuador, oil sales increased 45.2% to P$652 million in 2006 from P$449 million in 2005, boosted by higher sales volumes and increased sales prices.

Daily oil sales volumes rose to 10.9 thousand barrels, or 15.8%, in 2006. Oil sales volumes for 2005 include the sale of 202.7 thousand barrels attributable to December 2004 production, which was postponed to January 2005 for commercial reasons. Without considering this effect, daily sales volumes increased 23.1%. This improvement was mainly attributable to the progressive development of Block 18, in line with investments made, which included drilling of eight wells and different workovers.

Average sales price increased 26.4% to P$163.6 per barrel in 2006 from P$129.4 per barrel in 2005 mainly due to the rise in the international reference price.

Net Sales in Peru

In Peru, oil and gas sales increased 27.9% to P$902 million in 2006 from P$705 million in 2005, mainly as a result of a 26.1% rise in the average sales price of oil equivalent.

Average crude oil price increased 24.9% to P$184.8 per barrel in 2006 from P$147.9 per barrel in 2005, mainly as a result of the increase in the WTI and, to a lesser extent, amendments to the agreement for the sale of crude oil as from the last quarter of 2006 that changed the composition of the reference crude oil basket. In addition, the average gas sales price increased 73.5% to P$8.5 from P$4.9 per million cubic feet, as a consequence of the rise in fuel oil prices, included in the formula for price calculation.

Daily sales volumes increased 1.4% to 14.7 thousand barrels of oil equivalent in 2006 from 14.5 thousand barrels of oil equivalent in 2005.

Net Sales in Bolivia

In Bolivia, oil and gas sales increased to P$207 million, or 52.2%, in 2006 from P$136 million in 2005 due to changes in the average sales price of oil equivalent. Combined oil and gas daily sales volumes averaged 7.4 thousand barrels of oil equivalent in 2006 and 2005.

Average sales price for gas increased 64.9% to P$12.2 per million cubic feet in 2006 from P$7.4 per million cubic feet in 2005. This improvement was mainly attributable to the rise in fuel oil price, which is included in the formula for calculation of the price for exports to Brazil. In addition, the crude oil average sales price rose 10% due to the increase in export prices.

Net Sales in Mexico

In 2006, sales for other services increased to P$14 million, or 7.7%, compared to P$13 million in 2005.

Gross Profit: Gross profit for this business segment increased P$27 million to P$2,662 million in 2006 from P$2,635 million in 2005. Margin on sales was 55.6% in 2006 and 56.6% in 2005. Without consolidation of operations in Venezuela, gross profit increased P$530 million, or 27.2%, and margin on sales decreased to 55.5% in 2006 from 56.03% in 2005. The average lifting cost rose 21% to P$13.3 per barrel of oil equivalent in 2006 from P$11 per barrel of oil equivalent in 2005, mainly as a consequence of increased oil service rates and growing costs due to inflation in Argentina.

Administrative and selling expenses: Administrative and selling expenses rose P$40 million, or 16.1%, to P$288 million in 2006 from P$248 million in 2005. This increase was mainly attributable to increases in labor costs and, to a lesser extent, in the cost of crude oil transportation derived from the rise in sales volumes in Ecuador.

Exploration expenses: Exploration expenses totaled P$117 million in 2006 and P$34 million in 2005. Expenses for 2006 were mainly attributable to 3D seismic works and unsuccessful exploratory wells in Argentina. In 2005, exploration expenses were mainly attributable to 3D seismic works at the Austral and Neuquén basins, in Argentina.

Other operating expense, net: Other operating expense, net accounted for losses of P$78 million in 2006 and P$314 million in 2005. Losses for 2006 were mainly attributable to costs associated with the unused transportation capacity under the ship or pay contract with OCP in Ecuador (P$178 million), partially offset by a P$74 million gain attributable to the favorable resolution of certain commercial claims in Venezuela. Losses for 2005 mainly reflect costs associated with the unused transportation capacity under the ship or pay contract with OCP (P$184 million), an allowance for tax credits relating to VAT (P$78 million), and environmental remediation expenses (P$27 million).

Refining and Distribution

Operating expenses: Operating expenses for the Refining and Distribution business segment reflected losses of P$468 million and P$149 million in 2006 and 2005, respectively. During 2006, the business operating margin was significantly affected by price control measures in Argentina that prevented us from passing through to market prices the 22% increase in crude oil prices and domestic inflation.

Net sales: Net sales for refinery products increased P$675 million, or 17.5%, to P$4,531 million in 2006 from P$3,856 million in 2005, due to the combined effect of a 8.6% increase in sales prices mainly due to a rise in the price of products not subject to price control measures and, to a lesser extent, a 5.7% increase in sales volumes, specially of gasoline, heavy distillates and VGO.

In line with the significant 17% rise in the price of WTI, average sales prices of aromatics, paraffins, asphalts, VGO and heavy distillates showed improvements of 59%, 27%, 27%, 24% and 21%, respectively, and export sales prices increased 23.9% as a consequence of the increase in international reference prices.

Crude oil volumes processed at the refineries were at similar levels in both years, 63.1 thousand and 62.9 thousand barrels per day in 2006 and 2005, respectively. In October 2006 the overall revamping at San Lorenzo Refinery was completed, which resulted in an increase of 18% in the consolidated crude oil processing capacity of the plant to 80,800 barrels per day.

Total diesel oil sales volumes rose 1.5% to 1,767 thousand cubic meters as a result of higher sales volumes in the domestic market, which in turn derived from a 7% increase in demand boosted by the agricultural, industrial and transportation sectors. Our estimated market share in this market declined to 13.6% in 2006 from 14.2% in 2005.

Total gasoline sales volumes rose 17% to 837 thousand cubic meters, mainly due to a 13.5% increase in domestic sales. In 2006 the domestic market for gasoline increased by 16%, as a result of economic growth, an increase in purchasing power and the stabilization of sales prices. Within this context, our market share remained close to 14.6% during both 2006 and 2005. In the premium gasoline market, as a result of the 58% increase in sales of Podium gasoline in 2006 (the only gasoline with 100 octanes in the Argentine market), our market share increased to 9.2%.

Asphalt sales volumes declined 2.2%, mainly as a result of a reduction in production due to scheduled shutdowns during the year at the San Lorenzo Refinery. Within this context, domestic market sales increased 2.5%, while exports declined 31.6%.

As regards heavy distillates and VGO, sales volumes increased 21% and 14.5% to 617 thousand and 202 thousand tons, respectively, primarily due to the decrease in stock to average levels.

Gross profit: Gross profit for 2006 accounted for a P$184 million loss compared to a P$107 million gain in 2005. Price control measures that prevented us from passing through crude oil increases and domestic inflation to

final prices was a determining factor in our negative gross margins during 2006. In addition, the commitment to meet the growing domestic demand resulted in a lower export surplus. Due to higher export prices, a larger export surplus would have mitigated the impact of the distorting regulatory effects prevailing in the domestic market. In addition, diesel oil imports (85 thousand and 272 thousand cubic meters in 2006 and 2005, respectively) had a negative impact on our gross profit, particularly in 2005. Considering the differential between import prices and retail prices and the impossibility of passing it through to consumer prices, these imports resulted in negative margins on sales.

Administrative and selling expenses: Administrative and selling expenses increased 15.5% to P$290 million in 2006 from P$251 million in 2005, mainly due to a rise in labor costs.

Other operating income (expense), net: Other operating income (expense), net recorded a P$6 million gain in 2006 and a P$5 million loss in 2006 and 2005, respectively.

Petrochemicals

Operating income: Operating income for the Petrochemicals business segment declined P$105 million, or 39.3%, to P$162 million in 2006 from P$267 million in 2005, due to a reduction on the spread of styrenic products in Argentina and higher administrative and selling expenses.

Net sales: Net sales (net of eliminations in the amount of P$308 million and P$170 million for inter-segment sales between our Argentine and Innova's styrenics operations) increased P$312 million, or 14.3%, to P$2,490 million in 2006 from P$2,178 million in 2005, due to increased sales volumes, both in Argentina and Brazil, and higher sales prices in line with the rise in international reference prices.

- Net Sales of Styrenics - Argentina

In Argentina, styrenics sales increased P$155 million, or 17.5%, to P$1,039 million in 2006 from P$884 million in 2005 due to the combined effect of a 9% increase in sales volumes and a 7.8% improvement in average sales prices.

In 2006, in line with the rise in international reference prices, average sales prices for this business improved compared to 2005 with increases of 11.1%, 9.7% and 2.8% for the styrene, synthetic rubber and polystyrene lines, respectively.

Sales volumes rose basically as a result of increased consumption in the domestic market and the consequent improvement in the industrial activity level. In the domestic market, the market share remained at 100% for styrene and reached 82.4% for polystyrene.

During 2006, styrenics performance was as follows:

a) Styrene and propylene propane sales volumes increased 6.6% to 74.1 thousand tons, with an 8% rise in export volumes and a 6% improvement in domestic sales, boosted by increased consumption and construction growth. As from the third quarter of 2006, production capacity at Puerto General San Martin styrene plant increased from 110 to 160 thousand tons per year. This increase in capacity was achieved as a consequence of works performed during a 2-month plant shutdown.

b) Ethylbenzene sales volumes increased 13.3% compared to 2005, to 48.6 thousand tons due to increased sales to Innova. The Puerto General San Martin plant shutdown generated ethylbence surplus production, which was sent to Innova for processing and conversion into styrene and polystyrene.

c) Polystyrene and bops sales volumes climbed 11% to 72.1 thousand tons, with a 26% increase in the domestic market and a 10% reduction in exports. Polystyrene sales volumes in the domestic market achieved a historical record. The Company's nature as the only domestic producer of polysterene granted it competitive advantages within the context of the price control policy implemented by the national government. This helped us

achieve a market share increase of approximately 10 points from 73% to 82.4%. The reduction in export volumes derived from the need to meet domestic demand and the lower styrene availability as a consequence of the San Martín plant shutdown, and trade union conflicts that limited plant availability. In light of these events and in line with the regional integration of our operations, demand was satisfied with imports from Innova.

d) Synthetic rubber sales volumes increased to 55.8 thousand tons, or 5.9%, mainly due to an increase in exports to the Asian market. In the domestic market, the Company maintained its leading position with sales volumes similar to those recorded in 2005.

- Net Sales of Styrenics - Brazil - Innova

Innova sales increased by P$242 million, or 24.9%, to P$1,214 million in 2006 from P$972 million in 2005, due to the combined effect of a rise in sales volumes and increased prices.

Styrene sales volumes rose 15.4% to 136.4 thousand tons due to higher demand from domestic clients in the polyester and acrylic resin segments and increased exports to Argentina. Polystyrene sales volumes increased 19.8% to 114.3 thousand tons due to higher domestic sales and increased exports to Argentina. The integration of operations in Argentina and Brazil served to overcome the product shortage resulting from the Puerto General San Martin plant shutdown in Argentina and meet the growing demand. Styrene and polystyrene average prices recorded 6.7% and 0.8% increases, respectively, as a consequence of a rise in international references.

- Net Sales of Fertilizers

Fertilizers sales increased P$53 million, or 10.8%, to P$545 million in 2006 from P$492 million in 2005, mainly due to a 10.6% increase in sales volumes to 747 thousand tons. Volume increases resulted from a 24% increase in demand derived from favorable weather conditions and expectations of higher future grain prices. With a growing share in the product mix, sales of liquid fertilizers increased 28%.

Gross profit: Gross profit decreased P$70 million, or 18.6%, to P$ 307 million in 2006 from P$377 million in 2005, due to higher costs of raw materials and labor in Argentina, partially offset by higher sales volumes. Gross margin on sales decreased to 12.3% from 17.3% reflecting the impact of reduced margins in Argentina and in fertilizers.

- Gross Profit of Styrenics - Argentina

Gross profit declined P$71 million, or 38.8%, to P$112 million in 2006 from P$183 million in 2005, mainly due to the rise in variable production costs, mainly derived from the increase in imported volumes of styrene and polystyrene to replace the Company's own production during the Puerto General San Martin plant shutdown and in fixed labor costs. Gross margin on sales declined to 10.8% from 20.7%.

- Gross Profit of Styrenics - Brazil

Gross profit increased P$35 million, or 44.3%, to P$114 million in 2006 from P$79 million in 2005. Gross margin on sales rose to 9.4% from 8.1% mainly as a consequence of lower benzene costs under agreements with suppliers.

- Gross Profit of Fertilizers

Gross profit decreased P$34 million, or 29.6%, to P$81 million in 2006 from P$115 million in 2005, and gross margin on sales declined to 14.9% from 23.4% as a consequence of higher raw material costs in line with the rise in international reference prices, the impact of which could only be partially passed through to sales prices.

Administrative and selling expenses: Administrative and selling expenses increased P$34 million, or 23.8%, to P$177 million in 2006 from P$143 million in 2005, primarily due to higher labor costs and, to a lesser extent, higher freight costs derived from increased export volumes.

Other operating income, net: Other operating income, net recorded P$32 million and P$33 million gains in 2006 and 2005, respectively, mainly attributable to the collection of FUNDOPEM tax benefits.

Gas and Energy

Marketing and Transportation of Gas

Operating income: Operating income for the Marketing and Transportation of Gas segment operations increased P$ 65 million or 23.2% to P$345 million in 2006 from P$280 million in 2005. Operative income includes P$288 million and P$222 gains in 2006 and 2005, respectively, attributable to the proportional consolidation of CIESA. Excluding proportional consolidation, operating income for this sector did not record significant changes compared to 2005 totaling P$57 million and P$58 million in 2006 and 2005, respectively.

Net sales: Sales revenues increased P$188 million, or 31%, to P$794 million in 2006 from P$606 million in 2005, mainly due to the rise in gas and liquid fuel prices.

Revenues from the sale of gas produced by us and imported gas increased P$97 million, or 31.4%, to P$406 million in 2006 from P$309 million in 2005, mainly as a result of a 26.1% rise in sales prices derived from the recovery of the gas price for industrial clients and electricity generation companies in line with the scheduled price increases determined by the Secretary of Energy and higher export prices due to the rise in international reference prices. Sales volumes recorded a 2.6% increase from 260.9 million cubic feet per day in 2005 to 267.8 million cubic feet per day in 2006 as a result of higher volumes of gas produced by the Company, mainly from fields at the Austral Basin.

Revenues from the sale of liquid fuels increased P$42 million, or 16%, to P$304 million in 2006 from P$262 million in 2005 due to a 15% increase in sales prices as a consequence of higher international reference prices. Sales volumes recorded a 1.2% increase from 267.1 thousand tons in 2005 to 270.3 thousand tons in 2006.

Gas and LPG brokerage services accounted for P$84 million and P$35 million in sales revenues during 2006 and 2005, respectively.

Gross profit: Gross profit in 2006 declined P$3 million, or 11.1%, to P$24 million in 2006 from P$27 million in 2005.

Other operating income, net: Other operating income, net (mainly attributable to income from technical assistance services to TGS) totaled P$38 million and P$35 million gains in 2006 and 2005, respectively.

Electricity

Operating income: Operating income for the Electricity sector of the Gas and Energy business segment increased P$22 million or 12.9% to P$192 million from P$170 million. Operating income includes a loss of P$31 million compared to a P$19 gain in 2005, attributable to the proportional consolidation of Distrilec. Excluding proportional consolidation, operating income for this sector increased P$72 million, or 47.7%, to P$223 million in 2006 from P$151 million in 2005, mainly as a consequence of increased generation margins derived from a rise in average prices, partially offset by higher variable costs for generation and purchase of energy.

- Electricity generation

Net sales: Net sales of electricity generation increased P$145 million, or 40.8%, to P$500 million in 2006 from P$355 million in 2005, primarily due to a 36.5% improvement in generation prices. The increase in average energy sales prices is primarily attributable to the scheduled price increases implemented during the second quarter of 2004 by the Secretary of Energy in line with the recovery of gas prices.

Net sales attributable to the Genelba Power Plant increased P$109 million, or 37.6%, to P$399 million in 2006 from P$290 million in 2005, primarily due to an increase in the average sales price to P$73.3 per MWh, or

38.6%, in 2006 from P$52.9 per MWh in 2005. Energy delivered was at similar levels in both years totaling 5,446 GWh in 2006. The Genelba Power Plant´s availability factor increased to 96% from 94% and the plant factor was close to 91% in both years.

Net sales attributable to the Pichi Picún Leufú Hydroelectric Complex increased P$37 million, or 57.8%, to P$101 million in 2006 from P$65 million in 2005, due to the combined effect of an improvement in sales prices and higher generation volumes. The average sales price increased 31.2% to P$66.9 per MWh in 2006 from P$51 per MWh in 2005. During 2006, energy delivered increased to 1,510 GWh, or 20.3%, from 1,255 GWh in 2005, primarily due to increased water supply at the Comahue Basin and a higher demand for energy.

Gross profit: Gross profit for the generation business sector increased P$79 million, or 49.1%, to P$240 million from P$161 million. Gross margin rose to 48% from 45.4% mainly due to the significant improvement in prices and, to a lesser extent, increased sales volumes. The Company's competitive advantages resulting from being an integrated energy company and operating both thermal and hydroelectric generation plants allowed the Company to capitalize on market opportunities and increase sales volumes.

Administrative and selling expenses: Administrative and selling expenses for the generation business sector increased P$4 million, or 33.3%, to P$16 million in 2006 from P$12 million in 2005.

Analysis of Equity in Earnings of Affiliates

In the following discussion, unless we specifically mention that a figure represents our share of the affiliate's results, the amounts attributed to each affiliate represents the total amount recorded by that affiliate.

Equity in earnings of affiliates: Equity in earnings of affiliates decreased P$62 million to P$219 million in 2006 from P$281 million in 2005. Without proportional consolidation, equity in earnings of affiliates declined P$62 million to P$253 million in 2006 from P$315 million in 2005. The gains recorded in 2005 were particularly impacted by a P$136 million gain from our interest in Citelec mainly derived from the restructuring of Transener's financial debt.

The table below shows the Company's equity in earning of affiliates, subsidiaries and companies under joint control for 2006 and 2005 fiscal years. In addition, the table shows equity in earnings of affiliates excluding the effects of proportional consolidation.

	Petrobras Energía, Subsidiaries and Companies under joint control		Petrobras Energía and Subsidiaries (Unaudited)	
	2006	2005	2006	2005
TGS S.A.	-	18	-	18
CIESA	-	-	71	42
Citelec S.A.	-	136	-	136
Distrilec S.A.	-	-	(37)	(8)
Petrobras Bolivia Refinación S.A.	82	54	82	54
Oleoductos del Valle S.A.	8	4	8	4
Petrolera Entre Lomas S.A.	33	27	33	27
Petroquimíca Cuyo S.A.	15	7	15	7
Refinería del Norte S.A.	32	47	32	47
Mixed companies in Venezuela (see Note 6 to the financial statements)	39	-	39	-
Others	10	(12)	10	(12)
	219	281	253	315

*Compañía de Inversiones de Energía S.A. (CIESA) / Transportadora de Gas del Sur S.A. (TGS)***:** Our equity in the earnings of CIESA and TGS increased P$11 million to P$71 million in 2006 from P$60 million in 2005 mainly as a consequence of the favorable performance of TGS's NGL production and marketing segment.

Total sales revenues increased approximately 23% or P$245 million to P$1,309 million. Sales revenues from the gas transportation segment increased 7% or P$32 million to P$492 million. This improvement was mainly attributable to the execution of new settled transportation agreements. Some of these agreements were subscribed as a consequence of the expansion of the San Martín Gas Pipeline completed in August 2005, which resulted in an increase in transportation capacity of 2.9 million cubic meters per day. Revenues from NGL production and marketing activities increased 33% or P$180 million to P$726 million mainly as a result of: (i) a 16% increase in sales volumes; (ii) a rise in the sales price of ethane agreed with Polisur, effective January 2006, and (iii) an increase in export prices in line with international reference prices.

CIESA's operating income increased P$127 million, or 28.7%, to P$569 million in 2006, mainly as a consequence of higher sales revenues from the unregulated segment, partially offset by a rise in natural gas prices and, to a lesser extent, increased labor costs.

Distrilec Inversora S.A. (Distrilec)/Edesur S.A. (Edesur): Our equity in the earnings of Distrilec accounted for a P$29 million increase in losses to P$37 million in 2006 from P$8 million in 2005.

Income from Edesur services increased P$73 million, or 5%, to P$1,412 million in 2006 due to a 4.9% growth in the demand for energy.

Distrilec's operating income accounted for a P$41 million loss in 2006 compared to a P$9 million gain in 2005, mainly as a consequence of a rise in costs for the purchase of energy, and increased services under contract and higher compensation.

Refinería del Norte S.A. (Refinor): In 2006, our equity in the earnings of Refinor decreased P$15 million to P$32 million from P$47 million in 2005. This decline resulted primarily from a drop in gross profit derived from an increase in crude oil costs, which could not be fully passed through to domestic sales prices due to price control measures.

Refinor's sales increased 6.1% or P$87 million to P$1,516 million in 2006 from P$1,429 million in 2005, mainly as a result of a 10.7% average rise in sales prices, partially offset by a 4% average reduction in sales volumes.

In 2006, in line with the increase in international reference prices, Refinor's average sales prices were higher compared to 2005, primarily for exports and products not subject to the inflation control policy implemented by the Argentine Government.

The volume of crude oil processed decreased 4.5% to 17.1 thousand barrels per day due to the discontinued supply of condensate from Bolivia as from May 2006 on account of the hydrocarbon nationalization policy implemented by the Bolivian government. The volume of gas processed averaged 18.7 million cubic meters per day, a level similar to that recorded in 2005.

Refinor's operating income dropped 19.6% or P$48 million to P$197 million, mainly reflecting the decline in gross profit and increased transportation and freight expenses and labor costs.

Petroquímica Cuyo S.A. (*Cuyo*): Our equity in the earnings of Cuyo increased P$8 million to P$15 million in 2006 from P$7 million in 2005. This increase is mainly attributable to an improvement in gross profit resulting from higher sales volumes, partially offset by reduced margins on sales.

Cuyo's sales increased 44.6% or P$145 million to P$470 million in 2006, mainly due to a 25% increase in sales volumes attributable to the scheduled plant shutdown in 2005, and, to a lesser extent, a 12% improvement in

sales prices in line with the rise in crude oil prices which resulted in strong increases in international reference prices for the petrochemical industry.

Cuyo's operating income increased 25% or P$16 million to P$80 million mainly due to higher sales volumes. Operating margins dropped to 17% from 19% since increased costs could only be partially passed through to sales prices.

Petrobras Bolivia Refinación (PBR): Our equity in the earnings of PBR increased by P$28 million to P$82 million in 2006 from P$54 million in 2005 as a consequence of an improvement in gross profit derived from a 5% increase in sales volumes and a 5.2% rise in the average sales price. The average sales price was positively affected by the rise in international reference prices. In 2005, the recognition of bad debt allowances, especially for credits with the Bolivian government and tax claims, had an adverse impact on PBR's results.

Crude oil volumes processed in 2006 increased 0.2% to 39.9 thousand barrels per day as a consequence of a greater operating availability of refining units. Gasoline volumes exceeded 2005 figures with a monthly average of 49.5 thousand cubic meters. Reconstituted oil reached monthly average sales levels of 51.3 thousand cubic meters. Diesel oil volumes were slightly lower compared to 2005, with average sales of 53.6 thousand cubic meters per month.

Oleoductos del Valle S.A. (Oldelval): Our equity in the earnings of Oldelval increased P$4 million to P$8 million from P$4 million as a consequence of an improvement in gross profit derived from a significant rise in sales, partially offset by increased operation costs.

Oldelval's sales revenues increased 26.3% or P$31 million to P$149 million mainly due to a rise in rates of approximately 17% and, to a lesser extent, a 7.8% increase in transported volumes to 70.5 million barrels.

Petrolera Entre Lomas S.A (PELSA): Our equity in the earnings of PELSA increased P$6 million to P$33 million from P$27 million, mainly due to the combined effect of improved margins on sales and increased crude oil sales volumes.

Sales revenues increased 28.8% or P$106 million to P$474 million due to the combined effect of a 20% improvement in prices attributable to the rise in the international price of crude oil and increased volumes (9%).

Year ended December 31, 2005 compared to year ended December 31, 2004

Net income: Net income decreased P$146 million, or 17.7%, to P$971 million in 2005 from P$825 million in 2004.

Operations for the year were developed within a context characterized by high prices of international crude oil and main by-products, in which operating income significantly increased.

However, the estimated significant negative effects resulting from migration of operating agreements in Venezuela had a strong impact on the results for the year and weakened the magnitude of the operating income improvement. In addition, the increase in the income tax charge, which in 2004 was offset against the allowance provided for tax loss carry forwards, had a negative impact.

Conversely, the reduced position of derivative instruments that do not qualify for hedge accounting derived in a significant reduction in related losses, thus offsetting the negative effects mentioned above.

Net sales: Net sales increased P$1,892 million, or 21.6%, to P$10,655 million in 2005 from P$8,763 million in 2004. Sales for 2005 reflect P$513 million and P$651 million attributable to the share of the net sales (net of intercompany sales of P$21 million) of CIESA and Distrilec, respectively. Net sales for 2004 reflect P$485 million and P$535 million, attributable to the share of the net sales (net of intercompany sales of P$13 million) of CIESA and Distrilec, respectively.

Without proportional consolidation, net sales increased P$1,756 million, or 22.6%, to P$9,512 million in 2005 from P$7,756 million in 2004 boosted by the significant increase in the WTI and the main petrochemical and refined products. Sales in the Oil and Gas Exploration and Production, Petrochemicals and Refining and Distribution business segments (including intercompany sales) increased P$1,010 million (28%), P$301 million (16%) and P$497 million (15%), respectively. Reflecting the growing integration of business operations, intercompany sales increased to P$2,172 million in 2005 from P$1,924 million in 2004. Most of these sales are attributable to the Oil and Gas Exploration and Production and the Refining and Distribution business segments.

Gross profit: Gross profit increased P$627 million, or 21%, to P$3,609 million in 2005 from P$2,982 million in 2004. Gross profit for 2005 reflects P$243 million and P$97 million attributable to the share of the gross profit of CIESA and Distrilec, respectively, and P$3 million in eliminations. Gross profit for 2004 reflects P$250 million and P$86 million, attributable to the share of the gross profit of CIESA and Distrilec, respectively.

Without proportional consolidation, gross profit grew P$626 million, or 23.7%, to P$3,269 million in 2005 from P$2,643 million in 2004. This increase mainly stems from a rise in the Oil and Gas Exploration and Production (P$725 million) and Electricity (P$52 million) business segments, partially offset by a P$150 million drop in the Refining and Distribution segment. See "Analysis of Operating Income".

Administrative and selling expenses: Administrative and selling expenses increased P$93 million, or 11.1%, to P$938 million in 2005 from P$845 million in 2004. The 2005 fiscal year reflects P$18 million and P$73 million attributable to the share of the administrative and selling expenses of CIESA and Distrilec, respectively. The 2004 fiscal year reflects P$16 million and P$66 million attributable to the share of the administrative and selling expenses of CIESA and Distrilec, respectively.

Without proportional consolidation, administrative and selling expenses increased P$84 million, or 11%, to P$847 million in 2005 from P$763 million in 2004. See "Analysis of Operating Income".

Exploration expenses: Exploration expenses decreased P$99 million to P$34 million in 2005 from P$133 million in 2004. See "Analysis of Operating Income – Oil and Gas Exploration and Production".

Other operating income (expense), net: Other operating income (expense), net accounted for P$329 million losses in 2005 compared to P$324 million losses in 2004. Other operating income (expense), net for 2005 reflects losses of P$3 million and P$5 million, attributable to the share of other operating income (expense), net of CIESA and Distrilec, respectively. Other operating income (expense), net for 2004 reflects losses of P$19 million and P$6 million, attributable to the share of other operating income (expense), net of CIESA and Distrilec, respectively, and P$3 million in eliminations.

Without proportional consolidation, other operating income (expense), net accounted for losses of P$321 million in 2005 and P$296 million in 2004. See "Analysis of Operating Income".

Operating income: Operating income grew P$628 million, or 37.4%, to P$2,308 million in 2005 from P$1,680 million in 2004. Operating income for 2005 reflects P$222 million and P$19 million attributable to the share of operating income of CIESA and Distrilec, respectively. Operating income for 2004 reflects P$215 million and P$14 million attributable to the share of operating income of CIESA and Distrilec, respectively.

Without proportional consolidation, operating income increased P$616 million, or 42.5%, to P$2,067 million in 2005 from P$1,451 million in 2004. This increase mainly derived from the rise in gross profit in the Oil and Gas Exploration and Production segment. See "Analysis of Operating Income" – Without Proportional Consolidation".

Equity in earnings of affiliates: Equity in earnings of affiliates increased P$179 million, or 175.5%, to P$281 million in 2005 from P$102 million in 2004. Without proportional consolidation, equity in earnings of affiliates increased P$193 million, or 158.2%, to P$315 million in 2005 from P$122 million in 2004. This increase basically derives from improvements in the results of Citelec, CIESA and PBR, partially offset by the Coroil and Mata impairment charge. See "Analysis of Equity in Earnings of Affiliates".

Financial income (expense) and holding gains (losses): Financial income (expense) and holding gains (losses) decreased P$367 million, or 29%, to P$897 million in 2005 from P$1,264 million in 2004. The year 2005 reflects financial expenses of P$128 million and P$19 million, attributable to the share of the financial income (expense) and holding gains (losses) of CIESA and Distrilec, respectively. The year 2004 reflects Financial expenses of P$144 million and P$20 million, attributable to the share of the financial income (expense) and holding gains (losses) of CIESA and Distrilec, respectively.

Without proportional consolidation, financial income (expense) and holding gains (losses) reflected losses of P$750 million in 2005 and P$1,100 million in 2004. The drop is primarily attributable to the decline in losses relating to derivative instruments used to hedge the price of crude oil to P$295 million from P$687 million, respectively, as a consequence of: (a) a reduced position, and (b) a lower increase in the future curve of oil, 30.4% compared to 53.9%.

Conversely, results from the sale of securities in 2005 recorded a P$4 million loss compared to a P$103 million gain in 2004, mainly on account of the changes implemented by PDVSA in the payment of the compensations provided for in operating agreements. Interest expense slightly increased 1.9% to P$479 million in 2005 from P$470 million in 2004, in line with the rise in the exchange rate on indebtedness mostly denominated in U.S. dollars. U.S. dollar-denominated average indebtedness fell 5%.

Other expenses, net: Other expenses, net recorded losses of P$456 million in 2005 and P$36 million in 2004. Other expenses, net reflect an P$11 million loss in 2005 attributable to the share of other expenses, net of Distrilec compared to a P$14 million loss in 2004 attributable to the share of other expenses, net of CIESA and a P$7 million gain attributable to the share of other expenses, net of Distrilec.

Without proportional consolidation, other expenses, net accounted for P$445 million and P$29 million losses, respectively.

Other expenses, net for 2005 mainly reflect:

P$310 million impairment charge for assets in Venezuela.

P$54 million assessment by SENIAT – Venezuela.

a P$88 million impairment charge on areas in Argentina.

Other expenses, net for 2004 mainly reflect:

P$12 million impairment charge for the Acema area in Venezuela.

P$15 million allowance on the book value of the loans granted to joint venture partners in Venezuela.

Income Tax: Income tax accounted for a loss of P$211 million in 2005 compared to a gain of P$317 million in 2004. The income tax charge for 2005 reflects gains of P$6 million and P$1 million, attributable to the share of the income tax of CIESA and Distrilec, respectively. The income tax charge for 2004 reflects gains of P$11 million and losses of P$4 million attributable to the share of the income tax of CIESA and Distrilec, respectively.

Income tax charge for 2005 and 2004 fiscal years reflects tax gains from the reversal of allowances provided for tax credits resulting from tax loss carry forwards in the amount of P$197 million in 2005 and P$299 million in 2004, which amount includes P$31 million attributable to Petrobras Energía Perú S.A.. In addition, in 2005 fiscal year, a P$45 million gain was recognized by Petrobras Energía from reversal of the allowance for payments made for the minimum presumed income tax for 1998 to 2002 fiscal years. As a result of the recoverability analysis of the book value of assets in Venezuela, a P$110 million impairment charge for deferred tax assets was provided in 2005.

Excluding the effects mentioned above, income tax charge for 2005 increased to P$350 million compared to a gain of P$11 million, mainly due to the fact that in 2004 the allowance for taxes attributable to Petrobras Energía S.A. was offset against the allowance provided for tax loss carry forwards. In addition, this increase is also attributable to the rise in the income tax rate in Venezuela (from 34% to 50%) in addition to improved results of operations in Ecuador and Peru.

Analysis of Operating Income

The following tables set forth net sales, gross profit and operating income for each of our business segments for the years ended December 31, 2005 and 2004 under Argentine GAAP and, for comparative purposes, the pro forma results excluding the effects of proportional consolidation of companies under joint control.

Without Proportional Consolidation

(Unaudited)

Net Sales (1)

	Year ended December 31,	
	2005	2004
	(in million of pesos)	
Oil and Gas Exploration and Production	4,657	3,647
Refining and Distribution	3,856	3,359
Petrochemical	2,178	1,877
Gas and Energy	972	784
Corporate and Eliminations	(2,151)	(1,911)
Total	9,512	7,756

Gross Profit (2)

	Year ended December 31,	
	2005	2004
	(in million of pesos)	
Oil and Gas Exploration and Production	2,635	1,910
Refining and Distribution	107	257
Petrochemical	377	374
Gas and Energy	190	129
Corporate and Eliminations	(40)	(27)
Total	3,269	2,643

Operating Income

	Year ended December 31,	
	2005	2004
	(in million of pesos)	
Oil and Gas Exploration and Production	2,039	1,270
Refining and Distribution	(149)	10
Petrochemical	267	278
Gas and Energy	209	149
Corporate and Eliminations	(299)	(256)
Total	2,067	1,451

(1) Royalties with respect to the oil and gas business are accounted for as a cost or production and are not deducted in determining net sales. Eliminations correspond to sales between our business units.
(2) Net sales less cost sales. Eliminations correspond to sales between our businesses units and their associated cost.

With Proportional Consolidation

Net Sales (1)

	Year ended December 31,	
	2005	2004
	(in million of pesos)	
Oil and Gas Exploration and Production	4,657	3,647
Refining and Distribution	3,856	3,359
Petrochemical	2,178	1,877
Gas and Energy	2,136	1,804
Corporate and Eliminations	(2,172)	(1,924)
Total	10,655	8,763

Gross Profit (2)

	Year ended December 31,	
	2005	2004
	(in million of pesos)	
Oil and Gas Exploration and Production	2,635	1,910
Refining and Distribution	107	257
Petrochemical	377	374
Gas and Energy	530	465
Corporate and Eliminations	(40)	(24)
Total	3,609	2,982

Utilidad Operativa

	Year ended December 31,	
	2005	2004
	(en millones de pesos)	
Oil and Gas Exploration and Production	2,039	1,270
Refining and Distribution	(149)	10
Petrochemical	267	278
Gas and Energy	450	378
Corporate and Eliminations	(299)	(256)
Total	2,308	1,680

Royalties with respect to the oil and gas business are accounted for as a cost or production and are not deducted in determining net sales. Eliminations correspond to sales between our business units.
Net sales less cost sales. Eliminations correspond to sales between our businesses units and their associated cost.

Oil and Gas Exploration and Production

Operating income: Operating income for the Oil and Gas Exploration and Production business segment increased P$769 million, or 60.6%, to P$2,039 million in 2005 from P$1,270 million in 2004. This increase was predominately due to the 34.7% rise in average sales prices of oil equivalent resulting from (i) the 36.5% increase in the WTI, and (ii) the accrual of the additional compensation provided for in the operating agreements of the Oritupano Leona area in Venezuela, net of the 66.67% limit on sales price imposed by the Venezuelan Government, which accounted for additional sales in the amount of P$284 million.

Net sales: Net sales for the Oil and Gas Exploration and Production business segment increased P$1,010 million, or 27.7%, to P$4,657 million in 2005 from P$3,647 million in 2004. This increase was predominately due

to the 34.7% rise in the average sales price of oil equivalent partially offset by a 5% reduction in sales volumes of oil equivalent.

In 2005, daily oil and gas sales volumes decreased to 170.9 thousand barrels of oil equivalent from 179.9 thousand barrels of oil equivalent in 2004. Oil sales volumes dropped 2.7% to 120.5 thousand barrels per day in 2005 from 123.9 thousand barrels per day in 2004, while daily gas volumes fell 10.8%, totaling 300 million cubic feet in 2005 and 336.2 million cubic feet in 2004.

Argentina

Net sales in Argentina increased P$138 million, or 6.7%, to P$2,182 million in 2005 from P$2,044 million in 2004.

Combined oil and gas daily sales volumes decreased 10.3% to 91.7 thousand barrels of oil equivalent in 2005 from 102.2 thousand barrels of oil equivalent in 2004, mainly attributable to the natural decline of oilfields in Argentina which is considerable since they are mature fields under production through secondary recovery. In such respect, major investments made during the year, basically in projects to improve the oilfields' basic production curve, allowed to mitigate such curve.

Crude oil sales increased P$94 million, or 5.1%, to P$1,944 million in 2005 from P$1,850 million in 2004. This increase was attributable to a 15.2% increase in the average sales price to P$99.9 per barrel in 2005 from P$86.7 per barrel in 2004. Along these lines, the applicable export tax scheme did not allow to capitalize on the benefits of a favorable price scenario. Such scheme was a conditioning reference for the fixing of domestic sales prices to the downstream segment in line with the Argentine government's intention to establish a price stability framework in the fuel market. Sales volumes of crude oil dropped 8.7% to 53.2 thousand barrels from 58.3 thousand barrels.

Total gas sales increased P$38 million, or 19.6%, to P$232 million in 2005 from P$194 million in 2004, mainly as a result of a 36.3% rise in the sales price, partially offset by a 12.1% decline in daily sales volumes. The average sales price for gas increased to P$2.74 per million cubic feet in 2005 from P$2.01 per million cubic feet in 2004, mainly as a consequence of the path of prices implemented by the Secretary of Energy as from May 2004, increased export prices due to the rise in the price of methanol and the renegotiation of contracts with industrial clients. Daily gas sales volumes fell to 231.7 million cubic feet from 263.7 million cubic feet.

Outside of Argentina

Combined oil and gas sales outside of Argentina increased P$875 million, or 55.1%, to 2,462 million in 2005 from P$1,587 million in 2004. Total daily oil and gas sales volumes slightly increased 1.4% to 78.8 thousand barrels of oil equivalent in 2005 from 77.7 thousand barrels of oil equivalent. The average sales price per barrel of oil equivalent increased 53.1% to P$85.4 from P$55.8.

Venezuela

In Venezuela, oil and gas sales grew P$364 million, or 44.9%, to P$1,175 million in 2005 from P$811 million in 2004. In 2005, the average price per barrel of oil grew 55.3% to P$72.2 from P$46.5. This variation is predominately attributable to the WTI behavior mentioned above and the accrual of the additional compensation provided for in the operating agreement of the Oritupano Leona area. Accumulated production at the Oritupano Leona oilfield during 2005 first quarter exceeded 155 million barrels. As from this milestone, an additional incentive started to be applied to any incremental production. This additional compensation was subsequently limited by the application of the 66.67% limit on sales price imposed by the Venezuelan government under the provisional agreements relating to migration to the partially-state owned companies. Considering this limit, the compensation mentioned above accounted for additional sales in the amount of P$284 million.

Daily sales volumes of oil equivalent dropped to 47.6 thousand barrels of oil equivalent, or 7.2%, in 2005 from 51.3 thousand barrels of oil equivalent in 2004 mainly as a consequence of the significant cuts in the

investment plan for the Oritupano-Leona area established by Petróleos de Venezuela at the time of approval of 2005 fiscal year budgets. Since they are mature fields, reduced investments did not allow to revert the oilfields' natural decline.

Ecuador

In Ecuador, oil sales increased 113.4% to P$446 million in 2005 from P$209 million in 2004 boosted by increased volumes and higher sales prices. Daily oil sales volumes rose to 9.5 thousand barrels, or 63.8%. Oil sales in 2005 include the sale of 202.7 thousand barrels attributable to December 2004 production, the sale of which was postponed to January 2005 for commercial reasons. Without considering this effect, daily sales volumes increased to 8.9 thousand barrels or 40.7%. This improvement is mainly attributable to the progressive development of the block, in line with the investments made which include drilling of eleven wells and different workovers.

Sales price increased 30.6% to P$129.4 per barrel from P$99.1 per barrel mainly due to the rise in the international reference price (Oriente crude oil). The increase in the Oriente crude oil reference price was lower than that of the WTI due to an increased discount in this type of crude oil.

Peru

In Peru, oil and gas sales increased P$247 million or 53.9% to P$705 million in 2005 from P$458 million in 2004, mainly as a result of a 36.9% positive variation in the sales price of oil equivalent and the 12.4% rise in sales volumes of oil equivalent.

Crude oil price increased 40.3% to P$147.9 per barrel from P$105.4 per barrel boosted by a 39% increase in the international reference price (a combination of Oriente crude oil and WTI). Gas price slightly decreased 4.3% to P$4.9 from P$5.12 per million cubic feet, as a consequence of the increase in gas supply resulting from entry in the gas market of the Camisea field, which is the most important gas reserve in Peru and one of the largest gas reserves in Latin America.

Daily sales volumes of oil equivalent increased to 14.5 thousand barrels in 2005 from 12.9 thousand barrels in 2004. Such improvement was driven by drilling of 30 producing wells and performance of 15 primary and secondary repair works.

Bolivia

In Bolivia, oil and gas sales increased to P$136 million in 2005 from P$108 million. Combined oil and gas daily sales volumes dropped 4.1% to 7.4 thousand barrels of oil equivalent due to reduced gas deliveries to Brazil.

Average sales price for gas increased 41% to P$7.37 per million cubic feet from P$5.23 per million cubic feet. This improvement is mainly attributable to the rise in fuel oil used as the basis for calculation of the price for exports to Brazil.

Mexico

In 2005, sales for other services increased to P$12 million, or 20% compared to P$10 million in 2004.

Gross Profit: Gross profit for this business segment increased P$725 million, or 38%, to P$2,635 million in 2005 from P$1,910 million in 2004. Margin on sales rose to 56.3% from 52.1%. This improvement is mainly attributable to the increase in average sales prices of oil equivalent. The lifting cost rose 26.4% to P$11 per barrel of oil equivalent from P$8.7 per barrel of oil equivalent, predominately as a consequence of the increase in oil services and electric power rates and to incremental costs associated with the implementation of new safety and environmental standards.

Administrative and selling expenses: Administrative and selling expenses rose P$27 million, or 12.2%, to P$248 million in 2005 from P$221 million in 2004. This variation is mainly attributable to the increase in the cost of

crude oil transportation derived from the rise in sales volumes and rates in Ecuador and, to a lesser extent, the increase in labor costs.

Exploration expenses: Exploration expenses totaled P$34 million in 2005 and P$133 million in 2004. Expenses for 2005 are mainly attributable to 3D seismic works at the Austral and Neuquén basins. In 2004, the Company charged to income exploratory investments in the amount of P$80 million for Block 31 in Ecuador and in the amount of P$41 million for Aguaragüe and Puesto Zuñiga areas in Argentina.

Other operating income (expense), net: Other operating income (expense), net accounted for losses of P$314 million in 2005 and P$286 million in 2004. Losses for 2005 are mainly attributable to costs associated with the unused transportation capacity under the Ship or Pay contract with OCP in Ecuador (P$184 million), allowance for tax credits relating to VAT (P$78 million) and environmental remediation expenses (P$27 million). In 2004, other operating income (expense), net mainly reflects costs associated with the unused transportation capacity under the Ship or Pay contract (P$184 million), environmental remediation expenses (P$51 million), project discontinuance (P$5 million) and losses derived from contract renegotiation.

Refining and Distribution

Operating income: Operating income for the Refining and Distribution business segment reflected a loss of P$149 million in 2005 compared to a P$10 million gain in 2004.

Within the context of an inflation control policy carried out by the Argentine government, in 2005 diesel oil and gasoline margins in the domestic market dropped again *vis á vis* the 17% increase in crude oil costs. Along these lines, the implementation of the oil export tax regime could mitigate the 36.5% increase in the international reference.

In addition, the year 2005 reflected significant operating losses due to the need to import diesel oil to meet a growing domestic demand and production deficits derived from shutdowns scheduled for maintenance works at the refineries. The combined effect of increasing international prices and controlled domestic prices derived in negative import margins. Provisional actions taken by the Argentine government relating to exemption from the tax on liquid fuels and the diesel oil tax rate on imports, allowed to mitigate such effects. During 2005 diesel oil imports dropped to 272 thousand cubic meters from 322 thousand cubic meters in 2004. However, due to the incidence of the increase in international prices, related losses rose to P$82 million in 2005 from P$21 million in 2004. Prospectively, the Company's Management resolved to discontinue diesel oil imports, which, though it might lead to a reduction in the respective market share, will allow to improve the business segment's margins on sales.

Net sales: Net sales for refinery products increased P$497 million, or 14.8%, to P$3,856 million in 2005 from P$3,359 million, mainly boosted by an increase in sales prices of products not subject to the price stabilization policy mentioned above. Total sales volumes increased 2.6% with an 8% rise in the domestic market, partially offset by a reduction in exports.

In line with the significant 36.5% rise in the price of WTI, average sales prices of bunker diesel oil, heavy distillates, asphalts, paraffins and reformer plant by-products, improved 63%, 47%, 35%, 26% and 15%, respectively.

Crude oil volumes processed at the refineries in 2005 and 2004 were at similar levels, averaging 62.9 thousand barrels per day and 63.1 thousand barrels per day, respectively.

Total diesel oil sales volumes moved down 2.6% to 1,741 thousand cubic meters in 2005, mainly due to the drop in export volumes, partially offset by increased sales in the domestic market. The reduction in export volumes is mainly attributable to changes in the trade policy implemented as from merger of the Company's operations with Eg3. In 2004, in a stage prior to full integration and complementation of operations, surplus production from the San Lorenzo refinery was sold in the export market while Eg3's network shortfall in connection with its own production from the Bahía Blanca Refinery was made up by purchases from third parties. Though domestic sales increased 4%,

the combined effect of the reduction in diesel oil imports and the 7.5% increase in the domestic market resulted in a slight decline in the Company's market share to 14.2% in 2005 from 14.6% in 2004.

Total gasoline sales volumes rose 3.8% to 715 thousand cubic meters in 2005 mainly due to a 7.4% increase in domestic sales in addition to an 8.9% rise in the gasoline market. Within this context, the Company's market share was 14.5% in 2005 and 14.7% in 2004. In the premium gasoline market, in which the Company participates with Podium gasoline, the market share moved up from 7.8% in 2004 to 9.7% in 2005.

Asphalt sales volumes grew 23.2% in 2005, mainly boosted by a program of infrastructure works performed by the government, mainly in the south of the country. Within this context, domestic market sales grew 31% while exports declined 10%.

As regards heavy distillates, sales volumes for 2005 and 2004 were at similar levels. On the other hand, sales volumes of reformer plant by-products rose 36% basically due to 91% and 34% increases in domestic market sales of LPG and hexane, respectively, and a 48% rise in exports of paraffin varieties.

Gross profit: Gross profit for 2005 declined P$150 million, or 58.4%, to P$107 million from P$257 million in 2004. Gross margin was adversely affected by the impossibility of passing through crude oil increases to market prices, and, in addition, by the incidence of diesel oil resale operations. Crude oil cost increased 17% to P$111.5 bbl from P$95.4 bbl.

Administrative and selling expenses: Administrative and selling expenses increased 2.9% to P$251 million in 2005 from P$244 million in 2004 mainly due to the rise in transportation and shipment costs.

Other operating income (expense), net: Other operating income (expense), net recorded losses of P$5 million in 2005 and P$3 million in 2004.

Petrochemicals

Operating income: Operating income for the Petrochemical business segment dropped P$11 million, or 4%, to P$267 million in 2005 from P$278 million in 2004.

Net sales: Net sales (net of eliminations in the amount of P$170 million and P$39 million for styrenics operations in Argentina and Innova) increased P$301 million, or 16%, to P$2,178 million in 2005 from P$1,877 million in 2004, due to increased styrenics sales volumes, both in Argentina and Brazil, and to higher sales prices in line with the behavior of the respective international references.

- Styrenics - Argentina:

In Argentina, styrenics sales increased P$218 million, or 32.7%, to P$884 million in 2005 from P$666 million in 2004 due to the combined effect of an 18% increase in sales volumes and a 13% improvement in average sales prices. The start-up of the ethylene plant in October 2004 allowed to increase production of the ethylbenzene plant, thus generating surplus production and allowed the Company to make full use of the installed capacity of the Puerto General San Martín plant in Argentina and the Innova plant in Brazil, helping to grow in the business value chain. These values include exports to Innova in the amount of P$136 million and P$36 million, respectively.

In 2005, in line with the rise in international reference prices, average sales prices for the business segment improved 13% compared to 2004, with increases of 10%, 8% and 34% for the styrene, polystyrene and synthetic rubber lines, respectively.

Styrenics performance was as follows:

a) Styrene monomer sales volumes increased approximately 9%, to 46 thousand tons, with a 30% rise in export volumes. In 2005, due to interruptions in production at the polystyrene plant, a styrene surplus was recorded and was mainly directed to export markets.

b) Polystyrene and bops sales volumes climbed to 65 thousand tons or 3% in 2005, with similar percentage increases both in domestic sales and exports. Though a 7% reduction in polystyrene production volumes was recorded as a consequence of trade union conflicts at the Zarate plant, the demand could be met by imports from Innova.

c) Ethylbenzene sales volumes, as from the start of operations of the ethylene plant in 2004 fourth quarter, totaled 43 thousand tons in 2005 and 9.5 thousand tons in 2004.

d) Rubber sales volumes decreased to 53 thousand tons, or 13%, compared to 2004, mainly due to a 23% drop in export volumes derived from the combined effect of increased supply at international level, a drop in the regional market activity level and high levels of customers' stocks by the end of 2004.

- Styrenics - Brazil - Innova:

Innova sales increased P$ 199 million, or 25.7%, to P$972 million in 2005 from P$773 million in 2004, due to the combined effect of a 20% improvement in average sales prices and a 5% rise in sales volumes.

In 2005, styrene and polystyrene prices rose 20% and 19%, respectively, as a consequence of an increase in international references.

Styrene sales volumes rose 18% due to a higher availability of ethylbenzene from the Puerto General San Martín plant and to a rise in exports to Argentina. Conversely, polystyrene volumes decreased 8% due to lower domestic sales (16%) as a consequence of greater competition in the Brazilian market, partially offset by increased exports to the Zarate plant as mentioned above.

- Fertilizers:

Fertilizers sales increased P$15 million, or 3.1%, to P$492 million in 2005 from P$477 million in 2004, mainly due to a 9% increase in the average sales price as a consequence of the rise in the international price of urea, partially offset by a 5% drop in sales volumes derived from a lower demand due to reduced corn and wheat sown areas (accounting for approximately 70% of the demand), the drought in several regions at the time of fertilization, increased costs of some fertilizers and reduced grain prices.

Gross profit: Gross profit increased P$3 million, or 0.8%, to P$ 377 million in 2005 from P$374 million in 2004, reflecting the improvement in styrenics in Argentina, offset by a reduction in gross profit for Innova. Gross margin on sales decreased to 17.3% from 19.9% reflecting the impact of reduced margins for Innova.

- Styrenics - Argentina:

Gross profit increased P$51 million, or 38.6%, to P$183 million in 2005 from P$132 million in 2004, mainly due to the strong rise in sales volumes. Gross margin on sales slightly rose to 20.7% from 19.8%.

- Styrenics - Brazil:

Gross profit decreased P$50 million, or 38.8%, to P$79 million in 2005 from P$129 million in 2004. Gross margin on sales declined to 8.1% from 16.7% as a consequence of the rise in raw material costs, mainly benzene, which could only be partially passed through to sales prices, and of increased fixed production costs derived from scheduled plant shutdowns in 2005.

- Fertilizers:

Gross profit increased P$2 million, or 1.8%, to P$115 million in 2005 from P$113 million in 2004, and gross margin on sales was at similar levels in both fiscal years. The growing share of liquid fertilizers in the product mix, with a rise of approximately 12% in 2005, allowed to offset (in terms of gross margin) the decline in sales volumes.

Administrative and selling expenses: Administrative and selling expenses increased P$20 million, or 16%, to P$143 million in 2005 from P$123 million in 2004, primarily due to higher staff expenses, the rise in variable selling expenses attributable to increased rates and higher freight costs derived from increased ethylbenzene exports.

Other operating income (expense), net: Other operating income (expense), net recorded P$33 million and P$27 million gains in 2005 and 2004, respectively, mainly attributable to the collection of FUNDOPEM tax benefits granted by Rio Grande do Sul State, Brazil.

Gas and Energy

- Marketing and Transportation of Gas

Operating income: Operating income for the Marketing and Transportation of Gas increased P$35 million, or 14.3%, to P$280 million in 2005 from P$245 million in 2004. Operating income reflects P$222 million and P$215 million gains in 2005 and 2004, respectively, attributable to the proportional consolidation of CIESA. Excluding proportional consolidation, operating income for the business segment increased P$28 million, or 93.3%, to P$58 million in 2005 from P$30 million in 2004.

Net sales: Sales revenues increased P$112 million to P$606 million in 2005 from P$494 million in 2004, mainly due to the rise in gas and liquids prices. Gas sales prices increased on account of the application of the path of prices scheme established by the Secretary of Energy and the rise in international references applicable to certain export contracts and contracts with industrial clients. As regards liquids, improved prices derive from an increase in international reference prices.

Revenues from the sale of gas and liquids produced by the Company and imported gas and liquids totaled P$309 million and P$262 million in 2005 and P$205 million and P$270 million in 2004. Sales volumes of gas produced by the Company and imported gas in Argentina declined to 260.9 million cubic feet per day in 2005 from 274.7 million cubic feet per day in 2004 as a consequence of the drop in the Company`s own production due to the decline of fields located in Argentina and the trade union strike held at the Austral basin during the last quarter of 2005. Sales volumes of liquids declined to 267.1 thousand tons in 2005 from 309.5 thousand tons in 2004, as a consequence of reduced gas volumes processed and lower yields obtained from processing gas with lower richness and heavier crude oils.

Gas and LPG brokerage services accounted for P$35 million and P$19 million sales revenues during 2005 and 2004, respectively. The increase in 2005 is attributable to gas brokerage operations performed for the purpose of offsetting the decline in the Company's own production mentioned above. Within this context, sales volumes increased to 18 million cubic feet per day in 2005 from 3 million cubic feet per day in 2004.

Gross profit: Gross profit in 2005 improved P$9 million, or 50%, to P$27 million from P$18 million. This significant rise is mainly attributable to increased margins on sales.

Other operating income (expense), net: Other operating income (expense), net mainly attributable to income from technical assistance services to TGS totaled P$35 million and P$18 million gains in 2005 and 2004. As from July 2004, within the framework of the Agreement signed with Enron, the Company is providing technical assistance services to TGS.

- Electricity

Operating income: Operating income for the Electricity operations increased P$37 million, or 27.8%, to P$170 million in 2005 from P$133 million in 2004. Operating income reflects gains of P$19 million in 2005 and P$14 million in 2004, due to our share of the operating income of Distrilec. Excluding proportional consolidation, operating income rose to P$151 million in 2005 from P$119 million in 2004, primarily due to increased margins in the generation activity as a result of a rise in average prices and an increased volume of energy delivered.

Electricity Generation

Net sales: Net sales of electricity generation increased P$75 million, or 26.8%, to P$355 million in 2005 from P$280 million in 2004, primarily due to a 17% improvement in generation prices and a 9.5% rise in sales volumes. The Company's competitive advantages resulting from being an integrated energy company and the joint operation of thermal and hydroelectric generation plants allowed the Company to capitalize on market opportunities and reach increased sales volumes compared to 2004.

The increase in energy average prices was primarily attributable to (i) higher demand for energy within a context of lower water flow contribution at the different basins during the first half of the year and gas supply restrictions, which resulted in energy deliveries by less efficient machines, (ii) the passing through of increased gas costs to sales prices as a result of the path of prices implemented during the second quarter of 2004.

Net sales attributable to the Genelba Power Plant increased P$66 million, or 29.5%, to P$290 million in 2005 from P$224 in 2004, primarily due to the combined effect of improved sales prices and increased generation volumes. The average sales price increased 16.5% to P$52.9 per MWh in 2005 from P$45.4 per MWh in 2004. Payment of additional compensation for guaranteed supply to the electricity market reflected increased sales of P$30 million in 2004. Energy delivered increased 11.3%, to 5.486 GWh in 2005 from 4.931 GWh in 2004. In 2005 a significant generation increase was recorded (8.5%) compared to 2004. During 2005, the integration of operations with the Oil and Gas business segment was a key factor in overcoming gas supply restrictions faced by thermal plants. The Genelba Power Plant factor increased to 91% from 83% and the availability factor climbed to 94% from 85% as a consequence of the scheduled plant shutdown in 2004.

Net sales attributable to the Pichi Picún Leufú Hydroelectric Complex increased P$12 million, or 23.1%, to P$64 million in 2005 from P$52 million in 2004, due to the combined effect of an improvement in sales prices and higher generation volumes. The average sales price increased 20.8% to P$51.2 per MWh in 2005 from P$42.4 per MWh in 2004, due to the above-mentioned market reasons and the implementation of a dynamic and flexible policy in terms of the mix of spot and futures sales. During 2005, energy delivered increased to 1,255 GWh, or 2.4%, in 2005 from 1,226 GWh in 2004, primarily due to increased consumption of water stored in the upper reservoirs of the Comahue Basin's power plants in order to substitute thermal supply, which was not available due to fuel supply problems.

Gross profit: Gross profit for the generation business increased P$51 million, or 46%, to P$161 million in 2005 from P$110 million. This significant increase is attributable to the combined effect of improved prices and increased sales volumes.

Administrative and selling expenses: Administrative and selling expenses for the generation activity increased P$2 million, or 20%, to P$12 million in 2005 from P$10 million in 2004.

Other operating income (expense), net: Other operating income (expense), net dropped P$16 million to P$1 million from P$17 million mainly due to the decline in income from technical assistance services provided to Chilectra S.A., as technical operator of Edesur S.A.. In November 2004, Chilectra S.A. and Edesur S.A. renegotiated the terms of the technical assistance agreement, with a substantial reduction in the economic terms of the agreement. No significant results were recorded in that respect as from such date.

Analysis of Equity in Earnings of Affiliates

Equity in earnings of affiliates: Equity in earnings of affiliates increased P$179 million to P$281 million in 2005 from P$102 million in 2004. Without proportional consolidation, equity in earnings of affiliates rose P$193 million to P$315 million in 2005 from P$122 million in 2004.

This increase was primarily due to the rise in equity in earnings of Citelec, PBR and CIESA, partially offset by the effect derived from Coroil and Inversora Mata impairment charge in the amount of P$26 million, as a result of the migration of operating agreements in Venezuela.

The table below presents the equity in earning of the Company, its subsidiaries, companies under joint control for 2005 and 2004 fiscal years. In addition, the table presents the equity in earnings of affiliates excluding the effects of proportional consolidation.

(in million of Pesos)

	Petrobras Energía, Subsidiares and Companies under Joint Control		Petrobras Energía and Subsidiares (Unaudited)	
	2005	2004	2005	2004
TGS	18	13	18	13
CIESA	-	-	42	24
Citelec S.A.	136	(19)	136	(19)
Distrilec S.A.	-	-	(8)	(4)
Petrobras Bolivia Refinación S.A.	54	18	54	18
Oleoductos del Valle S.A.	4	8	4	8
Petrolera Entre Lomas S.A.	27	18	27	18
Petroquimíca Cuyo S.A.	7	13	7	13
Refinería del Norte S.A.	47	42	47	42
Others	(12)	9	(12)	9
	281	102	315	122

Transportadora de Gas del Sur S.A (TGS) /Compañía de Inversiones de Energía S.A (CIESA): Our equity in the earnings of CIESA and TGS increased P$23 million to P$60 million in 2005 from P$37 million in 2004 mainly as a consequence of the positive impact of reduced financial expense in 2005.

Financial expense, net decreased to P$288 million from P$348 million, mainly as a consequence of interest reduction associated with TGS's lower average indebtedness. In line with the global restructuring of the financial debt agreed upon with financial creditors, TGS's average indebtedness declined approximately 13% in 2005.

Sales revenues increased 5.8%, or P$56 million, to P$1,026 million in 2005 from P$970 million in 2004.

Sales revenues from the gas transportation segment increased 5.9% or P$26 million to P$460 million. This improvement is mainly attributable to the execution of new firm transportation agreements in connection with: (i) expansion of the Gral. San Martín Gas Pipeline completed in August 2005 which allowed to increase transportation capacity by 2.9 MMm^3/d, (ii) a new contract with a joint venture of gas producers at the Austral basin, effective February 2005 which allowed to increase the transportation capacity by 1 MMm^3/d, and (iii) open bids for transportation capacity carried out by TGS in March 2004 which allowed to rise the committed transportation capacity by 3.6 MMm^3/d.

Revenues from the NGL production and marketing segment increased 7.9% or P$43 million to P$526 million mainly as a result of the 12% increase in the average sales price of NGL due to the rise in international reference prices which was partially offset by reduced sales volumes (approximately 4%) and the increase in NGL export tax rates as from May 2004, which moved up from 5% to 20%.

Operating income of CIESA decreased P$11 million, or 2.4%, to P$442 million in 2005, mainly as a consequence of the rise in natural gas price and, to a lesser extent, increased labor costs.

Distrilec Inversora S.A. (Distrilec) /Edesur S.A (Edesur): Our equity interest in the earnings of Distrilec accounted for a P$4 million increase in losses to P$8 million in 2005 from P$4 million in 2004.

Distrilec's income from services increased 21% to P$1,339 million in 2005 from P$1,104 million in 2004, due to the combined effect of a 14.5% rise in sales prices and a 4.7% growth in the demand for energy.

Distrilec's operating income increased to P$39 million from P$30 million in 2004 reflecting the rise in sales, which was partially offset by increased costs for the purchase of energy and the application of fines by the regulatory entity.

Distrilec's financial income (expense) was similar in both fiscal years, accounting for losses of P$39 million and P$41 million in 2005 and 2004, respectively.

Distrilec's other operating income (expense), net accounted for a loss of P$22 million in 2005 compared to a P$14 million gain in 2004. The gain of P$36 million in 2004 resulted from the settlement reached with Alstom Argentina in connection with January 15, 1999 events at Azopardo Substation. Such agreement ends all the claims between the parties.

Refinería del Norte S.A. (Refinor): In 2005, our equity in the earnings of Refinor increased P$5 million to P$47 million from P$42 million in 2004. This increase resulted primarily from a rise in gross profit derived from a strong increase in sales, partially offset by a reduction in the margin on sales due to the effect of higher purchase costs derived from crude oil and fuel gas increase.

Refinor's sales increased 31.1% or P$339 million to P$1,429 million in 2005 from P$1,090 million in 2004, mainly as a result of the significant rise in sales prices, both international prices of fuels and domestic prices of LPG and, to a lesser extent, increased crude oil volumes. In 2005, in line with the increase in international references, Refinor's average sales prices were 36% higher compared to 2004. The volume of crude oil processed increased 4%, to 17.9 thousand barrels per day with greater crude oil availability from Bolivia which allowed to revert the drop in volumes at Cuenca del Norte oilfields. The volume of gas processed averaged 19.1 million cubic meters per day, a level similar to that recorded in 2004. The greater amount of supply required on account of energy problems in Argentina was met by running the plant at almost its full installed capacity and the Madrejones gas pipeline interconnection.

Refinor's operating income climbed to P$245 million from P$217 million in 2004 reflecting the rise in gross profit, partially offset by increased expenses in transportation and freight.

Citelec S.A. (Citelec): Equity in earnings of Citelec accounted for a gain of P$136 million in 2005 compared to a loss of P$19 million in 2004. As from September 30, 2005, upon submittal of the plan for Citelec divestment, equity interest in Citelec was valued at the recoverable value determined on the basis of the probable net realization value.

Petroquímica Cuyo S.A. (*Cuyo*): Our equity interest in the earnings of Cuyo decreased P$6 million to P$7 million in 2005 from P$13 million in 2004. This decline is basically attributable to a strong reduction in margins on sales mainly as a consequence of increased costs derived from the rise in crude oil, the impact of which could only be partially passed through to sales prices and, to a lesser extent, increased costs derived from the scheduled plant shutdown in 2005.

Cuyo's sales increased 15% to P$337 million in 2005 from P$293 million in 2004, mainly due to a 25% increase in sales prices, partially offset by a 8.5% decline in sales volumes. The improvement in average sales prices reflects the rise in crude oil prices which resulted in strong increases in international reference prices for the petrochemical industry. The decline in sales volumes was attributable to the scheduled plant shutdown in 2005.

Cuyo's operating income decreased to P$33 million from P$64 million in 2004 mainly due to the combined effect of reduced margins on sales and lower sales volumes as a consequence of the scheduled plant shutdown.

Petrobras Bolivia de Refinación (PBR): Our equity interest in the earnings of PBR moved up P$36 million to P$54 million in 2005 from P$18 million in 2004 as a consequence of the combined effect of improved margins, with a 14% rise in the average sales price, and increased sales volumes.

In 2005, contribution margins significantly improved, mainly due to the fact that PBR's operations were positively affected by the rise in international reference prices and better discounts in crude oil and gasoline exports.

In addition, in 2005 PBR achieved record levels in crude oil, diesel oil and lubricants processing amounting to 39.8 thousand barrels per day, 55.5 thousand cubic meters per month and 1.16 thousand cubic meters per month, respectively. Along these lines, reconstituted crude oil sales set record levels with average monthly volumes of 269 thousand barrels, and diesel oil sales amounted to levels similar to those in 2004 with 54.5 thousand cubic meters per month. In the domestic market, marketing activities were performed through its subsidiary PBD, with an increase in its market share to about 30%, with a commercial network of 104 retail points, of which 12 were added in 2005.

Oleoductos del Valle S.A. (Oldelval): Our equity interest in the earnings of Oldelval decreased P$4 million to P$4 million from P$8 million as a consequence of the recognition of a gain derived from the unusual sale of crude oil surplus in 2004.

Oldelval's sales revenues increased 5% to P$118 million due to a 9% rise in rates effective April 2005, partially offset by a 1.03% slight decline in transported volumes, to 65.4 million barrels, as a direct consequence of the natural decline trend in the Neuquén basin oilfields. In addition, operating costs increased basically due to the performance of maintenance works for the purpose of securing reliability in the pumping system.

Petrolera Entre Lomas S.A (PELSA): Our equity interest in the earnings of PELSA increased P$9 million to P$27 million from P$18 million, mainly due to the combined effect of an improvement in margins on sales and increased sales volumes, both of crude oil and natural gas.

Sales revenues increased 34% to P$368 million from P$ 274 million due to the combined effect of a 24% improvement in prices attributable to the rise in the international price of crude oil and increased volumes (8%).

LIQUIDITY AND CAPITAL RESOURCES

During 2005, the Argentine Government successfully restructured a substantial portion of its sovereign debt, which was previously in default. Although this represents a significant step towards the reintegration of our country in the international financial market, Argentina and Argentine companies are still subject to a series of significant restrictions on access to the international credit markets at competitive costs. In spite of a sustained growth scenario in recent years in Latin America, typical fluctuations in emerging markets may generate volatility in financial indicators and capital flows to the region.

In view of these limitations and risks, we closely monitor liquidity levels in order to secure compliance with our obligations and achievement of our growth objectives. Along these lines, and as a guiding principle, financial solvency is the foundation on which sustainable development of our businesses is built.

Pursuant to these strategic guidelines, we seek to:

Gradually reduce our level of indebtedness, by designing a capital structure in line with industry standards adaptable to the financial markets in which we operate and by establishing a debt maturity profile consistent with cash generation.

Gradually reduce indebtedness costs.

Have adequate flexibility to overcome the volatility inherent to emerging capital markets, by adhering to a conservative cash management policy that minimizes the risks of financial distress.

Adhering to these guidelines will allow the Company to treat financial management as a key element in the value-creation process.

Consistent with these guidelines, we achieved the following during 2006:

Over 54% growth in operating cash flow.

Strict compliance with all financial obligations, with a 4% decline in our annual average indebtedness, measured in U.S. dollars.

A significant increase in capital expenditures, supporting our growth strategy.

Reduction in indebtedness costs.

In the short term, the most significant factors generally affecting the Company’s cash flow from operating activities are: (1) fluctuations in prices for crude oil, (2) fluctuations in production levels and demand for our products, (3) fluctuations in margins in refining and distribution and petrochemicals, (4) changes in regulations, such as taxes, taxes on exports, changes in royalty payments and price controls and (5) fluctuations in exchange and interest rates.

In the longer term, our ability to replace oil and gas reserves will affect future production levels, which, in turn, will affect cash flow provided by operating activities. Nonetheless, the Company does not believe that the risks associated with failure or delay of any single project would have a significant impact on our overall liquidity or ability to generate cash flows, since the Company has a diverse portfolio of development projects and exploration opportunities, which helps to mitigate the risks inherent to oil and gas exploration and production and the associated cash flow provided by operating activities.

Analysis of Liquidity and Capital Resources

The Company’s management analyzes our results and financial condition separately from the results and financial condition of affiliates under joint control. The discussion below, therefore, relates to the liquidity and

capital resources of the Company and its subsidiaries, excluding proportional consolidation of companies over which the Company exercises joint control, and as a result may not be directly comparable to figures reflected in its financial statements.

The table below reflects our statements of cash flow for the fiscal years ended December 31, 2006, 2005 and 2004 under Argentine GAAP and, for comparative purposes, the pro forma results excluding the effect of proportional consolidation of companies under joint control. Amounts are stated in millions of pesos.

	Petrobras Energía, Subsidiaries and Companies under Joint Control			Petrobras Energía and subsidiaries (Unaudited)		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Cash and cash equivalent at the beginning of the year	790	1,066	1,090	474	845	708
Net cash provided by operations	2,884	2,009	1,640	2,513	1,637	1,446
Net cash used in investing activities	(2,029)	(1,692)	(1,205)	(1,895)	(1,554)	(1,078)
Net cash used in financing activities	(295)	(602)	(453)	(48)	(463)	(224)
Effect of exchange rate change on cash	-	9	(6)	-	9	(7)
Cash and cash equivalent at the end of the year	1,350	790	1,066	1,044	474	845

Cash

As of December 31, 2006, 2005 and 2004, cash and cash equivalents were P$1,044 million, P$474 million and P$ 845 million, respectively.

The Company's goal is to maintain excess cash primarily in U.S. dollars and in short-term investments in order to ensure adequate liquidity levels. The Company predominately uses money market mutual funds and overnight deposits.

Operating activities

Net cash from operations, excluding proportional consolidation, totaled P$2,513 million in 2006, P$1,637 million in 2005 and P$1,446 million in 2004.

Net cash from operations in 2006 increased P$876 million or 53.5%. The increase in net cash from operations during 2006 was mainly attributable to reduced working capital requirements and the rise in commodity prices. The Company was able to better capitalize on this increase since we did not use derivative instruments to hedge the price of crude oil in 2006.

Net cash from operations in 2005 increased P$191 million or 13.2% primarily due to the increase in commodity prices, particularly in the WTI.

Investing activities

Cash used in investing activities, excluding proportional consolidation of companies under joint control, was P$1,895 million in 2006, P$1,554 million in 2005 and P$1,078 million in 2004.

In 2006 and 2005, cash used in investing activities increased P$351 million and P$466 million, respectively.

Supported by the increase in operating cash flow and with the liquidity at target levels, capital expenditures increased by P$325 million during 2006 to P$1,944 million from P$1,619 million in 2005 and by P$552 million during 2005 from P$1,067 in 2004.

	2006	2005	2004
- Oil and Gas Exploration and Production	1,544	1,235	872
- Petrochemical	195	119	96
- Refining and Distribution	249	199	81
- Corporate	76	64	11
- Other	4	2	7
Total capital expenditures	2,068	1,619	1,067
- Divestments	(124)	-	-
Total net capital expenditures	1,944	1,619	1,067

The table below reflects total capital expenditures, net, in millions of pesos:

Oil and Gas Exploration and Production

Capital expenditures in the Oil and Gas Exploration and Production segment totaled P$1,544 million, P$1,235 million and P$872 million in 2006, 2005 and 2004, respectively.

In 2006, capital expenditures in the Oil and Gas Exploration and Production segment were primarily directed towards maintaining production levels and prioritizing investments in countries and products with higher expected profit margins. The development of reserves continued through well drilling, expansion of secondary recovery projects and the expansion of surface facilities. Two hundred and fifty six (256) wells were drilled, of which 223 are located in Argentina and 424 units were repaired, of which 191 are located in Argentina. In December 2006, works at El Mangrullo field were completed and the field became operational, with a gas production of 800 Mm3/d. The Mercury Removal Plant in Santa Cruz started operations by mid-year for the treatment of Santa Cruz crude oil. This allows us to reduce the metal content in oil, with the consequent expected positive impact on the basin projects through the improvement of marketing conditions and an increased volume of incoming oil to be processed at our refineries. In Ecuador, construction of the treatment plant at Palo Azul and the duct network were completed. This is expected to allow the Block to increase gross production to 40 thousand barrels of oil per day as from 2007.

In 2005, capital expenditures in the Oil and Gas Exploration and Production segment were primarily directed towards maintaining production levels and prioritizing investments in countries and products with higher expected profit margins. Consequently, 352 wells were drilled, of which 265 are located in Argentina, and 369 units were repaired, of which 281 are located in Argentina. In addition, significant infrastructure works were carried out. In Argentina, the development of reserves continued through well drilling and the expansion of surface facilities. Capital investments were also allocated to infrastructure works for our interconnection project, which has allowed us to deliver gas and condensate from our La Porfiada, La Paz and Boleadoras fields to the General San Martin gas pipeline. Works relating to La Porfiada Field interconnection project continued, with completion in early 2006. In Venezuela, capital expenditures were primarily directed towards construction of development wells and drilling of 21 wells during the year. Also in 2005, as in 2004, we also made improvements in connection with extraction and surface and bottom equipment. In Ecuador, at Block 18, eleven wells were drilled and expansion works in production facilities continued both for the Palo Azul and Pata Fields; approximately 70% of the works were performed and the facilities became operational at the end of 2006. In Peru, investments in well drilling, repair works and reactivation were developed as part of water injection implementation projects. In addition, we started the installation of alternative extraction systems for the purpose of optimizing operating costs. We also performed geological and geophysical works, in connection with our exploitation activities.

Refining and Distribution

Capital expenditures in the Refining and Distribution segment totaled P$249 million, P$199 million and P$81 million in 2006, 2005 and 2004, respectively.

In 2006, we performed works outlined in the Refining Master Plan aimed at producing fuels according to stringent quality specifications. At the Bahía Blanca refinery, works were conducted on the reformate plant. The light reformate plant allows us to improve the quality of our gasolines and produce a grade with a high benzene content, a high value input for the petrochemical industry but subject to environmental regulatory restrictions when used in gasolines. In connection with environmentally-oriented investments in the sulfur recovery unit, sulfur compounds in oil are no longer burnt in the flare stack but are converted into raw material for the production of fertilizers. That way, this effluent is converted into a raw material that returns to the community as a feeding product. At the San Lorenzo refinery, a revamping of the topping and vacuum units was performed in order to increase processing capacity by 33% to 50,300 barrels per day, with the consequent increase in our capacity to supply the market. In the distribution segment, the Company continued with the rebranding of gas stations, with a view to a selective growth of new businesses and a focus on service, quality and brand development.

In 2005, capital expenditures at the San Lorenzo refinery were directed towards maintaining efficient operating conditions including the replacement of furnaces at Topping III. The most significant investment in 2005 at the Bahía Blanca refinery was the construction of a new dispatch plant, "Caleta Paula" to improve product distribution logistics. In the distribution segment, major investments were directed towards the rebranding of 120 gas stations, as part of a campaign to strengthen Petrobras' image in the domestic market.

Petrochemicals

In the Petrochemicals segment, capital expenditures totaled P$195 million, P$119 million and P$96 million in 2006, 2005 and 2004, respectively.

In 2006, capital expenditures in styrene mainly focused on increasing production capacity of the styrene plant, from 110,000 ton/year to 160,000 ton/year, allowing us to increase product supply and meet higher demand from the regional market. At the Campana plant, the potassium thiosulphate plant project was completed. We commenced works related to the revamping of the ammonia plant to increase production capacity, and investments were made in storage and logistics to continue selling liquid fertilizers.

In 2005, capital expenditures in styrene focused on increasing operating efficiency. A plot of land was acquired for the construction of a super simple phosphate plant for the production of a new fertilizer product that until 2005 was imported for resale. In addition, significant capital expenditures were made in relation to the supply of liquid fertilizers, plant maintenance and commercial development.

Financing activities

Net cash used in financing activities totaled P$48 million, P$463 million and P$224 million, in 2006, 2005 and 2004, respectively.

We paid off long-term debt in the amount of P$272 million, P$1,967 million and P$988 million, in 2006, 2005 and 2004, respectively.

In 2006, we paid at maturity Series B Notes under the U.S.$2.5 billon Global Corporate Notes Program in an aggregate amount of P$15 million (U.S.$5 million). In addition, Petrobras Energía S.A. and Petrobras Energía Perú S.A. repaid bank loans and long-term lines of credit in an amount of P$129 million and P$128 million, respectively.

In 2005, Series C, M and K Notes under the U.S.$2.5 billon Global Corporate Notes Program were fully prepaid, in the aggregate amount of P$1,251 million (U.S.$428 million). In addition, we paid at maturity Series F Notes under the Program for an aggregate amount of P$184 (U.S.$64 million).

Petrobras Energía Venezuela S.A. and Innova S.A. paid debt owed to the International Finance Corporation (IFC) in the amount of P$415 million (U.S.$137 million). In addition, we repaid bank loans in the amount of P$117 million.

In 2004, we made principal payments on Series C, M and K Notes under the U.S.$2.5 billion Global Corporate Notes Program and paid in full at maturity Series O and P Notes under that Program and the Fourth Series of the U.S.$1.2 billion Global Program, for a total payment of P$881 million. In addition, we paid P$107 million mainly in debt, principally bank loans.

Cash provided by long-term financing totaled P$220 million, P$747 million and P$669 million in 2006, 2005 and 2004, respectively.

In 2006, Petrobras Energía S.A. received P$82 (U.S.$26 million) for foreign trade financing. In addition, Petrobras Energía Perú S.A. received cash provided by other bank financing in the amount of P$138 million (U.S.$45 million).

In 2005, Petrobras Internacional Braspetro BV, a subsidiary of Petrobras, granted us a P$582 million (U.S.$200 million) loan. The funds were used to prepay Series M and K notes under the U.S.$2.5 billion Program. In addition, cash provided by other bank financing totaled P$165 million (U.S.$56 million).

In April 2004, we issued a second Tranche of the Series R Notes in an aggregate face value of U.S.$100 million, or P$289 million, which represents a single class with the Series R Notes issued in October 2003. In September 2004, Petrobras Internacional Braspetro BV granted us a P$150 million (U.S.$50 million) loan, see "Related Party Transactions". The IFC completed the financing granted in 2003 to our subsidiary Petrobras Energía Venezuela S.A. in the amount of P$85 million (U.S.$29 million) and Petrobras Energía del Perú S.A. received financing in the amount of P$85 million (U.S.$30 million), which partly completed the financing granted in 2003 by a syndicate of banks. In addition, cash provided by foreign trade financing totaled P$60 million.

Net cash provided by short-term financing totaled P$4 million, P$757 million and P$ 138 million in 2006, 2005 and 2004, respectively, primarily from foreign trade financing.

In 2004, Petrolera Santa Fe S.R.L., a company that was merged into the Company effective January 2005, paid P$41 million in dividends. Because this merger was recorded as a pooling of interest, our financial statements reflect the consolidation of Petrolera Santa Fe S.R.L. as if the merger had occurred in January 2003.

DESCRIPTION OF INDEBTEDNESS

Most of the Company's financial debt and a significant portion of the debt of the Company's main affiliates are denominated in U.S. dollars.

As of December 31, 2006, total indebtedness, excluding the proportional consolidation of companies under joint control, totaled P$5,679 million, of which P$3,546 million was long-term indebtedness. This compares to P$5,646 million as of December 31, 2005, of which P$4,367 was long-term indebtedness. As of December 31, 2006, short-term indebtedness totaled P$2,133 million, of which P$960 million represents the current portion of long-term obligations and P$1,173 million represents short-term indebtedness with financial institutions under loan agreements and foreign trade financing.

Petrobras Energía maintains a global corporate note program, for a maximum principal amount at any time outstanding of U.S.$2.5 billion or its equivalent in any currency. This program was authorized by the CNV under Certificate N. 202 dated May 4, 1998, Certificate N. 290 dated July 3, 2002 and Certificate N. 296 dated September 16, 2003. Currently, the Company's ability to issue notes under this program expires in May 2008. As of December 31, 2006, notes in an aggregate principal amount of U.S.$1,072 million were outstanding under this program. Notes under the program are not subject to acceleration in the event that the Company's credit ratings are downgraded.

The following is the debt maturity profile of the Company as of December 31, 2006:

	1 year	2 years	3 years	4 years	5 years	6 or more years
Millions of pesos	2,133	238	617	1,132	304	1,255

On June 9, 2005, the federal executive branch issued Executive Order 616/05, establishing that any cash inflow to the domestic market derived from foreign loans to the Argentine private sector shall have a maturity for repayment of at least 365 days as from the date of the cash inflow. In addition, at least 30% of the amount must be deposited with domestic financial institutions. This deposit (1) must be registered, (2) must be non-transferable, (3) must be non-interest bearing, (4) must be made in U.S. dollars, (5) must have a term of 365 days and (6) cannot be used as security or collateral in connection with other credit transactions. Export and import financing and primary public offerings of debt securities listed on self-regulated markets are exempt from the foregoing provisions.

This Executive Order may limit the Company's ability to finance its operations through new intercompany loans or any other kind of foreign financial loans.

Cross Default covenants

Series H, I, N, Q and R notes under our global corporate note program include cross default covenants, whereby the Trustee under those notes, if instructed by the noteholders representing at least 25% of the outstanding principal amounts of a series of notes, shall declare all the amounts owed due and payable, if any debt of ours or our material subsidiaries is not paid when due, provided that (1) those due and unpaid amounts exceed the higher of U.S.$25 million or 1% of Petrobras Energía's shareholders' equity at the time such debt is due, and (2) the default has not been cured within 30 days after we have been served notice of the default.

Certain other loan agreements include cross default covenants, whereby the lender may declare all the amounts owed as due and payable, if any debt of ours exceeding U.S.$10 million or 1% of our shareholders' equity is not paid when due.

FUTURE CAPITAL REQUIREMENTS

The Company estimates our investments for 2007 at approximately U.S.$800 million. This level of investments is part of the Company's strategy for sustained growth, which we have pursued in accordance with growth and expansion targets contemplated in the business plan.

The Company estimates that its capital expenditure requirements, dividends, financial debt payment obligations and working capital will be financed by cash from operations and, to a lesser extent, by new debt financings and possible divestments. The Company's level of investments will depend on a variety of factors, many of which are beyond our control. These include the future price evolution of the commodities we sell, the behavior of energy demand in Argentina and in regional markets, the existence and competitive impact of alternative projects, the enforcement of regulations and changes in applicable taxes and royalties and the political, economic and social situation prevailing in the countries where the Company operates.

Oil and Gas Exploration and Production

The Company's 2007 business plan focuses on the Oil and Gas Exploration and Production segment, with special emphasis on operations in Argentina and Ecuador. Projected investments in this segment will be in line with reserve replacement and production goals, as a crucial step in securing the Company's sustainable growth.

Argentina. Efforts will continue at the Neuquén basin to develop oil reserves through well drilling and expansion of secondary recovery projects and relevant surface facilities. With respect to gas production, works involving demarcation of wells and development of average compression are expected to commence at El Mangrullo. At the Austral basin, investments will be focused on well drilling for the development and demarcation of oil reserves and on maintenance of the curve of injection to the gas pipeline obtained as a result of the interconnection plan implemented during 2006. In addition, exploration activities involving seismic shooting and well drilling are expected to be performed.

Ecuador. Development of Block 18 is expected to continue through drilling of new producing and injection wells, as well as the construction of facilities to enhance and improve processes. In Block 31, works relating to the construction of facilities and infrastructure are expected to continue in order to prepare for the start of production activities at the Apaika Nenke Field. In addition, drilling of exploratory wells is expected to be performed on other areas within the block.

Peru. Drilling activities in connection with the development of Lote X are expected to continue on an intensive basis. With respect to exploration, preliminary works in connection with seismic shooting and drilling of the first exploratory well in Lote 57 are expected to be performed.

Refining and Distribution

In 2007, works outlined in the Refining Master Plan aimed at producing fuels according to stringent quality specifications will continue.

At the Bahía Blanca refinery, works relating to the reformate plant are expected to continue. The light reformate plant is expected to allow us to improve the quality of our gasolines and produce a grade with a high benzene content, a high value input for the petrochemical industry but subject to environmental regulatory restrictions when used in gasolines. Works to be performed at the hydrotreatment plant will allow it to operate at 100% of design capacity.

At the San Lorenzo Refinery, a new benzene tower is expected to be erected and a revamping of the Aromatics Recovery Unit is expected to be performed. These works will allow for the processing of light reformate streams from the Bahía Blanca refinery and other suppliers of gasolines with high benzene contents.

During 2007, new marine transportation activities are expected to include the operation of double hull tankers under international operating standards. This should allow us to enhance efficiency in the supply of crude oil to refineries, reduce logistics costs and increase safety and environmental conditions.

In the distribution segment, we expect to continue with the rebranding of gas stations, with a view to a selective growth of new businesses and a focus on service, quality and brand development.

Petrochemicals

At the Puerto General San Martín Plant, investments are expected to be focused on reducing variable costs (raw material and services) and minimizing environmental impact, as well as on reliability projects aimed at achieving increased yield and safety for operating processes. At the Zárate plant, we expect to complete two important projects: loading of bulk products in the polystyrene segment and a new 500-ton bops storage facility. These projects are expected to allow the plant to consolidate competitive advantages and operate under the highest environmental and safety standards.

With respect to the fertilizers business, works are expected on the revamping of one of the ammonia plants, in order to increase production capacity by 12% to 290 tons/year. Operating improvements at the plant are also planned to achieve increased yield and safety for operating processes. We plan to continue making investments in storage and logistics in order to maintain sales of liquid fertilizers to the agricultural sector.

CONTRACTUAL OBLIGATIONS

As of December 31, 2006, the Company had the following contractual commitments under commercial contracts for which a fixed price has been agreed:

	Total (units)	Total (Millions of Pesos)	Until
Purchase Commitments			
Transportation agreement with OCP (in millions of bbls.) (1)	**321**	2,692	2018
Long–term service agreement	-	159	2007
Bolivian gas and oil transportation agreement (in MMm3)	**6,490**	133	2019
Petroleum services and materials	-	417	2019
Ethylene (in thousands of tons)	**525**	1,483	2015
Benzene (in thousands of tons)	**1,469**	3,357	2015
Transportation capacity with TGS (in MMm3)	**24**	189	2014
Gas purchase agreement for Genelba (in MMm3)	**564**	114	2009
Oil purchase agreement (in millions of bbls.)	**12**	1,468	2007
Sales commitments			
Natural gas (in MMm3)	**7,806**	1,423	2018
Styrene (in thousands of tons)	**165**	744	2009
Electric power (in MMWh)	**1,938**	144	2009
LPG (in thousands of tons)	**58**	82	2007
Oil sale agreement (in millions of bbls.)	**17**	3,350	2009

(1) Net of transportation capacity sold to third parties

MANAGEMENT, AUDIT COMMITTEE AND STATUTORY SYNDIC COMMITTEE

Board of Directors

In accordance with our by-laws, the Board of Directors, which formally meets at least once every three months, must be comprised of a minimum of six and a maximum of twenty-one members. Shareholders may appoint a number of alternate directors that may be equal to or lower than the number of regular directors in order to fill any vacancy, in the order of their appointment. Directors and alternate directors are appointed by shareholders at their annual shareholders' meeting for a term of one fiscal year, and can be re-elected.

The following table sets forth the current members and alternate members of our Board of Directors, the composition of which was approved by the Regular Shareholders' Meeting held on March 30, 2007.

Name	Year of appointment	Year first joined Petrobras Energía	Position
Decio Fabrício Oddone da Costa	2006	-	Chairman
Daniel Lima de Oliveira	2006	-	Vice Chairman
Sidney Granja Affonso	2006	-	Director
André Garcez Ghirardi	2006	-	Director
Solange da Silva Guedes	2006	-	Director
Carlos Alberto de Meira Fontes	2007	2004	Director
Carlos Tadeu da Costa Fraga	2006	-	Director
Venina Velosa da Fonseca	2006	-	Director
Héctor Daniel Casal	2003	1991	Director
Roberto Luis Monti	2003	-	Director
Roberto Fortunati	2006	-	Director
Cedric Bridger	2004	-	Director
Cláudio Fontes Nunes	2006	2006	Director
Carlos A. Pereira de Oliveira	2004	2003	Director
João, Ferreira Bezerra de Souza	2006	2006	Director
Luis Miguel Sas	2003	1984	Director
Rui Antonio Alves da Fonseca	2006	2003	Director
Vilson Reichemback da Silva	2005	2004	Director
Adalberto Santiago Barbalho	2007	2007	Director
Heitor Cordeiro Chagas de Oliveira	2006	2006	Alternate Director
María José van Morlegan	2006	-	Alternate Director

In compliance with Resolution No. 368 of the National Securities Commission (CNV), Roberto Fortunati, Roberto Monti and María José van Morlegan qualify as independent directors, and the other directors are not independent in accordance with the applicable CNV rules.

Resolution No. 368 provides that a member of a corporate body shall not be considered independent if that member fits one or more of the following descriptions:

The member is also a member of management or an employee of shareholders who hold significant interests in the issuer, or of other entities in which these shareholders hold either directly or indirectly significant interests or over which these shareholders exercise a significant influence.

The member is an employee of the issuer or has been an employee in the last three years.

The member has professional relations or is part of a company or professional association that maintains professional relations with, or that receives remunerations or fees (other than directors' fees) from, the issuer or from its shareholders that hold either directly or indirectly significant interests in or exercise a significant influence over the issuer, or from which such shareholders hold either directly or indirectly significant interests or exercise a significant influence.

The member is either directly or indirectly a holder of significant interests in the issuer or in an entity that has significant interests in or exercises a significant influence over the issuer.

The member sells or provides either directly or indirectly goods or services to the issuer or to shareholders that hold either directly or indirectly significant interests in or exercise a significant influence over the issuer and receives compensation for such services that is substantially higher than that received as a director.

The member is married or is a family member, up to fourth degree by blood or up to second degree by affinity, to an individual who would not qualify as independent.

"Significant interests" shall mean shareholdings that represent at least 35% of the capital stock of the relevant entity, or a smaller percentage when the person has the right to elect one or more directors by class of shares or by having entered into agreements with other shareholders relating to the governance and the management of the relevant entity or of its controlling shareholders. Also, in defining "significant influence," one must consider the guidelines established in the professional accounting rules.

The following is a brief summary of the principal business and academic experience of each of our directors listed in the table above:

Decio Fabricio, Oddone Da Costa (45) has a degree in Electrical Engineering from Universidad Federal de Río Grande do Sul, Brasil. He completed post-graduated courses in oil engineering promoted by Petrobras and in "Advanced Management" at Harvard University Business School and the Advanced Management Programme at the Insead, France. He received an honorary Master Degree in Management and Administration from the Alta Escuela de Dirección y Administración de Empresas in Madrid, Spain, and an Honoris Causa Doctoral Degree in education from Aquino's University, Bolivia. He has occupied several managerial positions within Petrobras in Brazil, Argentina, Angola, Libya and Bolivia where he held the position of President of Petrobras Bolivia S.A. and other companies of the group. Currently he also is responsible for Petrobras's Activities in Cono Sur. He also acts as President of Petrobras subsidiary companies in Bolivia, Uruguay, Chile, Paraguay and Spain and as a member of the board of Petrobras Energía and other companies of the Petrobras group.

Daniel Lima de Oliveira (54) has a degree in Mechanical Engineering from Industrial Engineering School in S.J. dos Campos. In 1976 he joined Petrobras as a supply engineer in the Commercial Department. In 1982 he moved to the Financial Department of Petrobras, having work in the Short Term Credit Division, and as Assistant to the General Manager. From 1984 to 1988 he served as Financial Manager of the Petrobras London Office. From 1988 to 1992 he worked as manager at Braspetro, responsible for insurance and financing for the Company foreign operations. From 1992 until 1995 he served as head of the Medium and Long Term Credit Division with the responsibility for raising funds to the company investment program. From 1995 to 1999 he was assigned to the Petrobras New York Office as Financial Manager, responsible for negotiating trading lines, supporting the Head Office in structured transactions, Investor Relations and liaising with U.S. and Canadian export agencies. From September 1999 to July 2005 he was designated Deputy Executive Manager of the Financial Department with the responsibility for coordinating financial activities among several subsidiaries. In this position he has served on the Board of Directors of the following subsidiaries: BRASOIL, CATLEIA, PIB BV, Petrobras Participaciones S.L., POG, PEMID, PEL, FRADE INVERSIONES. In March 2004 he was appointed as member to the board of REFAP S/A. Since July 2005 he has been the Executive Manager of Petrobras Corporate Finance.

Sydney Granja Affonso (54) has a degree in Mechanical Engineering from the School of Engineering of Universidade Federal do Rio de Janeiro. He joined Petrobras–UFRJ in 1977 in Equipment Engineering, after taking a course in Industrial Equipment and Systems (CEMANT - Petrobras - UFRJ). He served in several areas of Petrobras: Information Resource Planning, Petrobras System Planning Division and Strategic Analysis, Gas and Power Planning and Business Performance General Manager. Since July 2003 he has served as Planning General Manager of the Gas and Energy business unit in Petrobras. Currently, he serves as Executive Manager for Natural Gas Logistics.

André Garcez Ghirardi (55) has a degree in Industrial Engineering from Universidade de Säo Pablo, Brazil, where he also pursued graduate studies in Operations Research. He has a Masters Degree from the Massachusetts

Institute of Technology with dissertation on Strategic Petroleum Stockpiling. He holds a Ph.D. in Energy and Resources from the University of California Berkeley, with a thesis on the Use of Alcohol Fuels in Brazil. He is a former staff member of U.S. Department of Energy's Lawrence Berkeley Laboratory, in Berkeley California, where he conducted studies on energy demand in Latin America and West Africa. He is on leave from the School of Economics at Universidade Federal da Bahía where he holds an Associate Professorship teaching Energy Economics and Econometrics at graduate and undergraduate levels. He has conducted studies on the reform of the electric power sector in Brazil, and has worked as consultant for COELBA, the electric power distribution company in the state of Bahía, Brazil. He served as assistant to the Chief Financial Officer of Petrobras, and currently serves as adviser to the Chief Executive Officer of Petrobras.

Solange da Silva Guedes (45) has a degree in Civil Engineering from the Federal University of Juiz de Fora in 1982. She joined Petrobras in 1985, when she took a specialization course in Petroleum and Production Engineering at the Petrobras University. In 1988 she got a M. Sc. degree in Civil Engineering from the Federal University of Rio de Janeiro (UFRJ). In 1998 she attended a Doctoral program at the State University of Campinas (UNICAMP). In November 2000, she was designated Marlim South Reservoir Sector Manager of the Exploration and Production Business Unit. Since 2003 she has been Executive Manager for Exploration and Production for the North and Northeast region in Petrobras.

Carlos Alberto de Meira Fontes (56) has a degree in Chemical Engineering and also an MBA from Universidad Federal de Rio de Janeiro. He began work with Petrobras 30 years ago and to this day has held a number of positions including Sub-Director of Refining, Manager of Technical Processes and Refining Products, Manager of Petrochemical Projects, Chief of Petrochemical Supplies and President of Petroquisa. He has also been a member of the Board of Directors of companies such as Rio Polímeros S.A. and Petroquímica Triumfo, among others.

Carlos Tadeu da Costa Fraga (49) graduated with a Bachelors Degree in Civil Engineering from UFRJ (Federal University of Rio de Janeiro) in 1980. He joined Petrobras Energía in 1981, where he attained his qualification in Petroleum Engineering. He has participated in several technical and managerial training programs in Brazil and overseas, including a course in Petroleum Engineering at Alberta University, in Canada, a course in Business Management at Columbia University, in New York, a course in Technology Management at Insead, in France, and a course in Strategic Leadership at London Business School. He held many executive managerial positions, as the Manager of Major Deepwater Operations both in Brazil and in the Gulf of Mexico. Since 2003 he has been the head of Petrobras Research & Development Center, responsible for all Research & Development and basic engineering projects, on upstream, downstream and renewables areas.

Venina Velosa da Fonseca (44) has a degree in Geological Engineering from Ouro Preto Federal University. She took a specialization course in Petroleum Geology (CIGEP-UFRJ) and an improvement course in Petroleum Geology and obtained an MBA degree in Economy and Management of Natural Gas and Energy. She joined Petrobras in 1990 and has since held several positions, including Manager of Implementation of Integrated Management Systems and Downstream Manager. Currently she is Executive Manager of Corporate Downstream.

Héctor Daniel Casal (50) has a degree in Law. He serves as Director of Legal Affairs of Petrobras Energía. He has worked at Petrobras Energía since 1991. He also serves as Vice Chairman of Petrobras Energía Internacional S.A. He is a Director of Petrobras Energía, Citelec, Distrilec, Transener, Transba, Petrolera Entre Lomas S.A., Petrobras Financial Services Austria Gmbh, Petrobras Holding Austria and an alternate Director of Edesur.

Roberto Luis Monti (67) has a degree in Electronic Engineering. He holds an MBA degree in Electronic Engineering from Universidad de Buenos Aires and an MBA degree from AMA, New York. He held the position of Vice President of Wireline, President of Anadrill, President for the Eastern Hemisphere division of Wireline & Testing in South America and President of Dowell worldwide during the 1981-1995 period. In addition, he served as President and CEO of Maxus Energy Corporation between 1995 and 1997. He held the position of President and CEO of YPF S.A. during the 1997-1999 period, Vice President of Repsol YPF Exploration and Production Division and Vice Chairman on YPF S.A.'s Board in 2000. He currently serves as Chairman of Transocean Sedco Forex, Wood Group, Tenaris and Director of Trefoil Limited.

Roberto Fortunati (51) obtained a degree in Law from Universidad de Buenos Aires in 1979. He has been a member of the Bar Association of the Federal Capital since 1979 and is one of the founding members of the Company. He was Director of Citigroup Legal Affairs Department in Argentina, after serving as partner at Beccar Varela Law Firm and member of its Executive Committee. His professional career started 25 years ago as Counsel for Amoco Argentina Oil Company. In addition, he is advisor to the World Bank. He has been a member and founding partner of Fortunati & Lucero Law Firm since 2003. His main area of practice is banking law, corporate finance, project financing, with a special focus on oil and gas. In the academic field, Roberto Fortunati is a member of the Advisory Board for Universidad Torcuato Di Tella, and a Professor in Postgraduate Studies in Oil and Gas and Project Financing at Universidad de Buenos Aires.

Cedric Bridger (71) obtained a degree in Public Accounting in London, where he initiated his professional activities. In Buenos Aires (1964) he was Financial Manager of FADIP S.A. (later Hughes Tool Co. S.A.). He then held the position of General Manager of the company in Brazil and was finally appointed Vice President of Operations of the company for Latin America. From 1992 until 1998, he was Vice President of Finance at YPF S.A. In April 1998, he retired from YPF S.A. and took a position as a Director of Banco Hipotecario. He is currently attorney-in-fact of the Argentine subsidiary of Técnicas Reunidas S.A. (Spain) and a Director of Petrobras Energía and IRSA S.A.and President of Patagonia Natural Products S.A.

Claudio Fontes Nunes (51) has a degree in Civil Engineering with a specialization in Hydraulic Works from Universidade Federal do Rio de Janeiro. He specialized in Petroleum Engineering at Petrobras. He is also a graduate of the Advanced Management Program from Harvard University. He joined Petrobras in 1980 and was in charge of Well Evaluation Operations, Projects Analysis, Contracts, Production Engineering, Engineering and Health, Safety and Environment. He currently serves as Director of Services.

Carlos Alberto Pereira de Oliveira (49) obtained a degree in Mechanical Engineering from the Instituto Militar de Engenharia of Rio de Janeiro and in Administration at the Federal University of Rio de Janeiro, both in 1980. He specialized in petroleum engineering at Petrobras in 1981 and in Petroleum Finance and Administration at the University of Texas in 1997. He has a Master in Finance and Investments at the Pontifícia Universidade Católica of Rio de Janeiro. He entered in Petrobras in 1981 and assumed several executive positions, as Reserves and Reservoir General Manager from 1997 to 1998 and Exploration and Production Executive Manager from 1999 to 2003. He is currently Director of the Oil and Gas Exploration and Production Business Unit of Petrobras Energía S.A. and Director of Petrobras Energía, Petrobras Energía Perú S.A. and Petrolera Entre Lomas S.A.

João, Ferreira Bezerra de Souza (48): has a degree in Electrical Engineering from Pernambuco Federal University and holds a Ph.D from Cranfield University, England, where he developed a GETI management model that guarantees a balance of interests among the stakeholders of a business. He joined Petrobras in 1986 and served in the Exploration and Production, Refining, Quality, Human Resources, Business Development and Market Integration areas. As Manager of Business Development, he conducted the process involving the acquisition of Eg3, Pecom Energía S.A. and Petrolera Perez Companc S.A. He currently performs as Chairman of TGS, Citelec, TRANSBA S.A., C.I.E.S.A. and Distrilec and as Vice Chairman of Edesur, Companía. Mega S.A. and Transener. He presently performs as Director of Gas and Energy

Luis Miguel Sas: (44) has a degree in economics, is a Certified Public Accountant, a graduate of Universidad de Buenos Aires and holds an MBA from the Instituto de Altos Estudios Empresariales – Universidad Austral. He joined Petrobras Energía in 1984. In 1990 he was appointed head of the Financial Operations Division when Petrobras Energía took over Telecom Argentina S.A.. He worked as head of the Petrobras Energía money desk during the 1992-1997 period. In 1997 he was appointed Corporate Finance Manager, in charge of capital market financing and project financing. In January 2000, he was appointed Chief Financial Officer of Edesur. He served as Finance Manager at Petrobras Energía between May 2001 and May 2004. On May 7, 2004 he was appointed Chief Financial Officer of Petrobras Energía. In addition, he currently serves as Chairman of Petrobras Hispano Argentina S.A. and Petrobras de Valores Internacional de España S.A., as Vicepresident of Petrobras Energía Internacional S.A., and as Director of Petrobras Energía, World Energy Business and Distrilec. He is also a Member of Supervisory Board of Petrobras Holding Austria AG.

Rui Antonio Alves da Fonseca (49) majored in Mechanical Engineering at Universidade Federal do Rio de Janeiro and completed MBA courses for managers and executives at Fundación Getúlio Vargas, Brazil. At

Petrobras he worked as head of the CENPES Industrial Project Division and as Environment, Safety and Health General Manager. He currently is Director of Quality, Environment, Safety and Occupational Health.

Vilson Reichemback Da Silva (55) has a degree in Law from the Universidade Federal do Ceará in 1995. He currently serves as Vice Chairman of Eg3 RED S.A. and Eg3 Asfaltos S.A. He is also Director of the Commercial Downstream Business Unit.

Adalberto Santiago Barbalho (55) has a degree in Chemical Engineering from the Universidad Federal de Río de Janeiro and a degree in Civil Engineering from the Ingeniero Civil de la Pontificia Universidad Católica of Campinas, Brazil. He also has a Master's degree from the State University of Campinas. He has a long history with the Company, starting in 1975. Since November of 2003, he has served as General Manager of Petrobras Bolivia Refinación. Before his current position, he worked in the Energy department of Casa Matriz as a Coordinator of Analysis and Evaluation and General Manager of Operations and Maintenance. He also worked in the Paulinia Refinery – REPLAN, where he spent the better part of his career, from 1975 until 1990, serving in various management positions.

Heitor Cordeiro Chagas de Oliveira (61): has a degree in Law from Universidad Federal Fluminense. He specialized in Human Resource Development at Getúlio Vargas Foundation, Rio de Janeiro, where he worked as professor and served on the Governing Board. He is a widely experienced consultant and lecturer. He received an award twice from the Brazilian Human Resource Association. He was responsible for the Human Resource Department in two opportunities at Petrobras S.A. and other public and private agencies including, among others, Banco Boavista, BANERJ, the Federal Administration Secretary and the Ministry of Health. He also served as Corporate Affairs Director at Xerox of Brazil and Director of PETROQUISA. He currently holds the position of Director of Human Resources.

María José van Morlegan (32) has a degree in Law from the Universidad Católica Argentina in Buenos Aires. From 1995 to 1998, she began her career as a Junior Lawyer at Ford Motors. From 1998 to 1999, she was a lawyer with the law firm of Marval, O'Farrell & Mairal. From 1999 until 2007, she worked as an Associate at the law firm of Estudio Cabanellas, Etchebarne, Kelly & Dell'Oro Maini. She is currently an Associate at the law firm of Fortunati & Asociados.

Compensation

Compensation of the Board of Directors' members is determined at the Regular Shareholders' Meeting in compliance with the Argentine Business Companies Law. The maximum amount of compensation the Board of Directors' members may receive, including salaries and any other form of compensation for the performance of permanent technical and administrative functions, may not exceed 25% of our profits. This amount will be 5% in the event no dividends are distributed to the shareholders and will be increased pro rata on the basis of the dividend distribution up to the 25% cap. In the event one or more directors serve as members of a special committee or perform technical and administrative functions and profits are reduced or non-existent and consequently the preset limits are exceeded, compensations in excess of the limit may only be paid with the prior express approval by shareholders at the Regular Shareholders' Meeting.

In Petrobras Energía, the compensation policy for executive officers includes an annual cash compensation and a benefit program. The annual cash compensation is determined based on the characteristics and responsibilities of the relevant position and the executive officer's qualifications and experience and benchmark information. Such compensation consists of a monthly fixed compensation and an annual variable compensation dependent upon Petrobras Energía's results of operations and the achievement of individual goals and objectives. Benefits granted to executive officers are similar to those granted to the staff, such as life insurance, health care plan, meal allowance, and defined benefits plan.

No contracts for services were entered into between the directors and our company or any of our subsidiaries that provide for benefits after termination of their office, other than as provided by law.

Total aggregate compensation paid to the members of the Company's Board was P$8 million in 2006.

Audit Committee

Pursuant to the Regime concerning Transparency in Public Offerings approved by Decree No. 677/2001, Argentine public companies must have an Audit Committee composed of three or more members of the Board of Directors. On May 21, 2003, our Board approved the implementation process prescribed by General Resolution No. 400/02 issued by the CNV. This Regulation establishes that the implementation and operation of the Audit Committee must be stated in the Company's internal regulations or bylaws.

In compliance with the above regulations, on March 19, 2004 the Shareholders' Regular Meeting approved the addition of a section to our bylaws regarding the structure and operation of the Audit Committee.

The Audit Committee's purpose is to assist the Board of Directors in fulfilling its responsibilities to investors, the market and others in matters relating to (1) the integrity of the Financial Statements, (2) compliance with applicable legal, regulatory and behavioral requirements, (3) qualification and independence of the independent external auditor who will act as attesting accountant (the "Independent Auditor"), and (4) the conduct of the internal audit and the Independent Auditor's performance.

The Audit Committee is composed of three regular directors and an equal or lower number of alternate members who are appointed by the Board from among its members. Directors having sufficient experience and ability in financial, accounting or business matters are eligible to become members of the Audit Committee. All members or at least the majority of its members will be independent, under the standards provided for in the regulations of the CNV. The Audit Committee may determine its own internal procedures. At the March 30, 2007 Board of Directors' Meeting, Daniel Lima de Oliveira, Roberto Luis Monti and Roberto Fortunati, were designated as members of the Audit Committee and María José van Morlegan was designated as an alternate member.

The Audit Committee works out an annual action plan for each fiscal year to be reported to the Board of Directors and the Statutory Syndic Committee. The remaining directors, members of the Statutory Syndic Committee, managers and external auditors will be bound, at the Audit Committee's request, to attend the Committee's meetings, assist the Committee and provide it with any information available to them. The Committee shall have access to the information and documentation deemed necessary for the fulfillment of its functions.

The Audit Committee has the following principal powers and responsibilities:

a) To supervise the performance of the internal control systems and of the administrative and accounting system, as well as the performance and trustworthiness of the latter and all the financial information and the disclosure of relevant events to be submitted to the CNV and to self-regulated entities in compliance with the applicable disclosure requirements.

b) To establish and supervise the implementation of procedures for the reception, documentation and treatment of claims or reports on irregularities in connection with accounting, internal control or auditing matters, on a confidential and anonymous basis.

c) To issue founded opinions with respect to transactions with related parties as required by applicable law. To issue founded opinions whenever a conflict of interest exists or may arise for us and to communicate this opinion to self-regulated entities as required by the CNV.

d) provide the market with complete information with respect to transactions where members of the corporate bodies and/or controlling shareholders of ours have conflicts of interest.

e) To opine with respect to the reasonableness of the compensation and stock option plans proposed by the Board of Director at the meetings.

f) To opine with respect to the compliance of legal requirements and on the reasonableness of proposals to issue shares or securities convertible into shares, in the case of capital increases that exclude or limit preemptive rights.

g) To issue at least once, at the time of submittal of the annual financial statements, a report on the treatment given during the year to the matters under its responsibility.

h) To issue an opinion on the proposal submitted by the Board for the appointment (or revocation) of the independent auditor and communicate it to the shareholders' meeting.

i) To evaluate the qualifications and independence of the independent auditors.

j) To issue and maintain pre-approval procedures in connection with any service (whether audit-related or not) to be provided by the independent auditor, under which the Committee will be exclusively authorized to pre-approve any service provided by the said Auditor.

k) To evaluate the quality of our accounting standards and the main changes to such accounting standards.

Corporate Governance

Corporate Governance refers to a set of policies, systems, standards and procedures regulating the Company's management and development. The Corporate Governance best practices provide the adequate framework to support organizational objectives, where the roles and responsibilities of the main players and their interaction are defined, securing the alignment, balance and respect of the interests of all shareholders and any other public involved, employees, clients, vendors and the community in general.

Ethics in the conduct of business, transparency in the relationship with target publics and trustworthiness of the financial information generated by the company are the main pillars of the management practices on which the Company's Corporate Governance philosophy is built.

During 2006, efforts continued to consolidate several initiatives implemented in 2004 and 2005, aimed at strengthening Corporate Governance best practices:

The Audit Committee's performance consolidated, with a fluent interaction with the different company sectors and a greater involvement with the Company's business management, in compliance with the rules and regulations applicable in Argentina and the USA.

We launched a major campaign to disseminate and implement the Code of Business Conduct and Ethics, in line with Petrobras' conduct principles and consistently applied to all the Company's operations.

The mechanisms and procedures for the reporting of irregularities involving accounting and financial issues and conflicts of interest implemented in 2005 were enhanced and efforts to disseminate the same continued. These mechanisms allow the informant to report any irregularity to the Audit Committee on a confidential and anonymous basis.

The Irregularity Reporting system was transferred from Internal Audit to the Ombudsman's Office. For that reason, the Code of Business Conduct and Ethics and the Directive on Reporting of Irregularities and Conflicts of Interest were updated

Relevant information was disclosed to the market in accordance with the standards and practices established during the previous fiscal year, being respectful of good market practices and complying with applicable legal requirements.

In addition, the Company's Management continued working on the implementation of the requirements of Section 404 of the Sarbanes-Oxley Law to which Petrobras Energía Participaciones S.A. is subject as a company

registered with the Securities and Exchange Commission (SEC). The main focus of Section 404 is placed on the certification of the effectiveness of internal controls over financial reporting, for the purpose of strengthening the confidence of investors in securities markets, by means of the adoption of corporate governance best practices, the promotion of business ethical practices, securing trustworthiness of the financial information to all shareholders, investors and the public in general.

The Sarbanes-Oxley Law sets forth specific responsibilities of the Audit Committee, the Company's Management and its external auditors, adds new reporting requirements for public companies subject to the law and imposes severe personal and institutional penalties for non-compliance with stated regulations.

In 2006, Petrobras Energía Participaciones S.A. will certify for the first time its internal control systems in compliance with Section 404 of the Sarbanes-Oxley Law. This certification must be submitted with financial statements to be filed with the SEC.

Statutory Syndic Committee

The Company has a Statutory Syndic Committee that is comprised of three members and three alternate members. The table below sets forth the name of each member of the Statutory Syndic Committee, approved by Petrobras Energía's Regular Shareholders' Meeting held on March 30, 2007.

Name	Year of appointment	Position
Juan Carlos Cincotta	2004	Member
Justo Federico Norman	2003	Member
Rogelio Norberto Maciel	2003	Member
Olga M. Morrone de Quintana	2003	Alternate
Mariana P. Ardizzone	2003	Alternate
María Laura Maciel	2004	Alternate

The members and alternate members of the Statutory Syndic Committee are elected by the shareholders at the Annual Shareholders' Meeting to serve for a term of one year, and can be re-elected. The primary responsibilities of the Statutory Syndic Committee are to monitor the Board of Directors' and management's compliance with the Business Companies Law, our by-laws and the shareholders' resolutions. The Statutory Syndic Committee also performs other functions, including: (i) attending meetings of the Board of Directors and shareholders, (ii) calling Special Shareholders' Meetings when deemed necessary or when required by shareholders, in accordance with the Business Companies Law, No. 19550, (iii) presenting a report on the reports of the Board of Directors and the annual financial statements at regular shareholders' meetings, and (iv) investigating written complaints of shareholders representing not less than 2% of the capital stock. The Statutory Syndic Committee may not engage in any management control and, accordingly, may not evaluate business judgment and decisions on issues of administration, financing, selling and production, as these issues fall within the exclusive responsibility of the Board of Directors.

Justo Federico Norman, Rogelio Norberto Maciel, Mariana P. Ardizzone and Maria Laura Maciel are lawyers and work at Maciel, Norman & Asociados Law Office, which has professional relations with and charges fees to us, our controlling companies and other Petrobras Energía companies.

Olga Margarita Morrone de Quintana is a public accountant and works at Estudio Morrone de Quintana, Seoane & Quintana, which has professional relations with and charges fees to us and other Petrobras Energía companies.

In compliance with Technical Resolution No.15 of the Argentine Federation of Professional Councils in Economic Sciences, Juan Carlos Cincotta and Olga Margarita Morrone de Quintana qualify as independent directors.

Juan Carlos Cincotta (61) has a degree in Public Accounting from Universidad de Buenos Aires. He is currently a Head of Cincotta Asesores, formerly a partner at Ernst & Young, Grant Thornton and Bertora &

Asociados. He specializes in external audits of major public and private entities, consulting in accounting issues and auditing of companies. He is a member of the Special Commission on Accounting and Auditing Regulations (CENCyA) of the Federación Argentina de Consejos Profesionales de Ciencias Económicas and Member of the Developing Nations Committee of the International Federation of Accountants (IFAC).

Justo F. Norman (61) has a degree in Law. He is a partner of Maciel, Norman & Asociados Law Office in Buenos Aires (1991) with extensive experience in the general practice of law and in the fields of energy, natural resources, oil and gas regulations and environmental issues. He is also renowned in the litigation and international arbitration fields. He is a member of the Association of International Petroleum Negotiators (AIPN) where he has served serves as Regional Secretary (2001-2004); the International Bar Association (IBA); and Rocky Mountain Mineral Law Foundation. He has represented and currently represents companies such as Anadarko Petroleum Corporation, ANR Pipeline Company (Coastal), Apache Corporation, BHP Petroleum (Americas) Inc., British Gas, Devon Energy Corporation, Parker Drilling, and Petroliam National Berhad (Petronas). He is a Regular Director of Noranda Exploración Argentina S.A., Petronas Argentina S.A. and Apache Petrolera Argentina S.A., among others.

Rogelio N. Maciel (70) is a founding partner of Maciel, Norman & Asociados Law Office. He is a renowned lawyer in the litigation and international arbitration fields. He was one of the members of the Argentine Aeronautical Code Drafting Committee and was a member of the Argentine delegation to the OACI. He is a member of the Buenos Aires Oil Club, the Association of International Petroleum Negotiators (AIPN) and the Rocky Mountain Mineral Law Foundation. He is Vice President of Noranda Exploración Argentina S.A. and Petronas Argentina S.A., a Regular Director of BHP Petroleum (Argentina) S.A. and an Alternate Director of Petrolera Rio Alto S.A., among others.

Olga M. Morrone de Quintana (70) is a partner of Morrone de Quintana, Seoane & Quintana. She is currently a member of the Statutory Syndic Committee of Petrolera Entre Lomas S.A., Petrobras Energía Internacional S.A., World Energy Business S.A., Propyme SGR.

Mariana P. Ardizzone (33) has a degree in Law from Universidad de Buenos Aires. She holds a Master of Laws from the University of Michigan and is currently enrolled in a post-graduate degree course in Business Administration and Electric Energy and Natural Gas Markets at the Instituto Tecnológico de Buenos Aires (ITBA). Since July 2001, she has been working as a lawyer at Maciel, Norman & Asociados law office.

Maria Laura Maciel (43) has a degree in Law from Universidad Católica Argentina. She holds a post-graduate degree in Private International Law and in Aviation Law from American University in Washington D.C. (1986), and a post-graduate degree in IATA/FIATA in the International Association of Air Transportation, Montreal, Canada (2004). She is currently working as an associate at Maciel, Norman & Asociados law office.

Total aggregate compensation for the members of the Statutory Syndic Committee was P$0.04 million in 2006.

Executive Officers

The following table sets forth the names and positions of Petrobras Energía's executive officers.

Name	Position
Carlos Alberto de Meira Fontes	Chief Executive Officer
Luis Miguel Sas	Chief Financial Officer
Carlos A. Pereira de Oliveira	Director of Oil and Gas Exploration and Production Business Unit
Adalberto Santiago Barbalho	Director of Refining and Petrochemicals Business Units
João, Ferreira Bezerra de Souza	Director of Gas & Energy Business Unit
Heitor Cordeiro Chagas	Director of Human Resources
Héctor Daniel Casal	Director of Legal Affairs
Claudio Fontes Nunes	Director of Services
Pablo María Puiggari	Executive Manager of Communications
Rui Antonio Alves da Fonseca	Director of Quality, Environmental and Safety and Occupational Health

Michael Ditchfield	Executive Manager of Planning and Management Control
Vilson Reichenback da Silva	Director of the Commercial Downstream Business Unit

For a brief summary of the principal business and academic experience of each of Carlos Alberto de Meira Fontes, Luis Miguel Sas, Carlos A. Pereira de Oliveira, Adalberto Santiago Barbalho, João Ferreira Bezerra de Souza, Heitor Cordeiro Chagas, Héctor Daniel Casal, Claudio Fontes Nunes, Rui Antonio Alvez de Fonseca and Vilson Reichenback da Silva, see "Board of Directors."

Pablo María Puiggari (43) has a degree in Law from Buenos Aires University. He completed post-graduated courses in Mass Communications from Boston University (College of Communications) where he received an Honorary Masters Degree. He has occupied several managerial positions in Petrobras Energía, such as Institutional Relations Manager and Publicity Sponsorships Manager.

Michael Ditchfield (44) has a degree in both Economic Sciences from University of Rio de Janeiro and Civil Engineering from the Federal University of Rio de Janeiro. He obtained an MBA with a concentration in Finance and Strategy from the London Business School. Since 1991 he has held several executive positions at Petrobras, including General Manager of Petrobras in London, Executive Manager of Planning and Services of Petrobras International Area, CFO and member of Petrobras Internacional's Board of Directors. He has a vast experience in finance, acquisitions and merger and integration processes, strategic planning, business management support, implementation of management systems in several countries, corporate matters and assessment, purchase and sale of companies. He is currently a member of the Board of Directors of World Energy Business S.A. and a member of the Supervisory Board of Petrobras Holding Austria AG.

Compensation for Executive Officers

In Petrobras Energía, the compensation policy for executive officers includes an annual cash compensation and a benefit program. The annual cash compensation is determined based on the characteristics and responsibilities of the relevant position and the executive officer's qualifications and experience and benchmark information. Such compensation consists of a monthly fixed compensation and an annual variable compensation dependent upon Petrobras Energía's results of operations and the achievement of individual goals and objectives. Benefits granted to executive officers are similar to those granted to the staff, such as life insurance, health care plan, meal allowance, and defined benefits plan.

Compensation

Total aggregate compensation paid to executive officers, except for officers qualifying as members of the Company's Board, totaled P$2.7 million in 2006.

No contracts for services were entered into between the directors and our company or any of our subsidiaries that provide for benefits after termination of their office.

Administration and Organization

Petrobras Energía's operations are divided into four business segments that are in turn supported by corporate functions.

Petrobras Energía is managed by a committee comprised of seven members: the Chief Executive Officer, the Chief Financial Officer, the Director of each business unit (Oil and Gas Exploration and Production, Refining and Distribution, Petrochemicals and Gas and Energy) and the Director of Services.

Operations are managed through standardized processes that facilitate and secure coordination between the different units and groups. Delegation of authority is encouraged for the purpose of promoting efficiency. In addition, the scope of the delegation of authority is clearly and expressly determined through systemized approval limits for risk minimization purposes.

Our internal control system is supported by coordination among the areas responsible for managing businesses and administering them on a centralized basis, always within the framework of the policies established by the executive committee.

Operating and administrative processes are jointly supported by administrative procedures, highly reliable information systems, production of periodical management control reports, performance appraisals and fluid communications.

PRINCIPAL SHAREHOLDERS

Our total authorized and issued share capital at December 31, 2006 amounted to P$1,009,618,410. Our capital is divided into two classes of ordinary shares, the Class A shares and the Class B shares, each with a par value of P$1. There are 44,927 Class A shares outstanding, each of which carries five votes, and 1,009,573,483 Class B shares outstanding, each of which carries one vote. The Class A and Class B shares of our company have been listed on the Buenos Aires Stock Exchange since 1956.

Petróleo Brasileiro S.A. – PETROBRAS ("Petrobras") is the legal entity that controls us through its control of Petrobras Participaciones S.L., which in turn controls 75.82% of Petrobras Energía Participaciones S.A., a company that holds 58.6% of our capital stock.

Petrobras Participaciones S.L. also directly owns 22.8% of Petrobras Energía S.A.'s capital stock.

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

The following table sets forth our shareholders, the number of shares held by each of them and the percentage of share capital represented by those shares.

	Number of Shares		% of the Total Outstanding Shares	
Shareholder	**Class A**	**Class B**	**Voting Share Capital**	**Total Share Capital**
Petrobras Energía Participaciones S.A.	44,641	765,391,206	75.8%	75.8%
Otrher Shareholders	286	14,453,727	1.4%	1.4%
Petrobras Participaciones S.L.	-	229,728,550	22.8%	22.8%
Total	44,927	1,009,573,483	100.0%	100.0%

Pursuant to the Business Companies Law, the Company may only pay dividends from our retained earnings reflected in our annual audited financial statements as approved at our annual General Regular Shareholders' Meeting. While the Company's Board of Directors may declare interim dividends, each member of the Board of Directors and of the Statutory Syndic Committee would be jointly and severally liable for any payments made in excess of retained earnings at fiscal year closing. The declaration, amount and payment of dividends to shareholders are subject to approval by the Regular Shareholders' Meeting. Under the Company's bylaws, net income shall be allocated as follows: a) 5% to a legal reserve, until the legal reserve equals 20% of the outstanding capital; b) up to 1.5% exclusively to the Company's Pension Fund and as the Board may propose in each case; c) to compensation of the members of the Board of Directors and Statutory Syndic Committee; d) to dividends on preferred stock (with priority to unpaid cumulative dividends) and e) to dividends on common stock or to a voluntary reserve or contingency reserve, or to a new account, or as otherwise determined by the Shareholders' Meeting. Dividends shall be paid pro rata to the respective paid-in capital within the year of their declaration. Dividends shall be distributed pro rata to the number of common shares held by each shareholder.

Under Law No. 25,063, any dividends distributed, in cash or in kind, in excess of the taxable income accumulated as of the year-end immediately prior to the respective payment or distribution date, will be subject to a thirty-five percent income tax withholding, as single and definitive payment. For this purpose, taxable income is deemed to be that resulting from adding up the income as determined under the general provisions of the income tax law and the dividends or income obtained from other corporations not taken into account in determining the former for the same tax period or periods.

The Regular Shareholders' Meeting held on March 30, 2007 approved the payment of a cash dividend in the aggregate amount of P$186 million.

RELATED PARTY TRANSACTIONS

Related party transactions are carried out in the ordinary course of our operations on an arm's length basis. The terms of these transactions are comparable to those offered by or obtained from non-related third parties.

On January 21, 2005, the special shareholders meetings of Petrobras Energía, Eg3, PAR, and PSF, approved the merger of Eg3, PAR and PSF into Petrobras Energía. Prior to the merger, Petrobras, through its subsidiary PPSL, held a 99.6% interest in Eg3 and a 100% interest in each of PAR and PSF. Pursuant to the merger, PPSL received 229,728,550 newly issued Class B shares of Petrobras Energía, representing 22.8% of Petrobras Energía's capital stock. As a result of the merger, Petrobras Energía Participaciones S.A.'s ownership interest in Petrobras Energía decreased from 98.21% to 75.82%.

In 2005, we agreed to acquire from Petrobras a 10% interest in the Tierra Negra Block in Colombia for U.S.$1.4 million. Our entrance into Colombia, in association with Petrobras, which already had major operations in that country, gives rise to new prospects for the development of our exploration and production business.

We have entered into several financing arrangements with subsidiaries of Petrobras. In September 2004, Petrobras Internacional Braspetro BV, a subsidiary of Petrobras, granted us a U.S.$50 million loan, with an interest rate of 7.5% per annum. The loan is repayable semiannually over 42 months and may be prepaid without penalties. In 2005, we entered into a U.S.$200 million loan facility with Petrobras Internacional Braspetro BV. This loan has a term of ten years and bears interest at an annual interest rate of 7.22%, plus taxes. The proceeds of this loan were used to prepay in part the Series K and M Notes. This loan can be prepaid at any time without a prepayment penalty. A significant portion of the debt repayments made during 2005 was financed with loans provided by Petrobras.

Petrobras Energía provided the funds to provisionally finance on account and on behalf of Petrobras the expansion of TGS's pipeline transportation capacity by approximately 2.9 million cubic meters per day. TGS and the Argentine government, among others, agreed that Petrobras would be the project's financing arranger and Petrobras would request that Banco Nacional de Desenvolvimento Económico e Social de Brasil ("BNDES") – or any other institution to be appointed by Petrobras – grant and document a loan to finance works for an amount of at least U.S.$142 million or Petrobras would otherwise obtain the resources and/or contribute the funds, until the loan is disbursed. On February 25, 2005, Petrobras Energía's Board of Directors approved entry into a loan agreement with Petrobras Internacional Braspetro BV, for an amount of up to U.S.$142 million at an annual 5.35% interest rate payable semiannually, free of tax withholdings, for a term of up to three years. On May 25, 2005, BNDES made the first disbursement, making the financing effective. Total disbursements made by Petrobras Internacional Braspetro BV to finance Petrobras Energía's contributions on account and behalf of Petrobras, totaled U.S.$41.8 million. This loan was cancelled in July 2005.

Material transactions with our related entities (including companies under joint control) for the years ended December 31, 2006, 2005 and 2004, are as follows (in millions of pesos):

Company	2006		2005		2004	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
Oleoductos del Valle S.A.	23	-	10	-	20	-
Transportadora de Gas del Sur S.A.	40	34	17	-	35	-
Refinería del Norte S.A.	132	53	69	19	106	26
Petrobras International Finance Co. (a)	101	1,428	99	675	121	488
Petroquímica Cuyo S.A.	-	33	-	-	-	-
Petrolera Entre Lomas S.A.	440	1	247	1	198	-
Petróleo Brasileiro S.A.	102	14	-	5	-	240
Petrobras Bolivia Refinación.S.A.	-	33	3	25	-	36
Total	838	1,596	445	725	480	790

(a) Principally includes purchases of diesel oil and other refined products and sales of oil crude and refined products.

The outstanding balances as of December 31, 2006, 2005 and 2004 from transactions with related companies (including companies under joint control) are as follows (in millions of pesos):

	2006								
	Current						Non-current		
Company	Investments	Trade Receivables	Other Receivables	Accounts Payable	Other Liabilities	Loans	Other receivables	Investments	Loans
Petroquímica Cuyo S.A.	-	11	2	-	-	6	-	-	-
Oleoducto de Crudos Pesados Ltd.	-	-	-	-	-	-	-	138	-
Petrobras Bolivia Refinación S.A.	-	6	-	-	-	-	-	-	-
Transportadora de Gas del Sur S.A.	-	10	12	9	-	-	-	-	-
Refinería del Norte S.A.	-	7	12	7	-	-	-	-	-
Petrobras International Finance Co.	-	57	-	-	-	-	-	-	-
Petróleo Brasileiro S.A. -Petrobras	-	4	5	33	11	-	3	-	-
Petrolera Entre Lomas S.A.	-	-	-	71	-	-	-	-	-
Propyme SGR	-	-	-	-	-	-	-	6	-
Petrobras Internacional - Braspetro B.V.	-	-	76	2	-	20	-	-	768
Petrobras Energía Participaciones S.A.	33	-	-	-	-	-	-	-	-
Other	-	1	10	5	16	-	2	3	-
Total	33	96	117	127	27	26	5	147	768

	2005								
	Current						Non-current		
Company	Investments	Trade Receivables	Other Receivables	Accounts Payable	Other Liabilities	Loans	Other Receivables	Investments	Loans
Petrobras Energía Participaciones S.A.	24	-	-	-	-	-	-	-	-
Petroquímica Cuyo S.A.	-	8	4	-	-	6	-	-	-
Oleoductos de Crudos Pesados Ltd.	-	-	-	-	-	-	-	142	-
Transportadora de Gas del Sur S.A.	-	9	-	6	-	-	-	-	-
Refinería del Norte S.A.	-	17	5	6	-	-	-	-	-
Petrobras International Finance Co.	-	95	-	5	-	-	-	-	-
Petróleo Brasileiro S.A.- Petrobras	-	3	15	17	-	-	3	-	-
Petrolera Entre Lomas S.A.	2	-	-	69	-	-	-	-	-
Propyme SGR	-	-	-	-	-	-	-	6	-
Petrobras Internacional - Braspetro B.V.	-	-	25	-	-	20	-	-	758
Other	-	2	7	2	2	-	-	2	-
Total	26	134	56	105	2	26	3	150	758

	2004									
	Current						Non-current			
Company	Investments	Trade Receivables	Other Receivables	Accounts Payable	Other Liabilities	Loans	Trade Receivables	Investments	Other Receivables	Loans
Petroquímica Cuyo S.A.	-	-	1	-	-	6	-	-	-	-
Oleoducto de Crudos Pesados Ltd.	-	-	-	-	-	-	-	156	-	-
Transportadora de Gas del Sur S.A.	-	1	-	3	1	-	-	-	-	-
Refinería del Norte S.A.	-	9	4	2	-	-	-	-	-	-
Petroleo Brasileiro - Petrobras	-	11	9	-	-	-	-	-	-	-
Petrobras International Finance Co.	119	23	-	5	-	-	-	-	-	-
Petrolera Entre Lomas S.A.	-	-	-	46	-	-	-	-	-	-
Petrobras Internacional - Braspetro B.V.	-	-	-	-	-	4	-	-	4	149
Petrobras Energía Participaciones S.A.	12	-	-	-	-	-	-	-	-	-
Others	-	4	4	7	1	-	3	-	-	-
Total	131	48	18	63	2	10	3	156	4	149

We have not entered into any other material related party transactions.

DESCRIPTION OF NOTES

The following description of the Notes sets forth certain general terms and provisions of the Notes to which any pricing supplement may relate. The particular terms of any Series of Notes, including the nature of any variation from the following general provisions applicable to the Notes, will be described in the pricing supplement relating to such Series or Tranche.

The Notes will be offered from time to time and will have maturities of not less than seven days, and as specified in the applicable pricing supplement.

The Notes will be issued under an indenture dated as of May 1, 1998 between Petrobras Energía (formerly Pecom Energía S.A.) and The Bank of New York (as successor to Citibank N.A.), as Trustee (the "Trustee"), as amended and restated as of August 1, 2002 (the "Indenture"). The Indenture will not limit the aggregate principal amount of Notes that may be outstanding thereunder, and the Indenture will provide that Notes may be issued thereunder from time to time in one or more Series, including Tranches thereof. The following summary of material provisions of the Indenture and the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture, including the definitions of certain terms therein. The definitions of certain terms used in the following summary are set forth below. Capitalized terms used in the following summary and not otherwise defined herein shall have the meanings ascribed to them in the Indenture as set forth under "Definitions."

The establishment of the Program has been authorized by resolutions of meetings of our shareholders held on April 8, 1998 and on June 20, 2002; and resolutions of the Board of Directors passed on April 17, 1998 and on June 20, 2002. The Program's extension for five (5) additional years has been authorized by the shareholders' meeting held on July 8, 2003 and the resolution of the Board of Directors passed on July 15, 2003. The Notes will constitute negotiable obligations (*obligaciones negociables*) under, and will be issued pursuant to and in compliance with all the requirements of, the Argentine Negotiable Obligations Law and other Argentine regulations. The establishment of the Program was authorized by the CNV pursuant to Certificate No. 202, dated May 4, 1998, Certificate No. 290 dated July 3, 2002 and Certificate No. 296 dated September 16, 2003 of the CNV, authorizing issues of Notes during the ten year period between May 4, 1998 and May 4, 2008; however, such authorization means only that all the CNV's requirements related to information have been satisfied.

In the following summary the terms "Company" or "Petrobras Energía" refer to us, excluding our subsidiaries.

General

The Indenture does not limit the amount of indebtedness or other obligations that may be incurred by us. The Notes may be our general unsecured or secured obligations. Unless otherwise provided in terms of the Notes, the Notes will, other than in the case of certain obligations granted preferential treatment pursuant to Argentine law, rank pari passu in right of payment with all other unsecured and unsubordinated obligations of ours that are not, by their terms, expressly subordinated in right of payment to the Notes.

Reference is made to the applicable pricing supplement for the following terms of any Series or Tranche thereof; (i) the designation and authorized denominations of such Series; (ii) the percentage of their principal amount at which such Series will be issued; (iii) the date or dates on which the Notes of the Series or Tranche will mature; (iv) if the Notes will be secured and what the nature of that security will be; (v) whether the Notes shall be issued in bearer form and the additional terms which shall be applicable to them; (vi) the exchange or conversion of the Notes of that Series, at the option of the Holders thereof, for or into new Notes of a different Series or other Notes or other property; (vii) if the Notes will be redeemable or convertible or exchangeable at the option of the Company or a Holder; (viii) if other than U.S. dollars, the Currency or Currencies in which the Notes of such Series shall be denominated and in which payments of principal of, any premium and interest on such Notes shall or may be payable; (ix) if the principal of (and premium, if any) or interest, if any, on the Notes of such Series are to be payable, at the election of the Company or a Holder thereof, in a Currency or Currencies other than that in which the Notes are stated to be payable, the period or periods within which, and the terms and conditions upon which such election may be made; (x) if the amount of payments of principal of (and premium, if any) or interest, if any, on the

Notes of such Series, may be determined with reference to an index based on (a) a Currency or Currencies other than that in which the Notes are stated to be payable, (b) changes in the price of one or more other Notes or groups or indexes of Notes or (c) changes in the prices of one or more commodities or groups or indexes of commodities, or any combination of the foregoing, the manner in which such amounts shall be determined; (xi) the aggregate principal amount of the Notes of that Series or Tranche, which may be authenticated and delivered under the Indenture; (xii) the exchange of Notes of that Series at the option of the Holders thereof, for other Notes of the same Series and of the same aggregate principal amount of a different authorized denomination or denominations, or both; (xiii) the appointment by the Trustee of an Authenticating Agent in one or more places other than the location of the offices of the Trustee with power to act on behalf of the Trustee and subject to its direction in the authentication and delivery of the Notes of any one or more Series in connection with such transactions as shall be specified in the provisions of the Indenture or in or pursuant to the Corporate Resolutions or the supplemental indentures creating such Series; (xiv) the portion of the principal amount of Notes of the Series if other than the total principal amount thereof, which shall be payable upon declaration of acceleration of the Maturity thereof or provable in bankruptcy; (xv) any Event of Default with respect to the Notes of such Series, if not set forth in the Indenture and any additions, deletions or other changes to the Events of Default set forth in the Indenture that shall be applicable to the Notes of such Series (including a provision making any Event of Default set forth in the Indenture inapplicable to the Notes of that Series); (xvi) any covenant solely for the benefit of the Notes of such Series and any additions, deletions or other changes to certain covenants described in the Indenture or any definitions relating to such covenants that shall be applicable to the Notes of such Series (including a provision making any section of such article of the Indenture inapplicable to the Notes of such Series); (xvii) the applicability of the provisions in the Indenture with respect to defeasance or covenant defeasance to the Notes of such Series; (xviii) the terms and conditions, if any, upon which Global Notes representing the Notes of such Series may be exchanged in whole or in part for individual definitive Notes; and the Depositary for such Global Notes (if other than the Depositary specified in the Indenture); (xix) the subordination of the Notes of such Series to any other indebtedness of the Company, including the Notes of any other Series; (xx) any other terms and conditions of the Series which shall not be inconsistent with the provisions of the Indenture; (xxi) a sinking fund or purchase fund or other analogous obligations; (xxii) information with respect to book-entry procedures, if any; and (xxiii) a discussion of certain Argentine and United States Federal income tax, accounting and other special considerations, procedures and limitations with respect to the Series.

The Notes will be issued in fully registered form, without coupons unless a supplemental indenture providing otherwise shall be executed and delivered pursuant to the terms hereof and this Offering Memorandum shall be supplemented and amended. All Notes, unless otherwise set forth in the applicable pricing supplement, shall be in denominations of U.S.$1,000 and any integral multiple thereof. See "—Form and Denomination." Unless otherwise provided in the Notes to be transferred or exchanged no service charge will be made for any transfer or exchange of Notes, but the Company may (unless otherwise provided in such Note) require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith other than exchanges pursuant to certain terms of the Indenture not involving any transfer.

Unless otherwise indicated in the applicable pricing supplement, the Trustee will initially act as paying agent and registrar for the Notes. The Notes may be presented for registration of transfer and exchange at the offices of the registrar for the Notes.

Certain Definitions

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Argentina" means the Republic of Argentina.

"Authenticating Agent" means any Person authorized by the Trustee to authenticate Notes under the Indenture.

"Board of Directors" means the Board of Directors of the Company.

"Business Day" means each day which is neither a Saturday, Sunday or other day on which banking institutions in the pertinent Place or Places of Payment are authorized or required by law or executive order to be closed.

"Cede" means CEDE & Co., a nominee for DTC.

"Clearstream Luxembourg" means Clearstream Banking, société anonyme, or its successor.

"CNV" means the Argentine *Comisión Nacional de Valores*.

"Common Depositary" means such depositary common to Euroclear and Clearstream Luxembourg at such offices as shall be notified by both of them to the Trustee from time to time.

"Company Request" means a written request delivered to the Trustee and signed in the name of the Company by any two of the following: its Chairman of the Board, Vice Chairman of the Board, its Treasurer, Assistant Treasurer, its Controller, Assistant Controller, any of its Directors, its principal financial officer, its principal accounting officer or any other officer, employee or agent of the Company duly authorized by a Corporate Resolution.

"Consolidated Assets" means the aggregate amount of assets, as shown on the Company's most recent consolidated balance sheet filed with the CNV.

"Corporate Resolution" means a copy of a resolution of the Board of Directors of the Company or the shareholders thereof, certified by a notary public to have been duly adopted by the Board of Directors or the shareholders of the Company, as the case may be, and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Court Day" means any day on which judicial courts are open for hearing cases in ordinary matters in the jurisdiction where Petrobras Energía or the applicable Material Subsidiary's head office is located.

"Currency" means any currency or currencies issued by the government of one or more countries or by any recognized confederation or association of such governments.

"Custodian" means The Bank of New York or any successor thereto as custodian of the DTC Restricted Global Note for DTC under a custody agreement or any similar successor agreement.

"Definitive Note" means a Definitive Registered Note or a Definitive Restricted Registered Note.

"Definitive Registered Note" means a note in registered form issued in the name of the holder of one or more Registered Notes, and includes any replacement Definitive Registered Notes, issued pursuant to the Indenture, any Regulation S Global Note and any DTC Restricted Global Note.

"Definitive Restricted Registered Note" means a note in registered form bearing the legend specified in the Indenture, and includes any replacement Definitive Restricted Registered Note issued pursuant to the Indenture and any DTC Restricted Global Note.

"Depositary" means, unless otherwise provided in the Indenture (a) with respect to the DTC Restricted Global Note or a Regulation S Global Note of any Series issued or issuable as a Global Security, DTC or the Custodian for DTC holding a DTC Restricted Global Note, and (b) with respect to the Regulation S Global Note of any Series issued or issuable as a Global Security, the Common Depositary.

"DTC Restricted Global Note" has the meaning specified in the Indenture.

"Euro" means the single currency of the states of the European Union that participate in the third stage of the economic and monetary union in accordance with the Treaty Establishing the European Communities.

"Euroclear" means Euroclear Bank S.A./N.V, as operator of the Euroclear System.

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

"Government Obligations" means, unless otherwise specified with respect to any Series of Notes issued pursuant to the Indenture, securities which are (i) direct obligations of the government which issued the Currency in which the Notes of a particular Series are payable or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the government which issued the Currency in which the Notes of such Series are payable, the payment of which is unconditionally guaranteed by such government, which, in either case, are full faith and credit obligations of such government payable in such Currency and are not callable or redeemable at the option of Petrobras Energía thereof and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such government obligation or a specific payment of interest on or principal of any such government obligation held by such custodian for the account of a holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the government obligation or the specific payment of interest or principal of the government obligation evidenced by such depository receipt.

"Indebtedness" means, with respect to any Person at any date of determination, all indebtedness of such Person for money borrowed.

"Lien" means any mortgage, charge, pledge, lien, or other form of encumbrance or security interest.

"Material Subsidiary" means any corporation or other entity whose total assets exceed 10% of the Company's total assets on a consolidated basis (as resulting from the most recent annual balance sheet) and of which the Company either (i) is a shareholder or member and controls the composition of its Board of Directors, or (ii) holds more than 50% in nominal value of its equity share capital.

"Maturity," when used with respect to any Notes, means the date on which the principal of any such Notes becomes due and payable as therein or herein provided, whether on a Repayment Date, at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Negotiable Obligations Law" means Argentine Law No. 23,576, as amended by Law No. 23,962, as amended.

"Original Issue Date" of any Note (or portion thereof) means the earlier of (i) the date of such Note (or portion thereof) or (ii) the date of any Note (or portion thereof) for which such Note was issued (directly or indirectly) on registration of transfer, exchange or substitution.

"Outstanding," when used with respect to Note or Notes or any Series, means, as of the date of determination, all such Notes thereto authenticated and delivered under the Indenture, except:

(i) Notes theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Notes for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Holders of such Notes; provided that, if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefore satisfactory to the Trustee has been made; and

(iii) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture, or which shall have been paid pursuant to certain terms of the Indenture (except with respect to any such Note as to which proof satisfactory to the Trustee is presented that such Note is held by a Person in whose hands such Note is a legal, valid and binding obligation of the Company).

In determining whether the Holders of the requisite principal amount of such Notes Outstanding have given or taken any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to have been given or taken by Holders, (i) the principal amount of any original issue discount Note that shall be deemed to be Outstanding shall be the amount of the principal thereof that would be due and payable as of the date of the taking of such action upon a declaration of acceleration of the Maturity thereof and (ii) Notes owned by the Company or any Affiliate of the Company shall be disregarded and deemed not to be Outstanding. In determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which a Responsible Officer of the Trustee actually knows to be owned by the Company or any Affiliate of the Company shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee certifies to the Trustee the pledgee's right to act as owner with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any Affiliate of the Company or such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Notes on behalf of the Company.

"Person" means any corporation, partnership, joint venture, association, company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment" means, with respect to any Series of Notes issued hereunder, the city or political subdivision so designated with respect to the Series of Notes in question in accordance with the provisions of the Indenture, which if not so designated shall be each of The City of New York and Buenos Aires, Argentina.

"Redemption Date," when used with respect to any Note to be redeemed, means the date fixed for such redemption by or pursuant to the Indenture.

"Repayment Date," when used with respect to any Note to be repaid at the option of the Holder, means the date fixed for such repayment in such Note or pursuant to the Indenture.

"Redemption Price," when used with respect to any Note to be redeemed, means the price specified in such Note or pursuant to the Indenture at which it is to be redeemed pursuant to the Indenture or, if not specified, at 100% of the principal amount thereof, plus accrued and unpaid interest to the Redemption Date.

"Resolution" means a resolution duly adopted by Noteholders at a meeting held in accordance with the Indenture.

"Restricted Period" means, with respect to the Notes of any Series or any Tranche thereof, the period ending on the 40th day after the later of the commencement of the offering of such Notes or the date of closing of such offering.

"Security Register" means one or more registers in which the Company shall provide for the registration of Notes and for transfers of Notes.

"Stated Maturity" when used with respect to any Note or any installment of principal thereof or interest thereon, means the date specified on such Note as the fixed date on which the principal of such Note or such installment of principal or interest is due and payable.

"Subsidiary" means any corporation or other business entity of which the Company owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not capital stock or other ownership interests or any other class or classes shall or might have voting power upon the occurrence of any contingency).

"U.S. dollars," "U.S.$" and the symbol "$" each mean the lawful currency of the United States.

Form and Denomination

The form and denomination of the Notes will be specified in the applicable pricing supplement, however no Notes issued hereunder will be convertible into equity securities of the Company.

The Notes will be issued in fully registered form without interest coupons unless a supplemental indenture providing otherwise shall be executed and delivered pursuant to the terms hereof and this Offering Memorandum shall be supplemented and amended. All Notes, unless otherwise set forth in the applicable pricing supplement, shall be in denominations of U.S.$1,000 and integral multiples thereof.

The Notes of each Series will be issued (i) bearing interest on a fixed rate basis ("Fixed Rate Notes"), (ii) bearing interest on a floating rate basis ("Floating Rate Notes"), (iii) at a discount on a non-interest bearing basis or (iv) as otherwise specified in the applicable pricing supplement.

The Notes of a Series sold in off-shore transactions in reliance on Regulation S under the Securities Act will each be represented by a single permanent global note in fully registered form without interest coupons (each, a "Regulation S Global Note") and will be delivered by the Trustee to (i) DTC acting as Depositary or, pursuant to DTC's instructions, shall be delivered by the Trustee on behalf of DTC to and deposited with the Custodian and registered in the name of Cede & Co. as nominee of DTC or (ii) the Common Depositary and registered in the name of the Common Depositary or its nominee. Prior to the end of the Restricted Period, beneficial interests in a Regulation S Global Note may be held through Euroclear, Clearstream Luxembourg or DTC. However, upon issuances, we intend to deliver beneficial interests in Regulation S Global Notes solely through Euroclear or Clearstream Luxembourg. Any resale or other transfer of such interests to U.S. persons (as such term is defined in Regulation S) shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A or Regulation S and in accordance with the certification requirements described below.

The Notes sold in reliance on Rule 144A will each be represented by a single, permanent global note in fully registered form without interest coupons (each, a "DTC Restricted Global Note") and shall be delivered by the Trustee to DTC acting as Depositary or, pursuant to DTC's instructions, shall be delivered by the Trustee on behalf of DTC to and deposited with the Custodian and registered in the name of Cede & Co. as nominee of DTC. The DTC Restricted Global Notes and the Regulation S Global Notes (and any Notes issued in exchange therefore) will be subject to certain restrictions on transfer set forth therein and will bear the legend regarding such restrictions set forth under "Notice to Investors."

The DTC Restricted Global Notes and the Regulation S Global Notes may be deposited with such other depositary or common nominee, as the case may be, as the Company may from time to time designate, and shall bear such legends as may be appropriate.

The DTC Restricted Global Notes and the Regulation S Global Notes shall, in all respects, be entitled to the same benefits under the Indenture as individual Notes in definitive form.

Prior to the end of the Restricted Period, a beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a DTC Restricted Global Note only upon receipt by the Trustee of a written certification from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a DTC Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note whether before, on or after the end of the Restricted Period, only upon receipt by the Trustee of a written certification to the effect that such transfer is being made in accordance with Regulation S. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such Global Note for as long as it remains such an interest. Except in the limited circumstances described below under "The Global Notes," owners of beneficial interest in Global Notes will not be entitled to receive physical delivery of Certificated Notes (as defined below).

If and for so long as the Notes are listed on the Luxembourg Stock Exchange and for so long as the rules of the Luxembourg Stock Exchange require, the Company will maintain a transfer agent in Luxembourg. Unless otherwise specified in the applicable pricing supplement, or until replaced, the transfer agent in Luxembourg initially will be Dexia Banque Internationale à Luxembourg (the "Luxembourg Transfer Agent"). In the event that a new transfer agent is appointed, Petrobras Energía shall provide for notice to be given in a manner consistent with the provisions described in "Description of Notes—Notices." If the Paying Agent in Luxembourg were to make payments under the Notes to an individual who is a resident of a European Union Member State other than Luxembourg, the Luxembourg Paying Agent may be required to collect withholding taxes. We will not be responsible for such withholding taxes.

The Global Notes

Except as otherwise provided in a pricing supplement, the Notes shall be issued in the form of one or more Global Notes.

Upon the issuance of the Regulation S Global Notes and the DTC Restricted Global Notes (each a "Global Note" and together the "Global Notes"), the applicable Depositary will credit, on its internal system, the respective principal amounts of the individual beneficial interests represented by such Global Notes to the accounts of persons who have accounts with such Depositary. Such accounts initially will be designated by or on behalf of the Agents. Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("DTC participants") or persons who hold interests through DTC participants in the case of the DTC Restricted Global Note and persons who have accounts with Euroclear or Clearstream Luxembourg ("Euroclear and Clearstream Luxembourg participants" and together with DTC participants, the "participants") or persons who hold interests through Euroclear and Clearstream Luxembourg participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by the applicable Depositary (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers and non-U.S. persons may hold their interests in a Global Note directly through the applicable Depositary if they are participants in such system, or indirectly through organizations which are participants in such system.

So long as the Depositary for a Global Note or its nominee is the registered owner or holder of such Global Note, such Depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Note represented by such Global Note for all purposes under the Indenture and the Notes. No owner of a beneficial interest in a Global Note will be able to transfer that interest except in accordance with the procedures provided for under "Notice to Investors," as well as the Depositary's or its nominee's applicable procedures, and, if applicable, those of Euroclear and Clearstream Luxembourg.

Payments of the principal of, and interest on, the Global Notes will be made to the Depositary or its nominee, as the case may be, as the registered owner thereof at the record date. None of the Company, the Trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interest in the Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that the applicable Depositary or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interest in the principal amount of such Global Note as shown on the records of such Depositary or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants shall be governed by standing instructions and customary practices, as is now the case with securities held for the account of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. If a holder requires physical delivery of a Certificated Note for any reason, including to sell Notes to persons in states that require such delivery of such Notes or to pledge such Notes, such holder must transfer its interest in a Global Note in accordance with the normal procedures of DTC and the

procedures set forth in "Notice to Investors." Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions," cross-market transfers between DTC Participants, on the one hand, and directly or indirectly through Euroclear or Clearstream Luxembourg participants, on the other, will be effected by DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream Luxembourg as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream Luxembourg as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream Luxembourg as the case may be will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in any DTC Restricted Global Note, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream Luxembourg participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a DTC Restricted Global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day either for Euroclear or for Clearstream Luxembourg) immediately following the DTC settlement date and such credit of any transactions in interests in a DTC Restricted Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream Luxembourg as a result of sales of interests in a DTC Restricted Global Note by or through a Euroclear or Clearstream Luxembourg participant to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised the Company that it will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose accounts the DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the Global Notes for Certificated Notes, which it will distribute to its participants and which, if presenting interests in the DTC Restricted Global Note or the Regulation S Global Note, will be legended as set forth under the heading "Notice to Investors."

DTC has advised the Company that it is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with DTC Participants, either directly or indirectly.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among DTC Participants, Euroclear and Clearstream Luxembourg, they are under no obligation to perform or continue to perform such procedures, and these procedures may be discontinued at any time. None of the Company or the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If, in the case of DTC Restricted Global Notes, DTC notifies the Company it is no longer willing or able to properly discharge its responsibilities as Depositary with respect to a Registered Global Note, or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, or if at any time it is no longer

eligible to act as such, and the Company is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility, or DTC is at any time unwilling or unable to continue as a Depositary for the Global Notes and a successor Depositary is not appointed by the Company within 90 days or, in the case of Regulation S Global Notes, Euroclear or Clearstream Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, then, the Company will cause sufficient relative Definitive Registered Notes to be executed and delivered to the Trustee and authenticated by the Trustee for dispatch to holders of Notes in accordance with the Indenture.

Transfer of Registered Notes

The Company shall keep or cause to be kept one or more registers (herein each sometimes referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes, or of Notes of a particular Series or Tranche, and for transfers of Notes or of Notes of such Series or Tranche. Any such Security Register shall be in written form or in any other form capable of being converted into written form within a reasonable time. At all reasonable times the information contained in such register or registers shall be available for inspection by the Trustee at the office or agency to be maintained by the Company as provided in the Indenture.

Upon surrender for transfer of any Note of any Series or Tranche at the office of any transfer agent including the Luxembourg Transfer Agent or at the office or agency of the Company in a Place of Payment, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of the same Series and Tranche of any authorized denominations, of a like aggregate principal amount and Stated Maturity and of like tenor and terms. Notes of any Series or Tranche may be exchanged for other Notes of the same Series or Tranche of any authorized denominations, of a like aggregate principal amount and Stated Maturity and of like tenor and terms, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities, that the holder making the exchange is entitled to receive.

Every Note presented or surrendered for transfer or exchange, at any transfer agent including the Luxembourg Transfer Agent or at the office or agency of Petrobras Energía in a Place of Payment, shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company (in the latter case, being the written instrument of transfer available in Luxembourg, if the applicable securities are listed on the Luxembourg Stock Exchange) and the Security Registrar duly executed, by the holder thereof or its attorney duly authorized in writing.

Unless otherwise provided in the Note to be transferred or exchanged, no service charge shall be made on any holder for any transfer or exchange of Notes, but the Company may (unless otherwise provided in such Note) require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Notes.

The Company shall not be required (i) to issue, transfer or exchange any Note of any Series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Notes of such Series selected for redemption under the Indenture and ending at the close of business on the date of such mailing, (ii) to transfer or exchange any Note so selected for redemption in whole or in part, except for the portion of such Note not so selected for redemption or (iii) to transfer or exchange any Note between any Regular Record Date and the related Interest Payment Date.

Specified Currency

The Specified Currency of any Note and, if different, any Specified Currency for principal payments and/or Specified Currency for interest payments, are as specified on such Note. All payments of principal in respect of a Note shall be made in the Specified Currency or, if applicable, the Specified Principal Payment Currency and all payments of interest in respect of a Note shall be made in the Specified Currency or, if applicable, the Specified Interest Payment Currency.

If any Note is to be denominated in a Specified Currency other than U.S. dollars, certain provisions with respect thereto will be set forth in the applicable Note and in the related pricing supplement, which will specify the foreign currency in which the principal or any premium or interest with respect to such Note are to be paid along with any other terms relating to the non-U.S. dollar denomination.

Unless otherwise specified in the applicable pricing supplement and except as otherwise provided under "Euro Notes—Redenomination" below, Notes denominated in a Specified Currency other than U.S. dollars will provide that, in the event of an official redenomination of the Specified Currency, the obligations of the Company with respect to payments on such Notes shall, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Specified Currency representing the amount of such obligations immediately before such redenomination.

Euro Notes

Redenomination

If the principal of and any interest and premium, if any, on any issue of Notes is payable in any Specified Currency other than U.S. dollars and the country in which such Specified Currency has been the legal currency (the "Currency Country") adopts the Euro as its currency, then the Company may at its option, and without the consent of the holders of such Notes or the need to amend the Notes or the Indenture, on any Interest Payment Date after the date on which such Currency Country adopts the Euro as its currency (such Interest Payment Date, a "Redenomination Date"), redenominate all such Notes into Euros upon the giving of not less than 30 days' notice thereof in accordance with the terms of such Notes, which notice shall set forth the manner in which such redenomination shall be effected. If the Company elects to so redenominate such Notes, such Notes shall be redenominated as follows:

(i) subject to compliance with all applicable requirements of relevant monetary, stock exchange or other authorities, applicable European Community, national and other governing laws and regulations and such existing or anticipated market practices for the redenomination into Euros of debt obligations issued, in such manner and subject to such procedures as the Company may determine, with the consent of the Trustee, and consistent with practice in the Euromarkets (whether denominated in such Specified Currency or otherwise) which are cleared and settled through international clearing systems ("euromarket debt obligations"); or

(ii) if no such determination as set out in clause (1) above is made, the Company shall convert the nominal Specified Currency amount each such Notes into Euros by using with respect to any Specified Currency the irrevocably fixed conversion rate between the Euro and such Specified Currency adopted by the Council of the European Union according to the first sentence of Article 109 1(4) of the Treaty and Council Regulation (EC) No. 974/98 and rounding the resultant figure to the nearest cent (with 0.005 of a Euro being rounded upwards) (the "Redenominated Amount"), unless the international clearing systems in which such Notes are then cleared and settled do not then accept for clearance and settlement redenominated euromarket debt obligations, with a denomination of the one cent, in which case the Redenominated Amount shall be rounded to the nearest Euro (with 0.5 Euro being rounded upwards). Any balance remaining from a redenomination shall be paid by way of cash adjustment. Such cash adjustment shall be payable in Euros on the Redenomination Date to, or to the order of, the holders of such Notes in a manner substantially similar to that provided herein and in such Notes for the payment of interest on such Notes.

Certificated Notes. If Certificated Notes are required to be issued, they shall be issued in the denominations determined as appropriate by the Trustee and/or the Principal Paying Agent, after consultation with the relevant clearing systems, and notified to holders of the Notes. New certificates in respect of Euro-denominated Notes will be issued in exchange for Notes denominated in such Specified Currency in such manner as the Trustee and/or the Principal Paying Agent may specify and notify to holders of the Notes.

Renominalization. Without prejudice to the Company, it may, without the consent of the holders of any issue of Notes or the need to amend the Notes or the Indenture, upon the giving of not less than 30 days' irrevocable notice thereof in accordance with the terms hereof (which notice shall set forth the manner in which such further redenomination shall be effected subject to applicable law), elect that, with effect from the Redenomination Date for such issue or such later Interest Payment Date as it may specify (the "Renominalization Date"), the nominal denominations of the Euro-denominated Notes of such issue shall be changed to new specified nominal denominations as set forth in such notice; provided, that in no event shall the minimum denominations of such Notes after the Renominalization Date with respect thereto be lower than the minimum denominations of such Notes prior to the Renominalization Date with respect thereto. If the Company so elects, then-existing Euro-denominated Notes of a series ("Original Euro Notes") shall be exchangeable for Notes of such new denomination ("New Euro Notes"). Any balance remaining from a renominalization shall be paid by way of cash adjustment. Such cash adjustment shall be payable in Euros on the Renominalization Date to, or to the order of, the holders of such Notes in a manner substantially similar to that provided herein and in such Notes for the payment of interest in such Notes.

Reconventioning. At the option of the Company, references in the terms and conditions of such Notes to any business day, day-count fraction or other convention (whether for the calculation of interest, determination of payment dates or otherwise) may be amended, with effect from (i) the Redenomination Date, (ii) the Interest Payment Date following the date that the Specified Currency is replaced by the Euro pursuant to applicable law, or (iii) such later Interest Payment Date as the Company may specify, to comply with any conventions applicable to Euro-denominated debt obligations pursuant to applicable requirements of relevant monetary, stock exchange or other authorities, applicable European Community, national and other governing laws and regulations and such market practices consistent therewith as the Trustee and/or the Principal Paying Agent, in its discretion after consultation with the Company, shall determine to be applicable for Eurobonds held in international clearing systems which have been redenominated into Euro, and the terms of the Notes shall be deemed to be amended accordingly.

Consolidation of Notes Denominated in Euro

Subject to the provisions below, the Company may, without the consent of the holders of an issue of Notes or the need to amend the Indenture or such Notes, on any Interest Payment Date (each, a "Consolidation Date"), and on the giving of not less than 35 days' prior notice thereof in accordance with the terms hereof (which notice shall detail the manner in which consolidation shall be effected, subject to applicable law), consolidate such Notes with one or more series of Other Securities; *provided, however*, (i) that such consolidation may only be carried out if such Notes and the Other Securities to be consolidated have been redenominated in Euros (if not already so denominated) on or before the relevant Consolidation Date and (ii) that no Event of Default under such Notes or other event which, with the giving of notice or the passage of time or both, would constitute an Event of Default under such Notes, or any similar event under the terms of such Other Securities, has occurred and is continuing.

"Other Securities" means, at any time, any or more issues of other Notes of the Company, which (i) are issued pursuant to the Indenture and have the same or substantially the same terms and conditions (as then in effect and which have not lapsed), and the benefit of the same rights, as such Notes (other than the first payment of interest, the date of issue and the issue price and other than in relation to the currency of original denomination and/or the denomination and/or the terms and conditions of such Notes relating to business days or interest accrual bases and/or the stock exchange(s) (if any) on which such other Notes are listed and/or the clearing systems through which such other Notes are cleared and settled and/or redenomination into Euros and/or notices) and (ii) have been designated by the Company as falling within clause (i) above and remain so designated.

The Company may exercise its right referred to above if it determines that an issue of Notes and Other Securities which it proposes to consolidate (collectively, the "Consolidating Securities") will, with effect from the date of their consolidation, (i) be cleared and settled on an interchangeable basis with the same securities identification numbers through the main clearing systems through which such Notes and the relevant Other Securities were cleared and settled immediately prior to consolidation and (ii) if either such Notes or the relevant Other Securities were listed on any European stock exchange on which debt obligations issued in the Euromarkets are customarily listed immediately prior to the consolidation contemplated hereby, continue to be listed on at least one such exchange.

With effect from the Consolidation Date of any issue of Notes or such later Interest Payment Date as the Company may specify, the Company may, without the consent of holders of the affected Notes, (i) alter the nominal amounts in which such Notes are denominated as a result of any previous redenomination of such Notes in accordance with the provisions described under "—Redenomination—Renominalization" above and/or (ii) alter the conventions applicable to such Notes in accordance with the provisions of "—Redenomination—Reconventioning" above.

Upon any consolidation of an issue of Notes represented by a Global Note with any series of Other Securities so represented, the Company may change the depositary or depositaries that hold the Notes of such series and/or the relevant Other Securities either physically or on behalf of the clearing system or clearing systems through which such Notes and/or the relevant Other Securities are held and/or issue a replacement Global Note or Global Notes representing such Notes.

Payments and Paying Agencies

All payments on the Notes will be made exclusively in such coin or currency of the United States as at the time of payment shall be legal tender for the payment of public and private debts or, if the Note is denominated in a Currency other than U.S. dollars, in such other Currency.

The principal of the Notes will be payable against surrender of such Notes at the corporate trust office of the Trustee or, subject to applicable laws and regulations, at the office outside of the United States of any paying agent, by U.S. dollar (or such other Currency) check drawn on, or in the case of a holder of U.S.$1,000,000 aggregate principal amount of Notes of any Series and upon the application of such holder to the Trustee at least ten days prior to the payment date of any such principal, with appropriate wire transfer instructions, by transfer to a U.S. dollar (or such other Currency) account maintained by the registered holder with a bank located in New York City (or, if the relevant Note is denominated in a Currency other than U.S. dollars, outside the United States). Payment of interest on the Notes will be made to the person in whose name such Notes are registered at the close of business on the record date (the "Regular Record Date") as set forth in the applicable pricing supplement for such interest (each, an "Interest Payment Date"), whether or not such day is a Business Day, notwithstanding the cancellation of such Notes upon any exchange or transfer subsequent to the Regular Record Date and prior to the Interest Payment Date in the applicable pricing supplement, provided, that if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest will be paid to the person in whose name the Notes are registered at the end of a subsequent record date established by the Company by notice given by mail by or on behalf of the Company to the holders of the Notes not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest, and provided further, that the interest payable upon maturity, redemption or repayment (whether or not the date of maturity, redemption or repayment is an Interest Payment Date) will be payable to the person to whom principal is payable. Payment of interest on Notes will be made (i) in the case of a Global Note, by wire transfer in immediately available funds to a U.S. dollar (or such other Currency) account maintained by the Depositary with a bank in New York City (or, if the relevant Note is denominated in a Currency other than U.S. dollars, outside the United States), (ii) in the case of a Certificated Note, either (A) by a U.S. dollar (or such other Currency) check drawn on a bank in New York City (or, if the relevant Note is denominated in a Currency other than U.S. dollars, outside the United States) mailed to the holder at such holder's registered address or (B) upon application by the holder of at least U.S.$1,000,000 in principal amount of Certificated Notes of any Series to the Trustee not later than the relevant Record Date, by wire transfer in immediately available funds to a U.S. dollar (or such other Currency) account maintained by the holder with a bank in New York City (or, if such Notes are denominated in a Currency other than U.S. dollars, outside the United States).

The Company expects that the depositaries for the Global Notes or their respective nominees, upon receipt of any payment of principal or interest in respect of a Global Note held by such depositaries or their respective nominees, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Note as shown on the records of the depositaries or their respective nominees. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such participants. See "—Form and Denomination."

If the maturity date or any earlier redemption or repayment date of a Note would fall on a day that is not a Business Day, the payment of principal, premium, if any, and interest will be made on the next succeeding Business Day, and no interest on such payment will accrue for the period from and after such maturity, redemption or repayment date.

Holders of Certificated Notes who elect to receive payment of principal and/or interest or the redemption price, if any, in Argentina, must file an application at the specified domicile of the Paying Agent in Argentina between the fifth and third Business Day prior to the relevant Interest Payment Date or redemption date therefore or maturity in order to receive such payment on the relevant Interest Payment Date or at maturity. Such filing shall be made by completing an application for payment, which is available at the specified domicile of the Paying Agent in Argentina. In such application for payment, each such holder will be required to indicate, among other things, whether or not such holder is subject to Decree 1076/92 of the executive branch of Argentina ("Decree 1076/92") and to Title VI of the Argentine Income Tax Law (text of 1986 as restated). In the event that any such holder shall fail to make such filing between the fifth and third Business Day prior to the relevant Interest Payment Date, redemption date or maturity date, such holder shall be entitled to receive the relevant payment on the third Business Day after such filing with the Paying Agent has taken place. All payments to be made by the Paying Agent in Argentina with respect to Certificated Notes shall be in cash or by wire transfer to an account of the holder in a bank located outside the United States (provided that the holder has provided the Paying Agent in Argentina with sufficient information concerning such account and bank not less than five (5) Business Days prior to the relevant Interest Payment Date or redemption date therefore or maturity).

Any holder of the Certificated Notes subject to Decree 1076/92 must present its Certificated Notes exclusively to the Paying Agent in Argentina and comply with the immediately preceding paragraph in order to receive payments of principal and/or interest thereof or the redemption price thereof.

All moneys paid by or on behalf of the Company to the Trustee or to any paying agent for payment of the principal of or interest on a Note and not applied but remaining unclaimed for three years after the date upon which such amount shall have become due and payable shall be repaid to or for the account of the Company by the Trustee or such paying agent, the receipt of such repayment to be confirmed promptly in writing by or on behalf of the Company, and, to the extent permitted by law, the holder of the Note shall thereafter look only to the Company for payment that such holder may be entitled to collect, and all liability of the Trustee or such paying agent with respect to such moneys shall thereupon cease.

If and for so long as the Notes are listed on the Luxembourg Stock Exchange and for so long as the rules of the Luxembourg Stock Exchange require, the Company will maintain a paying agent in Luxembourg. Unless otherwise specified in the applicable pricing supplement, or until replaced, the paying agent in Luxembourg initially will be Dexia Banque Internationale à Luxembourg. In the event that the Company appoints a new paying agent in Luxembourg, a publication will be made in accordance with the provisions set forth under "Description of the Notes—Notices."

If the paying agent in Luxembourg were to make payments under the Notes to an individual who was a resident of a European Union Member State other than Luxembourg, the Luxembourg Paying Agent may be required to collect withholding taxes. We will not be responsible for such withholding taxes.

Interest

Fixed Rate Notes

Interest on each Fixed Rate Note will be payable on the dates and at the rate specified in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, interest on Fixed Rate Notes will be calculated on the basis of a 360-day year of twelve 30-day months each.

If any Interest Payment Date for a Fixed Rate Note falls on a day that is not a Business Day, such Interest Payment Date will be the following day that is a Business Day. Any payment made pursuant to the foregoing sentence on such a next succeeding Business Day will have the same force and effect as if made on the date of

maturity or the date fixed for redemption, and no interest shall accrue on such payment for the period after such date.

Floating Rate Notes

In the case of Floating Rate Notes, commencing with the Initial Interest Reset Date specified in the applicable pricing supplement (the "Initial Interest Reset Date") following the Original Issue Date specified in the applicable pricing supplement (the "Original Issue Date"), the rate at which interest on such a Note is payable will be reset daily, weekly, monthly, quarterly, semi-annually or annually as specified in the applicable pricing supplement under "Interest Reset Period," each such date on which the rate of interest is reset being referred to herein as an "Interest Reset Date," provided, however, that (i) the interest rate in effect from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate specified in the applicable pricing supplement (the "Initial Interest Rate") and (ii) the interest rate in effect thereon for the 15 days immediately prior to the maturity thereof or redemption or repayment, if applicable, will be that in effect on the fifteenth day preceding the maturity thereof or redemption or repayment, if applicable. The interest rate in effect on any Interest Reset Date will be the applicable rate as reset on such date. The interest rate applicable to any other day is the interest rate from the immediately preceding Interest Reset Date (or, if none, the Initial Interest Rate). If any Interest Reset Date would otherwise be a day that is not a Business Day, such Interest Reset Date will be postponed to the next day that is a Business Day, except that if LIBOR is designated in the applicable pricing supplement as the Base Rate applicable thereto and such Business Day is in the next succeeding calendar month, such Interest Reset Date will be the immediately preceding Business Day. Subject to applicable provisions of law and except as specified below, on each Interest Reset Date, the rate of interest on a Floating Rate Note will be the rate determined in accordance with the following paragraph and the provisions of the applicable heading below. If any Interest Payment Date for a Floating Rate Note would fall on a day that is not a Business Day, such Interest Payment Date will be the following day that is a Business Day, except that if LIBOR is designated in the applicable pricing supplement as the Base Rate for such Note, if such Business Day is in the next succeeding calendar month, such Interest Payment Date will be the immediately preceding day that is a Business Day.

The interest rate on a Floating Rate Note will be calculated by reference to the Base Rate specified in the applicable pricing supplement (i) plus or minus the Spread, if any, specified in the applicable pricing supplement and/or (ii) multiplied by the Spread Multiplier, if any, specified in the applicable pricing supplement. The "Spread" is the number of basis points (one-hundredth of a percentage point) specified in the applicable pricing supplement to be added or subtracted from the Base Rate for such Floating Rate Note, and the "Spread Multiplier" is the percentage specified in the applicable pricing supplement to be applied to the Base Rate for such Floating Rate Note.

Interest payments on a Floating Rate Note (except if interest thereon is reset daily or weekly) will be the amount of interest accrued from and including the Original Issue Date, or from and including the last date to which interest has been paid to or duly provided for, to but excluding the Interest Payment Date or date of maturity, redemption or repayment. If interest on a Floating Rate Note is reset daily or weekly, interest payments will be the amount of interest accrued from the Original Issue Date, or from and including the last date to which interest has been paid or duly provided for, as the case may be, to and including the Record Date immediately preceding such Interest Payment Date, except that at maturity or upon any earlier redemption or repayment, the interest payable will include interest accrued to, but excluding the maturity, redemption or repayment date, as the case may be.

"Interest Determination Date" means, with respect to any Interest Reset Date, (i) if the Base Rate specified in the applicable pricing supplement is the CD Rate, the Commercial Paper Rate, the Federal Funds Rate or the Prime Rate, the second Business Day next preceding such Interest Reset Date, (ii) if the Base Rate specified in the applicable pricing supplement is LIBOR, the second day on which dealings in deposits in U.S. dollars are transacted in the London interbank market preceding such Interest Reset Date and (iii) if the Base Rate specified in the applicable pricing supplement is the Treasury Rate, the day of the week in which such Interest Reset Date falls on which Treasury bills would normally be auctioned, subject to the next three sentences. Treasury bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, but such auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Interest Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week. If an auction falls on a day that is an Interest Reset Date, such Interest Reset Date will be the next following Business Day.

Unless otherwise specified in the applicable pricing supplement, the "Calculation Date," where applicable, pertaining to an Interest Determination Date will be the earlier of the tenth calendar date after such Interest Determination Date or the next succeeding Regular Record Date after such Interest Determination Date, or, if neither of such dates is a Business Day, the next succeeding Business Day.

The applicable pricing supplement will specify a calculation agent (the "Calculation Agent") with respect to any issue of Floating Rate Notes. Under the terms of an agreement to be entered into between the Company and such Calculation Agent, the Calculation Agent will provide to the Company and, if the Floating Rate Notes are listed on the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange, the interest rate, the interest period and the amount of interest per note that will become effective as a result of the determination made on each Calculation Date with respect to any Floating Rate Note on or prior to the first day of the applicable interest period for such Floating Rate Note that is listed on the Luxembourg Stock Exchange. Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rate that will become effective on the next Interest Reset Date with respect to such Floating Rate Note.

Determination of CD Rates

If the Base Rate specified in the applicable pricing supplement is the CD Rate, the CD Rate with respect to any Interest Determination Date will be the rate on such date for negotiable certificates of deposit having the Index Maturity specified in the applicable pricing supplement as published by the Board of Governors of the Federal Reserve System in "Statistical Release H.15(519), Selected Interest Rates," or any successor publication of the Board of Governors of the Federal Reserve System ("H.15(519)") under the heading "CDS (Secondary Market)," or, if not so published by 9:00 a.m., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the CD Rate will be the rate on such Interest Determination Date for negotiable certificates of deposit of the specified Index Maturity as published by the Federal Reserve Bank of New York in its daily statistical release "Composite 3:30 p.m. Quotations for U.S. Government Securities" (the "Composite Quotations") under the heading "Certificates of Deposit." If such rate is not yet published in either H.15(519) or the Composite Quotation by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the CD Rate on such Interest Determination Date will be calculated by the Calculation Agent and shall be the arithmetic mean of the secondary market offered rates as of 10:00 a.m., New York city time, on such Interest Determination Date for certificates of deposit in the denomination of U.S.$5,000,000 with a remaining maturity closest to the specified Index Maturity of three leading non-bank dealers in negotiable U.S dollar certificates of deposit in New York City selected by the Calculation Agent for negotiable certificates of deposit of major United States money center banks of the highest credit standing in the market for negotiable certificates of deposit; provided, however, that if the dealers selected as aforesaid by the Calculation Agent are not quoting as set forth above, the CD Rate in effect for the applicable period will be the same as the CD Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Note will be the Initial Interest Rate).

Determination of Commercial Paper Rate

If the Base Rate specified in the applicable pricing supplement is the Commercial Paper Rate, the Commercial Paper Rate with respect to any Interest Determination Date will be the Money Market Yield (as defined below) of the rate on such date for commercial paper having the Index Maturity specified in the applicable pricing supplement, as such rate shall be published in H.15(519), under the heading "Commercial Paper." In the event that such rate is not published by 9:00 a.m., New York City time, on the Calculation Date pertaining to such Interest Determination Date, then the Commercial Paper Rate will be the Money Market Yield of the Rate on such Interest Determination Date for commercial paper of the specified Index Maturity as published in Composite Quotations under the heading "Commercial Paper." If by 3:00 p.m., New York City time, on such Calculation Date such rate is not yet available in either H.15(519) or Composite Quotations, then the Commercial Paper Rate will be the Money Market Yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on such Interest Determination Date of three leading dealers of commercial paper in New York City selected by the Calculation Agent for commercial paper of the specified Index Maturity, placed for an industrial company whose bond rating is "AA," or the equivalent, from a nationally recognized rating agency; provided, however, that if the dealers selected as aforesaid by the Calculation Agent are not quoting offered rates as set forth above, the Commercial Paper Rate in effect for the applicable period will be the same as the Commercial Paper Rate for the immediately preceding

Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Note will be the Initial Interest Rate).

"Money Market Yield" shall be a yield calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the interest period for which interest is being calculated.

Determination of Federal Funds Rates

If the Base Rate specified in the applicable pricing supplement is the Federal Funds Rate, the Federal Funds Rate with respect to any Interest Determination Date will be the rate on such date for Federal Funds as published in H.15(519) under the heading "Federal Funds (Effective)," or, if not so published by 9:00 a.m., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the Federal Funds Rate will be the rate on such Interest Determination Date published in the Composite Quotations under the heading, "Federal Funds/Effective Rate." If such rate is not yet published in either H.15(519) or the Composite Quotations by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the Federal Funds Rate for such Interest Determination Date will be calculated by the Calculation Agent and shall be the arithmetic means of the rates for the last transaction in overnight Federal funds, as of 11:00 a.m., New York City time, on such Interest Determination Date, arranged by three leading brokers of Federal funds transactions in New York City selected by the Calculation Agent; provided, however, that if the brokers selected as aforesaid by the Calculation Agent are not quoting as set forth above, the Federal Funds Rate in effect for the applicable period will be the same as the Federal Funds Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Note will be the Initial Interest Rate).

Determination of LIBOR

If the Base Rate specified in the applicable pricing supplement is LIBOR, LIBOR will be calculated as follows:

(i) With respect to any Interest Determination Date, LIBOR will be (a) if the applicable pricing supplement specifies Telerate as the Reporting Service, the rate for deposits in U.S. dollars having the Index Maturity specified in the applicable pricing supplement that appears on Telerate Page 3750 (as defined below) as of 11:00 a.m., London time, on such Interest Determination Date ("LIBOR-Telerate") or (b) if the applicable pricing supplement specifies Reuters as the Reporting Service, the arithmetic mean of the offered rates for deposits in U.S. dollars having the specified Index Maturity that appear on the Reuters Screen LIBOR Page (as defined below) as of 11:00 a.m., London time, on such Interest Determination Date, provided that at least two such offered rates appear on the Reuters Screen LIBOR Page ("LIBOR-Reuters); provided, however, that if no Reporting Service is specified in the applicable pricing supplement "LIBOR" means LIBOR-Telerate.

(ii) If on any Interest Determination Date, (A) in any case where LIBOR-Telerate applies, the rate for deposits in U.S. dollars having the applicable Index Maturity does not appear on Telerate Page 3750 as specified in (i)(a) above, or (B) in any case where LIBOR-Reuters applies, fewer than two offered rates for offered rates for deposits in U.S. dollars having the applicable Index Maturity appear on the Reuters Screen LIBOR Page as specified in (i)(b) above, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the Calculation Agent at approximately 11:00 a.m., London time, on such Interest Determination Date to prime banks in the London interbank market having the applicable Index Maturity and in a principal amount equal to an amount that is representative

for a single transaction in such market at such time. The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR in respect of such Interest Determination Date will be the arithmetic mean of the quotations. If fewer than two quotations are provided, LIBOR in respect of such Interest Determination Date will be the arithmetic mean of the rates quoted by three major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on such Interest Determination Date for loans in U.S. dollars to leading European banks, having the applicable Index Maturity and in a principal amount equal to an amount that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid by the Calculation Agent are not quoting as described in this sentence, LIBOR for such Interest Reset Period will be the same as LIBOR for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Note will be the Initial Interest Rate).

"Telerate Page 3750" means the display page designated as page 3750 on the Dow Jones Telerate Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates).

"Reuters Screen LIBOR Page" means the display page designated as page "LIBO" on the Reuters Monitor Money Rates Service (or such other pages as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates).

Determination of Prime Rates

If the Base Rate specified in the applicable pricing supplement is the Prime Rate, the Prime Rate with respect to any Interest Determination Date will be the rate published in H.15(519) for such date opposite the caption "Bank Prime Loan." If such rate is not yet published by 9:00 a.m., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the Prime Rate for such Interest Determination Date will be the arithmetic mean of the rates of interest publicly announced by each bank named on the Reuters Screen NYMF Page (as defined below) as such bank's prime rate or base lending rate as in effect for such Interest Determination Date as quoted on the Reuters Screen NYMF Page on such Interest Determination Date, or, if fewer than four such rates appear on the Reuters Screen NYMF Page for such Interest Determination Date, the rate will be the arithmetic mean of the prime rates quoted on the basis of the actual number of days in the year divided by 360 as of the close of business on such Interest Determination Date by at least two of the three major money center banks in New York City selected by the Calculation Agent from which quotations are requested. If fewer than two such quotations are provided, the Prime Rate will be calculated by the Calculation Agent and shall be determined as the arithmetic mean on the basis of the prime rates in New York City by the appropriate number of substitute banks or trust companies organized and doing business under the laws of the United States, or any state thereof, in each case having total equity capital of at least U.S.$500,000,000 and being subject to supervision or examination by federal or state authority, selected by the Calculation Agent to quote such rate or rates.

"Reuters Screen NYMF Page" means the display designated as Page "NYUMF" on the Reuters Monitor Money Rates Services (or such other page as may replace the NYMF Page on that service for the purpose of displaying prime rates or base lending rates of major United States banks).

If in any month or two consecutive months the Prime Rate is not published in H.15(519) and the banks or trust companies selected as aforesaid are not quoting as mentioned in the preceding paragraph, the "Prime Rate" for such Interest Reset Period will be the same as the Prime Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on such a Floating Rate Note will be the Initial Interest Rate). If this failure continues over three or more consecutive months, the Prime Rate for each succeeding Interest Determination Date until the maturity or redemption or repayment of such Note or, if earlier, until this failure ceases, will be LIBOR determined as if LIBOR were designated as the Base Rate therefore, and the Spread, if any, will be the number of basis points specified in the applicable pricing supplement as the Alternative Rate Event Spread.

All determinations made by the Calculation Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Company and all holders of the Euro Notes.

Determination of Treasury Rates

If the Base Rate specified in the applicable pricing supplement is the Treasury Rate, the Treasury Rate with respect to any Interest Determination Date will be the rate for the auction held on such date of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified in the applicable pricing supplement, as published in H.15(519) under the heading "Treasury Bills—auction average (investment)" or, if not so published by 9:00 a.m., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the auction average rate on such Interest Determination Date (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury. In the event that the results of the auction of Treasury Bills having the specified Index Maturity not published or reported as provided above by 3:00 p.m., New York City time, on such Calculation Date or if no such auction is held on such Interest Determination Date, then the Treasury Rate will be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) calculated using the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on such Interest Determination Date, of three leading primary United States government securities dealers selected by the Calculation Agent for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity; provided, however, that if the dealers selected as aforesaid by the Calculation Agent are not quoting bid rates as mentioned in this sentence, the Treasury Rate for the applicable period will be the same as the Treasury Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Note will be the Initial Interest Rate).

Notwithstanding the foregoing, the interest rate applicable to any Floating Rate Note shall not be greater than the Maximum Interest Rate, if any, or less than the Minimum Interest Rate, if any, specified in the applicable pricing supplement. The Calculation Agent will calculate the interest rate on each Floating Rate Note in accordance with the foregoing on or before each Calculation Date. The interest rate on a Floating Rate Note shall be in no event be greater than the maximum rate permitted by applicable law of the State of New York as the same may be modified by United States law of general applicability. Under current New York law, the maximum rate of interest, subject to certain exceptions, for any loan in an amount less than U.S.$250,000 is 16% and for any loan in the amount of U.S.$250,000 or more but less than U.S.$2,500,000 is 25% per annum on a simple interest basis. These limits do not apply to loans of U.S.$2,500,000 or more.

The Calculation Agent will, upon the request of the holder of a Floating Rate Note, provide to such holder the interest rate thereon then in effect and, if determined, the interest rate which shall become effective as a result of a determination made with respect to the most recent Interest Determination Date.

Accrued interest will be calculated by multiplying the principal amount of a Floating Rate Note by an accrued interest factor. Such accrued interest factor will be computed by adding the interest factors calculated for each day in the period for which interest is being paid. The interest factor for each such day is computed by dividing the interest rate applicable to such day by 360, if the Base Rate specified in the applicable pricing supplement is the CD Rate, the Commercial Paper Rate, the Federal Funds Rate, LIBOR or the Prime Rate, or by the actual number of days in the year, if the Base specified in the applicable pricing supplement is the Treasury Rate. All percentages used in or resulting from any calculation of the rate of interest on a Floating Rate Note shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward, and all U.S dollar amounts used in or resulting from such calculation on a Floating Rate Note shall be rounded to the nearest cent, with one-half cent rounded upward.

Covenants

Limitation on Liens

(a) The Company will not, and will not permit any Material Subsidiary, to incur, issue, assume any Indebtedness secured by a Lien on any property or assets of the Company or any Material Subsidiary without making effective provision to secure the Notes equally and ratably with or prior to such

Indebtedness for so long as such Indebtedness shall be so secured, unless after giving effect thereto the aggregate amount of all such Indebtedness so secured, would not exceed 15% of the Company's Consolidated Assets.

(b) The restrictions set forth in clause (a) above shall not apply to, and there shall be excluded in computing secured Indebtedness for the purpose of such restriction, any of the following:

(i) Liens on property or assets of any Material Subsidiary held directly by such Material Subsidiary, securing Indebtedness of a Material Subsidiary;

(ii) Any Lien securing Indebtedness incurred or assumed solely for the purpose of financing all or any part of the cost of acquiring, constructing, improving or repairing any asset, which Lien attaches to such asset concurrently with or within 180 days after the acquisition, construction, improvement or repair of all or any part thereof;

(iii) Liens on any Property securing Indebtedness incurred in connection with:

A. The exploration or exploitation of hydrocarbon reserves;

B. The generation, transmission and distribution of electrical energy;

C. The exploration and exploitation of mineral reserves;

D. The provision of crude oil or natural gas related services;

E. The production, industrialization, processing, treatment, storage, transportation, distribution, purchase or sale of hydrocarbon reserves (including, but not limited to, liquid or gaseous hydrocarbons and any products derived therefrom), minerals or metals (including any products derived therefrom) and petrochemical products;

F. The sale of liquid or gaseous hydrocarbons, minerals, metals, or any products derived therefrom;

G. The acquisition, construction, development or installation of any property or assets used in connection with an operation described in subclause (A) through (F) above; and

H. The acquisition of any participation or equity interests in any entity (including, without limitation, companies, consortia, joint ventures and other legally permitted forms of association) directly or indirectly engaged in an operation described in subclause (A) through (F) above.

(iv) Liens securing Indebtedness incurred in connection with renovating, improving or repairing any of the Company's property or assets or expanding or increasing the Company's production capacity;

(v) Liens on any property or assets of any corporation at the time such corporation becomes a Subsidiary of the Company and not created in contemplation of such acquisition;

(vi) Liens on any property or assets existing at the time of the acquisition of such property or asset and not created in contemplation of such acquisition;

(vii) Liens in favor of the Company or any Subsidiary;

(viii) Liens securing an extension, renewal or replacement of any Indebtedness secured in accordance with clauses (i) through (vi) above, provided that such Liens do not extend to, or cover any, property or assets other than the property or assets securing the Indebtedness being refinanced;

(ix) Liens arising by operation of law;

(x) Liens created as a result of the regulations or requirements of a governmental authority;

(xi) Liens on any property or assets in connection with any regulated program for industrial development related to the activities performed by the Company imposed or entered into as a result of the regulations or requirements of a governmental authority; and

(xii) Liens securing current taxes, assessments or other governmental charges the validity of which is being contested by the Company in good faith by appropriate proceedings; Liens created pursuant to any order of attachment or similar legal process arising in connection with court proceedings which are being contested by the Company in good faith by appropriate proceedings; any Lien securing claims provided for by mandatory provisions of Argentine law which are being contested by the Company in good faith by appropriate proceedings.

The limitation on the liens covenant does not limit the ability of the Company to pledge its assets to the extent that the Indebtedness secured by the pledge relates to the oil and gas, petrochemical, refining, mining or electrical energy businesses. Those businesses constitute substantially all of the business of the Company and its Subsidiaries.

Moreover, the Company is permitted to create Liens on its assets securing Indebtedness which equals up to 15% of the Company's Consolidated Assets. Finally, the limitation on liens covenant does not limit the ability of the Company's Subsidiaries to pledge their assets to secure their Indebtedness or the Indebtedness of another Subsidiary. Thus, the limitation on the liens covenant described above will not materially limit the Company's ability to create Liens over its assets or those of its Subsidiaries.

Periodic Reports

The Indenture will provide that, if at any time during which Notes are outstanding and are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Company is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company will furnish, upon request, to any holder, any owner of a beneficial interest in any Note or any prospective purchaser designated by a holder or owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The Company shall furnish or cause to be furnished to the Trustee within 180 days after the end of each fiscal year or 60 days after such reports are made public (i) annual reports in English, which will include a report of the Company's Board of Directors and annual audited financial statements prepared in conformity with Argentine GAAP and (ii) quarterly reports in English which will include unaudited interim financial statements prepared in conformity with Argentine GAAP.

The Company shall file with the Trustee promptly at the end of each calendar year (i) a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Notes as of the end of such year and (ii) such other specific information relating to such original issue discount as may then be relevant under the Internal Revenue Code of 1986, as amended from time to time.

Consolidation, Merger, Sale or Conveyance

The Company may not consolidate with or merge into any other corporate entity or convey or transfer its properties and assets substantially as an entirety to any Person, unless (i) the successor corporate entity shall expressly assume by a supplemental indenture the due and punctual payment of the principal of and premium, if any, interest and Additional Amounts (as defined below), if any, on all the Outstanding Notes and the performance of every covenant in the Indenture on the part of the Company to be performed or observed; (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have happened and be continuing; and (iii) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation,

merger, conveyance or transfer and such supplemental indenture comply with the foregoing provisions relating to such transaction. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Company, as obligor on the Notes, with the same effect as if it has been named in the Indenture as such obligor.

Events of Default

An "Event of Default" is defined in the Indenture, with respect to the Notes of any Series, as:

(a) a default by the Company in the payment of any principal of the Notes of that Series when the same becomes due and payable whether at Maturity, upon redemption or otherwise; or

(b) a default by the Company in the payment of any interest or Additional Amounts, if any, on any Notes of that Series when the same becomes due and payable, and such default continues for a period of 30 consecutive days; or

(c) the Company defaults in the performance of or breaches any one or more of its material obligations in the Notes or the Indenture, other than a default specified in clauses (a) or (b) above, and such default or breach continues for a period of 60 consecutive days after written notice by the Trustee or the holders of 25% or more in aggregate principal amount of the relevant Series of Notes is received by the Company; or

(d) (i) any other Indebtedness of the Company or any of its Material Subsidiaries becomes due and payable prior to its stated maturity otherwise than at the option of the Company or due to an illegality, or (ii) the Company or any of its Material Subsidiaries fails to pay Indebtedness when due and such Indebtedness is not paid within 30 days after such Indebtedness is due or, as the case may be, within 30 days after any applicable grace period, or (iii) the Company or any of its Material Subsidiaries fails to pay under any present or future guarantee for, or indemnity in respect of, any Indebtedness and such amounts are not paid within 30 days of such amounts becoming due or, as the case may be, within 30 days after any applicable grace period, *provided* that the aggregate amount of the Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (d) have occurred, equals or exceeds the greater of U.S.$25 million or 1% of the Company's total shareholders equity at the time of such event and such default or acceleration shall not be cured or annulled within 30 days after notice by the Trustee or holders of at least 25% of the principal amount of the relevant Series of Notes outstanding is received by the Company; or

(e) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Company or any of its Material Subsidiaries in an amount that equals or exceeds the greater of U.S.$25 million or 1% of the Company's total shareholders equity at the time of such event or its equivalent and (i) such distress, attachment, execution, seizure before judgment or other legal process is not discharged or stayed within 60 Court Days after having been notified to the Company or any of its Material Subsidiaries, as the case may be; or (ii) if such distress, attachment, execution, seizure before judgment or other legal process shall not have been discharged within such 60 Court Day period, the Company or any of its Material Subsidiaries, as the case may be, shall have within such 60 Court Day period contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof or upon posting a bond in connection therewith; provided, however, that in no event shall the grace period provided by sub-clause (ii) of this paragraph (e) extend beyond the 360th day after the notification to the Company or any of its Material Subsidiaries, as the case may be, of such proceedings; or

(f) a court having jurisdiction enters a decree for (i) relief in respect of the Company or any Material Subsidiary in an involuntary case under Argentine Law No. 24,522 or any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect in any applicable jurisdiction, or (ii) appointment of an administrator, receiver, trustee or intervenor for the Company or any Material

Subsidiary for all or substantially all of the Property of the Company or any of its Material Subsidiaries and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 Court Days; or

(g) the Company or a Material Subsidiary consents to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable bankruptcy law, or the consent by it to the filing of any such petition or to the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any applicable bankruptcy law, including a *"síndico"*) of the Company or any Material Subsidiary or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors pursuant to the applicable bankruptcy law, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company or any Material Subsidiary in furtherance of any such action; or

(h) an order is made or an effective resolution is passed for the winding up or dissolution or administration under judicial supervision of the Company or any of its Material Subsidiaries and is not discharged or stayed within 30 Court Days of having been notified to the Company or any of its Material Subsidiaries, as the case may be, or the Company ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger, demerger or consolidation (i) on terms approved by a resolution of the Noteholders, or (ii) completed as provided in Article 8 of the Indenture; or

(i) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under, the Notes and the Indenture, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Indenture admissible in evidence in the Courts of the relevant jurisdiction, is not taken, fulfilled or done, and is not taken, fulfilled or done within 60 Court Days after notice therefore shall have been given to the Company by the Trustee; or

(j) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Notes or the Indenture; or

(k) any event occurs which under the laws of any relevant jurisdiction has the same effect as any of the events referred to in any of the foregoing paragraphs; or

(l) any other Event of Default provided in the supplemental indenture under which such Series of Notes is issued or in the form of Note for such Series.

The Indenture provides that if an Event of Default described in paragraph (a), (b), (c), (d), (h), (i) or (j) or, in the case of Material Subsidiaries, (e), (f) or (g) above occurs and is continuing with respect to the Notes of any Series, then and in each and every such case, unless the principal of all the Notes of such Series shall have already become due and payable, the Trustee, at the written direction of the holders of not less than 25% in aggregate principal amount of the Notes of such Series then Outstanding hereunder (each such Series acting as a separate class), shall by notice in writing to the Company, declare the principal amount (or, if the Notes of such Series are Original Issue Discount Notes, such portion of the principal amount of such Notes as may be specified in the terms thereof) of all the Notes of such Series then Outstanding and all accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Notes of such Series contained to the contrary notwithstanding. If an Event of Default described in paragraph (e), (f) or (g) above, other than in the case of Material Subsidiaries, occurs and is continuing, then and in each and every such case, the principal amount (or, if any Notes are Original Issue Discount Notes, such portion of the principal amount as may be specified in the terms thereof) of all the Notes then Outstanding and all accrued interest thereon shall, without any notice to the Company or any other act on the part of the Trustee or any holder of

the Notes, become and be immediately due and payable, anything in the Indenture or in the Notes contained to the contrary notwithstanding.

No holder of any Note of any Series may institute any action under the Indenture unless (a) such Holder shall have given the Trustee written notice of a continuing Event of Default with respect to the Notes of such Series, (b) the holders of not less than 25% in aggregate principal amount of the Notes of such Series then outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default, (c) such holder or holders shall have offered the Trustee such indemnity as the Trustee may require, (d) the Trustee shall have failed to institute an action for 60 days thereafter and (e) no inconsistent direction shall have been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of the Notes of that Series. Such limitations, however, do not apply to any suit instituted by a holder of a Note for enforcement of payment of the principal of (and premium, if any) and any interest on such Note on or after the respective due dates expressed in the Note in accordance with Article 29 of the Negotiable Obligations Law.

The Indenture provides that, subject to the duty of the Trustee during default to act with the required standard of care, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direct of any holders of the Note, unless such holders shall have offered to the Trustee an indemnity satisfactory to it.

Any application by the Trustee for written instructions from the Company may, at the option of the Trustee, set forth in writing any action proposed to be taken or omitted by the Trustee under the Indenture and the date on and/or after which such action shall be taken or such omission shall be effective. The Trustee shall not be liable for any action taken by, or omission of, the Trustee in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to any earlier date) unless prior to taking any such action (or the effective date in the case of an omission), the Trustee shall have received written instructions in response to such application specifying the action to be taken or omitted.

Petrobras Energía is required to furnish to the Trustee annually a statement as to the performance by it of certain of its obligations under the Indenture and as to any default in such performance.

Notices

Notice shall be sufficiently given (unless otherwise herein or in such Note expressly provided) if in writing and mailed, first-class postage prepaid, at the expense of the Company, to each holder affected by such event, at its address as it appears in the Security Register except, in the case of a Global Note registered in the name of DTC or its nominee, in then-customary manner of notification, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice; except that, (i) if and so long as the Note is listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices in relation to such Series of Notes shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and (ii) notices shall also be published in a leading newspaper having general circulation in Argentina (which is expected to be *La Nación*) and otherwise in accordance with the provisions of the Negotiable Obligations Law and other applicable regulations (including publication in the Official Gazette of Argentina, if required). Notices shall also be placed in a leading newspaper having general circulation in any city in which the Notes are listed on a stock exchange, if so required by the rules of such stock exchange. Any notice so mailed shall be deemed given upon receipt, and Notices given by publication shall be deemed given on the last day of such publication. In any case where notice to holders is given by mail, neither the inadvertent failure to mail such notice, nor any defect in any notice so mailed, to any particular holder shall affect the sufficiency of such notice with respect to other holders. Where the Indenture or any Note provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or otherwise, it shall be impractical to mail notice of any event to any holder when such notice is required to be given

pursuant to any provision of the Indenture, then any method of notification as shall be satisfactory to the Trustee and the Company shall be deemed to be a sufficient giving of such notice.

Payment of Additional Amounts

The Company is required to make all payments in respect of each Note free and clear of, and without withholding or deduction for or an account of, any present or future taxes, duties, fines, penalties, assessments or other governmental charges of whatsoever nature (or interest on any of the foregoing penalties, assessments or other government charges of whatsoever nature) imposed, levied, collected, withheld or assessed by, within or on behalf of the Republic of Argentina or any other jurisdiction in which the Company is incorporated, or any political subdivision or governmental authority thereof or therein, having power to tax (the "Taxing Jurisdiction"), unless such withholding or deduction is required by law. In the event that the Company shall be required to pay to the holders such additional amounts ("Additional Amounts") as may be necessary to ensure that the amounts received by the holders after such withholding or deduction shall equal the amounts of principal, interest and premium, if any, which would have been receivable in respect of such Note in the absence of such withholding or deduction except that no such Additional Amounts shall be payable (i) in the case of payments for which presentation of such Notes is required, presented for payment more than 30 days after the later of (a) the date on which such payment first became due and (b) if the full amount payable has not been received in the Place of Payment by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to the effect shall have been given to the holders by the Trustee, except to the extent that the holder would have been entitled to such Additional Amounts on presenting such Note for payment on the last day of such period of 30 days; (ii) to a holder or on behalf of a beneficial owner of such Note who is liable for taxes, penalties, fines, duties, assessments or other governmental charges in respect to such Note by reason of having some present or former, direct or indirect, connection with the Taxing Jurisdiction, other than the mere holding of such Note or the receipt of principal, interest or premium, if any, in respect thereof; (iii) in respect of any estate, inheritance, gift, sales, transfer or any similar tax, assessment or governmental charges; (iv) in respect of any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on the Notes; or (v) in respect of any tax which would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the holder or beneficial owner of such Note, if such compliance is required by statute or by regulation of Argentina or of any political subdivision or taxing authority thereof or therein as a precondition to relief or exemption from such tax; provided that at least 30 days prior to the first payment date with respect to which compliance with such certification, information or other reporting requirements is required, the holder has been notified by the Company or any other person through whom payment may be made that such compliance is required to be made; or (vi) in respect of any tax or other governmental charge that is required to be made pursuant to any European Union directive on the taxation of savings income or any law implementing or complying with, or introduced to conform to, any such directive. See "Taxation—European Union Savings Directive."

Reference to principal, interest, premium or other amounts payable in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable hereunder with respect to such principal, interest, premium or other amounts.

The Company will pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies (including the Personal Assets Tax) that arise in any jurisdiction from the execution, delivery, enforcement or registration of the Notes or any other document or instrument in relation thereto, except as described under "Registration, Transfer and Exchange" in the Indenture, and has agreed to indemnify the holders for any such taxes paid by holders except when such holder is liable for any Personal Assets Tax in respect of outstanding securities by reason of having some present or former direct or indirect connection with Argentina or any other jurisdiction of incorporation of the Company (or any political subdivision or governmental authority thereof or therein), respectively, other than the mere holding of such Note. See "Taxation—Argentine Tax Considerations."

Redemption for Taxation Reasons

The Company may redeem the Notes of any Series in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders at the Redemption Price, if (i) the Company certifies to the Trustee

immediately prior to the giving of such notice that either it has or will become obligated to pay Additional Amounts with respect to the Notes as a result of any change in or amendment to the laws or regulations of the Republic of Argentina or any other jurisdiction of incorporation of the Company or any political subdivision or government authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of issuance of such Notes and, in the case of any other jurisdiction of incorporation other than the Republic of Argentina, after the date on which the Company is incorporated in such jurisdiction of incorporation and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Company would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due. Prior to the giving of any notice of redemption described in this paragraph, the Company shall deliver to the Trustee an Officers' Certificate stating that the Company is entitled to effect such redemption in accordance with the terms set forth in the Indenture and setting forth in reasonable detail a statement of the facts relating thereto (together with a written Opinion of Counsel to the effect that the Company has become obligated to pay such Additional Amounts as a result of a change or amendment described above and that the Company cannot avoid payment of such Additional Amounts by taking reasonable measures available to it and that all governmental approvals necessary for the Company to effect such redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained).

Further, if, pursuant to the Indenture, a Person into which the Company is merged or to whom the Company has conveyed, transferred or leased its properties or assets has been or would be required to pay any Additional Amounts as therein provided, each series of Notes may be redeemed at the option of such Person in whole but not in part, at any time (except in the case of Notes that have a variable rate of interest, which may be redeemed on any Interest Payment Date), at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (except in the case of Outstanding Original Issue Discount Notes which may be redeemed at the Redemption Price specified by the terms of such series of Notes). Prior to the giving of notice of redemption of such Notes pursuant to the Indenture, such Person will deliver to the Trustee an Officers' Certificate, stating that such Person is entitled to effect such redemption and setting forth in reasonable detail a statement of circumstances showing that the conditions precedent to the right of such Person to redeem such Notes pursuant to Section 801 of the Indenture has been satisfied. If the relevant Notes are listed on the Luxembourg Stock Exchange, the Luxembourg Stock Exchange shall be informed by the Company in case of any redemption of any such listed Notes under the circumstances described above.

Purchase of Notes by the Company

The Company may at any time purchase Notes in the open market, by tender or in privately negotiated transactions, or otherwise, at any price.

Modification of the Indenture

The Trustee or the Company shall, upon the written request of the holders of at least 5% in aggregate principal amount of the Notes of any Series at the time Outstanding, or the Company may call a meeting of the holders of any Series at any time and from time to time, to consider the adoption of one or more holder's resolutions to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture or the Notes or be made, given or taken by the holders.

Subject, when necessary, to prior approval by the CNV, the Company, when authorized by a Corporate Resolution, and the Trustee, may, from time to time, without the consent or vote of the holders, amend or supplement the Indenture or the Notes for any of the following purposes: (i) to evidence the succession of another Person to the Company, and the assumption by any such successor of the covenants of the Company in the Indenture and in the Notes contained; or (ii) to add to the covenants of the Company, or to surrender any right or power conferred in the Indenture upon the Company, for the benefit of the holders of any or all Series (and, if such covenants or the surrender of such right or power are to be for the benefit of less than all Series of Notes, stating that such covenants are expressly being included or such surrenders are expressly being made solely for the benefit of one or more specified Series); or (iii) to cure any ambiguity or defect, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect

to matters or questions arising under the Indenture or the Notes or make any other changes therein; or (iv) to establish any form of Note, as provided in Article Two of the Indenture, and to provide for the issuance of any Series of Notes as provided in Article Three of the Indenture and to set forth the terms thereof, and/or to add to the rights of the holders of any Series; or (v) to evidence and provide for the acceptance of appointment by another corporation as a successor Trustee under the Indenture with respect to one or more Series of Notes and to add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts thereunder by more than one Trustee, pursuant to Section 610 of the Indenture; or (vi) to add any additional Events of Default in respect of the Notes of any or all Series (and if such additional Events of Default are to be in respect of less than all Series of Notes, stating that such Events of Default are expressly being included solely for the benefit of one or more specified Series); or (vii) to provide for the issuance of Notes in bearer form with coupons, to the extent permitted by law, as well as fully registered form.

No supplemental indenture for the purposes identified in clauses (ii), (iii), (v) or (vii) above may be entered into if to do so would adversely affect the interest of the holders of any Series.

In addition, with certain exceptions, the Indenture and the Notes may be modified by the Company and the Trustee with the consent or vote of the holders of not less than a majority in aggregate principal amount of the Outstanding Notes of each Series affected by such modification, provided, however, no such modification may be made without the consent of the holder of each Outstanding Note affected thereby which would (i) change the Maturity of the principal of, or the Stated Maturity of any premium on, or any installment of interest on any such Note, or reduce the principal amount thereof or the interest or any premium thereon, or change the method of computing the amount of principal thereof or interest or premium, if any, thereon on any date or change any place of payment where, or the currency in which, the principal of or any premium (including Additional Amounts) or interest is payable, or impair the right of holders to institute suit for the enforcement of any such payment on or after the date when due, (ii) reduce the percentage in aggregate principal amount of the Outstanding Notes in any Series, the consent of whose holders is required for any such modification or the consent of whose holders is required for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences provided for in the Indenture, or (iii) modify any of the provisions summarized in this paragraph governing or the provisions in the Indenture waivers of past defaults and waivers of covenants, except to increase any such percentage or provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected thereby. The Indenture provides that the Notes owned by the Company or any Affiliate of the Company shall be deemed not to be Outstanding for, among other purposes, consenting to any such modification.

Meetings referred to in the preceding paragraph shall be held in Buenos Aires; provided, however, that the Company and the Trustee may determine to hold any such meetings simultaneously in Buenos Aires and in New York City by means of telecommunication which permits the participants to hear and speak to each other; and provided further that (i) only participants in Buenos Aires shall be entitled to vote and (ii) holders participating in such meeting in New York City may have a representative at the meeting in Buenos Aires with authority to vote their Notes. With respect to all matters not contemplated in the Indenture, meetings of holders of Notes of a Series shall be held in accordance with Argentine law. The quorum at any meeting called to adopt a resolution will be persons holding or representing not less than 60% in aggregate principal amount of the Notes of a Series at the time Outstanding; provided, however, that any such reconvened meeting adjourned for lack of the requisite quorum, the quorum will be persons holding or representing not less than 30% in aggregate principal amount of such Notes at the time Outstanding. Decisions shall be made by affirmative vote of the holders of at least a majority in aggregate principal amount of the Notes of each Series at the time Outstanding present or represented at a meeting of such holders at which a quorum is present; provided, however, that the unanimous affirmative vote of the holders of each Outstanding Note affected thereby shall be required to adopt a valid Resolution in respect of certain matters described in the foregoing paragraph.

Promptly after the execution by the Company and the Trustee of any supplement or amendment to the Indenture for which the consent of holders of Notes of a Series is required, the Company shall give notice thereof to the holders of Notes of such Series, as provided in the Indenture, and to the CNV, setting forth in general terms the substance of such supplement or amendment. If the Company shall fail to give such notice to the holders of Notes of such Series within 15 days after the execution of such supplement or amendment, the Trustee shall give notice to the holders of Notes of such Series at the expense of the Company. Any failure of the Company or the Trustee to

give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplement or amendment.

Defeasance and Covenant Defeasance

The Company may, at its option, by Corporate Resolution, at any time, upon the satisfaction of certain conditions described below, elect to be discharged from its obligations with respect to the Notes of any Series ("defeasance"). In general, upon a defeasance, the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Notes of such Series and to have satisfied all of its obligations under such Notes and the Indenture except for (i) the rights of holders of such Notes to receive, solely from the trust fund established for such purposes as described below, payments in respect of the principal of and interest, and premium and Additional Amounts, if any, on such Notes when such payments are due, (ii) certain provisions relating to ownership, registration, transfer, taxation and redemption of such Notes, (iii) provisions relating to the rights, powers, trusts, duties and immunities of the Trustee, (iv) the covenant relating to the maintenance of an office or agency in New York City and Buenos Aires and (v) the defeasance provisions described hereunder and the Company's obligations to the Trustee relating to compensation and reimbursement.

In addition, the Company may at any time, at its option, and upon the satisfaction of certain conditions described below, elect to be released with respect to the Notes of any Series from the covenants described above under the caption "Covenants" ("covenant defeasance"). Following such covenant defeasance, the occurrence of a breach or violation of any such covenant with respect to the Notes of such Series will not constitute an Event of Default under the Indenture, and certain other events (including, among other things, nonpayment of other obligations or bankruptcy and insolvency events) described under "Events of Default" also will not constitute Events of Default.

In order to cause a defeasance or covenant defeasance with respect to the Notes of any Series, the Company will be required to satisfy, among other conditions, the following: (i) the Company shall have irrevocably deposited with the Trustee in trust, cash or Government Obligations, or a combination thereof, sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of, Additional Amounts, if any, and each installment of interest on such Notes on the Stated Maturity of such principal or installment or interest in accordance with the terms of such Notes; (ii) in the case of an election to fully defease the Notes of a Series, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (x) the Company has received from, or there has been published by, the Internal Revenue Service ("IRS") a ruling, or (y) since the date of the Indenture there has been a change in the applicable United States Federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders will not recognize gain or loss for United States Federal income tax purposes as a result of such deposit, defeasance and discharge and will not be subject to United States Federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred; (iii) in the case of covenant defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the holders will not recognize gain or loss for United States Federal income tax purposes as a result of such deposit and covenant defeasance and will be subject to United States Federal income tax on the same amount, in the same manner and at the same time as would have been the case if such deposit and covenant defeasance had not occurred; (iv) the Company shall have delivered to the Trustee an Officers' Certificate to the effect that such Series of Securities, if then listed on any securities exchange, will not be delisted as a result of such deposit; (v) no default or Event of Default shall have occurred and be continuing with respect to such Notes, including, with respect to certain events of bankruptcy or insolvency, at any time during the period ending on the 121st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period); (vi) such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound; and (vii) the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that payments of amounts deposited in trust with the Trustee, as described above, will not be subject to future taxes, duties, fines, penalties, assessments or other governmental charges imposed, levied, collected, withheld or assessed by, within or on behalf of the Republic of Argentina or any political subdivision or governmental authority thereof or having power to tax, except to the extent that Additional Amounts in respect thereof shall have been deposited in trust with the Trustee as described above.

Replacement of Mutilated, Destroyed, Lost and Stolen Notes

If any mutilated Note is surrendered to the Trustee, or the Company and the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note and there is delivered to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Company or the Trustee that such Note has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Note or in exchange for such mutilated Note, a new Note of the same Series or Tranche and of like tenor, terms, Stated Maturity and principal amount, bearing a number not contemporaneously Outstanding.

In case any such mutilated, destroyed, lost or stolen Note has become due and payable, the Company in its discretion may, instead of issuing a new Note, pay such Note.

Upon the issuance of any new Note under the Indenture, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Note issued pursuant to the Indenture in lieu of any destroyed, lost or stolen Note or in exchange for such mutilated Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Indenture equally and proportionately with any and all other Notes of the same Series duly issued hereunder.

The above provisions relating to mutilated, destroyed, lost or stolen Notes are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Meetings of Holders of Notes

The Trustee or the Company shall, upon the written request of the holders of at least 5% in aggregate principal amount of the Notes of any Series at the time Outstanding, or the Company may, call a meeting of the holders of any Series at any time and from time to time, to consider the adoption of one or more Resolutions to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture or the Securities to be made, given or taken by the holders. With respect to all matters not contemplated in the Indenture, meetings of holders will be held in accordance with the Negotiable Obligations Law. The meetings will be held in Buenos Aires, provided, however, that the Company or the Trustee may determine to hold any such meetings simultaneously in Buenos Aires and in The City of New York by any means of telecommunication which permits the participants to hear and speak to each other; and provided further that only participants in Buenos Aires shall be entitled to vote and holders participating in such meeting in The City of New York may have a representative at the meeting in Buenos Aires with authority to vote their Notes. In any case, meetings shall be held at such time and at such place in any such city as the Company in consultation with the Trustee shall determine. If a meeting is being held pursuant to a request of holders, the agenda for the meeting shall be as determined in the request and such meeting shall be convened within 40 days from the date such request is received by the Trustee or the Company, as the case may be. Notice of any meeting of holders (which shall include the date, place and time of the meeting, the agenda therefore and the requirements to attend) shall be given not less than 10 days nor more than 30 days prior to the date fixed for meeting in the Official Gazette of Argentina (*Boletín Oficial*) and in accordance with Section 107 and any publication of such notice shall be for five consecutive Business Days in each place of publication.

Any holder may attend a meeting either personally or by proxy. Directors, officers, managers and employees of the Company cannot be appointed as proxies. Holders who intend to attend a holders' meeting must notify the Trustee of their intention to do so at least three days prior to the date of such meeting.

Decisions shall be made by affirmative vote of the holders of at least a majority in aggregate principal amount of the Notes of each Series at the time Outstanding present or represented at a meeting of such holders at

which a quorum is present; provided, however, that the unanimous affirmative vote of the holders of each Outstanding Note affected thereby shall be required to adopt a valid Resolution in respect of the certain matters described in Section 902 of the Indenture.

The quorum at any meeting called to adopt a Resolution will be holders or persons representing holders representing 60% in aggregate principal amount of the Notes of each affected Series at the time Outstanding; provided, however, that at any such reconvened meeting adjourned for lack of the requisite quorum, the quorum will be holders or persons representing holders representing 30% in aggregate principal amount of the Notes of each affected Series at the time Outstanding.

Prescription

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any) or interest on any Note of any Series and remaining unclaimed for three years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the holder shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease. The Trustee or such Paying Agent, before being required to make any such repayment, shall at the request and expense of the Company (i) mail to the holders as to which the money to be repaid was held in trust, as their names and addresses appear in the Security Register, or (ii) cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, and in a newspaper published in the Spanish language customarily published on each Business Day and of general circulation in Buenos Aires, Argentina, a notice that such moneys remain unclaimed and that, after a date specified in the notice, which shall not be less than 30 days from the date on which the notice was first mailed to the holders as to which the money to be repaid was held in trust or 30 days from the date of such publication, as the case may be, any unclaimed balance of such moneys then remaining will be paid to the Company free of the trust formerly impressed upon it.

In case of default by the Company in payment of principal and/or interest of any Notes issued under this Program, and in accordance with the Commerce Code (*"Código de Comercio"*) in force in Argentina, the prescription term will be of ten years in the case of principal and four years in the case of interests.

The Trustee

The Bank of New York is the Trustee under the Indenture and has been appointed by the Company as registrar and paying agent with respect to the Notes. The address of the Trustee is 101 Barclay Street, Floor 21 West, New York, NY 10043, Attn.: Corporate Trust Administration.

Governing Law

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to conflict of laws provisions thereof; provided, however, that all matters relating to the due authorization, execution, issuance and delivery of the Notes by the Company, the approval thereof by the CNV for their offering to the public in Argentina and matters relating to the legal requirements necessary in order for the Notes to qualify as negotiable obligations *(obligaciones negociables)* under Argentine law shall be governed by the Argentine Negotiable Obligations Law and other applicable Argentine laws and regulations. The Notes will constitute negotiable obligations *(obligaciones negociables)* under the Negotiable Obligations Law and are entitled to the benefits set forth therein.

The Company has irrevocably consented to the non-exclusive jurisdiction of any court of the State of New York or any United States federal court sitting in the Borough of Manhattan, The City of New York, New York, United States, and any appellate court from any thereof, and has waived any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought in connection with the Indenture or the Notes. The Company has appointed CT Corporation System as its initial authorized agent upon which all writs, process and

summonses may be served in any suit, action or proceeding brought in connection with the Indenture or the Notes against the Company in any court of the State of New York or any United States Federal court sitting in the Borough of Manhattan, The City of New York, and has agreed that such appointment shall be irrevocable so long as any Notes of any Series remain outstanding or until the irrevocable appointment by the Company of a successor in The City of New York as its authorized agent for such purpose and the acceptance of such appointment by such successor.

In addition, any suit, action or proceeding against the Company, its property, assets or revenue in connection with any Notes may be brought on an non-exclusive basis in the Ordinary Courts in Commercial Matters of the City of Buenos Aires, in the Permanent Arbitration Court of the Buenos Aires Stock Exchange in accordance with the provisions of Section 38 of the Annex to Executive Decree No. 677/2001 or in any other court to whose jurisdiction the Company may agree to submit itself with respect to any Series or Tranche as set forth in the applicable pricing supplement.

Argentine Summary Proceedings

Under Argentine law, holders of negotiable obligations (*obligaciones negociables*) such as the Notes are entitled to a summary executive proceeding or "*acción ejecutiva*" to claim principal, interest and other amounts owed under the Notes. In accordance with Argentine Decree No. 677/01, any depositary will be able to deliver certificates in respect of the Notes represented by any global note in favor of any beneficial owner. These certificates enable beneficial owners to institute suit before any competent court in Argentina, including summary executive proceedings and to obtain any overdue amount under the Notes without any other requirement. However, this does not limit the right of holders to commence other proceedings before the courts of New York, Argentina or other applicable jurisdictions to enforce such claims.

No Personal Liability of Incorporators, Shareholders, Officers, Directors or Employees

The Indenture provides that no recourse for the payment of the principal of, premium, if any, or interest on, any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in the Indenture, or in any of the Notes or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, shareholder, officer, director, employee or controlling person of the Company or of any successor Person thereof. Each holder, by accepting the Notes, waives and releases all such liability.

However, Directors, administrators and Syndics of the Company are jointly liable for damages caused to holders of Notes issued under the Program for violations under the Negotiable Obligations Law. Moreover, under Argentine Law No. 19,550, the Directors of the Company are jointly liable to the Company, its shareholders and third parties for any violation of the law, the by-laws of the Company or any other gross negligence or willful misconduct. Argentine Law 19,550 also imposes on the managers and representatives of the Company the duty of care (including due diligence) and loyalty of a prudent businessman.

Concerning the Trustee

The Indenture provides that, except during the continuance of an Event of Default, the Trustee will only be liable for the performance of such duties as are specifically set forth in such Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

Notwithstanding the foregoing, please note that under the Civil Code of Argentina the Trustee as representative of the bondholders has all the rights and obligations of an attorney and certain rights and obligations of a special attorney.

RATINGS

Federal Executive Branch Decree No. 656/92 (the "Rating Decree"), issued on April 23, 1992, established a requirement that the debt securities of a company making a public offering in Argentina, which public offering was authorized by the CNV on or after September 1, 1992, had to be rated by two Argentine risk rating agencies. This date was subsequently extended to November 1, 1992 by the CNV's General Resolution No. 217/92 published on August 24, 1992. Prior to the introduction of this requirement, there were no risk rating agencies in Argentina and Argentine companies did not have ratings for their outstanding securities. The Rating Decree, together with the regulations of the CNV (currently, Resolution 368/01), established the general rules in relation to such ratings. Specific guidelines applied by risk rating agencies in establishing ratings are submitted to, and approved by, the CNV. The Rating Decree was amended by the National Executive Power Decree No. 749/00 (the "Amending Decree"), dated August 29, 2000, which eliminates the requirement of having at least two (2) credit ratings for the public offering of securities to be authorized. To that extent, the CNV's General Resolution No. 358/00, dated September 12, 2000, established that the securities authorized by the CNV before the issuance of the Amending Decree, shall maintain the requirement of having at least two (2) credit ratings until they are totally cancelled, unless there is a unanimous consent of the bondholders to the contrary. Issuers that elect not to have their notes rated by at least two (2) Argentine risk rating agencies, must disclose such fact as required by the CNV's General Resolution No. 358/00.

We have selected Fitch Argentina Calificadora de Riesgo S.A. ("Fitch Argentina"), headquartered at Sarmiento 663, Seventh Floor, (1316) Buenos Aires, Argentina and Standard & Poor's International Ratings, LLC, Sucursal Argentina ("S&P Argentina"), headquartered at Torre Alem Plaza, Avenida L.N. Alem 855, Third Floor, (1300) Buenos Aires, Argentina to rate the Program. Fitch Argentina was incorporated on July 17, 1992 and registered by the CNV on October 8, 1992. S&P Argentina was incorporated on July 22, 1992 and registered by the CNV on September 16, 1992. The Rating Decree provides for risk rating agencies to operate five basic categories of debt rating from A to E within which there may be sub-categories. Categories A to D are to apply to debt issues in respect of which the information requirements of applicable Argentine law and regulations are fulfilled. Notes will be given an E rating if such requirements are not fulfilled. The exact parameters of each category and sub-category form part of the submission of each rating agency to the CNV for its approval.

On a local basis, Fitch Argentina and S&P Argentina have rated the Program "AA (arg)" and "raAA-," respectively. In addition, on an international basis, both Standard & Poor's and Fitch have assigned Petrobras Energía a credit rating of "B+", and Moody's Investors Service, Inc. has assigned Petrobras Energía a credit rating of "Ba2".

A rating is not a recommendation to purchase, hold or sell Notes, in as much as such rating does not comment as to a market price or suitability for particular investors. The rating of the Program addresses the likelihood of the payment of principal of and interest on the Notes pursuant to their terms. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn by a rating agency if, in its judgment, circumstances in the future so warrant.

PLAN OF DISTRIBUTION

The Notes are being offered from time to time by Petrobras Energía through the Agents, each of which has agreed to use its best efforts to solicit offers to purchase Notes under the terms and subject to the conditions contained in a Distribution Agreement dated May 6, 1998 (the "Distribution Agreement"), between Petrobras Energía and the Agents. Petrobras Energía shall have the right, in its discretion reasonably exercised, to reject any proposed purchases of Notes in whole or in part. Notes may also be sold directly by Petrobras Energía through agents designated by Petrobras Energía from time to time or directly by Petrobras Energía to one or more investors. Any agent involved in such an offer or sale of the Notes will be named and any commissions payable by Petrobras Energía to such agent will be set forth, in the applicable pricing supplement. In the event Petrobras Energía sells Notes directly to investors on its own behalf, no commission will be paid.

The Distribution Agreement provides that the obligation of the Agents to pay for and accept delivery of the Notes is subject to, among other conditions, the delivery of certain legal opinions by their counsel. The Agents are obligated to take and pay for all of the Notes offered in the applicable pricing supplement if any are taken.

Unless otherwise set forth in the applicable pricing supplement, pursuant to the Distribution Agreement, subject to the conditions thereof, the Agents will purchase the Offered Notes at a discount from the price indicated on the cover page of the applicable pricing supplement and resell such securities to purchasers as described herein and under "Notice to Investors." The Offered Notes will initially be offered at the price indicated on the cover page of the applicable pricing supplement. After the Offering, the offering price and other selling terms may from time to time be varied by the Agents.

The Distribution Agreement provides that Petrobras Energía will indemnify the Agents against certain liabilities, including liabilities under the Securities Act and will contribute to payments the Agents may be required to make in respect thereof.

The Notes have not been registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold with the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "Notice to Investors."

In connection with sales outside the United States, the Agents have agreed that they will not offer, sell or deliver the Notes to or for the account or benefit of U.S. Persons (i) as part of the Agents' distributions at any time or (ii) otherwise until 40 days after the date of the commencement of the Offering or the closing date of such Offered Notes and they will send to each dealer to which they sell such Offered Notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the Offered Notes within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after the later of (x) the closing date of the Offered Notes and (y) the commencement of the Offering, an offer or sale of such Offered Notes within the United States by an agent that is not participating in the Offering may violate the registration requirements of the Securities Act if such offer to sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another valid exemption therefrom.

As used herein and under "Notice to Investors," the terms "United States" and "U.S. Person" have the meanings given to them in Regulation S under the Securities Act.

Each Agent has further represented and agreed that it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom, except to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Series S Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must

not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

Outside Argentina, no action has been or will be taken in any jurisdiction by Petrobras Energía or any Agent that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Memorandum comes are required by Petrobras Energía and the Agents to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

In connection with the issue of any Series of Notes, the relevant Agent (if any) disclosed as the Stabilizing Manager in the applicable pricing supplement or any person acting for it may over-allot or effect transactions with a view to supporting the market price of such Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on such Stabilizing Manager or any Agent of it to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. All such stabilization activities shall be conducted in accordance with Articles 16 and 17 of Decree No. 677/2001.

Certain of the Agents and certain of their affiliates have engaged in transactions with and performed various banking and investment banking and other services for Petrobras Energía and its affiliates in the past and may do so from time to time.

The Notes may be offered to the public in Argentina through informative meetings with prospective investors and the Company, the publication of this Offering Memorandum and the publication of the applicable Pricing Supplements in the Buenos Aires Stock Exchange Bulletin (*Boletín de la Bolsa de Comercio de Buenos Aires*), and other methods considered convenient or appropriate.

In the event market stabilization operations are conducted, the Company shall comply with the pertinent provisions contemplated in the CNV Regulations, especially Section 29, Chapter XXI.7.4 of such CNV Regulations.

CLEARANCE AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

Petrobras Energía will make applications to Clearstream Luxembourg and Euroclear for acceptance in their respective book-entry systems in respect of any Bearer Series of Notes. In respect of Bearer Notes, a Temporary Global Note and/or a Global Note in bearer form without coupons will be deposited with a common depositary for Clearstream Luxembourg and Euroclear. Transfers of interests in a Temporary Global Note or a Global Note will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream Luxembourg and Euroclear.

Registered Notes

Petrobras Energía will make applications to Clearstream Luxembourg and Euroclear for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Regulation S Global Note. Each Regulation S Global Note will have an ISIN and a Common Code.

Petrobras Energía and the "Arranger" will make application to DTC for acceptance in its book-entry settlement system of the Restricted Notes represented by each DTC Restricted Global Note. Each DTC Restricted Global Note will have a CUSIP number. Each DTC Restricted Global Note will be subject to restrictions on transfer contained in a legend appearing on the front of such Note, as set out under "Transfer Restrictions." In certain circumstances, as described below in "Transfers of Registered Notes," transfers of interests in a DTC Restricted Global Note may be made as a result of which such legend is no longer applicable.

The custodian with whom the DTC Restricted Global Notes are deposited (the "Custodian") and DTC will electronically record the principal amount of the Restricted Notes held within the DTC system. Investors in Notes of such Series may hold their interests in a Regulation S Global Note only through Clearstream Luxembourg or Euroclear. Investors may hold their interests in a DTC Restricted Global Note directly through DTC if they are participants in the DTC system, or indirectly through organizations which are participants in such system.

Payments of the principal of and the interest on each DTC Restricted Global Note registered in the name of DTC's nominee and each Regulation S Global Note registered in the name of Euroclear's or Clearstream Luxembourg's nominee, as the case may be, will be to or to the order of the respective nominee as the registered owner of such DTC Restricted Global Note or such Regulation S Global Note. Petrobras Energía expects that the nominee upon receipt of any such payment will immediately credit DTC participants' accounts or the accountholders at Euroclear or Clearstream Luxembourg, as the case may be, with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant DTC Restricted Global Note or the relevant Regulation S Global Note, as the case may be, as shown on the records of DTC, Euroclear or Clearstream Luxembourg, as the case may be, or their respective nominee. Petrobras Energía also expects that payments by DTC participants or accountholders at Euroclear or Clearstream Luxembourg, as the case may be, to owners of beneficial interests in such DTC Restricted Global Note or such Regulation S Global Note held through such DTC participants or such accountholders at Euroclear or Clearstream Luxembourg, as the case may be, will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants or such accountholders at Euroclear or Clearstream Luxembourg, as the case may be. None of Petrobras Energía, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the DTC Restricted Global Notes or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of a Regulation S Global Note and/or a DTC Restricted Global Note. Individual Definitive Registered Notes will only be available in amounts specified in the applicable pricing supplement.

Individual Definitive Registered Notes

Registration of title to Registered Notes in a name other than a depositary or its nominee for Clearstream Luxembourg and Euroclear or for DTC will be permitted if (i) in the case of Restricted Notes, DTC notifies Petrobras Energía that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the DTC Global Notes, or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), or is at any time no longer eligible to act as such and Petrobras Energía is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC, (ii) in the case of Unrestricted Notes, Clearstream Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, (iii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Noteholders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes, or (iv) Petrobras Energía decides to issue a Series of Notes in individual definitive registered form, as specified in the relevant pricing supplement. In circumstances other than a decision by Petrobras Energía to issue a Series of Notes in individual definitive Registered form, Petrobras Energía will cause sufficient individual Definitive Registered Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholder(s). A person having an interest in a Registered Global Note must provide the Registrar with:

(i) a written order containing instructions and such other information as Petrobras Energía and the Registrar may require, to complete, execute and deliver such individual Definitive Registered Notes; and

(ii) in the case of a DTC Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Definitive Registered Notes issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Transfers of Registered Notes

Transfers of interests in Registered Global Notes within DTC, Clearstream Luxembourg and Euroclear will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a DTC Restricted Global Note to such persons may be limited. Because DTC can only act on behalf of participants who in turn act on behalf of indirect participants, the ability of a person having an interest in a DTC Restricted Global Note to pledge such interest to persons or entities that do not participate in DTC, or who otherwise take action in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in a Regulation S Global Note may be held through Clearstream Luxembourg, Euroclear or DTC. However, upon issuance, we intend to deliver beneficial interests in Regulation S Global Notes solely through Euroclear or Clearstream Luxembourg. Transfers may be made at any time by a holder of an interest in a Regulation S Global Note to a transferee who wishes to take delivery of such interest through the DTC Restricted Global Note for the same Series of Notes, provided that any such transfer made on or prior to the expiration of the Restricted Period (as defined in "Plan of Distribution") relating to the Notes represented by such Regulation S Global Note will only be made upon receipt by the Registrar or any Transfer Agent of a written certificate from Euroclear or Clearstream Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities law of any state of the United States or any other jurisdiction. Any such transfer made thereafter of the Notes represented by such Regulation S Global Note will only be made upon request through Clearstream Luxembourg or Euroclear by the holder of an interest in the Regulation S Global Note to the Principal Paying Agent and receipt by the Principal Paying Agent of details of that account at

DTC are to be credited with the relevant interest in the DTC Restricted Global Note. Transfers at any time by a holder of any interest in the DTC Restricted Global Note to a transferee who takes delivery of such interest through a Regulation S Global Note will only be made upon delivery to the Registrar or any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream Luxembourg, as the case may be, and DTC is to be credited and debited, respectively, with an interest in the relevant Registered Global Notes.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "Transfer Restrictions," cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream Luxembourg or Euroclear account holders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Principal Paying Agent.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Principal Paying Agent, the Custodian and the Registrar receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Registered Global Note resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

See "Notice to Investors" for a further description of restrictions on transfer of Registered Notes.

DTC has advised Petrobras Energía that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of DTC Restricted Global Notes for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in DTC Restricted Global Notes are credited and only in respect of such portion of the aggregate principal amount of the relevant DTC Restricted Global Notes as to which such participant or participants has or have given such direction. However, in certain circumstances described above, DTC will surrender the relevant DTC Restricted Global Notes in exchange for individual Definitive Registered Notes (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised Petrobras Energía as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to DTC is available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Although DTC, Clearstream Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Registered Global Notes among participants and accountholders of DTC, Clearstream Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of Petrobras Energía, the Trustee or any

Agent will have any responsibility for the performance by DTC, Clearstream Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a DTC Restricted Global Note is lodged with DTC or the Custodian, Restricted Notes represented by individual Definitive Registered Notes will not be eligible for clearing or settlement through DTC, Clearstream Luxembourg or Euroclear.

Transfers of individual definitive Registered Notes will occur on the Register of Petrobras Energía, in accordance with the usual market practice and laws of Argentina. Transfers of individual definitive Registered Restricted Notes (which shall bear the legend applicable to Notes sold pursuant to Rule 144A) to a transferee who wishes to hold individual definitive Registered Unrestricted Notes (which shall not bear the legend applicable to Notes sold pursuant to Rule 144A) will only be made upon receipt by the Registrar or any Transfer Agent of a written certification from the seller of the individual definitive Registered Restricted Notes that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities law of any state of the United States or any other jurisdiction. See "Notice to Investors." Transfers at any time by a holder of individual definitive Registered Restricted Notes to a transferee who wishes to hold individual definitive Registered Unrestricted Notes will only be made upon delivery to the Registrar or any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S. In each and all cases, the Registrar or Transfer Agent shall be given details of the names and addresses of the holders and sellers of the individual Registered Notes.

Pre-Issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefore on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the U.S. Securities and Exchange Commission under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until the relevant Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, are to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes who wish to trade Notes between the date of pricing and the relevant Issue Date should consult their own adviser.

EXCHANGE RATES

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. However, between April 1, 1991, when Law No. 23,928 and Decree No. 529/91 (together referred to as the Convertibility Law) became effective, and January 5, 2002, the peso was freely convertible into U.S. dollars at a fixed one-to-one exchange rate. Pursuant to the Convertibility Law, the Central Bank (i) had to maintain a reserve in foreign currencies, gold and certain public bonds denominated in foreign currency equal to the amount of outstanding Argentine currency and (ii) was obliged to sell U.S. dollars to any person who so required at a rate of one peso per dollar. In addition, the Central Bank issued Communication "A" 2298 which provided that all exchange transactions made with the Central Bank would be made at a one-to-one exchange rate.

On January 6, 2002, the Argentine Congress passed the Public Emergency and Foreign Exchange System Reform Law No. 25,561, which superseded certain provisions provided under the Convertibility Law, including the fixed one-to-one exchange rate. This Law granted the federal executive branch of the Argentine government the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the exchange market. On January 6, 2002, the Federal executive established a temporary dual exchange rate system. As of February 11, 2002, a single and free exchange market has been established for all exchange transactions. Within this new exchange regime and for the purpose of supporting the peso exchange rate, the Central Bank intervened several times through the sale of U.S. dollars.

In the light of a growing demand for dollars during the six months ended June 30, 2002 and the scarce number of dollars to satisfy such a demand, the Argentine government adopted a series of measures to mitigate the dollar demand and simultaneously increase the U.S. dollar reserve base. As a result, (1) the export sector had to exchange on a daily basis its non-Argentine currency into Argentine pesos through the Central Bank, (2) restrictions on the transfer of funds abroad increased, (3) the purchase of foreign exchange was limited and (4) requirements relating to the purchase of foreign currency from banks and exchange agencies became more stringent. Under such guidelines, the demand by private parties significantly declined and the Central Bank started to gradually accumulate U.S. dollar reserves. By the end of 2002, the Argentine government implemented different measures aimed at boosting economic growth and abrogating certain restrictions to gradually normalize the exchange market and the commercial and financial foreign exchange flow.

In 2003, the balance of trade yielded a strong surplus, which, together with the continuing default in partial foreign debt payments, caused an excess supply of foreign currency. As a result, the peso appreciated significantly against the U.S. dollar during 2003. Continued purchases by the Central Bank, in line with the explicit decision of the Argentine government to maintain a stable exchange rate, prevented the Argentine peso from appreciating against the dollar. In addition, on June 26, 2003 the Argentine government issued Executive Order No. 285 establishing that foreign exchange could enter the country for speculative purposes for a minimum 180-day period to prevent exchange rate volatility.

In 2004, the peso was relatively stable, again supported by the government's explicit position in favor of a high exchange rate. To such respect, the Central Bank's intervention in the exchange market steadily increased due to an ongoing excess supply of foreign currency, again determined both by a still wide but contracting trade balance surplus and the continuation of the partial default on the sovereign external debt, and, to a lesser extent, due to foreign capital inflows. The trade balance evidenced a new surplus, although not as sizable as the previous year due to the increase in imports. In an effort to maintain the rate of exchange at about P$3 to U.S.$1 by the end of 2004, purchases by the Central Bank achieved record levels of approximately U.S.$100 million per day, totaling approximately U.S.$1,400 million during December 2004. During the course of 2005, purchases by the Central Bank have remained at similar levels, totaling U.S.$1,500 million during May 2005. In addition, on May 24, 2005, through Resolution No. 292/05, the government extended the minimum period for which currencies may enter the country with speculative purposes from 180 to 365 days, as an additional measure to mitigate the volatility of the exchange rate.

On June 9, 2005, the federal executive branch issued Executive Order 616/05, establishing that any cash inflow to the domestic market derived from foreign loans to the Argentine private sector shall have a maturity for repayment of at least 365 days as from the date of the cash inflow. In addition, 30% of the amount shall be deposited

with domestic financial institutions. This deposit must be registered, non-transferable, non-interest bearing, in U.S. dollars, for a term of 365 days and cannot be used as security or collateral in connection with other credit transactions. Export and import financing and primary public offerings of debt securities listed on self-regulated markets are exempt from the foregoing provisions.

The following table sets forth the annual high, low average and period-end exchange rates for the periods indicated, expressed in Argentine pesos per U.S. dollar and not adjusted for inflation. There can be no assurance that the Argentine peso will not depreciate or appreciate again in the future.

Exchange Rate (in Pesos)

	Argentine peso per U.S. dollar (1)			
	High	**Low**	**Average**	**Period-end**
2007				
April (until April 16)	3.10	3.10	3.10	3.10
March	3.11	3.10	3.11	3.10
February	3.11	3.10	3.11	3.10
January	3.11	3.06	3.09	3.11
For the year ended December 31,				
2006	3.08	3.05	3.06	3.07
2005	3.03	2.86	2.92	3.03
2004	2.99	2.94	2.97	2.98
2003	3.37	2.73	2.95	2.94
2002	3.90	1.60	3.14	3.38
2001	1.00	1.00	1.00	1.00
2000	1.00	1.00	1.00	1.00
1999	1.00	1.00	1.00	1.00
1998	1.00	1.00	1.00	1.00

(1) As quoted by Banco de la Nación Argentina.

FOREIGN EXCHANGE CONTROLS

Exchange Controls

At the end of 2001 and early 2002, certain significant controls were imposed by the Argentine government on the foreign exchange market, which measures had been further increased by the middle of 2002. The Public Emergency Law granted to the Executive Branch the power to fix the exchange rate between the peso and foreign currencies, and to regulate the foreign exchange market.

In order to avoid a greater appreciation of the peso, especially in the fourth quarter of 2002, the Central Bank began to relax some of the restrictions imposed on the exchange market. During 2003 and 2004, the Central Bank further relaxed the restrictions on the access to the local exchange market.

On June 30, 2003, the Government issued Decree No. 285/03, implemented through Communication "A" 3972 from the Central Bank, which provides that as from July 1, 2003, any foreign currency that enters the local market must remain in the country for a minimum term of one hundred and eighty (180) days. Such 180-day term was subsequently increased to 365 days through the enactment of Resolution No. 292/05 of the Economy Ministry dated May 24, 2005. This requirement, however, did not apply to foreign trade operations or foreign direct investments.

On June 9, 2005, the federal executive branch issued Decree No. 616/05 establishing a new regime for inflows and outflows of foreign currency into and out of the country. This Decree became effective on June 10, 2005 and, together with other legislation, established a mechanism for: (i) the registration of the inflow of foreign currency into the country; (ii) restrictions for its transfer abroad; and (iii) a non-transferable deposit to be created for a certain period of time with the funds entering into the local market. The Decree contemplates, among other things, the following:

(i) the inflows and outflows of foreign currency into and out of the local exchange market and any local debt incurrence that may imply a future payment in foreign currency to non-residents shall be registered with the Central Bank for information purposes;

(ii) any indebtedness of the private sector with non-residents must be made for a minimum term of three hundred and sixty five (365) days, excluding foreign trade financing and primary public offerings of debt or equity offerings listed on one or more self-regulated markets;

(iii) every inflow of funds from such indebtedness, subject to the exceptions mentioned in clause (ii) above and other exceptions promulgated by the Central Bank set forth below, and any inflow of funds from non-residents, excluding foreign direct investment and certain portfolio investments (primary public offerings of debt and equity securities listed on self-regulated markets and investments on public sector securities acquired in the secondary market), no matter how it is cancelled, must be for a minimum term of at least three hundred and sixty five (365) days and shall be subject to a mandatory reserve (*"encaje"*) of 30% the amount involved;

(iv) such mandatory reserve (*"encaje"*) must be made as a non-transferable, non-interest-bearing deposit in U.S. dollars for a term of three hundred and sixty five (365) days in a financial entity in Argentina and may not be used as collateral in any credit transaction; after the expiration of the 365-day term, the funds will be reimbursed and can be freely used within the local market, but will be subject to certain foreign exchange restrictions if proposed to be transferred abroad;

(v) the following inflows of funds are excluded from the mandatory reserve (*"encaje"*):

a. liquidation of foreign currency of residents originated in loans in foreign currency granted by the participating local financial entity;

b. capital contributions made to local companies, where the person making such capital contributions holds or increases its participation to 10% or more of the capital stock or voting rights of the local company;

c. sales of equity interests in local companies to direct investors;

d. inflows for the purchase of real estate;

e. inflows for indebtedness with multilateral or bilateral credit agencies and with official credit agencies;

f. other foreign financial indebtedness to the extent the proceeds are used to purchase foreign currency to cancel principal of foreign debt and/or purchase long term foreign assets;

g. other foreign financial indebtedness of the private non-financial sector which are agreed and cancelled with an average life of no less than two (2) years and which proceeds are used to invest in "non-financial assets" (as defined by the Central Bank);

h. financing with an average term of not less than two (2) years, granted in favor of foundations and charitable organizations that are exempted from certain taxes and whose corporate purpose is the granting of small loans to low income individuals;

i. export financing of assets with recourse to the exporter under the requirements of Communication "A" 4377 of the Buenos Aires Stock Exchange;

j. exchanging of pesos for U.S. dollars in order to invest abroad in the form of portfolio investments for the purpose of either the cancellation of debt or payments relating to imports; and

k. sale of external assets of non-residents for the subscription of primary issuance of public debt issued by the national government; and

(vi) The inflow of funds into Argentina by Argentine residents, which funds originate from the liquidation of external assets, shall be subject to the mandatory reserve (*"encaje"*) if such inflows, on a monthly basis, exceed U.S.$2 million, in which case the mandatory reserve (*"encaje"*) shall apply to the amounts above such amount.

The Ministry of Economy is empowered to modify the percentage and the term established in the paragraphs above, as a result of changes in the macroeconomic conditions (as it deems necessary) and to modify the other requirements mentioned in Decree No. 616/05, and/or to establish other requirements or mechanisms, to exclude and/or to expand the inflow operations mentioned therein. The Central Bank has the authority to regulate the implementation of the regime established by Decree No. 616/05 and to enforce the requirements thereunder through the imposition of any sanctions it deems necessary.

Moreover, through Resolution No. 637/05 dated November 16, 2005, the Ministry of Economy established that, as from November 17, 2005, the requirements established by Decree No. 616/05 are also applicable to any inflow of funds into the local exchange market, which funds are used for the subscription of primary issuance of notes, bonds, or participation certificates issued by the trustee of a trust when the same are applicable to the capital inflow for the acquisition of any of the trust assets.

In addition to the foregoing, as of the date hereof:

- non-residents (individuals or legal entities) could access the exchange market to acquire foreign currency for transfers abroad of funds collected in Argentina for:

  - The collection of imports in cash, services and rents and other current transfers, quotas of capital of national public titles; external debts for imports and financial debts of residents that are certified by the Central Bank as external debt (per Communication "A" 3602) provided that the funds related to such investment remain in Argentina during the prescribed minimum period; recovery of credits of local bankruptcy, and other specific cases, notwithstanding the amount involved.

- with a limit of U.S.$2 million per month for sales of foreign currency originated from: (i) final sales or settlements of direct investments of the non-financial private sector in the country; and (ii) services and settlements of sales of other portfolio investments that entered as foreign currency into Argentina (as investments on shares, equity participations, investments in investment funds and local trusts, purchase of loans and investments in bonds issued in pesos). In addition, purchase of foreign currency for the reasons mentioned in (i) which in the aggregate exceed U.S.$500,000 per month, or for the reasons mentioned in (i) and (ii) which in the aggregate exceed U.S.$2 million per month must have the prior approval of the Central Bank.

- in case of non-residents not involved in any of the preceding activities whose monthly purchases exceed the limit of U.S.$5,000 per month, requiring the prior consent of the Central Bank.

- residents (individuals and legal entities) could perform exchange operations of up to U.S.$2 million each month for the purchase of properties abroad, direct investments or portfolio investments or the purchase of foreign currency or traveler checks. Such limit may be increased in some cases.
- The purchase of foreign currency is allowed and unrestricted in order to pay rent expenses and dividends that have been included in finalized and audited financial statements.

Any movement of foreign currency that is made in connection with the notes shall be made through the Exchange Market and in accordance with all applicable laws and regulations.

TAXATION

Argentine Tax Considerations

The following summary is based on the Argentine tax laws in effect as of the date of this Offering Memorandum and is subject to any modification to the laws of Argentina that could enter into force after such date. Prospective purchasers of the Notes are advised to consult their own tax advisers regarding the consequences of an investment in the Notes according to the tax laws of their country of residence. Among the consequences to be considered, including, without restriction, the following, are those derived from the collection of interest, sale, redemption and any other form of transfer of the Notes.

Income Tax

Except as described below, interest payments on the Notes (including original issue discount if any) shall be exempt from Argentine income tax, provided that the Notes are issued in accordance with Law 23,576, as amended, and comply with the requirements under Sections 36 and 36 bis ("Section 36" and "Section 36 bis") of this Law.

Under Section 36, interest on the Notes shall be exempt if the following requirements (the "Section 36 Requirements") are satisfied:

(a) the Notes must be placed through a public offering authorized by the CNV.

(b) it is guaranteed that the proceeds from the offering will be used by us for (i) investments in tangible assets located in Argentina, (ii) working capital to be used in Argentina, (iii) refinancing of liabilities, or (iv) capital contributions to controlled or affiliated companies, the proceeds of which are applied exclusively for the foregoing purposes.

(c) the application of the proceeds from the issue for the above purposes must be established in the corporate resolution authorizing the issue of the Notes and notice thereof must be given to investors through the Offering Memorandum.

(d) we must provide evidence to the CNV, in the time and manner prescribed by regulation, that the proceeds from the offering were used pursuant to the plan approved.

(e) If we fail to comply with the Section 36 Requirements, Section 38 of the Negotiable Obligations Law provides that we will be liable for the payment that would have been charged to the Noteholders. In such case, we will be liable for the payment of the taxes that would have been charged to the investor.

Decree No. 1,076 dated July 2, 1992, as amended by Decree No. 1,157 dated July 15, 1992, both of which were ratified by Law No. 24,307 dated December 30, 1993 (the "Decree"), eliminated the exemption described above with respect to those taxpayers subject to the tax adjustment for inflation rules pursuant to title VI of the Argentine income tax law (in general entities organized or incorporated under the Argentine law, local branches of non-Argentine entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina ("Argentine Entities")).

In addition, pursuant to Law 25,063 dated December 30, 1998, where we make interest payments, including interest on the Notes, to Argentine Entities, except for entities subject to Law 21,526, we are required to withhold 35% of such interest payments. This withholding will be considered to be a payment on account of the income tax to be paid by such taxpayers.

With regard to capital gains derived from the sale or other disposition of the Notes (exchange, barter, etc.) pursuant to the Decree the exemption originally set forth in the Negotiable Obligations Law for "Argentine Entities"

was eliminated. Consequently, any capital gains on the sale or other disposition of the Notes obtained by Argentine Entities will be subject to such tax.

However, resident and non-resident individuals or undivided estates and non-Argentine beneficiaries are not subject to taxation on capital gains derived from the sale or other disposition of the Notes as prescribed by Section 36 bis of the Negotiable Obligations Law.

The public offering benefits will only apply if certain requirements are fulfilled, namely: (i) the issuer must make a public offering in the manner described by article 16 of Law 17,811 (the "Public Offering Law") and the CNV regulations, and (ii) pursuant to the substance-over-form principle, the issuer must carry out a real public offering to an undetermined number of potential investors, as opposed to a private placement where the sole intention of the issuer is to replace a private financing granted by certain lenders for exempted notes issued to said lenders. The beforementioned regulations issued by the CNV, as enforcement authority of the Negotiable Obligations Law No.23,576, include Joint Resolution 470/2004 which sets forth the requirements and procedures for primary underwriting of negotiable obligations authorized for public offering, and provides that underwriting should be performed by means of book building or other similar method when, at the CNV´s opinion, the same guarantees equal treatment for investors and process transparency.

Personal Assets Tax

Notes held by individuals domiciled and undivided estates located in Argentina or abroad are subject to the Personal Assets Tax.

This tax is levied on the market value in the case of listed securities or the acquisition cost plus accrued and unpaid interest and exchange differences, in the case of unlisted securities, in both cases as of December 31 of each year. There is a minimum nontaxable amount of P$102,300 with respect to individuals domiciled and undivided estates located in Argentina. The 0.5% rate applies when the amount of personal assets (that exceeds P$102,300) totals less than P$200,000. If such amount exceeds P$200,000, the applicable rate on the taxable amount is 0.75%.

Although Notes directly held by individuals domiciled and undivided estates located outside of Argentina are technically subject to the Personal Assets Tax, the Personal Assets Tax Law sets forth no method or procedure for the collection of such tax in respect of the Notes that are directly held by such individuals or undivided estates.

The Personal Assets Tax is not applicable with respect to securities held by (i) legal entities organized in Argentina and (ii) legal entities not organized in Argentina, companies or estates located abroad, provided that the public offering thereof has been authorized by the CNV and provided that such securities are traded on stock exchanges located in Argentina or abroad. In the last case, and pursuant to General Resolution 4,203 dated August 1st, 1996 of the DGI (Argentine Tax Administration), the Argentine private issuer must keep in its records a copy of the CNV Resolution authorizing the public offering of the debt-related private securities and evidence verifying that such certificate of authorization is effective as of December 31 of each year, both certified by the CNV.

Should the issuer not keep such documentation, in the event that the Notes are held by a legal entity, company or estate it is specified in (ii) above that:

is located in a country which does not require private securities to be held in registered form, and

pursuant to its legal nature or its by-laws has established that its principal business is investing outside its country of organization, or

is not able to perform certain activities in its own country and/or make certain investments permitted pursuant to the laws of such country or provisions of its by-laws,

the Personal Assets Tax Law establishes the legal presumption that Notes are owned by individuals domiciled in, or undivided estates located in, Argentina and, therefore, the issuer (the "Substitute Obligor") is obliged to pay the Personal Assets Tax at an aggregate rate of 1.5% on the Notes provided

the amount exceeds P$255,75. The Personal Assets Tax Law authorizes the Substitute Obligor to seek recovery of the amount so paid, without limitation, by way of withholding or by foreclosing on the assets that gave rise to such payment. The Company has waived any right to seek recovery of any such payment made by it under the Personal Assets Tax Law with respect to the Notes.

However, the Substitute Obligor shall not be obliged to make the above mentioned payment in the event that the securities are directly owned by: (i) insurance companies, (ii) open-end investment funds, (iii) pension funds and (iv) banks or financial entities whose head offices are organized or located in a country whose central bank or equivalent authority has adopted the international standards of supervision established by the Basle Committee.

Finally, Decree No. 780 dated November 27, 1995, provided that trustees of non-financial trusts are obliged to pay the amount resulting from applying the tax rate, without considering the nontaxable minimum amount, on the value of the trust assets including the Notes.

Tax on Minimum Presumed Income

Pursuant to Law No. 25,063 dated December 30, 1998, an annual tax on business assets was created. Taxpayers include companies organized in the country (corporations, partnerships, associations, etc.), certain mutual funds and permanent establishments owned by natural or artificial persons domiciled abroad or by taxable estates, sole proprietorships or undivided estates located or domiciled in the same.

The applicable tax rate is 1% on the total taxable assets of the abovementioned taxpayers, including *obligaciones negociables*, such as the Notes, above an aggregate amount of P$200,000. The value of Notes shall be their listing value at year end in the case of Notes listed on stock exchanges or markets. The acquisition cost shall be increased by interest and exchange differences accrued until the year end date, in the event no such listing exists. The tax may be offset against income tax for the same fiscal year. Consequently, only the higher of the two aforementioned taxes shall be paid. Should this new tax be higher than the income tax, the amount paid may be considered as payment on account of the income tax surplus in relation to the tax on minimum presumed income for the following ten fiscal years.

Value Added Tax

Interest payments made with respect to the Notes will also be exempt from any value added tax provided the Notes have been issued pursuant to the provisions set forth in Section 36 of the Negotiable Obligations Law. In addition, financial transactions and benefits related to the issuance, subscription, underwriting, transfer, redemption and cancellation thereof, will also be exempt from any value added tax under the same terms and conditions.

Tax on Debits and Credits on Banking Accounts

Law 25,413 (published in the Official Gazette on March 26, 2001), as amended and regulated, establishes, with certain exceptions, a tax levied on debits and credits on bank accounts maintained at financial institutions located in Argentina, on transactions made by these institutions in which payers or beneficiaries do not use the beforementioned accounts and on movements of own or third party funds, even in cash, not made with said financial institutions, and to the extent provided under Law 25,413 and regulatory provisions. The general tax rate is 0.6% for each debit and credit; however there are certain cases where increased rates of 1.2% and reduced rates of 0.075% apply.

Stamp Tax

The acts, contracts and operations, including delivery or collection of money, related to the issuance, subscription, underwriting and transfer of the Notes shall not be subject to the Stamp Tax.

Court Tax

In the event that it becomes necessary to institute enforcement proceedings in relation to the Notes in Argentina, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before the Argentine courts sitting in the City of Buenos Aires.

U.S. Federal Income Tax Considerations

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Program and the relevant pricing supplement will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with U.S. Holders that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors and does not address state, local, non-U.S. or other tax laws. This summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions, conversion transactions or other integrated transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, this summary deals only with Notes with a term of 30 years or less.

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation, created or organized under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation without regard to its source, or (iv) a trust, if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) a trust in existence on August 20, 1996, and treated as a United States person before this date that timely elected to continue to be treated as a United States person.

If a partnership holds Notes, the tax treatment of a partner of such partnership will generally depend upon the status of the partner and upon the activities of the partnership. Partners and partnerships holding Notes should consult their tax advisors.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed Treasury regulations thereunder, published rulings of the Internal Revenue Service and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

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THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

General

Except as discussed below under "Original Issue Discount," stated interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "foreign currency"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, in accordance with the holder's method of accounting for U.S. federal income tax purposes. Stated interest paid by Petrobras Energía on the Notes and original issue discount, if any, accrued with respect to the Notes (as described below under "Original Issue Discount") generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisors concerning the applicability of the source of income rules to income attributable to the Notes.

In addition, the amounts that Petrobras Energía is required to pay under "Description of Notes—Payment of Additional Amounts" in respect of Argentine withholding taxes must be included in the U.S. Holder's taxable income as additional interest income (in accordance with such holder's method of accounting for tax purposes). A U.S. Holder may be entitled to claim a tax credit for such Argentine taxes against such holder's U.S. federal income tax liability, subject to certain limitations. In lieu of the foreign tax credit described above, a U.S. Holder may elect to claim a deduction for such Argentine taxes in computing U.S. taxable income. U.S. Holders should consult their tax advisors regarding the effect of any Argentine withholding or other taxes on the amounts includible in their U.S. taxable income, as described above, and the availability and the amount of, and benefit (if any) to be derived from, any tax credit or deduction attributable to such Argentine taxes.

Foreign Currency Denominated Interest

If an interest payment is denominated in, or determined by reference to, a single foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency, in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period or taxable year, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or are thereafter acquired by the U.S. Holder and will be irrevocable without the consent of the Internal Revenue Service (the "IRS").

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to a foreign currency, an accrual basis U.S. Holder will recognize ordinary income or loss measured by the difference between the exchange rate used to accrue interest income pursuant to one of the two above methods and the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount ("OID"). It is based in part upon the rules governing OID that are set forth in the Code sections 1271 through 1275 and in Treasury regulations thereunder (the "OID Regulations"). The following summary does not discuss the U.S. federal income tax consequences of an investment in contingent payment debt instruments. In the event Petrobras Energía issues contingent payment debt instruments, the applicable pricing supplement will describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a "Short-Term Note"), will be treated as issued at an original issue discount (a "Discount Note") if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." For this purpose, a qualified stated interest payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods) or at a variable rate (pursuant to the circumstances described below under "—Variable Interest Rate Notes"). Solely for the purposes of determining whether a Note has OID, the Company will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and a U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. The foregoing rule only applies, however, if the timing and amount of payments that comprise each payment schedule are known as of the issue date of the Note.

U.S. Holders of Discount Notes must include OID in gross income calculated on a constant-yield basis before the receipt of cash attributable to the OID, and generally will have to include in gross income increasingly greater amounts of OID over the life of the Discount Notes. However, such U.S. Holders generally will not be required to include separately in income any cash payments received on the Discount Notes, even if denominated as interest, to the extent that those payments do not constitute qualified stated interest payments. The amount of OID includible in gross income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess, if any, of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

OID for any accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under "Payments of Interest." Upon receipt of an amount attributable to OID (whether in connection with a payment of principal or interest on the Note or the sale or retirement of the Note), a U.S. Holder may recognize exchange gain or loss, which will be ordinary gain or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt) and the amount previously accrued.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than, or equal to, the sum of all amounts payable on the Discount Note after the purchase date, other than payments of qualified stated interest, but that exceeds the adjusted issue price of the Discount Note (any such excess being "acquisition premium"), and that does not make the election described below under "—Election to Treat All Interest as Original Issue Discount," is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted tax basis in the Discount Note immediately after its purchase over the Discount Note's adjusted issue price and the denominator of which is the excess of the sum of all amounts payable on the Discount Note after the purchase date, other than payments of qualified stated interest, over the Discount Note's adjusted issue price.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "Original Issue Discount—General," with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount (described below under "Market Discount"), *de minimis* market discount (described below under "Market Discount"), and unstated interest, as adjusted by any bond premium (described below under "Amortizable Bond Premium") or acquisition premium. In applying the constant yield method to a Note with respect to which this election has been made, the issue price of the Note will equal the electing U.S. Holder's adjusted tax basis in the Note immediately after its acquisition, the issue date will be the date of its acquisition by the electing U.S. Holder, and none of the payments on the Note will be treated as payments of qualified stated interest. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed below under "Market Discount" to include market discount in gross income currently over the life of all debt instruments held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisors concerning the propriety and consequences of this election.

Variable Interest Rate Notes

Notes that provide for the payment of interest at certain variable rates ("Variable Interest Rate Notes") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under the OID Regulations. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" under the OID Regulations if among other requirements (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount and (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A "qualified floating rate" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, under the OID Regulations, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate under the OID Regulations unless the cap or floor is fixed throughout the term of the Variable Interest Rate Note or not reasonably expected to significantly affect the yield on the note.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified

floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of Petrobras Energía (or a related party) or that is unique to the circumstances of the issuer (or a related party), such as dividends, profits or the value of the issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the issuer). The OID Regulations also provide that other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" generally is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. The OID Regulations also provide that if a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the value of the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be. A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument" under the OID Regulations, then any stated interest on the Variable Interest Rate Note which is unconditionally payable in cash or property (other than debt instruments of Petrobras Energía) at least annually will constitute qualified stated interest and will be taxed accordingly. See "Stated Interest" above. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" under the OID Regulations will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Variable Interest Rate Note's stated principal amount) in excess of a specified *de minimis* amount. OID on such a Variable Interest Rate Note arising from "true" discount generally is allocated to an accrual period using the constant-yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate) a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, if a Variable Interest Rate Note does not provide for stated interest at a single qualified floating rate or a single objective rate, or at a single fixed rate (other than a single fixed rate for an initial period), but qualifies as a "variable rate debt instrument," it will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. The OID Regulations generally require that such a Variable Interest Rate Note be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a

qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is then converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument" under the OID Regulations, then the Variable Interest Rate Note will be treated as a contingent payment debt instrument. The proper U.S. federal gross income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt instruments will be more fully described in the applicable pricing supplement.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in gross income as the interest is received). However, accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale, exchange or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized. For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note, including stated interest, are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder of a Short-Term Note may elect to apply the foregoing rules (except for the rule characterizing gain on sale, exchange or retirement as ordinary) with respect to an "acquisition discount" rather than original issue discount. Acquisition discount is the excess of the stated redemption price at maturity of the Short-Term Note over the U.S. Holder's adjusted tax basis in the Short-Term Note. Such an election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS. A U.S. Holder's adjusted tax basis in a Short-Term Note is increased by the amount included in such U.S. Holder's gross income as accrued OID or acquisition discount in respect of such Short-Term Note.

Market Discount

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "Market Discount Note") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price," exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity. If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes *"de minimis* market discount." For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note.

Under current law, any principal payment or any gain recognized on the maturity or disposition of a Market Discount Note (including any interest payment on a note that is not qualified stated interest) will be treated as ordinary income to the extent of the market discount which has not previously been included in gross income and which is treated as having accrued on such Note at the time of such payment on disposition. Alternatively, a U.S.

Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Market Discount Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in gross income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's gross income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current U.S. federal income tax law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield basis. This election applies only to the Note with respect to which it is made and is irrevocable.

Market Discount on a Note that is denominated in, or determined by reference to, a single foreign currency, will be accrued by a U.S. Holder in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder will recognize ordinary gain or loss measured in the same manner as for accrued qualified stated interest or OID. A U.S. Holder that does not make this election will recognize, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the exchange rate in effect on that date and no part of this accrued market discount will be treated as exchange gain or loss.

Amortizable Bond Premium

A U.S. Holder that purchases a Note for an amount in excess of all amounts payable on the bond after the acquisition date (other than payment of qualified stated interest), may elect to treat the excess as "amortizable bond premium," in which case the amount required to be included in the U.S. Holder's gross income each year with respect to interest on the Note will be reduced by the amount of amortizable bond premium allocable (based on the Note's yield to maturity) to that year. In the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency and amortizable bond premium will reduce interest income in units of the foreign currency. At the time amortized bond premium offsets interest income, exchange gain or loss (taxable as ordinary income or loss) is realized measured by the difference between exchange rates at that time and at the time of the acquisition of the Note. Any election to amortize bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder and is irrevocable without the consent of the IRS. See also "Election to Treat All Interest as Original Issue Discount."

Sale, Exchange and Retirement of Notes

A U.S. Holder's adjusted tax basis in a Note will generally be its U.S. dollar cost (as defined below) increased by the amount of any OID or market discount included in the U.S. Holder's gross income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note. The U.S. dollar cost of a Note purchased with a foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder will generally recognize gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realized on the sale, exchange or retirement and the adjusted tax basis of the Note. The amount realized on a sale, exchange or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury regulations, sold by a cash basis U.S. Holder (or an accrual

basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. Except to the extent described above under “Market Discount” or “Short-Term Notes” or attributable to accrued but unpaid stated interest that has not previously been included in gross income or changes in exchange rates, gain or loss recognized on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Note exceeds one year. Long-term gain of a noncorporate U.S. Holder is generally eligible for preferential rates of U.S. federal income taxation.

Gain or loss recognized by a U.S. Holder on the sale or retirement of a Note that is attributable to changes in exchange rates will be treated as ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction. Gain or loss realized by a U.S. Holder on the sale, exchange or retirement of a Note generally will be treated as derived from U.S. sources for U.S. foreign tax credit purposes.

Exchange of Amounts in Other Than U.S. dollars

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have tax basis equal to its U.S. dollar value at the time the interest is received or at the time of the sale or retirement. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or an exchange for U.S. dollars) will be United States source ordinary income or loss, except to the extent provided by administrative pronouncements of the IRS.

Foreign Currency Notes with Contingent Payments and Multi-Currency Notes

Treasury regulations (the “Foreign Currency Regulations”) provide special rules with respect to debt securities (“Multi-Currency Debt Securities”) which provide for (a) payments to be made in more than one currency and have no non-currency contingencies, (b) provide for payments to be made in one currency and have one or more non-currency contingencies and (c) provide for payments to be made in more than one currency and have one or more non-currency contingencies. Pursuant to the Foreign Currency Regulations, a Holder generally is required to apply the “noncontingent bond method” in the Multi-Currency Debt Security’s denomination currency, which for this purpose would be the Multi-Currency Debt Security’s predominant currency as determined by Petrobras Energía. A description of the principal U.S. federal income tax consideration relevant to holders of Multi-Currency Notes will be set forth, if required, in the applicable pricing supplement.

Index Notes and Notes with Contingent Payments

The tax consequences to a holder of an Index Note or a Note with contingent payments will depend on factors including the specific index or indices used to determine payments on such Note and the amount and time of any noncontingent payments on such Note. A description of the principal U.S. federal income tax considerations relevant to holders of such Note will be set forth, if required, in the applicable pricing supplement.

Non-U.S. Holders

Under U.S. federal income law as now in effect, subject to the discussion below under the caption “Backup Withholding and Information Reporting,” payments of interest (including original issue discount) on any Notes by Petrobras Energía or any paying agent thereof to a beneficial owner of Notes that is not a U.S. Holder and is not a partnership (a “Non-U.S. Holder”) generally will not be subject to U.S. federal income tax, unless such income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States. Subject to the discussion below under the caption “Backup Withholding and Information Reporting,” any gain realized by any Non-U.S. Holder upon the sale or redemption of any Note generally will not be subject to U.S. federal income tax unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

Backup Withholding and Information Reporting

In general, interest and OID on, and the proceeds of a sale, redemption or other disposition of, the Notes payable within the United States to a U.S. Holder (other than a corporate or other exempt holder) will be subject to information reporting requirements. Backup withholding will generally apply to the amount of any such payment or deemed payment if the holder fails to provide a taxpayer identification number or certification of exempt status or fails to report in full interest income and OID on the Notes. Certain holders (including, among others, corporations, individual retirement accounts and certain foreign persons) are exempt from these backup withholding and information reporting requirements, but may be required to establish their entitlement to an exemption.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO PARTICULAR TAX CONSEQUENCES OF THE NOTES TO THEM, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS, AND POSSIBLE CHANGES IN TAX LAW.

European Union Savings Directive

On June 3, 2003, the Council of the European Union adopted a directive on the taxation of savings income. Pursuant to the directive, each member state of the EU will be required, beginning in 2005, to provide to the tax authorities of the other member states information regarding payments of interest (or other similar income) paid by persons within its jurisdiction to individual residents of such other member states, except that Belgium, Luxembourg, and Austria will instead operate a withholding system in relation to such payments until such time as the EU is able to enter into satisfactory information exchange agreements with several non-EU countries. In addition, the Council approved a draft agreement with Switzerland pursuant to which Switzerland would impose withholding tax on non-Swiss source interest payments paid by persons within its jurisdiction to individual residents of the EU, and would share a portion of the revenue with the recipients' countries of residence.

NOTICE TO INVESTORS

Because the following restrictions will apply unless Petrobras Energía causes a registration statement with respect to the resale of the Notes to be declared effective, which is not expected to occur, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes. See "Description of Notes."

The Notes have not been registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, Notes are being offered and sold only (i) to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) ("QIBs") in compliance with Rule 144A, and (ii) outside the United States in off-shore transactions in reliance upon Regulation S under the Securities Act. As used below, "foreign purchaser" means a person acquiring Notes pursuant to clause (ii) of the preceding sentence.

Each Purchaser of Notes will be deemed to:

1. Represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (i) a QIB and is aware that the sale to it is being made in reliance on Rule 144A, or (ii) acquiring Notes in an off-shore transaction in reliance upon Regulation S under the Securities Act;

2. Acknowledge that the Notes have not been registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exception from, or in a transaction not subject to, the registration requirements of the Securities Act;

3. If a person other than a foreign purchaser outside the United States, agree that if it should resell or otherwise transfer the Notes within two years after the original issuance of the Notes, it will do so only (i) to Petrobras Energía or any subsidiary thereof, (ii) inside the United States to a QIB in compliance with Rule 144A, (iii) outside the United States in compliance with Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act, if available, or (v) pursuant to an effective registration statement under the Securities Act. Subject to the procedures set forth under "Description of Notes—Form and Denomination" with respect to the Notes, prior to any proposed transfer of the Notes (otherwise than pursuant to an effective registration statement) within two years after the original issuance of the Notes, the holder thereof must check the appropriate box set forth on the reverse of its certificate relating to the manner of such transfer and submit the certificate to the Trustee;

4. If a foreign purchaser outside the United States, acknowledges and understands that the Notes will be represented initially by a Global Note under Regulation S and its transfers will be restricted as explained in "Description of the Notes—Form and Denomination" during a period ending 40 days after the later of (i) the closing date of the Offered Notes and (ii) the commencement of the Offering;

5. If a QIB, understand that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. Agree that it will deliver to each person to whom it transfers Notes, notice of any restrictions on transfer of such Notes and understand that Restricted Global Notes will bear a legend to the following effect unless otherwise agreed by Petrobras Energía and the holder thereof:

   THIS REGISTERED GLOBAL NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE RESOLD, PLEDGED OR

OTHERWISE TRANSFERRED EXCEPT AS PERMITTED BY THE FOLLOWING SENTENCES. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS REGISTERED GLOBAL NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT RESELL, PLEDGE OR OTHERWISE TRANSFER THIS REGISTERED GLOBAL NOTE EXCEPT (A) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER; (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE AND UPON DELIVERY OF AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE ISSUER); (C) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT; OR (D) TO AN INSTITUTION THAT IS AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(A) UNDER THE SECURITIES ACT) IN A TRANSACTION EXEMPT FROM THE REGISTRATION PROVISION OF THE SECURITIES ACT (UPON PROVISION OF AN INVESTOR LETTER AVAILABLE FROM THE TRANSFER AGENT IN NEW YORK CITY, AND, IF REQUESTED BY THE ISSUER, AN OPINION OF COUNSEL, EACH IN A FORM SATISFACTORY TO THE ISSUER), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. TERMS USED IN THIS LEGEND HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

7. Acknowledge, represent and agree that (I) either (A) the purchaser is not (i) a pension, profit-sharing, retirement or other employee benefit plan subject to Title 1 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or (ii) an individual retirement account or plan subject to Section 4975 of the Code, (iii) an entity whose underlying assets are considered "plan assets" within the meaning of ERISA and 29 C.F.R. §2510.3-101 or (iv) a non-United States, governmental or church plan subject to other federal, state, local or foreign laws or regulations that are substantially similar to the fiduciary and prohibited transaction provisions of ERISA and the prohibited transaction provisions of the Code ("Similar Laws"); or (B) its purchase, holding and subsequent disposition of the Notes either (i) are not a prohibited transaction under ERISA or the Code and are otherwise permissible under all applicable Similar Laws or (ii) are entitled to exemptive relief from the prohibited transaction provisions of ERISA and the Code in accordance with one or more available statutory, class or individual prohibited transaction exemptions and are otherwise permissible under all applicable Similar Laws; and (II) the purchaser will not sell or otherwise transfer the Notes or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase, holding and disposition of such Notes.

8. Acknowledge that Petrobras Energía, the Agents and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements; and agree that if any of the acknowledgments, representations or warranties deemed to have been made by its purchase of Notes are no longer accurate, it shall promptly notify Petrobras Energía and the Agents. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations, warranties and agreements on behalf of each such account.

The creation of the Program and the issue and public offering of each Tranche of Notes in Argentina have been authorized by the CNV pursuant to Certificate No. 202, dated May 4, 1998, Certificate No. 290 dated July 3, 2002, and Certificate No. 296 dated September 16, 2003, authorizing issues of Notes during the ten-year period between May 4, 1998 and May 4, 2008. Pursuant to the regulations of the CNV, as amended and restated by Resolution No. 368/01, the issue and public offering in Argentina of Notes under the Program may be carried out without the prior approval of the CNV, provided that copies of the documentation relating to the issue of any such Notes (including a certificate delivered by the auditors of Petrobras Energía certifying that the pricing information of such issue of Notes reflects market conditions prevailing at that time) are filed with the CNV within five business days after such issue of Notes and provided further that in the event that new economic, financial or accounting (including annual and quarterly financial statements) information relating to Petrobras Energía is available or a material event relating to Petrobras Energía has occurred, Petrobras Energía shall file with the CNV a supplement to the Offering Memorandum, which supplement must be approved by the CNV prior to issuing any such Notes. Each Agent represents and agrees that the Notes may not be offered directly to the public in Argentina except by Petrobras Energía or through individuals or entities authorized under the laws and regulations of Argentina to offer or sell the Notes directly to the public in Argentina.

Each Agent has agreed and each further Agent appointed under the Program will be required to agree that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells, or delivers Notes or has in its possession or distributes this Offering Memorandum, or any part thereof including any pricing supplement, or any such other material, in all cases at its own expense. Each Agent has agreed and each further Agent appointed under the Program will be required to agree that it will also ensure that no obligations are imposed on Petrobras Energía in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the actions of Petrobras Energía). Petrobras Energía will have no responsibility for, and each Agent has agreed and each further Agent appointed under the Program will be required to agree that it will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

No Agent is authorized to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Offering Memorandum, including the applicable pricing supplement and any other information or document supplied.

Selling restrictions may be modified by the agreement of Petrobras Energía and the relevant Agents. Any such modification will be set out in the pricing supplement issued in respect of each Series or Tranche to which it relates or in a supplement to this Offering Memorandum.

AVAILABLE INFORMATION

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Memorandum:

(i) all amendments and supplements to this Offering Memorandum prepared from time to time in accordance with our undertaking in the Distribution Agreement described below;

(ii) latest annual audited financial statements published by Petrobras Energía; and

(iii) the applicable pricing supplement prepared in respect of any Series and/or Tranche of Notes issued under the Program, save that any statement contained herein or in a document all or a relevant portion of which is incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any other subsequent document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum. References to this "Offering Memorandum" shall be taken to mean this document and all the documents from time to time incorporated by reference herein and forming part hereof.

The Company, at its principal place of business (presently at Maipú 1, (C1084ABA) Buenos Aires, Argentina) and at the specified offices of the Paying Agents (including the Paying Agent in Argentina, presently at Bartolomé Mitre 480, Piso 6° (1036) Buenos Aires, Argentina), will provide without charge to each person to whom a copy of this Offering Memorandum has been delivered, upon the oral or written request of any such person, a copy of any or all of the documents incorporated herein by reference. Written or telephone requests for such documents should be directed to the specified office of any Paying Agent or, in the event that any of the Notes are listed on the Euro MTF, the exchange-regulated market of the Luxembourg Stock Exchange, the specified office of the listing agent in Luxembourg. Additionally, if and for so long as Notes under this Program are listed on the Luxembourg Stock Exchange, our present and future annual and interim reports are obtainable free of charge upon request, at the office of the listing agent in Luxembourg (as specified in the relevant pricing supplement) or the Buenos Aires Stock Exchange.

Whenever required by the rules of the Buenos Aires Stock Exchange or any other stock exchange on which the Notes are listed, we have agreed to comply with any undertakings given by us from time to time in connection with the Notes to the Buenos Aires Stock Exchange and any other stock exchange on which Notes are, or may be, listed, and, without prejudice to the generality of the foregoing, shall furnish to the Buenos Aires Stock Exchange and any other stock exchange on which Notes are, or may be, listed, all such information as the rules of such stock exchange may require in connection with the listing of the Notes on such stock exchange.

In the event that any rule or regulation becomes applicable to securities trading on any stock exchange on which any of the Notes are listed, which rule or regulation would require us to publish our financial statements according to accounting principles or standards that are materially different from those we apply in our financial reporting under the securities laws of Argentina or that would otherwise impose requirements on us that we determine in good faith are unduly burdensome, we may de-list the Notes from any such stock exchange. We will use our reasonable best efforts to obtain an alternative admission to listing, trading and/or quotations for the Notes by another listing authority, exchange and/or system within or outside the European Union, as we may decide. If such an alternative admission is not available to us or is, in our reasonable opinion, unduly burdensome, an alternative admission may not be obtained. Notice of any de-listing and/or alternative admission will be given as described in "Description of the Notes – Notices."

We will, during the continuance of the Program, prepare a supplement to this Offering Memorandum or a new Offering Memorandum whenever the rules of the Buenos Aires Stock Exchange or any other stock exchange on which Notes are, or may be, listed so require and, in any event, if there is a significant change affecting any matter contained in this Offering Memorandum or a significant new matter arises, the inclusion of information in respect of which would have been so required if it had arisen when the Offering Memorandum was prepared.

If and for so long as Notes are listed on the Euro MTF, the exchange-regulated market of the Luxembourg Stock Exchange, such registration statements and reports will be made available free of charge upon request, without exhibits, at the office of the listing agent in Luxembourg specified in the relevant pricing supplement.

Petrobras Energía Participaciones S.A., our parent company, is a holding company whose only asset is its 75.82% holding of our shares. Petrobras Energía Participaciones S.A.'s filings with the U.S. Securities and Exchange Commission (the "SEC") are available over the Internet at the SEC's website *http://www.sec.gov*. Registration statements and reports filed by and in respect of Petrobras Energía Participaciones S.A. with the SEC are also available at the SEC's Public Reference Room, 450 Fifth Street, NW, Washington, DC 20549.

It is a requirement for offers of Notes to be issued under the Program to the public in Argentina that the following statement appear:

Public offering in Argentina of the Program has been authorized by Certificate No. 202, dated May 4, 1998, Certificate No. 290 dated July 3, 2002 and Certificate No. 296 dated September 16, 2003 of the Comisión Nacional de Valores ("CNV") authorizing issues of Notes during the ten year period between May 4, 1998 and May 4, 2008. This authorization means only that the requirements established by the CNV as to the provision of information have been satisfied. The CNV has not passed judgment on the information contained in this Offering Memorandum. The truthfulness of all accounting, financial and economic information and of all other information contained herein is the exclusive responsibility of our Board of Directors, and, insofar as applicable, the Statutory Syndic Committee and the auditors who have signed the auditors' reports related to the financial statements contained herein to the extent of, and with the responsibility specified in, such reports. Each of the members of our Board of Directors represents that this Offering Memorandum contains, as of the date of its publication, true and complete information as to all relevant matters which might affect the net worth or other financial and economic condition of Petrobras Energía and all other information that is required to be furnished to investors in connection with an issue of the Notes pursuant to all applicable rules.

The public offering in Argentina of the Notes of each Series will be deemed to be included in the above-mentioned authorization for the Program, provided that certain documentation filing and related requirements of the CNV are satisfied.

LISTING AND GENERAL INFORMATION

1. The Notes represented by a Regulation S Global Note have been accepted for clearance through Euroclear and Clearstream Luxembourg ("Global Notes"). The relevant ISIN number and the CUSIP number for each Tranche of Notes will be contained in the pricing supplement relating thereto. In addition, Petrobras Energía will make an application with respect to Restricted Notes of certain Series to be accepted for trading in book-entry form by DTC. Acceptance by DTC of Restricted Notes of each such Tranche will be confirmed in the applicable pricing supplement.

2. If the Company decides to present an application to list Notes to be issued under the Program on the exchange-regulated market of the Luxembourg Stock Exchange ("Euro MTF"), a legal notice relating to the issue of Notes and copies of the by-laws (*Estatutos Sociales*) of Petrobras Energía will be deposited with the Chief Registrar of the District Court in Luxembourg ("Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg") where such documents may be examined and copies obtained. For listing purposes, the Luxembourg Stock Exchange has advised us that it has allocated the Program the following number: 12052.

3. We have obtained all necessary consents, approvals and authorizations in Argentina in connection with the establishment of the Program and the issue of Notes thereunder. The establishment of the Program was authorized by the CNV pursuant to Certificate No. 202, dated May 4, 1998, Certificate No. 290 dated July 3, 2002, and Certificate No. 296 dated September 16, 2003 of the CNV, authorizing issues of Notes during the ten-year period between May 4, 1998 and May 4, 2008. The public offering in Argentina of any Series of Notes issued under the Program will be deemed to be included in the above-mentioned authorization for the Program, provided that certain documentation filing and related requirements of the CNV are satisfied. This authorization means solely that the requirements established by the CNV as to the provision of information have been satisfied. The CNV has not passed upon the accuracy or adequacy of this Offering Memorandum. The establishment of the Program and the issue of Notes thereunder was authorized by resolutions of our shareholders passed on April 8, 1998, on June 20, 2002, and on July 8, 2003, and resolutions of our Board of Directors passed on April 17, 1998, on June 20, 2002, and on July 15, 2003. The Notes are not convertible into our shares.

4. We are not involved in any litigation or arbitration proceedings which are material in the context of the Program or the issue of Notes under the Program nor, so far as we are aware, are any such litigation or arbitration proceedings pending or threatened.

5. Except as disclosed herein, there has been no significant change in the financial or trading position of Petrobras Energía since Petrobras Energía most recently published annual financial statements or (if later) the date of the last interim financial statements incorporated in, and forming part of, this Offering Memorandum and, except as disclosed herein, no material adverse change in our financial position or prospects since the date of its most recently published financial statements.

6. We are a corporation (*sociedad anónima*) incorporated in Argentina and registered in the Public Registry of Commerce on November 17, 1947, under No. 759, folio 569, book 47, volume A, for a term expiring on June 18, 2046. Domiciled in Buenos Aires, Argentina, we have our principal executive offices at Maipú 1, (C1084ABA), Buenos Aires, Argentina. The telephone number of our commercial offices is 5411-4344-6000 and our facsimile number is 5411-4344-6315. None of our directors and executive officers are residents of the United States, nor are we a resident of the United States and all or a substantial portion of our assets and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon Petrobras Energía or such persons or to enforce against any of them in United States courts judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

7. Copies in English (and in case of copies obtainable at the offices of the Paying Agent in Buenos Aires, in Spanish) of our latest annual Financial Statements, our latest interim financial statements (which are published quarterly), in each case being incorporated in and forming part of this Offering Memorandum, may be obtained and copies of the Indenture will be available for inspection, at the specified offices of each

of the Paying Agents during normal business hours, so long as any of the Notes are outstanding. Copies of this Offering Memorandum and of the Indenture will be available for inspection at the registered office of Petrobras Energía presently at Maipú 1, (C1084ABA) Buenos Aires, Argentina. If and for so long as Notes are listed on the Euro MTF, the exchange-regulated market of the Luxembourg Stock Exchange, copies of this Offering Memorandum can be obtained at the office of the Paying Agent in Luxembourg (as specified in the relevant pricing supplement).

8. We have agreed to furnish to investors upon request such information as may be required by Rule 144A(d)(4).The applicable pricing supplement will set forth, with regard to a Series of Notes, the following: the identity of the relevant Agent(s); the Series number; the principal amount of the Series; the issue price; the issue date; the interest rate, amount of interest, interest payment dates and interest period, if applicable; the applicable Conditions; the Common Code, ISIN, CUSIP and/or CINS numbers; whether or not the Notes will be listed on other stock exchanges; whether the Global Notes will be exchangeable into Definitive Notes and the relevant exchange data; whether DTC Note(s) will be available; details of any additions or variations to the Conditions of the Notes and any additions or variations to the selling restrictions; and whether any Notes sold in reliance upon Regulation S will be in bearer form or registered form or both such forms.

9. We have issued the following securities, that remain outstanding, in accordance with the Negotiable Obligations Law:

   U.S.$32,578,000 maturing on July 15, 2007
   U.S.$3,980,000 maturing on April 25, 2008
   U.S.$181,491,000 maturing on May 1, 2009
   U.S.$349,238,000 maturing on July 15, 2010
   U.S.$97,020,000 maturing on June 9, 2011
   U.S.$200,000,000 maturing on October 30, 2013

10. Pursuant to Argentine Law No. 24,587 and Argentine Decree No. 259/96, Argentine companies are not allowed to issue Notes in bearer form, except if the same are authorized by the CNV to be publicly offered in Argentina and are represented by global certificates, registered or deposited with common depositary systems authorized by the CNV. By General Resolution No. 368/01 of the CNV ("Resolution 368/01"), Euroclear, Clearstream Luxembourg, DTC and the Argentine Securities Depositary (Caja de Valores S.A.) have been authorized as such common depositary systems. Accordingly, as long as the provisions of such law are applicable, under the Program and the Indenture (as defined herein), Petrobras Energía will only issue Notes in a form that complies with the requirements of such law.

11. We have no outstanding convertible or exchangeable debt securities or debt securities with warrants attached.

FORM OF PRICING SUPPLEMENT

The following is the form of pricing supplement which can be used to give details of any particular Tranche of Notes.

[LOGO]

Petrobras Energía S.A.

(A private company (*sociedad anónima*) incorporated in accordance with the laws of the Republic of Argentina with limited liability)

U.S.$2,500,000,000

Medium Term Note Program Unsecured and not Convertible into Shares of the Company with Minimum Maturity of Seven days from its issuance

Series No. [ ]

[Currency and Amount [Description of Notes] [due]]

Issue Price: [ ]

[Agent Name(s)]

The date of this pricing supplement is [ ], 200[ ]

This pricing supplement is issued to give details of a Tranche of medium term Notes (the "Notes") to be issued by Petrobras Energía S.A. ("Petrobras Energía"), pursuant to a U.S.$2,500,000,000 Medium Term Note Program (the "Program"). It is supplementary to, and should be read in conjunction with, the Offering Memorandum dated [ ], issued in relation to the Program, which at the date hereof contains, inter alia:

1. Description of Notes and general information regarding the Program;

2. The business description of Petrobras Energía;

3. The description of the differences between United States GAAP and Argentine GAAP and the Auditors' Report and statements of Petrobras Energía as at and for the years ended [ ] and;

4. Any separate amendments of or supplements (other than other pricing supplements) to the Offering Memorandum.

The issue of the Notes was authorized by a resolution [of the Shareholders meeting] [and a resolution of the Board of Directors] of Petrobras Energía dated [ ] and [ ], respectively.

This pricing supplement does not constitute and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of the Notes or the distribution of this pricing supplement in any jurisdiction where such action is required.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"). SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE [OFFERED OR SOLD/OFFERED, SOLD OR DELIVERED] WITHIN THE UNITED STATES [OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"))]. THIS PRICING SUPPLEMENT HAS BEEN PREPARED BY

PETROBRAS ENERGÍA FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE NOTES OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S [AND WITHIN THE UNITED STATES TO "QUALIFIED INSTITUTIONAL BUYERS" IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") AND FOR LISTING OF THE NOTES ON THE LUXEMBOURG STOCK EXCHANGE]. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A]. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE NOTES AND DISTRIBUTION OF THIS PRICING SUPPLEMENT AND THE REMAINDER OF THE OFFERING MEMORANDUM, SEE "PLAN OF DISTRIBUTION" CONTAINED IN THE OFFERING MEMORANDUM.

[Set out any additions or variations to the selling restrictions.]

Except as disclosed in this document, there has been no material adverse change in the financial or trading position of Petrobras Energía and its subsidiaries (taken as a whole) since [date of last audited accounts or interim accounts (if later)] and no material adverse change in the financial position of Petrobras Energía and its subsidiaries (taken as a whole) since [date of last published annual accounts].

[In connection with this issue, [name of Stabilizing Manager] may over-allot or effect transactions which stabilizes or maintains the market price of the Notes at a level which might not otherwise prevail. Such stabilizing, if commenced, may be discontinued at any time.]

We accept responsibility for the information contained in this Pricing Supplement.

Description of Notes

The following items under this heading "Description of Notes" are the particular terms which relate to the Tranche of the Notes, the subject of this pricing supplement.

[Include whichever of the following apply to the relevant Tranche of Notes]

1. Series No.: [Number]

2. Aggregate Principal Amount: [Amount]

3. Issue Price: [Price]

4. Issue Date: [Date]

5. Principal Amount: [Amount]

6. Form of Notes: [Registered only/Bearer only]

7. Authorized Denomination(s): [Currency and amount(s)]

8. Specified Currency: [Currency of denomination]

9. Specified Principal Payment: [Currency]

10. Specified Interest Payment: [Currency]

11. Maturity Date or other dates(Fixed Interest Rate and Zero Coupon): [Dates]

12. Redemption Month (Variable Interest Rate): [Month and year]

13. Interest Basis: [Fixed Interest Rate/Variable Interest Rate/Zero Coupon]

14. Interest Commencement Date (if different from the Issue Date): [Date]

15. Fixed Interest Rate:

    Calculation Amount: [Amount]
    Interest Rate: [ ] per cent. per annum
    Reference Date(s): [Date(s)]
    Initial Broken Amount: [Amount per currency and denominations]
    Final Broken Amount: [Amount per currency and denominations]
    Fixed Rate Day Count Fraction(s) if not 30/360 basis: [Fraction]

16. Variable Interest Rate:

    Calculation Amount: [Amount]
    Business Day Convention: [FRN Convention/Modified Following Business Day Convention/Following Business Day Convention/ Other (Specify)]
    Specified Interest Period: [Number of months, weeks or days]
    Interest Payment Dates: [Specify if different to normal convention]
    Benchmark and Reference Rate(s): [Specify, including whether bid, offer or mean] Primary Source for Interest Rate Quotations for Reference Rate(s): [Relevant screen page/Reference Banks]
    Specified Screen Page: [Specify]
    Reference Banks: [Specify]
    Calculation Agent: [Specify]
    Interest Determination Date: [Specify number of days]

17. Basis of Calculation of Variable Interest Rate and Interest Payment Dates and default interest where Condition 5(II)(b)(i) to (vii) does not apply: [Give details]

    Other Variable Interest Rate Terms:
    Minimum Interest Rate: [ ] per cent.
    Maximum Interest Rate: [ ] per cent.
    Spread: [+/-[ ] per cent. per annum]
    Spread Multipliers: [Specify]
    Variable Rate Day Count Fraction(s) if not actual/360: [Fraction]
    Relevant Banking Center: [Specify]

18. Zero Coupon:

    Amortization Yield: [Yield]
    Reference Price: [Price]
    Basis: [Straightline/Compounded at [Specify] intervals]
    Fixed Rate Day Count Fraction(s) if not 30/360 basis: [Fraction]

19. Relevant Business Day: [Specify other financial center(s)]

20. Relevant Financial Center: [Specify other financial center(s)]

21. Redemption Amount or the basis of calculation of the variable redemption amount: [Give details]

22. Original Withholding Level: [Specify]

23. Redemption at the option of Petrobras Energía: Yes/No

Notice Period: [Specify maximum and minimum number of days for notice period]
Amount: [All or less than all and, if less than all, minimum amounts]
Date(s): [Date(s)]
Call Redemption Amount: [Price and other details]

24. Redemption at the option of the Noteholders: Yes/No

Deposit Period: [Specify maximum and minimum number of days for deposit period]
Amount: [All or less than all and, if less than all, minimum amounts]
Date(s): [Date(s)]
Put Redemption Amount: [Price and other details]
Withdrawal of Notes: [Give details]
Put Redemption Notice Period: [Specify maximum and minimum number of days for notice of deposit period]

25. Alternative Payment Mechanism: [Specify]

26. Long Maturity Note: Yes/No

27. Unmatured Coupons void: Yes/No

28. Talons:

Talons for future Coupons to be attached to Definitive Bearer Notes: Yes/No
Reference Date(s) or Interest Payment Date(s) on which the Talons (if any) mature: [Date(s)]

29. Early Redemption Amount (including accrued interest, if any): [Give details]

30. Additional provisions relating to the Notes:

Other Relevant Terms [Give details]

31. Listing (if yes, specify Stock Exchange): Yes/No [Stock Exchange]

32. Syndicated: Yes/No

33. If Syndicated:

Lead Manager: [Name]
Stabilizing Manager: [Name]

34. Commissions and Concessions: [Specify]

35. Codes:

Common Code: [Number]
ISIN: [Number]
CUSIP: [Number]
CINS: [Number]
Other: [Specify]

36. Identity of Agent(s)/Manager(s): [Names]

37. Tefra Rules applicable: Yes/No [If yes, C Rules/D Rules]

38. Provisions for Bearer Notes:

Exchange Date: [None/Date]
Permanent Global Note: Yes/No
Definitive Bearer Notes: Yes/No

39. Provisions for Registered Notes:

Individual Definitive Registered Notes available on Issue Date: Yes/No
Regulation S Global Note available on Issue Date: Yes/No
DTC Restricted Global Note available on Issue Date: Yes/No

40. Use of Proceeds: [Specify]

41. Details of any additions or variations to the Distribution Agreement: [ ]

42. Details of any additional Risk Factors: [ ]

43. Details of any additional Selling Restrictions: [Insert the restrictions relating to the Specified Currency of the Notes or the jurisdiction(s) in which Notes are to be offered if not contained in, or varied from, the Offering Memorandum]

44. [Additional Information]: [Set out]

[Supplemental Offering Memorandum Information

The Offering Memorandum is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Memorandum.

[Set out any additional disclosure and, if applicable, an indication as to where it should be inserted into the Offering Memorandum]]

(For the purpose only of listing this issue of Notes on the Stock Exchange)

Application is hereby made to list this issue of Notes (as from [insert date on or prior to the issue date for the issue of the Notes]).

By:

Authorized Signatory

The Bank of New York
(as Principal Paying Agent)

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OF THE ISSUER
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AND PAYING AGENT IN ARGENTINA
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PETROBRAS ENERGIA S.A.

Consolidated Financial Statements and Summary of Events
as of December 31, 2006, 2005 and 2004
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders, President and Directors of
Petrobras Energía S.A.
Maipú 1, 22nd floor
Buenos Aires
Argentina

1. We have audited the consolidated balance sheet of Petrobras Energía S.A. (an Argentine Corporation) and its subsidiaries as of December 31, 2006, and the related consolidated statements of income, of changes in shareholders equity and cash flows for the year then ended, and notes 1 to 23. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the above-mentioned financial statements based on the report of the other auditors mentioned in paragraph 5.

2. 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 and the report of other auditors mentioned in paragraph 5 provide 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 Argentine National Securities Commission ("CNV") regulations. 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 set of accounting principle have not been quantified by the Company.

5. The consolidated financial statements of the related company Compañía de Inversiones de Energía S.A. ("CIESA"), proportionally consolidated by Petrobras Energía S.A. ("PESA") as of December 31, 2006, were audited by other auditors, whose report was furnished to us. Our opinion set forth in paragraph 8, insofar as it relates to the amounts included for such company, before considering the adjustments mentioned in note 9 to the consolidated financial statements, is based on the report of the other auditors. The assets and net sales of CIESA, incorporated by the proportional consolidation method and before considering the referred adjustments, represent approximately 13% and 6% of the respective consolidated totals as of December 31, 2006 and for the fiscal year then ended.

6. The report of the other auditors referred in paragraph 5 issued by other professionals on CIESA's consolidated financial statements as of December 31, 2006 contains qualifications regarding: (a) the non-recognition of the effects of the changes in the purchasing power of the Argentine peso from March 1 to September 30, 2003 as required by the professional accounting principles in force in the City of Buenos Aires but not allowed by the related regulations of the CNV, and (b) the uncertainty as to the ability of: (i) CIESA and its subsidiary Transportadora de Gas del Sur S.A. ("TGS") to continue

operating as a going concern, and, (ii) the uncertainty as to the recoverability of CIESA and TGS's non-current assets if the assumptions underlying management's projections about such assets do not materialize in the future. As described in note 9 to the consolidated financial statements, CIESA and its subsidiary TGS have been adversely affected by the Argentine Government's adoption of several economic measures, including the redenomination into pesos of their tariffs (previously stated in U.S. dollars), the ongoing renegotiation of the license and the devaluation of the peso. Additionally, in September 2005, CIESA entered into a debt restructuring agreement in connection with the debt on which it had previously defaulted, pending approval by certain regulatory authorities as of the date of this report. The plans of these related companies' management in respect of the above are described in note 9 to the consolidated financial statements. The accompanying consolidated financial statements 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 represent, in the consolidated financial statements of PESA, approximately 13% and 5% of the respective consolidated totals as of December 31, 2006 and for the fiscal year then ended.

7. As it is mentioned under the heading Operations in Venezuela in note 6 to the consolidated financial statements, in March 2006, PESA through its related companies and subsidiaries in Venezuela, signed with Petróleos de Venezuela S.A. and Corporación Venezolana del Petróleo S.A. certain Memoranda of Understanding with the purposes of migrating the operating agreements for the areas Oritupano Leona, La Concepción, Acema and Mata to other legal entities to be jointly owned by the Government of Venezuela and PESA's subsidiaries and investees. Consequently, the Company accounted for its investments as of December 31, 2006 under the equity method, as indicated in the referred note. As of the date of issuance of the financial statements referred to in paragraph 1, among other aspects, the agreements for conversion of the operating agreements for all these areas have been signed and the referred jointly owned entities operating such areas have been organized and registered with the Public Registry of Commerce of Venezuela.

   Additionally, as indicated in note 6 to the consolidated financial statements, the Company recorded other receivables in the amounts that, as estimated by the Company, can be used to pay acquisition bonds related to any new project of jointly owned entities focused on the development of oil exploration and production activities, or licensing for the development of gas exploration and production operations in Venezuela. Management estimated the equity value of the referred investments, the recoverable value thereof and the recoverable value of the referred receivables based on the best estimates available at December 31, 2006. However, the materialization of certain assumptions used by management 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, based on our audit and on the report of the other auditors mentioned in paragraph 5, subject to the effect of the potential adjustments, if any, as might have been determined to be necessary had the matters mentioned in paragraphs 6 and 7 been resolved,the consolidated financial statements referred to in paragraph 1 present fairly, in all material respects the financial position of Petrobras Energía S.A. and its subsidiaries as of December 31, 2006, and the results of their operations, the changes in shareholders' equity and their cash flows for the year then ended, in conformity with professional accounting principles in force in the City of Buenos Aires.

9. The consolidated financial statements of PESA for the years ended December 31, 2005 and 2004, presented for comparative purposes, were audited by other auditors who issued a report on February 15, 2006, except for the changes mentioned in note 2 to the consolidated financial statements as of December 31, 2006 for which the date is February 8, 2007, containing an opinion on: (a) the referred

consolidated financial statements as of December 31, 2005, based on their audit and on the reports of other auditors for the related companies CIESA and Compañía Inversora de Transmisión Eléctrica Citelec S.A. ("Citelec"), and (b) the referred consolidated financial statements for the year ended December 31, 2004, based on their opinion and on the reports of other auditors for the related companies CIESA, Citelec and TGS.

The referred auditors' report on the consolidated financial statements of PESA as of December 31, 2005 and 2004 states that: (a) the auditors' report on the consolidated financial statements of CIESA as of December 31, 2005 and 2004 included qualifications for uncertainties regarding: (i) the ability of the referred related company to continue operating as a going concern, and (ii) the recoverability of its non-current assets, and (b) the auditors' report on the consolidated financial statements of TGS as of December 31, 2004 included qualifications for uncertainties as to: (i) the future development of TGS's regulated business, and (ii) the recoverable value of its non-current assets.

In addition, the referred auditors' report on the consolidated financial statements of PESA as of December 31, 2005 and 2004 included a qualification with respect to the uncertainties mentioned in the preceding paragraph with respect to CIESA and its subsidiary TGS.

Buenos Aires (Argentina), February 8, 2007

SIBILLE

Gabriel E. Soifer
Partner

PETROBRAS ENERGÍA S.A. AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL
CONSOLIDATED STATEMENTS OF INCOME
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Stated in millions of Argentine pesos - See Note 2.c)

	2006	2005	2004
Net sales	11,745	10,655	8,763
Costs of sales (Note 23.c)	(8,251)	(7,046)	(5,781)
Gross profit	3,494	3,609	2,982
Administrative and selling expenses (Note 23.e)	(1,092)	(938)	(845)
Exploration expenses (Note 23.e)	(117)	(34)	(133)
Other operating expenses, net (Note 17.c)	(135)	(329)	(324)
Operating income	2,150	2,308	1,680
Equity in earnings of affiliates (Note 9.b)	219	281	102
Financial income (expenses) and holding gains (losses)			
Generated by assets:			
Interest	110	88	53
Exchange difference	49	53	62
Holding gains	25	40	38
Holding gains and income from sale of listed shares and government securities	49	(4)	104
Other financial expenses, net	(6)	(2)	(25)
	227	175	232
Generated by liabilities:			
Interest	(611)	(586)	(609)
Exchange difference	(65)	(83)	(97)
Derivatives	-	(332)	(688)
Other financial expenses, net	(55)	(71)	(102)
	(731)	(1,072)	(1,496)
Other income (expenses), net (Note 17.d)	99	(456)	(36)
Income before income tax and minority interest in subsidiaries	1,964	1,236	482
Income tax (Note 13)	(465)	(211)	317
Minority interest in subsidiaries	(83)	(54)	26
Net income	1,416	971	825
Basic/diluted earnings per share - Stated in Argentine pesos	1.403	0.962	1.058

The accompanying notes are an integral part of these consolidated financial statements.

PETROBRAS ENERGÍA S.A. AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2006, 2005 AND 2004
(Stated in millions of Argentine pesos - See Note 2.c)

	2006	2005	2004
CURRENT ASSETS			
Cash and banks	86	104	139
Investments (Note 9.a)	1,512	881	946
Trade receivables	1,416	1,596	1,181
Other receivables (Note 17.a)	1,181	627	756
Inventories (Note 8)	888	782	627
Other assets	1	-	1
Total current assets	5,084	3,990	3,650
NON-CURRENT ASSETS			
Trade receivables	124	78	47
Other receivables (Note 17.a)	691	672	943
Inventories (Note 8)	81	79	71
Investments (Note 9.a)	3,630	1,072	1,107
Property, plant and equipment (Note 23.a)	10,838	12,657	12,277
Other assets	41	47	65
Total non-current assets	15,405	14,605	14,510
Total assets	20,489	18,595	18,160
CURRENT LIABILITIES			
Accounts payable	1,603	1,483	1,180
Short-term debt (Note 11)	2,646	1,805	1,709
Payroll and social security taxes	276	177	98
Taxes payable	326	224	207
Reserves (Note 14)	95	48	31
Other liabilities (Note 17.b)	192	168	657
Total current liabilities	5,138	3,905	3,882
NON-CURRENT LIABILITIES			
Accounts payable	49	14	26
Long-term debt (Note 11)	4,716	5,708	6,248
Payroll and social security taxes	36	17	12
Taxes payable	1,492	1,404	1,692
Reserves (Note 14)	85	103	76
Other liabilities (Note 17.b)	366	339	178
Total non-current liabilities	6,744	7,585	8,232
Total liabilities	11,882	11,490	12,114
MINORITY INTEREST IN SUBSIDIARIES	771	688	1,869
SHAREHOLDERS' EQUITY (Per respective statements)	7,836	6,417	4,177
	20,489	18,595	18,160

The accompanying notes are an integral part of these consolidated financial statements.

PETROBRAS ENERGÍA S.A. AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL
STATEMENTS OF CHANGES IN SHAREHOLDERS´EQUITY
FOR THE FICAL YEARS ENDED DECEMBER 31, 3006, 2005 AND 2004
(Stated in millions of Argentine pesos - See Note 2.c)

	2006									2005	2004
	Capital stock				Retained earnings						
	Capital stock	Adjustment to capital stock	Merger premium	Additional paid-in capital on sales of own stock (a)	Legal reserve	Treasury stock (a)	Unappropriated retained earnings	Deferred results (a)	Total	Total	Total
Balances at the beginning of the year	1,010	1,230	960	56	362	(33)	4,096	-	7,681	5,628	4,933
Balance adjustment to the prior years (Note 2.f)	-	-	-	-	-	-	(1,250)	(14)	(1,264)	(1,451)	(1,604)
Modified balances at the beginning of the year	1,010	1,230	960	56	362	(33)	2,846	(14)	6,417	4,177	3,329
Merger (Note 1)	-	-	-	-	-	-	-	-	-	1,234	-
Deferred results of the fiscal year	-	-	-	-	-	-	-	3	3	35	25
Distribution of unappropiated retained earnings - Cash dividends	-	-	-	-	-	-	-	-	-	-	(2)
Regular Shareholders' Meeting decisions of April 28, 2006 - Legal Reserve	-	-	-	-	41	-	(41)	-	-	-	-
Net income	-	-	-	-	-	-	1416	-	1416	971	825
Balances at the end of the year	**1,010**	**1,230**	**960**	**56**	**403**	**(33)**	**4,221**	**(11)**	**7,836**	**6,417**	**4,177**

(a) See Note 4.n).

The accompanying notes are an integral part of these consolidated financial statements.

PETROBRAS ENERGÍA S.A. AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (a)
(Stated in millions of Argentine pesos - See Note 2.c)

	2006	2005	2004
Cash provided by (used in) operations:			
Net income	1,416	971	825
Reconciliation to net cash provided by (used in) operating activities:			
Minority interest in subsidiaries	83	54	(26)
Equity in earnings of affiliates (Note 9.b)	(219)	(281)	(102)
Financial expense, net	(24)	29	45
Dividends collected (Note 9.c)	116	72	84
Depreciation of property, plant and equipment	1,121	1,209	1,156
Sale of oil areas	(85)	-	-
Impairment of assets - Areas in Venezuela (Note 6)	-	310	27
Impairment of assets - Gas areas in Argentina (Note 6)	-	88	-
Seniat claim - Venezuela	18	54	-
Reversal of the reserve for impairment of investments - Citelec and Enecor	(39)	11	-
Impairment of unproved oil and gas properties	78	16	119
Income tax provision	465	211	(317)
Income tax paid	(16)	(17)	(66)
Accrued interest	584	552	585
Interest paid	(491)	(515)	(627)
Other	58	21	(3)
Changes in assets and liabilities:			
Trade receivables	150	(375)	(409)
Other receivables	(277)	(110)	(72)
Inventories	(136)	(169)	(174)
Other assets	8	8	45
Accounts payable	130	96	333
Payroll and social security taxes	110	90	(25)
Taxes payable	(175)	(5)	83
Other liabilities	9	(311)	159
			-
Net cash provided by operations	2,884	2,009	1,640
Cash provided by (used in) investing activities:			
Acquisition of property, plant and equipment and interest in companies and oil and gas areas	(2,175)	(1,757)	(1,189)
Sale of property, plant and equipment and interest in companies and oil and gas areas	124	-	-
Net decrease (increase) in investments other than cash and cash equivalents	49	52	(19)
Contributions and advances to unconsolidated affiliates	(27)	(1)	(6)
Reimbursement of contributions	-	14	9
Net cash used in investing activities	(2,029)	(1,692)	(1,205)
Cash provided by (used in) financing activities:			
Net (decrease) increase in short term debt	(6)	671	101
Receipts of long-term debt	300	205	580
Receipts of long-term debt from related companies	-	583	150
Payments of long-term debt	(589)	(2,061)	(1,241)
Cash dividends paid	-	-	(43)
Net cash used in financing activities	(295)	(602)	(453)
Effect of exchange rate change on cash	-	9	(6)
Increase (decrease) in cash	560	(276)	(24)
Cash and cash equivalents at the beginning of the year	790	1,066	1,090
Cash and cash equivalents at the end of the year (See Note 17.e)	1,350	790	1,066

(a) Cash and cash equivalents include highly liquid, temporary cash investments with original maturities of three months or less.

The accompanying notes are an integral part of these consolidated financial statements.

1. Business of the Company, change of corporate name and Business reorganization

Petrobras Energía S.A. (hereinafter "Petrobras Energía " or "the Company") is 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. It has businesses in Argentina, Bolivia, Brazil, Ecuador, Perú, Venezuela, México and Colombia.

On January 21, 2005, the Special Shareholders' Meeting of Petrobras Energía, Eg3 S.A. ("Eg3") and Petrobras Argentina S.A. ("PAR"), and the Special Partners' Meeting of Petrolera Santa Fe S.R.L. ("PSF"), in their respective meetings, approved the merger of Eg3, PAR, and PSF with and into Petrobras Energía, with the former companies being dissolved without liquidation. The effective merger date was set as January 1, 2005, as from when all assets, liabilities, rights and obligations of the absorbed companies would be considered incorporated into Petrobras Energía. On March 3, 2005, the final merger agreement was subscribed. On June 28, 2005, the CNV (Argentine Securities Commission) approved the merger and authorized the public offering of the Petrobras Energía shares. On September 16, 2005, the merger was registered in the Public Registry of Commerce.

As the result of the merger, (a) Petróleo Brasileiro S.A. – Petrobras ("Petrobras"), owner of a 99.6% equity interest in EG3 and 100% equity interest in PAR and PSF through its subsidiary Petrobras Participaciones SL, received, through such subsidiary, 229,728,550 new shares of class B stock in Petrobras Energía, with a nominal value of Argentine Pesos 1 each and entitled to one vote per share, representing 22.8% of capital stock, and (b) Petrobras Energía Participaciones S.A.'s ownership interest in Petrobras Energía decreased from 98.21% to 75.82%. After the merger, the new capital stock of Petrobras Energía was set at Argentine pesos 1,009,618,410.

Petrobras Energía recorded the effects of the corporate reorganization in accordance with the pooling-of-interest method. Although Generally Accepted Accounting Principles effective in Argentina and IFRS, which are applied on a suppletory basis, refer to business combinations, they do not deal with such transactions when carried out among companies of the same economic group. IFRS establish that in case that a situation or topic is not subject of an International Accounting Standard, management could consider other standards-issuing institutions´ pronouncements that apply similar frameworks, as well as other accounting literature and general practices accepted by different sectors of activity, insofar as they are not inconsistent with IFRS framework.

In this regard, taking into account that the Company's "Class B" shares are listed on the New York Stock Exchange, the accounting standards effective for this market (Statement of Financial Accounting Standard No 141) set forth that the merger between entities under common control be accounted for using the pooling-of-interest method.

According to the method, the assets, liabilities and components of the shareholders' equity of the transferring entities are recognized in the combined entity based on their carrying amounts as of the effective merger date.

2. Basis of presentation

Petrobras Energía consolidated financial statements have been prepared in accordance with the regulations of the 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 the English language from those issued in Spanish in accordance with the CNV regulations. They have also been reformatted in a manner different from that presented 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 have not been quantified. Accordingly, these consolidated financial statements are not intended to present 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 from those estimates.

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 Energía has consolidated line by line its financial statements with the financial statements of the companies over which Petrobras Energía 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.

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 flow of such subsidiaries, reflecting separately the minority interests in the subsidiaries. The related party receivables, payables and transactions within the consolidated group are eliminated. The unrealized intercompany gains (losses) from transactions within the consolidated 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.

The companies under joint control are Distrilec Inversora S.A. ("Distrilec"), Compañía de Inversiones de Energía S.A. ("CIESA") and Compañía Inversora de Transmisión Eléctrica Citelec S.A. ("Citelec"). The Company has not consolidated proportionately on a line-by-line basis the assets, liabilities, income (loss) and cash flows of the interest in Citelec S.A. since Petrobras Energía committed to divest such interest in connection with the transfer of

58.62% of the shares of Petrobras Energía Participaciones S.A. to Petróleo Brasileiro S.A. - PETROBRAS (see Note 9.I).

The data about the companies over which the Company exercises control, joint control and significant influence are disclosed in Note 23.f).

b) Foreign Currency translation

The Company applies the translation method established by 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" to the Company's transactions in Argentina. Such transactions are not an extension of the Company's transactions due to, among others, the following reasons:

a) transactions with the Company are not a high proportion of the entity's activities abroad;
b) foreign business activities are partially financed with funds from their own transactions and with local loans;
c) sales, workforce, materials and other costs of goods and services related to transactions abroad are settled mainly in a currency other than the currency of the investor's financial statements; and
d) the Company's cash flows are independent from the day-to-day activities of the foreign business and are not directly affected by the size or frequency of the foreign business activities.

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

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

Remeasurement results are recognized in the Statements of Income as "Financial results".

After the transactions are remeasured into U.S. 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 translation effect arising from the translation of the financial statements is disclosed in the Shareholders´ equity as "Deferred results".

Exchange differences arising from the Company's liabilities in foreign currency assumed to hedge the Company's net investment in foreign entities are recorded in the "Deferred Results" account (See note 4.n).

c) Restatement in constant money

The Company presents its consolidated financial statements in constant money 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 integrally recognize the effects of the changes in the purchasing power of 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 the 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 peso through the interruption of adjustments, such as those whose original date is within the stability period, to be stated in pesos as of December 2001. Through the 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 according to the constant pesos method is applied to the accounting cost values immediately preceding the capitalization of the exchange differences mentioned in note 4.n), 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 of the assets indicated in such note.

On March 25, 2003, the Executive Branch of Government issued the Executive Order 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. The CPCECABA, through Resolutions N° 287/03, 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 transactions of oil and gas exploration and production joint ventures and foreign branches

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

e) Financial statements used

The financial statements of the subsidiaries and companies under joint control as of December 31, 2006, 2005 and 2004 or the best available accounting information at such dates, were used for consolidation purposes and adapted to an equal period of time respect to the financial statements of the company, after considering the adjustments to correspond to the Company's valuation methods.

f) Changes in professional accounting standards

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

The effects of these changes on the shareholders´equity as of December 31, 2005, 2004 and 2003 are described below:

	2005	2004	2003
Comparison with recoverable values (i)	(190)	(70)	(80)
Deferred tax (ii)	(1,060)	(1,332)	(1,450)
Total effect on unapropiated retained earnings	(1,250)	(1,402)	(1,530)
Deferred results (iii)	(14)	(49)	(74)
Total effect on Shareholders´equity	(1,264)	(1,451)	(1,604)

(i) In calculating the recoverability of Property, Plant & Equipment and certain intangible assets, the recoverable value is considered to be the higher of the net realizable value and the discounted value of the expected cash flows, eliminating the first comparison with the nominal value of expected cash flows.

(ii) The difference between the inflation-adjusted book value of Property, Plant & Equipment and other non-monetary assets and their tax basis is considered to be a temporary difference that gives rise to the recognition of a deferred liability, which – as provided by CNV General Resolution No. 487 – can either be booked or disclosed in notes to financial statements. The Company Management opted to book this effect in accordance with the International Financial Reporting Standards (IFRS).

(iii) The effects of the measurement of the derivative instruments considered to be an effective hedge and the effects of the translation of foreign operations net of the foreign-exchange differences generated by the debt denominated in foreign currency designated as hedge for net investment abroad are no longer disclosed as item between liabilities and shareholders' equity ("mezzanine account") and, instead, are disclosed in shareholders' equity.

The financial statements for 2005 and 2004 fiscal years shown on a comparative basis have been modified pursuant to General Resolutions No. 484 and No. 485 and according to Technical Resolutions No.17 and No.18.

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 restatement in constant money provided for in FACPCE Technical Resolution No. 6, as described in note 2.c).

b) The possibility of capitalizing the financial costs of financing with the Company's own capital may not be applied.

c) The alternative treatment prescribed in the professional accounting standards in connection with the capitalization of financial costs attributable to certain assets is considered mandatory.

4. Valuation methods

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

a) Accounts denominated in foreign currency:

At the prevailing exchange rates at the end of each year, including accrued interest, if applicable.

The summary of accounts denominated in foreign currency is disclosed in Note 23.d).

b) Trade receivables and accounts payable:

Trade receivables and payables have been valued at the spot cash estimated at the time of the 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 billed uncollected services and services rendered but not yet billed as of each year.

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

c) Inventories:

Crude oil stock: at reproduction cost.

Row materials and materials: of high-turnover, at replacement cost; of low-turnover, at the last purchase price, restated in constant money, according to Note 2.c).

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

Stock of liquid petroleum gases (NGL) in the gas pipeline system in excess of the line pack and held by third parties and stock of NGL obtained from natural gas processing: at replacement or reproduction cost, as appropriate.

Advances to suppliers: based on the amounts of money delivered. Amounts in foreign currency were converted into pesos at the applicable exchange rate for the settlement of these transactions.

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

d) Investments:

Listed Government Securities of easy trading: at market value at the end of each year, less the estimated selling expenses. Any gain or loss due to market fluctuations is reflected currently in income in the "Financial income (expense) and holding gains (losses)" account.

Certificates of deposit and loans to affiliates over which significance influence is exercised: at face value plus accrued interest, according with the specific clauses for each operation. The carrying amount of these assets does not exceed their recoverable value.

Investments in mutual funds: at market prices at the end of each year.

Shares — Participation in affiliates, in which the Company exercises significant influence: by the equity method. For the determination of the Company's equity in affiliates over which significance influence is exercised, the Company has used financial statements from affiliates as of December 31, 2006, 2005 and 2004 or the best available financial information.

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, the difference between acquisition cost and book value of affiliates at the time of the acquisition. Cash dividends from affiliates approved by shareholders' meetings held prior to the date of issuance of these consolidated financial statements, which are placed at the shareholders' disposal within a term not exceeding one year are deducted from the value of the investment and included in current investments.

The value under the equity method is stated at recoverable value if such value is exceeded.

Other shares – interests in affiliates in which it does not exercise significant influence: at acquisition cost restated in constant money as shown in Note 2.c) to the consolidated financial statements.

e) Financial receivables and payables:

Financial receivables and payables have been valued according to the money paid and collected, 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 payable:

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

g) Property, plant and equipment:

Property, plant and equipment, except as indicated below, have been valued at acquisition cost restated in constant currency, according to Note 2.c), less related accumulated depreciation.

Property, plant and equipment related to foreign operations were converted into the functional currency, at its historical exchange rates, and they have been translated into Argentine pesos at the exchange rate effective as of closing 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) outlines, issued by the Accounting Standard Board from the United States. This method involves the capitalization of: (i) the cost of acquiring properties in oil and gas exploitation and production areas; (ii) the cost of drilling and equipping exploratory wells that result in the discovery of reserves economically exploited; (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 charged to expense during the year in which they are incurred. Drilling costs of exploratory wells are capitalized until determination is made on whether the drilling resulted in proved reserves that justify the commercial development. If such reserves are not found, such drilling costs are charged to expense. 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 value 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 into constant pesos as explained in Note 2.c).

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

The actual costs of major maintenance, repairs and the mayor maintenance that certain plant facilities require on a periodic basis are charged to expense when incurred.

The Company depreciates productive wells, as well as 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 assessed from time to time on the basis of geological and engineering estimates of possible and probable reserves that are expected to be proved over the life of the concession.

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

The Company estimates its reserves at least once a year. The Company's reserve estimates as of December 31, 2006, were audited by Gaffney, Cline & Associates Inc., international technical advisors. The technical revision covered approximately the 93% of the Company’s estimated reserves.

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

The value of property, plant and equipment, do not exceed its recoverable value. Company 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 Company 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 the recoverable value in use.

From a regulatory standpoint, recoverable value is defined as the larger of net realizable value and discounted value in use, defined as the addition of the discounted expected net cash flows that arise as a direct result of the use and eventual disposition of the assets. 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 raise 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 capacity and safety; (b) environmental pollution is prevented or limited; or (c) the costs are incurred to prepare the assets for sale and the book values of such assets together with the additional cost do not exceed their respective recoverable values.

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 and withholdings on exports of hydrocarbons:

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

The deferred tax balance as of the end of each year has been determined on the basis of the temporary differences generated in the items that have a different accounting and tax treatment.

To book such differences, 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 measurement of assets and liabilities and the related tax measurement. Temporary differences determine the balance of tax assets and liabilities when their future reversal decreases or increases the taxes determined, without affecting the compensation of the respective amounts. The Company recognizes a deferred tax asset for an unused tax loss carry forward if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss can be utilized.

The deferred tax assets and liabilities have been valued at its face value. (See Note 2.f).

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 income tax in any given year, such excess may be applied to reduce any excess of income tax over the minimum presumed income tax in any of the ten succeeding years. The minimum presumed income tax assets have been valued at its discounted values.

For the operations in Argentina, Venezuela, Brazil, Perú, Ecuador, Bolivia, Austria and España the income tax accrual was calculated at the tax rates of 35%, 50%, 34%, 30%, 36.25%, 25%, 25% and 35% respectively. Additionally, payment of Bolivian-source income to beneficiaries outside Bolivia is subject to a 12.5% withholding income tax.

As regards the Pichi Picún Leufú Hydroelectric Complex, as provided in the concession agreement 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 license fee payable monthly 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 establishes the creation of a system of withholdings on exports of hydrocarbons for five years, since March 1, 2002. The current withholding rate is 5% for refined products and 20 % for LPG. There is a special withholding regime on crude oil exports, starting at 25% if the price per barrel equals or is less than U.S.$32, plus increasing withholdings rates ranging from 3% to 20%, depending on whether the price per barrel of crude oil varies from U.S.$32.01 to U.S.$45, with a maximum withholding rate of 45% when the price exceeds U.S.$45. In the case of natural gas, an aliquot of 45% is applicable on the gas import price from Bolivia. The effect of such withholdings is deducted from the respective selling prices.

j) Liabilities for labor costs:

Liabilities for labor costs 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 to the trust fund. 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 net amount resulting from the present value of the obligation, determined as mentioned above, the unrecognized prior service cost, the unrecognized actuarial results and, the present value of the plan assets, if any, to be directly used to repay the obligations.

k) Unfavorable contingencies:

Certain conditions may exist as of the date of financial statements which 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 the Company's legal counsel and the 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 litigations in which the Company is involved and the movements of reserves are disclosed in Note 14.

l) Basic/diluted earnings per share:

The basic earning per share is calculated by dividing a company's profit for the year by the average number of shares outstanding during that year, net of the Company's own shares. The diluted earning per share is calculated by dividing a company's profit for the year by the average number of shares outstanding during that year, net of the Company's own shares and the shares deliverable in connection with the Stock Option Plan (see Note 18).

m) Statement of income accounts:

Restated into constant currency , according to Note 2.c), considering the following:

- The accounts accumulating monetary transactions at nominal value, less imputed financial components, where applicable.

- Depreciation and consumption expenses related to non-monetary assets were charged to income (losses) taking into account the restated costs of such assets.

- Financial income (expense) and holding gains (losses) are broken down between those generated by assets and those generated by liabilities, net of the effects of capitalized financial expenses.

CNV General Resolution No. 398 allows, as an exceptional treatment, the one provided for in Resolution M.D. No. 3/2002 of the CPCECABA, whereby the exchange differences originated as from January 6, 2002, from liabilities in foreign currency existing as of that date directly related to the acquisition, construction, or production of property, plant and equipment, intangibles, and long-term investments in other companies organized in the country should be allocated at the cost values of such assets with a number of conditions established in such professional standard. Direct financing shall mean that which was granted by the supplier of the goods, that which was billed in foreign currency, or that which was obtained from financial institutions for identical purposes. In the cases in which there is an indirect relation between the financing and the acquisition, production, or construction of the assets, such exchange differences may also be allocated, under certain conditions, to the cost values of such assets. The Company has adopted the method of capitalizing exclusively the foreign exchange differences resulting from direct financing. Subsequently, in July 2003, the CPCECABA put into effect Resolution C.D. No. 87/03, which - among other measures - abrogated the provisions of Resolution M.D. No. 3/2002 mentioned above. Consequently, as from that date, the Company ceased to apply the exchange difference capitalization / de-capitalization method.

As of December 31, 2006, 2005 and 2004, the Company has capitalized exchange differences, through the investment in CIESA, amounting to a residual value of 24, 25 and 26. Additionally, as of December 31, 2004, the Company has capitalized exchange differences, through the investment in Citelec, amounting to a residual value of 17.

n) Shareholders – equity accounts:

They were restated into constant currency, according to Note 2.c), except for "Capital stock" that represents subscribed and paid-in capital. The adjustment arising from the restatement into constant currency is disclosed under "Adjustment to capital stock".

The account "Treasury stock" relates to the purchases of shares of Petrobras Energía Participaciones S.A. by Petrobras Energía, and is deducted from the shareholders' equity at acquisition cost, disclosed in a separate line in the statement of changes in shareholders' equity. It corresponds to 9,431,210 class A shares with nominal value of $1, with a cost and a book value of 33 and a listed price of 30.

The "Deferred Results" 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, net of the exchange differences generated by the Company's debts denominated in foreign currency designated as hedge for the net investment abroad.

The movements of the deferred results are the following:

	Derivative financial instruments measurement (a)	Foreign currency translation (b)	Total
Balances at 12/31/2003	(18)	(56)	(74)
Fiscal year movements	16	9	25
Balances at 12/31/2004	(2)	(47)	(49)
Fiscal year movements	2	33	35
Balances at 12/31/2005	-	(14)	(14)
Fiscal year movements	-	3	3
Balances at 12/31/2006	-	(11)	(11)

(a) See Note 5
(b) See Note 2.b

o) Revenue recognition:

The Company generally sells crude oil, natural gas and petroleum, petrochemical and refined products and electricity. In all cases, revenues 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 contractual participating interest in each consortium, regardless of actual assignation. Any imbalance between actual and contractual assignation 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 our

contractual interest in the consortium. As of December 31, 2006, 2005 and 2004, gas imbalance liabilities were 5, 6 and 6, respectively, attributable to 124, 160 and 148 million cubic meters, respectively.

Revenues from sales resulting from the 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 LNG production and transportation contracts, are recognized at the time the natural gas and the liquids, respectively, are delivered to the customers. For other LNG production contracts and other services, the revenues are recognized when services are rendered.

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

5. Accounting for derivative financial instruments

Derivative financial instruments are measured at their fair value, determined as the amount of cash to be collected or paid to settle the instrument as of the date of measurement, net of obtained or paid advances.

Changes in the accounting measurement of derivative financial instruments designated as cash flow hedge, which have been designated as effective hedges, are recognized under "Deferred results" in Shareholders´ equity. Changes in the accounting measurement of derivative financial instruments that do not qualify for hedge accounting are recognized in the statements of income under "Financial income (expense) and holding gains (losses)".

A hedge is considered to be effective when at its inception, as well as during its life, its changes offset from eighty to one hundred and twenty five percent the opposite changes of the hedged item. In this respect, the Company excludes the specific component attributable to the time-value of an option when measuring the effectiveness of instruments that qualify for hedge accounting.

Hedge accounting must cease for the future upon occurrence of any of the following events: (a) the hedge instrument has matured or has been settled; (b) the hedge transaction is no longer effective; or (c) the projected transaction does not have a high likelihood of occurrence. Should that be the case, the income (loss) arising from the hedge instrument that would have been allocated to "Transitory differences-Measurement of derivative financial instruments designated as effective hedge" should remain there until the committed or projected transactions occurs in the case of (a) and (b), and are charged to income in the case of (c).

The Company makes forward sales of U.S. dollars in exchange for Argentine pesos. During the current fiscal year, the Company recognized a 5 profit. As of December 31, 2006 and 2005 the face value of effective contracts amounts to U.S.$18 million and U.S.$52 million, respectively, at the average exchange rate of 3.26 and 3 Argentine pesos per U.S. dollar, respectively.

Without considering the above mentioned operations, as of December 31, 2006, the Company did not have positions in derivatives instruments.

6. Oil and gas areas and participation in joint ventures

As of December 31, 2006, the Company and its affiliates were part of the oil and gas consortia, joint-ventures and areas indicated in Note 23.g). As of that date, 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, respectively, are disclosed in Note 23.h).

The Company is jointly and severally liable with the other joint venturers 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 for the production of crude oil and natural gas. The wellhead price is calculated by deducting from the sales price obtained in transactions with third parties, or from the product price prevailing in the domestic market in case the product is subject to industrialization processes, freight and other expenses to make it available for sale. Through Decrees Nos. 225/06 and 226/06, issued in February 2006 and effective March 1, 2006, the Government of the Province of Neuquén provided that oil royalties are to be calculated and paid considering as reference the international price of crude oil (WTI), while gas royalties are to be calculated and paid on the basis of the average price at the border of natural gas imported from Bolivia into Argentina. In April 2006, Petrobras Energía filed a declarative judgment action and requested provisional remedies from Federal Court No. 1 of the Province of Neuquén, specifically requesting the court to declare that, in accordance with the applicable legal provisions, the royalties for oil and gas concessions awarded by the Federal Government should be calculated and paid as provided by Law No. 17,139 and the regulations issued by the Argentine Secretary of Energy in its capacity as enforcement agency and, hence, that the Company is not subject to Decrees Nos. 225/2006 and 226/2006 or to any other provincial regulation issued or to be issued in the future that departs from, alters or amends the provisions of Law No. 17,319 and the related regulations issued by the Secretary of Energy in its capacity as enforcement agency of said Law. The Federal Court No.1 of the Province of Neuquén resolved it may not hear the case in the first instance on the grounds of lack of jurisdiction and the record was sent to the Federal Court of Appeals of General Roca which in October 2006 resolved that the Argentine Federal Supreme Court of Justice had to hear the case upon the exercise of original jurisdiction. The record was sent to the above mentioned Supreme Court in November 2006. The Company has sufficient grounds to believe the amount claimed by the Province of Neuquén is inadmissible and, consequently, these financial statements do not recognize any effect that may derive from the amount claimed. The amount claimed by the Province (according to the royalty estimate made by the Province) would be approximately 39.

In Perú, the 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 U.S.$23.9 per barrel. The royalty rate applicable as of December 31, 2006, was 27%. Production of natural gas in Perú is subject to a fixed royalty of 27.5%.

In Venezuela, the partially state-owned companies ("mixed companies") organized for the purpose of continuing with the operation of the areas in Venezuela (see Operations in Venezuela) will be subject to royalty payments of 33.33% and, in addition, they will be required to pay an amount equivalent to any difference in short between 50% of the value of oil & gas sales during each calendar year and the sum total of royalty payments made during such year plus income tax and any other tax or duty calculated on the basis of the sales revenues of the mixed companies. Mixed companies shall sell to Petróleos de Venezuela S.A. ("PDVSA") all liquid hydrocarbons produced in the delimited area and the associated natural gas (when so provided in the agreement), according to a price formula associated with international benchmarks such as WTS and WTI and Venezuelan basket crude oils.

In Bolivia, pursuant to the terms of the contract signed with Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB") approved by the National Legislature on November 28, 2006 and issued on January 11, 2007, Petrobras Energía branch will perform 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 will own the hydrocarbons, pay royalties, direct interest, and direct tax on hydrocarbons, which in the aggregate amount to 50% of the production valued on the basis of sales prices, and will apply the remaining amount to pay, in the first place, 80% of the costs and depreciations associated to the development and exploitation of Petrobras Energía branch, and the rest will be shared by 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 stipulate the free disposition of the oil produced and differential production percentages to go to 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. As for 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. At such respect, if the crude from Palo Azul is sold at less than U.S.$15 per barrel, the Government receives about 30% of the crude produced, while, if the price of the crude is U.S.$24 or higher, the Government receives about 50% of production, depending on the crude oil quality factor. For the intermediate price ranges, an increasing scale of price was applied. The selling price of the Palo Azul crude is calculated using as a reference the barrel of WTI after the standard market discount for the *Oriente* crude. As of December 31, 2006, the Government's equity interest in the oil produced at the Pata and Palo Azul fields was 25.8% and 50,5%, respectively.

Investment commitments

In Argentina, with respect to the consortium set up to explore, develop, operate and sell the oil & gas from three offshore areas denominated ENARSA 1 (E1), CCM2 and ENARSA 3 (E3), the company has undertaken investment commitments for about U.S.$22 million, mostly referred to 3D-seismic prospecting work. This amount includes U.S.$8 million from financing of investments in connection with Energía Argentina S.A. (Enarsa), which, in the event of a commercial discovery, will be reimbursed to Petrobras Energía.

The Company has retained a portion of Block 31 in Ecuador to continue exploration, and has committed to perform an environmental impact study, as well as to registry, process and interpret 120 sq. km of 3D seismic, reprocessing 500 km of 2D seismic and integration with the new 3D seismic and the drilling of an exploratory well, representing an investment of about U.S.$16 million. Compliance with such commitment is subject to the solution of the situation described in “Operations in Ecuador – License of Block 31”.

With respect to its equity interest in the Tierra Negra area, in Colombia and Lote X, in Peru, the Company has undertaken commitments for about U.S.$7 million and U.S.$3 million, respectively, to invest in exploration. Additionally, in Colombia, the consortium Tibú, where Petrobras Energía has 30%, will invest U.S.$40 million.

Asset Retirement Obligations

The following table summarizes the movements in liabilities for the asset retirement obligations for the years ended December 31, 2006, 2005 and 2004.

	2006	2005	2004
Beginning balance	126	91	73
Accretion	9	8	7
Increase	19	-	-
Estimating cash flow changes	41	30	1
Decrease	(48)	-	-
Foreign currency translation / other	(1)	(3)	10
Ending balance (Note 17.b)	146	126	91

Suspended well costs

The following table provides the year-end balances and movements for suspended exploratory well costs.

	2006	2005	2004
Balance at the beginning of the year	61	5	115
Additions	123	56	5
Transferred to development	-	-	(13)
Charged to expense	(78)	-	(100)
Inflation and foreign currency translation	-	-	(2)
Balance at the end of the year	106	61	5
Number of well at year end	26	14	2

Operations in Ecuador

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 Environment Management Plan for the project related to the development and production of Block 31 and granted an environmental license for the Nenke and Apaika fields for the project construction phase. In addition, in August 2004, the Ministry of Energy and Mining approved the Block 31 development plan, which started the 20-year exploitation period. The concession agreement in Block 31 foresee the free produced crude oil availability.

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 us to enter to Parque Nacional Yasuní. This suspension prevents from continuing the development works in Block 31. A constitutional rights protection action was filed by Petrobras Energía Ecuador against the Ministry of the Environment for the prohibition of entry into Parque Nacional Yasumí. The Trial Court's unfavorable resolution was appealed to the Constitutional Court, which as of the date of these consolidated financial statement has not pronounced any judgment. In addition to the filing and resolution of such appeals, 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. As of the date of these consolidated financial statements, a new environmental license is being issued, the granting of which will allow to resume block development works.

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

In relation with the development and exploitation of Block 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, at a rate that covers OCP operating costs and financial services, among others. As of December 31, 2006 this figure amounted to U.S.$2.27 per barrel. The costs for the transportation capacity are billed by OCP and charged monthly to expenses. 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 disclosed in the "Other operating expenses, net" line.

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 probability estimated for the Block 31 development and the new vision about the Block 31 reserves potentiality. Considering this situation, and for the purpose of mitigating the resulting effects, the Company negotiated committed transportation capacity volumes. As of December 31, 2006, the Company sold a portion of this transportation capacity (at an average amount of 8,000 barrels a day from July 2004 to December 2012 and 16,000 barrels a day during two

years starting from December 2006). The net deficit impact is considered for the purpose of analyzing the recoverability of Ecuador's assets.

In order to guarantee the compliance with the Company's financial commitments related to the "Ship or Pay" transportation agreement executed with OCP and OCP's related business obligations, the Company should hold letters of credit. These letters of credit, with maturity date of December 2018, are required to remain effective until the abovementioned commitments expire. As of December 31, 2006 the Company held letters of credit for a total amount of about U.S.$123 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 previous 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. In addition, once production in Block 31 reaches an average of 10,000 barrels of oil per day for a period of 30 consecutive days, Teikoku has agreed to assume the payment of 40% of the crude oil transportation agreement entered into with OCP. During the transition and until Block 31´s production reaches the above mentioned levels, only effective among the parties and subject to the terms and conditions mentioned above, Teikoku will assume the payment of 20% of such agreement as from July 1, 2006. In addition, and only with effect among the parties and subject to the agreed upon conditions, Teikoku will make a single payment for an additional 20% of the agreement for the shorter of the following periods: (a) from July 1, 2006, until Block 31 reaches the abovementioned production level; or (b) the consecutive 18 months prior to such production level. On January 11, 2007 the Ecuadorian Ministry of Mining approved the agreement.

Operations in Venezuela

In April 2005, the Venezuelan Energy and Oil Ministry ("MEP") ordered PDVSA to review the thirty-two operating agreements signed by PDVSA's affiliates with oil companies from 1992 through 1997, including the agreements signed by the Company, through its subsidiaries and affiliates in Venezuela, to operate the exploitation of Oritupano Leona, La Concepción, Acema and Mata areas. These instructions establish that all the necessary measures shall be taken to convert all operating agreements currently effective into mixed companies in which the Government will hold an ownership interest of over 50% through PDVSA.

As a previous instance to the fitness of the operating agreements to the new business scheme, on September 29, 2005, Petrobras Energía, through its subsidiaries and affiliates in Venezuela, signed provisional agreements with PDVSA, whereby it committed itself to negotiate the terms and conditions related to the conversion of the agreements in the areas of Oritupano Leona, La Concepción, Acema and Mata into mixed companies. The provisional agreement for the Oritupano Leona area was signed subject to the previous approval of Petrobras Energía S.A.'s General Shareholders' Meeting and of the Petrobras Energía Participaciones S.A. Extraordinary Shareholders´ Meeting, which issued a favorable opinion in this regard.

In view of the new operating conditions foreseen in the conversion agreements, as of December 31, 2005, the Company booked allowances in the amount of 424 to adjust the book value of its assets in Venezuela to their recoverable value, out of which 255 relate to property, plant & equipment, 110 to deferred tax assets, and 59 to non-current investments.

In March 2006, Petrobras Energía, through its subsidiaries and affiliates in Venezuela, signed with PDVSA and with Corporación Venezolana del Petróleo S.A. (CVP) respective Memorandums of Understanding (MoU) for the purpose of migrating the operating agreements over the areas Oritupano Leona, La Concepción, Acema and Mata to mixed companies. The MoUs above mentioned provide that the private partners' equity interests in the mixed companies are 40%, with the remaining 60% to be held by the Venezuelan government. As a consequence of the

above mentioned, the direct and indirect equity interests of Petrobras Energía in the mixed companies which will operate the areas Oritupano Leona, La Concepción, Acema and Mata will be 22%, 36%, 34.5% and 34.5%, respectively. Additionally, CVP will recognize a divisible and transferable credit in favor of the private companies that will participate in the mixed companies -- with respect to Petrobras Energía's equity interest it will amount to U.S.$88.5 million --, which will not accrue interests and could be applicable to the payment of acquisition bonds in the framework of any new mixed-ownership company project for oil exploration and production activities, or of licenses for gas exploration and production operations in Venezuela. The granting of the credit mentioned above was subject to compliance with certain formalities, including, among others, the execution of agreements for the conversion into mixed companies, the organization and registration of companies with the Board of Trade of Venezuela and the publication of a decree for the transfer of production areas to mixed companies.

In August 2006, conversion agreements relating to the Oritupano, Leona, La Concepción, Acema and Mata areas were subscribed, which agreements were consistent with the terms and conditions provided in the MOU. Subsequently, Petroritupano S.A., Petrowayú S.A., Petrovenbras S.A. and Petrokariña S.A. were organized and registered with the Board of Trade of Venezuela, and the Venezuelan Executive Branch issued the decrees for the transfer of rights to the first three companies and the respective shareholders made the required capital contributions.

The respective MoUs provide that migration will have economic effects as from April 1, 2006. In the meantime, and until mixed companies become operational, operations of the consortia are conducted and financed by Petrobras Energía Venezuela under the supervision of a temporary executive committee made up by a majority of representatives of PDVSA.

Due to the ownership structure and governance system defined for the mixed companies, as from their respective organization dates, April 1, 2006, the Company will discontinue the line-by-line consolidation of the assets, liabilities, results and cash flows of the mentioned operations exposing the assets and the related net results as non-current Investments and Equity in earnings of affiliates, respectively.

As of December 31, 2006, the results of operations of mixed companies were estimated by the Company on the basis of the best information available. As of that date, investments in mixed companies in Venezuela are recorded net of an impairment charge of 186 to adjust the book value to their estimated recoverable value. In addition, and since as of December 31, 2006 the formalities required for its recognition by PDVSA were completed, the Company recorded a divisible and transferable credit recognized in its favor upon execution of the conversion agreements. This credit, net of an impairment charge of 92 to adjust the book value to its estimated recoverable value, totals 180. Certain estimates will materialize subject to occurrence of future facts, some of which are beyond the Company' direct control. Entries made on the basis of the facts and circumstances described above may differ from those entries to be made once such facts and circumstances have been defined.

Recoverability of investments in Argentine oil & gas areas

The regulations issued by the Argentine Government from 2002 substantially modified the profitability conditions of the energetic business in Argentina. Considering that situation, during 2003 and 2002, the Company adjusted the book value of certain investments in oil and gas producing areas in Argentina to their recoverable value.

As of December 31, 2005, based on the change in the prospects of the gas business evolution in Argentina, and after analyzing the recoverability of its assets, the Company recognized earnings in the amount of 44 related to the reversal of prior impairments. This new scenario considers the regulatory changes made by the Argentine Government aimed at restoring the sector's profitability conditions, including the formulation of a price path that provides for the normalization of the price of gas for 2007.

In addition, as of December 31, 2005, as a consequence of the drop in reserves mainly resulting from the technical review of ongoing projects, the Company adjusted the book value of certain oil and gas assets to their recoverable value, accounting for a loss of 132.

Divestments of equity in oil and gas areas

In October, 2006, Petrobras Energía S.A. sold the 100% of the rights and obligations relating to the concessions of the Refugio Tupungato and Atamisqui areas, recording a gain of 85 in "Other income (expenses), net".

7. Credit risk

The Company provides credit 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.

Sales for the fiscal year ended December 31, 2006, were made mainly to Petroperú Petróleos del Perú S.A, Petrobras International Finance Co., Petróleos de Venezuela S.A. and Empresa Nacional del Petróleo de Chile (ENAP), and sales to such entities represented about 8%, 4%, 3% and 3%, respectively, of sales for such fiscal year, before deducting export duties.

Sales for the fiscal year ended December 31, 2005, were made mainly to Petróleos de Venezuela S.A., Petroperú Petróleos del Perú S.A., Petrobras International Finance Co. and ENAP, and sales to such entities represented about 7%, 4%, 4% and 3%, respectively, of sales for such fiscal year, before deducting export duties.

Sales for the fiscal year ended December 31, 2004, were made mainly to Petróleos de Venezuela S.A., Petroperú Petróleos del Perú S.A., Glencore AG. and Petrobras International Finance Co., and sales to such entities represented about 12%, 7%, 3% and 2%, respectively, of sales for such fiscal year, before deducting export duties.

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

8. Inventories

The breakdown of current and non-current inventories as of December 31, 2006, 2005 and 2004, is as follows:

	2006		2005		2004	
	Current	Non-current	Current	Non-current	Current	Non-current
Crude oil stock	167	-	105	-	65	-
Materials	161	82	200	81	157	73
Work in progress and finished products	466	-	435	-	388	-
Advances to suppliers	67	-	41	-	13	-
Other	28	-	4	-	6	-
Reserve for materials´ obsolescence (Note 14)	(1)	(1)	(3)	(2)	(2)	(2)
	888	81	782	79	627	71

9. Investments, equity in earnings of affiliates and dividends collected from affiliates

The breakdown of current and non-current investments, the equity in earnings of affiliates and dividends collected from affiliates for the fiscal years ended December 31, 2006, 2005 and 2004, are as follows:

a) Investments

Name and issuer	12/31/2006 Cost	12/31/2006 Book value	12/31/2005 Book value	12/31/2004 Book value
Current:				
Government securities	5	7	25	5
Certificates of deposit	1,038	1,038	561	569
Mutual funds	225	225	126	241
Related companies (Note 19)	33	33	26	131
Citelec S.A. (Note 9.I)	298	202	202	-
Yacylec S.A. (Note 9.I)	25	13	-	-
Hidroneuquén S.A. (Note 22)	26	26	-	-
Reserve for impairment of investments (Note 14)	-	(35)	(59)	-
Other	-	3	-	-
	1,650	1,512	881	946
Non-current:				
Government securities	1	1	1	24
Advances to joint venture partners in Venezuela	268	268	244	154
Related companies (Note 19)	147	147	150	156
Mixed companies in Venezuela (Note 6)	2,657	2,696	-	-
Equity in affiliates (Note 23 b)	589	837	814	772
Reserve for impairment of investments (Note 14)	-	(325)	(139)	-
Other	-	6	2	1
	3,662	3,630	1,072	1,107

b) Equity in earnings of affiliates

	12/31/2006	12/31/2005	12/31/2004
Petrobras Bolivia Refinación S.A.	82	54	18
Oleoducto de Crudos Pesados Ltd.	6	2	1
Inversora Mata S.A.	3	(7)	4
Oleoductos del Valle S.A.	8	4	8
Petrolera Entre Lomas S.A.	33	27	18
Petroquímica Cuyo S.A.	15	7	13
Refinería del Norte S.A.	32	47	42
Transportadora de Gas del Sur S.A. (ii)	-	18	13
Mixed companies in Venezuela (Note 6)	39	-	
Citelec S.A. (i)	-	136	(19)
Other	1	(7)	4
	219	281	102

(i) Includes 23 and 23 to adapt Citelec´s accounting principles to those of the Company for the fiscal years 2005 and 2004, respectively, and an allowance for investment depreciation of (59) for the fiscal year 2005.
(ii) Includes 2 to adapt TGS´s accounting principles to those of the Company for the fiscal years 2004.

c) Dividends collected from affiliates

	2006	2005	2004
Petrobras Bolivia Refinación S.A.	76	1	13
Petroquímica Cuyo S.A.	5	7	9
Petrolera Entre Lomas S.A.	22	16	12
Oleoductos del Valle S.A.	7	6	6
Oleoductos de Crudos Pesados	6	-	-
Yacylec S.A.	-	3	3
Refinería del Norte S.A.	-	39	41
	116	72	84

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

a) Distrilec:

Distrilec is able to change its equity interest and sell its shares of 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 posted as bond to guarantee compliance with the obligations undertaken in the Concession Agreement. This bond in no way limits the exercise of financial and voting rights associated with the Edesur shares.

b) CIESA:

Shareholders of CIESA, parent company of Transportadora de Gas del Sur S.A. ("TGS"), may not sell its 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.

c) Citelec:

The Company may not modify or sell its equity interest in Citelec in a proportion and number of shares exceeding 49% of its shareholding without prior approval by the ENRE.

Upon obtaining approval by the Comisión Nacional de Defensa de la Competencia (CNDC, Argentine anti-trust authorities) for the acquisition by Petrobras Participaciones SL of a majority shareholding in Petrobras Energía Participaciones S.A., Petrobras Energía assumed the unilateral commitment to divest all its ownership interest in Citelec, without a fixed term, in conformity with Law No. 24,065 of the regulatory framework for the electrical power sector and the concession contract thereof. The commitment was taken into account by the Department of Competition, Deregulation and Consumer Defense when approving the change in the ownership interest. The commitment should be overseen by the Argentine Electrical Power Regulatory Agency and approved by the Argentine Energy Department.

In August 2006, Petrobras Energía and EP Primrose Spain S.L., a company controlled by Eton Park Capital Management, entered into a stock purchase agreement for the transfer to the latter of a 50% interest in Citelec. The stock purchase agreement provides for a fixed sales price of US$ 54 million, plus an earn out relating to the result

of the comprehensive rate review determined for Transener and its controlled company Empresa de Transporte de Energía Eléctrica por Distribución Troncal de la Provincia de Buenos Aires S.A. (Transba). The above mentioned investment commitment will become effective upon approval by the pertinent regulatory agencies and authorities.

d) Yacylec S.A. ("Yacylec"):

Yacylec's Class "A" shares will remain pledged during the term of the concession, as security for the compliance with the obligations undertaken under the concession agreement. Any transfer of shares requires ENRE's prior authorization.

As a result of the agreements reached for the divestment of Citelec, on June 13, 2006 Petrobras Energía's Board of Directors accepted the terms and conditions of the binding offer submitted by Eton Park Capital Management for the purchase of its 22.22% equity interest in Yacylec, in the amount of U.S.$6 million when the divestment commitment will be effective.

II. Situation of the interests in public utility companies

The scenario after enactment of the Public Emergency Law significantly changed the financial equation of 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 companies, as well as their ability to comply with certain loan agreement clauses.

During 2002, CIESA, TGS and Transener suspended the payment of their financial debts. TGS and Transener restructured their financial debt through their own processes, which were accepted by about 99.8% and 98.8% of the related creditors, respectively. 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 that might result from the outcome of these uncertainties.

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 = U.S.$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 interests and access to services, (iv) the safety in the system involved, and (v) utilities profitability.

On February 12, 2002, the Executive Branch of Government issued Decree No. 293/02 whereby it recommended that Ministry of the Economy renegotiate the agreements executed with public utilities. 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 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, among other things.

In July 2004, the UNIREN made a proposal to TGS 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 does 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 taking 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 was made in conformity with the previous one and incorporating 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 shareholders in CIESA, which filed a claim against Argentina with the International Centre for Settlement of Investment Disputes (ICSID), reported that would only consider waiving it should it be fairly compensated. During 2006, UNIREN submitted two proposals to TGS with guidelines identical to those established in previous proposals.

In May, 2005, Transener and Transba signed memorandum of understanding with the UNIREN, which included the terms and conditions that form the bases for the comprehensive renegotiation agreement regarding both companies' concession contracts. After fulfilling several steps, the memorandums of understanding were ratified by the Executive Branch in November 2005.

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 includes, 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 establishes that from the execution of the Letter of Understanding through September 30, 2006, a complete rate review will be performed, which will 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 regarding a change in its interest or the sale of its shares in Edesur. As a preliminary condition for the Executive Branch to ratify the Memorandum of Understanding, Edesur and its shareholders shall suspend all pending claims that are based on the measures resolved as from the emergency situation established by Public Emergency Law in connection with the concession agreement.

The Memorandum of Agreement was approved by the *Procuración del Tesoro de la Nación (*General Attorney), the *Sindicatura General de la Nación* (office in charge of controlling federal expenditure and management) and the Congress, and was ratified by the Executive Branch on December 28, 2006 (see note 22).

As of December 31, 2006 the book value of the equity interests in CIESA, Distrilec and Citelec amounted to 210, 509 and 167 (net of adjustments made to adapt Ciesa, Distrilec and Citelec's valuation method to those of the Company of (239), (104) and (86), respectively, and 56 corresponding to the purchase price allocated to Distrilec's fixed assets recorded by the Company at the time of the acquisition of a portion of its interest). Additionally, the valuation of CIESA includes 110 corresponding to the transfer to Enron of its interest in TGS (See Section III). The book value of the equity interest in Citelec was exposed net of a valuation allowance, at its recoverable value of 35. As of December 31, 2005, the valuation of the equity interests in CIESA, Distrilec and Citelec amounted to 142, 546 and 143 respectively (net of adjustments made to adapt Ciesa , Distrilec and Citelec's valuation method to those of the Company of (249), (113) and (86), respectively, and 83 corresponding to the purchase price allocated to Distrilec's fixed assets recorded by the Company at the time of the acquisition of a portion of its interest). Additionally, the valuation of CIESA includes 110 corresponding to the transfer to Enron of its interest in TGS (See Section III). The book value of the equity interest in Citelec was exposed net of a valuation allowance, at its recoverable value of 59. As of December 31, 2004, the valuation of the equity interests in CIESA, TGS, Distrilec and Citelec amounted to 30, 50, 555 and 7 respectively (net of adjustments made to adapt Ciesa and TGS's valuation method to those of the Company of (219), (112), (123) and (109), respectively, and 87 corresponding to the purchase price allocated to Distrilec's fixed assets recorded by the Company at the time of the acquisition of a portion of its interest).

The book value of the equity interests does not exceed their recoverable value. To estimate the recoverable value of the investments in CIESA, the Company's Management privileges the measure regarding the listed price of TGS's shares, as it considers that the use of the related values in use is severely subject to the uncertainties of the continuity of the rate renegotiation process with the Federal Government and the CIESA's financial debt renegotiation. In estimating the respective cash flows, which is necessary for estimating the values in use, this uncertain situation entails structuring and analyzing several possible scenarios for future projections, weighing

extremely subjective likelihood of occurrence, which condition the appropriateness and reliability of the resulting values. In the estimation of the recoverable value of the investment in Distrilec, the Management considered the mentioned effect of the letter of understanding signed by Edesur with the UNIREN. The estimation of the recoverable value of the investment in Citelec, is based on the probable net realizable value (See Note 9.I.c).

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 will reciprocally waive any right to make claims 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 include 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 establishes certain share transfers in two successive steps. As a first instance, and after the relevant regulatory authorities' approvals, Enron transferred on August 29, 2005, 40% of the shares issued by CIESA to a trust and, at the same time, Petrobras Energía and its subsidiary, Petrobras Hispano Argentina S.A. transferred Class B shares of common stock issued by 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 common stock held in 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 to date the proceedings are pending to solve by ENARGAS.

Once the debt restructuring is completed (Note 11.V), considering that in addition to the share transfers mentioned above the fiduciary ownership of the shares held in CIESA by the trust 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. Petrobras Bolivia Refinación S.A.

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

The abovementioned decree also provides that the Bolivian Government shall recover full participation in the entire oil & gas production chain, and for this purpose provides for the nationalization of the shares of stock necessary for YPFB to have at least 50% plus one share of the shares in a number of companies, among which is Petrobras Bolivia Refinanción S.A. The stock transfer will be made once both parties agree upon the value of the economic compensation YPFB will pay to the Company and certain corporate and legal requirements are complied with. The Company's Management does not have any information available to anticipate the effects, if any, that the new legislation may have on the business new scenario. As of December 31, 2006, the investment in Petrobras Bolivia Refinanción S.A represents about 1% of the Company's consolidated assets.

10. Pichi Picún Leufú Hydroelectrical Complex ("the Complex")

The Company has a thirty-year concession for the generation of hydroelectric power in the Complex from August 1999.

To ensure completion of works in Pichi Picún Leufú Hydroelectrical Complex within the term of the concession and a profitability to make the investment viable, the Energy Department granted the Company the amount of 25. For the purpose of determining whether or not this amount should be repaid, a support price system was implemented for the electric power to be generated by the Complex and sold on the Wholesale Electric Power Market. This support price system will be applied over a ten-year term, which will be divided into two consecutive five-year periods, as from December 1999. In order to implement this system, an Annual Monomial Support Price (AMSP) was set in the amounts of U.S.$/Kwh 0.021 and U.S. $/Kwh 0.023 for the first and second period, respectively. In order to determine the amount to be reimbursed, each year of the above mentioned term, the difference between the Annual Average Monomial Price of the Complex bars generation, and the aforesaid AMSP, valued in terms of the electric power generated by the Complex during that year will be determined. Owing to the selling prices set for the energy generated by the Complex, and the future prices estimated, considering that it implies profitability reinsurance, the Company accrued a profit of 22.

11. Financing

The detail of debt as of December 31, 2006, 2005 and 2004, is as follows:

	12/31/2006		12/31/2005		12/31/2004	
	Current	Non-current	Current	Non-current	Current	Non-current
Financial institutions	1,186	869	1,238	887	340	933
Notes	1,434	3,079	541	4,063	1,292	4,821
Investment agreement with IFC	-	-	-	-	67	345
Related companies (Note 19)	26	768	26	758	10	149
	2,646 (a)	4,716	1,805 (a)	5,708	1,709 (a)	6,248

(a) Includes 398, 682 and 1,056 corresponding to current portion of long term debt for the fiscal years ended December 31, 2006, 2005 and 2004, respectively.

I. Global Programs of nonconvertible notes

a) U.S.$2.5 billion program

Petrobras Energía S.A. keeps a global corporate bond program, for the term of five years counted starting May 5, 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 U.S.$2.5 billion or its equivalent in other currency.

The establishment of the Program was authorized by Certificate No. 202, dated May 4, 1998, Certificate No. 290, dated July 3, 2002 and Certificate No. 296, dated September 16, 2003, of the CNV.

As of December 31, 2006, there remained outstanding the following classes of corporate bonds under the medium-term global program:

- Class G, for a face value of U.S.$250.1 million maturing in January 2007, at a 9% annual rate.

- Class H, for a face value of U.S.$181.5 million, maturing in May 2009, at a 9% annual rate.

- Class I, for a face value of U.S.$349.2 million, maturing in July 2010, at a 8.125% annual rate.

- Class N, for a face value of U.S.$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 six-month LIBOR plus 1%. As of December 31, 2006, the amount of U.S.$87.4 million is effective in this class.

- Class Q, for a face value of U.S.$3.98 million, with two principal amortization installments: the first equivalent to 10% of the face value settled on the same day of issuance, April 25, 2003, and the remainder in April 2008, at an interest rate of 5.625%. As of December 31, 2006, as they were not completely exchanged, the Company is carrying U.S.$170,000 of such issuance in its own portfolio net of the nonconvertible notes.

- Class R, for a face value U.S.$200 million, with due in October 2013, accruing interest at 9.375 %.

b) U.S.$1.2 billion program

As of December 31, 2006, under the medium-term Global Program whose date for the issuance of new notes expired in June 1998, the Sixth Series is outstanding in the amount of U.S.$32.6 million, the only installment of which becomes due in July 2007 and bears interest at a 8.125% fixed annual rate.

The proceeds from all issuances of all the corporate notes under both programs were used to refinance liabilities, and increase working capital, for capital expenditures of fixed assets located in Argentina or capital contributions to affiliates.

The obligations arising out of issuances are disclosed net of the issuance discounts to be accrued. The deferred costs for such issuances are included in Prepaid expenses and interests within the “Other receivables” account.

II. Cross default covenants

Class G, H, I, N, Q and R notes include cross default covenants, 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 the Company or its significant subsidiaries is not settled upon the maturity date, provided that those due and unpaid amounts exceed the higher of U.S.$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.

Certain loan agreements, include cross default covenants, whereby or the creditor bank shall declare all the amounts owed as due and payable, if any debt of the Company is not settled upon the maturity date, provided that those due and unpaid amounts exceed the amount of U.S.$10 million or 1% of Petrobras Energía’s shareholders’ equity in relative terms, upon those maturities.

The remaining outstanding amount of the Sixth Series notes does not include cross default covenants.

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

III. Financing of the Genelba Electric Power Generation Plant

The investment was financed through loans granted by international banks, which are being semiannually repaid from June 1998 over a period of 10 years. These loans may be settled in advance at any time, at Petrobras Energía's discretion. As of December 31, 2006, the amounts outstanding from the financing of the plant were U.S.$12 million, of which U.S.$7 million approximately is related to a contract which contains restrictive covenants, including a restriction on selling or leasing more than 40% of the plant during the period in which the debt is outstanding.

IV. Edesur Indebtedness

Edesur keeps a global corporate bond program, for the term of five years counted starting 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 U.S.$450 million or its equivalent in other currency.

As of December 31, 2006, Class 6 is outstanding under such program, with a face value of 80, due in 3 years, accruing interest at a variable rate calculated on the basis of a reference rate published by the *Banco Central de la República Argentina* (Central Bank of Argentina), at a minimum 4% annual rate, plus a differential margin of 3% per annum. As of December 31, 2006, the amount of 60 is effective in this class.

In August 2006, Edesur obtained in the local market a syndicated loan in the amount of 150, with principal to be repaid in three semi-annual installments beginning February 2009, at a variable interest rate.

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 terms and conditions contained in the loan agreements.

V . CIESA and TGS indebtedness

In the wake of the new Argentine macroeconomic situation, starting with the enactment of the Public Emergency Law (see Note 9.II), CIESA did not pay at maturity, in April 2002, the principal and the last interest installment upon maturity or cap and collar agreements. Consequently, CIESA´s indebtedness included pursuant to the proportional consolidation, in the amount of U.S.$271 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 U.S.$23 millions at a 10-year term and, once approvals are obtained from the Argentine Gas Regulatory Agency and the Argentine Committee for Competition Defense, 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 are prepared using the on going concern basis of accounting and therefore such financial statements do not reflect any adjustment that may derive from the solution of uncertainties resulting from the debt restructuring process.

As of December 31, 2006, TGS's financial debt mainly corresponds to tranches A, B-A and B-B issued in December 2004 for the purpose of refinancing and restructuring the terms and conditions of previous loans. The payments of interest and principal on such loans were suspended in May 2002. Tranche A, with a residual nominal value of U.S.$204 million, includes notes for U.S.$126 million, with quarterly principal amortization payments until

December 2010 and accruing interest at a 5.3% annual rate for the first year up to 7.5% for the last year. Tranches B-A and B-B, for a nominal value of U.S.$434 million, include notes for U.S.$255 million, with quarterly principal amortization payments as from March 2011 until December 2013, with interest accruing at a 7% annual rate for the first year up to 10% for the last year, plus additional interest as from December 2006 which in the case of tranche B-A, ranges between 0.75% and 2% subject to a results indicator and in the case of tranche B-B between 0.60% p.a. increasing 5 basic points each subsequent year up to 0.90% for the last year. Financial obligations include an acceleration clause, the enforcement and amount of which, if applicable, are subject to the debt coefficient, the liquidity level and subsequent payments to be made by TGS.

The notes were issued under the Global Program for the issue of notes up to a maximum amount of U.S.$800 million, the creation of which was approved at a Shareholders' Meeting held on April 2, 2004 and authorized by the CNV on October 28, 2004.

Pursuant to the financing agreements executed in connection with the debt restructuring, TGS is required to comply with a series of restrictions, which include, among others, restrictions on debt issuance, new investments, sale of assets, payment of technical assistance fees and dividend distribution.

The new debt has an early amortization clause, the application and amount of which, as the case may be, depends on the consolidated debt coefficient, the liquidity level and certain payments to be made subsequently by TGS.

TGS's Special Shareholders' Meeting held on December 21, 2006 approved the creation of a global program for the issue of notes for a maximum amount of U.S.$650 million. The Global Program was authorized by the CNV on January 18, 2007.

VI. Detail of long-term debt

Long-term debt as of December 31, 2006 is made up as follows:

Type	Amount	Currency	Annual interest rate
	(In millions of pesos)		
Financial institutions			
	10	US$	8.61%
	22	$	13.25%
	22	US$	8.35%
	46	US$	4.902% to 6.559%
	25	US$	9.01%
	27	US$	5.00%
	30	US$	8.62%
	73	$	14.05%
	123	US$	Libo+1.19
	106	US$	Libo+1.65
	106	US$	5.30% to 7.50%
	279	US$	7.00% to 10.0%
Related companies (See Note 19)			
	154	US$	7.50%
	614	US$	7.22%
Notes			
Class Q	11	US$	5.625%
Serie A (TGS)	171	US$	(i)
Class N	248	US$	Libo+1
Serie B-A and B-B (TGS)	403	US$	(i)
Class H	557	US$	9.00%
Class R	617	US$	9.375%
Class I	1,072	US$	8.125%
	4,716		

(i) See Note 11.V.

The maturities of long-term debt as of December 31, 2006, are as follows:

From 1 to 2 years	418
From 2 to 3 years	788
From 3 to 4 years	1,259
From 4 to 5 years	577
Over 5 years	1,674
	4,716

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

Through Resolution No. 712/04, the Energy Department created the FONINVEMEM for the purpose of increasing the supply of electrical power generation in Argentina.

Petrobras Energía contributes to this fund through 65% of 2004-2006 revenues with respect to the margin between the energy sale price and the variable generation cost. The amount of funds to be contributed by all wholesale electric market private creditors is initially estimated at U.S.$520 million, of which U.S.$41 million were provided by Petrobras Energía.

On October 17, 2005, by virtue of Resolution No. 1,193 of the Energy Department, Petrobras Energía, jointly with other creditors of the electronic wholesale market, formally stated its decision to manage the construction, operation and maintenance of two plants of at least 800 MW each. The estimated chronogram establishes to start operating gas turbines during the first semester of 2008 and the complete combined cycles at the end of the same year. Construction costs of both power plants are estimated at U.S.$1,080 million, approximately 48% of which would be financed through contributions to the FONINVEMEM and the remaining balance through an additional demand charge.

Two trusts were created within CAMMESA's sphere of responsibility for the purchase of equipment and the construction, operation and maintenance of the power plants. The funds corresponding to the FONINVEMEM and the specific charge will be deposited in the trusts. Purchase of the equipment, construction, operation and maintenance of each power plant will be the responsibility of Termoeléctrica José de San Martín S.A. and Termoeléctrica Manuel Belgrano S.A., who will act on behalf of the respective trusts. Petrobras Energía holds an interest of approximately 8% in both companies. These plants will be subject to a 10-year contract with CAMMESA for the supply of electric power for 80% of generated power, at a price covering all their costs and the payments to the FONINVEMEM liquidation. The companies may freely dispose of the remaining 20% of generated power. Upon expiration of the supply agreement, ownership of the assets under the trust will be transferred to the companies.

The amounts contributed to the FONINVEMEN, converted into U.S.$and accruing interest at LIBOR + 1% per year, will be reimbursed to Petrobras Energía and the other MEM creditors in 120 monthly installments out of the trust funds received during the life of the electric power supply agreement with CAMMESA.

13. Income tax and deferred tax

The Company's provision for income tax disclosed in the Consolidated Statements of Income and deferred tax were comprised of the following:

	12/31/2006	12/31/2005	12/31/2004
Income tax for the period			
Current	(296)	(148)	(124)
Deferred tax gain - (loss)	(169)	(63)	441
Total income tax	(465)	(211)	317

	12/31/2006	12/31/2005	12/31/2004
Deferred tax			
Deferred tax assets			
Tax loss carryfowards and other tax losses	1,304	1,658	1,785
Reserve for contingencies	90	74	74
Pension plan obligations	11	4	3
Derivatives	-	6	191
Other	60	17	86
Deferred tax allowance (Note 14)	(1,154) (4)	(1,359) (4)	(1,380) (4)
Deferred tax liablilty			
Revenue recognition	-	(34)	(44)
Property, plant and equipment	(1,207)	(1,129)	(1,403)
Prepaid expenses	(6)	(8)	(15)
Non-current investments	(236)	(197)	(203)
Other	(2)	(3)	(2)
	(1,140) (1)	(971) (2)	(908) (3)

(1) 311 are presented in the non-current "Other receivables" line and 1,451 are presented in the non-current "Taxes payable" line.
(2) 400 are presented in the non-current "Other receivables" line and 1,371 are presented in the non-current "Taxes payable" line.
(3) 600 are presented in the non-current "Other receivables" line and 1,508 are presented in the non-current "Taxes payable" line.
(4) Upon the issuance of the annual financial statements, the Company's Management evaluates the recovery of tax loss carryforwards 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 tax provision at the statutory rate of 35% to the tax provision, (before taxes) and the minority interest in the subsidiary's earnings (losses), is as follows:

	12/31/2006	12/31/2005	12/31/2004
Income before income tax and minority interests in the subsidiaries´ income	1,964	1,236	482
Statutory tax rate	35%	35%	35%
Statutory tax rate applied to income for the period	687	433	169
Permanent differences at income tax rate			
- Equity in losses of non-current investments	(196)	(138)	(156)
- Changes in allowances for tax loss carryforwards	(73)	(61)	(413)
- Loss (gain) in foreign subsidiaries	29	(14)	68
- Other	18	(9)	15
	465	211	(317)

Tax loss carryforwards and deferred losses include the following items and may be used through the dates indicated below:

Items	12/31/2006	12/31/2005	12/31/2004
General tax loss carryforward	1,304	1,573	1,615
Deferred losses	-	85	170
	1,304	1,658	1,785

Use up to	12/31/2006	12/31/2005	12/31/2004
2007	1,255	1,631	1,615
2010	34	12	85
2011 and thereafter	15	15	85
	1,304	1,658	1,785

14. Contingencies, allowances and environmental matters

The movements of reserves for contingencies and allowances were as follows:

Account	Balances at the beginning of the year	Net increase (decrease)	Balances at the end of the year
Deducted from assets:			
Current			
For doubtful accounts	85	25	110
For other receivables	-	92	92
For other tax credits (Note 17.a)	88	(42)	46
Inventories' obsolescence (Note 8)	3	(2)	1
For investments (Note 9)	59	(24)	35
	235	49	284
Non-current			
For other receivables			
Tax loss carryforwards	1,274	(120)	1,154
Deferred tax losses	85	(85)	-
For investments (Note 9)	175	176	351
For property, plant and equipment	656	(301)	355
Inventories' obsolescence (Note 8)	2	(1)	1
	2,192	(331)	1,861
TOTAL 2006	2,427	(282)	2,145
TOTAL 2005	1,943	484	2,427
TOTAL 2004	2,323	(380)	1,943
Included in liabilities:			
Current			
For contingencies			
Labor and commercial contingencies	48	47	95
	48	47	95
Non-current			
For contingencies			
Labor and commercial contingencies	103	(18)	85
	103	(18)	85
TOTAL 2006	151	29	180
TOTAL 2005	107	44	151
TOTAL 2004	121	(14)	107

a) Environmental matters

The Company is subject to extensive environmental regulation at both the federal and local levels in Argentina and in other countries in which it operates. Petrobras Energía Participaciones´s management believes that its current operations are in material compliance with applicable environmental requirements, as these requirements are currently interpreted and enforced, including sanitation commitments assumed. The Company and has not incurred any material pollution liabilities as a result of their operations to date. Petrobras Energía Participaciones 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's business.

b) Value-added tax on operations in Ecuador

In August 2001 the Ecuadorian Tax Authority (SRI) informed that it will not refund the tax credit for VAT paid on the import and local acquisition of goods and services necessary for the production of hydrocarbons for export purposes because in its opinion such item has already been considered when determining the parties' respective shares of the oil production. The resolution has been appealed before the Tax Court, which to date has not issued any ruling in this respect. On August 11, 2004, the Ecuadorian National Congress passed a VAT interpretation law which provides that the refund of the tax is not applicable to the oil industry. As of December 31, 2005, due to the uncertainty limiting the recoverability of tax credits for VAT, the Company recorded an 88 allowance.

On December 12, 2006, Ecuadortlc S.A. signed with the SRI, the Attorney General's Office (Procuradoría General del Estado) and Petroecuador, a Memorandum of Agreement for quantification and assessment of the VAT paid on the acquisition of goods and services for the exploration and production of hydrocarbons in Block 18. The agreement provides the basis for the refund of credits accrued in the July 1999–May 2005 period. Accordingly, Ecuadortlc S.A. will be refunded U.S.$8 million. Since the same recognition criteria will be used to assess the refund of subsequent credits accrued up to the closing date, the Company refund is estimated at U.S.$12 million. 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 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 o by renegotiating its share of oil production, since at the time of determining the respective shares of oil production in the block the export of goods and the rendering of services were not subject to VAT, as of December 31, 2006 the Company recorded an allowance of 46 related to these receivables.

c) Amendment to Ecuador's Hydrocarbons Law

In April 2006, the Ecuadorian State approved an Amendment to the Hydrocarbons Law which recognizes in favor of the Ecuadorian State a minimum 50% interest in extraordinary income from increases in the sales price of Ecuadorian crude oil (average monthly effective FOB sales price) with respect to the average monthly sales price as of the date of execution of the relevant agreements, stated in constant values as of the month of settlement. In July 2006 the respective regulations thereunder were issued, and Ecuadortlc S.A. and Petroecuador had differences as to their interpretation. In order to put an end to this uncertainty and at Ecuadortlc S.A.'s request, Petroecuador requested the Attorney General ("Procurador General del Estado") to issue a decision in that respect. On October 12, 2006 Ecuadortlc S.A. took notice of the Opinion issued by the Attorney General whereby income from Palo Azul was exempted from the effects of the amendment considering that the relevant exploitation agreement already contains contractual terms and conditions under which the Ecuadorian State has a share of over 50% in revenues. Notwithstanding such decision, in January 2007 Petroecuador submitted to Ecuadortlc S.A. a new settlement as a result of the application of the beforementioned Law in favor of the State in the amount of US$ 26 million from April 2006 to December 2006. Although, in the opinion of its legal advisors, Ecuadortlc S.A. has legal grounds to consider the claim inadmissible, as of December 31, 2006 Ecuadortlc S.A. maintains a 37 allowance on receivables related to the payments made to Petroecuador prior to the issuance of the Attorney General's Opinion, the refund of which was requested by Ecuadortlc S.A.

d) Other issues

The Company holds 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 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.

15. Contractual commitments, warranty bond, suretyships and guarantees granted

The warranty bonds, suretyships and guarantees as of December 31, 2006, which are not disclosed in the remaining notes, amount to 41.

In addition, as of December 31, 2006, the Company had the following contractual commitments:

	Total (units)	Total (Millions of Pesos)	Until
Purchase Commitments			
Transportation agreement with OCP (in millions of bbls.) (1)	**321**	2,692	2018
Long–term service agreement	-	159	2007
Bolivian gas and oil transportation agreement (in MMm3)	**6,490**	133	2019
Petroleum services and materials	-	417	2019
Ethylene (in thousands of tons)	**525**	1,483	2015
Benzene (in thousands of tons)	**1,469**	3,357	2015
Transportation capacity with TGS (in MMm3)	**24**	189	2014
Gas purchase agreement for Genelba (in MMm3)	**564**	114	2009
Oil purchase agreement (in millions of bbls.)	**12**	1,468	2007
Sales commitments			
Natural gas (in MMm3)	**7,806**	1,423	2018
Styrene (in thousands of tons)	**165**	744	2009
Electric power (in MMWh)	**1,938**	144	2009
LPG (in thousands of tons)	**58**	82	2007
Oil sale agreement (in millions of bbls.)	**17**	3,350	2009

(1) Net of transportation capacity sold to third parties (see Note 6)

16. Capital stock and restrictions on unappropriated retained earnings

As of December 31, 2006, the Company's capital stock totaled 1,010, fully subscribed, issued, paid-in, registered and authorized for public trading, including a capital stock increased amounted to 230 as a result of the merger with and into Eg3 S.A., PAR and PSF.

Changes in capital stock in the last three fiscal years:

	December 31,		
	2006	2005	2004
Common stock - face value $	1	1	1
Class B: 1 vote per share	1010	1010	779

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

Under Law No. 25,063, any dividends distributed, in cash or in kind, in excess of the taxable income accumulated as of the year-end immediately prior to the respective payment or distribution date, will be subject to 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.

17. Other receivables, other liabilities, other operating expenses, other income (expenses), net and supplemental cash flow information.

	12/31/2006		12/31/2005		12/31/2004	
	Current	Non-current	Current	Non-current	Current	Non-current
a) Other receivables						
Joint ventures	26	-	60	-	33	-
Related companies (Note 19)	117	5	56	3	18	4
Tax credits	480	328	393	220	310	190
Deferred tax assets	-	1,465	-	1,759	-	2,139
Advisory services to other companies	1	-	6	-	13	-
Receivables from the sale of companies	-	-	-	-	-	9
Payments to recover	197	-	32	1	-	-
Letters of credit advances	-	-	-	-	121	-
Prepaid expenses and interest	53	24	39	28	44	34
Credit for new projects in the mixed companies in Venezuela	272	-	-	-	-	-
Other collaterals	5	-	35	-	64	-
Commercial agreements	69	-	-	-	-	-
Credit allowance (Note 14)	(138)	(1,154)	(88)	(1,359)	-	(1,452)
Other	99	23	94	20	153	19
	1,181	691	627	672	756	943

	12/31/2006		12/31/2005		12/31/2004	
	Current	Non-current	Current	Non-current	Current	Non-current
b) Other liabilities						
Related companies (Note 19)	27	-	2	-	2	-
Receivables in advance	46	58	11	55	55	12
Accrual for expenses					-	-
- Environmental remediation	55	64	29	56	43	44
- Other	-	50	-	42	41	-
Innova preferred stock	-	15	-	15	-	15
Litigation reserves and fines	26	22	22	30	52	-
Abandonment costs in oil & gas areas (Note 6)	-	146	-	126	-	91
Debt for investment in companies	-	-	6	-	11	-
Derivatives	-	-	50	-	385	-
Unified Fund - Basic Price of Electric Power	1	2	1	3	1	4
Other	37	9	47	12	67	12
	192	366	168	339	657	178

c) Other operating expenses	12/31/2006	12/31/2005	12/31/2004
Advisory services to other companies	48	37	35
Environmental remediation expenses	(5)	(29)	(51)
Taxes on bank transactions	(98)	(90)	(84)
Contingencies	(24)	(3)	(28)
Oil transportation agreement with OCP	(178)	(184)	(184)
Fundopem (1)	46	42	27
Commercial claims resolution	75	-	-
Tax credit allowance	(1)	(78)	-
Recovery of insurances	12	-	-
Other	(10)	(24)	(39)
	(135)	(329)	(324)

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

d) Other income (expenses), net	12/31/2006	12/31/2005	12/31/2004
Sales of oil areas (Note 6)	85	-	-
Reversal of Citelec S.A.´s impairment	23	-	-
Reversal of Hidroneuquén S.A.´s impairment	10	-	-
Enecor S.A.´s impairment	6	(11)	-
Net impairment of assets in Venezuela (Note 6)	(6)	(310)	(27)
Net impairment of areas in Argentina (Note 6)	-	(88)	-
Other assets impairment	-	-	(20)
Seniat claim - Venezuela	(18)	(54)	-
Disposal of property, plant and equipment	(15)	(24)	(11)
Gain from AE (out-of-court composition with creditors) - Edesur S.A.	-	-	18
Financial debt refinancing	-	-	(12)
Losses from settled financial debt in advance	-	(9)	-
Sale price adjustment - Conuar S.A.	-	23	-
Other, net	14	17	16
	99	(456)	(36)

e) Supplemental cash flow information	2006	2005	2004
Cash	86	104	139
Time deposits and Mutual Funds	1,264	686	927
Cash and cash equivalent	1,350	790	1,066

As of December 31, 2006, 2005 and 2004, the accounts payable increased for the acquisition of property, plan and equipment in the amount of 15, 56 and 176, respectively.

18. Social benefits and other benefits of Petrobras Energía

a) Defined contribution plan

Supplementary Pension Plan for Personnel

In November 2005, the Board of Directors of Petrobras Energía approved the implementation of a defined voluntary contributions plan for all of the Petrobras Energía's employees. Through this plan, Petrobras Energía will make contributions to a trust equivalent to the contributions made by the employees that will subscript to the plan to a mutual fund or AFJP, at their choice, 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 fiscal years ended December 31, 2006 and 2005, Petrobras Energía recorded a loss of 3 and 7, respectively, attributable to such benefits.

b) Defined benefit plan

Indemnity Plan

This is a defined benefit plan for all the employees who fulfill certain conditions, and consists of granting, upon retirement, a one-month salary per years of service 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 all employees of Petrobras Energía who take part in the defined contribution plan effective at each opportunity, have joined the Company prior to May 31, 1995, and have reached a certain number of years of service. The employee benefit is based on the last computable salary and years of service of each employee included in the fund.

The plan is of a supplemental nature, that is to say the benefit to 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 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 should make contributions to the retirement system for their whole salary. As provided in 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 were contributed to a trust. The goals with respect to asset investment are: (i) the preservation of capital in U.S. dollars, (ii) the maintenance of high levels of liquidity, and (iii) the attainment of the highest yields possible on a 30-days basis. For this reason, theassets are invested mainly in bonds, corporate bonds, mutual funds, and certificates of deposits. 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 under the trust agreement to be used to settle the benefits granted by the plan, Petrobras Energía will be entitled to make a choice and use it, in which case it would have to notify the trustee thereof.

As of December 31, 2006, 2005 and 2004 the most relevant actuarial information on the defined-benefits pension plan is as follows:

Change in benefit obligation	**2006**	**2005**	**2004**
Benefit obligation at beginning	99	68	51
Service cost	2	1	1
Interest cost	16	6	4
Actuarial loss	15	26	17
Benefits paid	(7)	(7)	(4)
Curtailment or conclusion effect	-	-	(1)
Unrecognized prior service cost	36	5	-
Benefit obligation at the end of the year	161	99	68
Change in plan assets			
Fair value of plan assets at beginning	40	45	47
Return on plan assets	2	2	2
Benefits paid	(7)	(7)	(4)
Fair value of plan assets at the end of the year	35	40	45

Reconciliation of funded (unfunded) status	2006	2005	2004
Unfunded status at the end of the year	(126)	(59)	(23)
Unrecognized prior service cost	41	5	-
Unrecognized actuarial loss	53	41	15
Net liability recognized	(32)	(13)	(8)

Components of net periodic benefit cost	2006	2005	2004
Service cost	2	1	1
Interest cost	16	6	4
Return on plan assets	(2)	(2)	(2)
Amortization of actuarial gain and losses and unrecognized prior service cost	2	-	(1)
Net periodic benefit cost	18	5	2
Weighted-average assumptions			
Discount rate	4%	4%	4%
Rate of return on plan assets	6%	4%	4%
Rate of compesation increase (a)	2%	2%	2%

(a) weighted-average according to the benefits age.

c) Stock option plan

The Board of Directors of the 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, the Board of Directors approved the Plans for year 2001 (“2001 Plan”) and for year 2000 (“2000 Plan”) focused on senior officers of the Company. Both plans consist in granting the right to exercise certain options to receive Petrobras Energía Participaciones S.A. shares or its cash equivalent at market, as described below:

2001 Plan

i. 5,364,125 options to receive the value arising from the positive difference between the average listed price of Petrobras 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”).

   Regarding these options, 1,609,237 options may be exercised as from March 5, 2002, 1,609,238 options may be exercised as from March 5, 2003, and 2,145,650 options as from March 5, 2004. As of December 31, 2006 the exercised options amounted to 4,809,399, almost entirely in cash.

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”). As of December 31, 2006 the exercised options amounted to 496,043, almost entirely in cash.

   Beneficiaries of this plan will be entitled to exercise their rights, until March 5, 2007.

2000 Plan

i. 3,171,137 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 1.48 Argentine pesos per share, for such number of shares (“appreciation rights”).

ii. 352,347 options to receive the same number of shares at no cost to the beneficiary. These options may be exercised as from May 29, 2004 (“full value”).

The term to exercise both options expired on May 29, 2006. As of December 31, 2006 options exercised corresponding to the appreciation right amounted to 2,873,037 and those corresponding to full value totaled 343,596, cancelled in both cases primarily in cash.

The cost of this benefit is allocated on proportional basis to each year within the vesting years and adjusted in accordance with the listed price of the share. Accordingly 3, 3 and 6 were charged to operating expenses for the fiscal years ended December 31, 2006, 2005 and 2004, respectively.

The following table presents a summary of the status of the Company´s stock option plans as of December 31, 2006, 2005 and 2004.

	2006		2005		2004	
	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price
Outstanding at the beginning of the year	1,198,803	1.59	3,195,192	1.60	7,557,205	1.59
Exercised	(237,255)	1.60	(1,996,389)	1.60	(4,362,013)	1.58
Prescripted	(306,851)		-		-	
Outstanding at the end of the year	654,697	1,59	1,198,803	1.59	3,195,192	1.60
Exercisable at the end of the year	654,697	1,59	1,198,803	1,59	2,599,178	1.59

As of December 31, 2006 the weighted average remaining contractual life is three months.

19. Balances and transactions with related companies

The outstanding balances from transactions with related companies as of December 31, 2006, 2005 and 2004 are as follows:

	2006								
	Current						Non-current		
Company	Investments	Trade Receivables	Other Receivables	Accounts Payable	Other Liabilities	Loans	Other receivables	Investments	Loans
Petroquímica Cuyo S.A.	-	11	2	-	-	6	-	-	-
Oleoducto de Crudos Pesados Ltd.	-	-	-	-	-	-	-	138	-
Petrobras Bolivia Refinación S.A.	-	6	-	-	-	-	-	-	-
Transportadora de Gas del Sur S.A.	-	10	12	9	-	-	-	-	-
Refinería del Norte S.A.	-	7	12	7	-	-	-	-	-
Petrobras International Finance Co.	-	57	-	-	-	-	-	-	-
Petróleo Brasileiro S.A. -Petrobras	-	4	5	33	11	-	3	-	-
Petrolera Entre Lomas S.A.	-	-	-	71	-	-	-	-	-
Propyme SGR	-	-	-	-	-	-	-	6	-
Petrobras Internacional - Braspetro B.V.	-	-	76	2	-	20	-	-	768
Petrobras Energía Participaciones S.A.	33	-	-	-	-	-	-	-	-
Other	-	1	10	5	16	-	2	3	-
Total	33	96	117	127	27	26	5	147	768

	2005								
	Current						Non-current		
Company	Investments	Trade Receivables	Other Receivables	Accounts Payable	Other Liabilities	Loans	Other Receivables	Investments	Loans
Petrobras Energía Participaciones S.A.	24	-	-	-	-	-	-	-	-
Petroquímica Cuyo S.A.	-	8	4	-	-	6	-	-	-
Oleoductos de Crudos Pesados Ltd.	-	-	-	-	-	-	-	142	-
Transportadora de Gas del Sur S.A.	-	9	-	6	-	-	-	-	-
Refinería del Norte S.A.	-	17	5	6	-	-	-	-	-
Petrobras International Finance Co.	-	95	-	5	-	-	-	-	-
Petróleo Brasileiro S.A.- Petrobras	-	3	15	17	-	-	3	-	-
Petrolera Entre Lomas S.A.	2	-	-	69	-	-	-	-	-
Propyme SGR	-	-	-	-	-	-	-	6	-
Petrobras Internacional - Braspetro B.V.	-	-	25	-	-	20	-	-	758
Other	-	2	7	2	2	-	-	2	-
Total	26	134	56	105	2	26	3	150	758

	2004									
	Current						Non-current			
Company	Investments	Trade Receivables	Other Receivables	Accounts Payable	Other Liabilities	Loans	Trade Receivables	Investments	Other Receivables	Loans
Petroquímica Cuyo S.A.	-	-	1	-	-	6	-	-	-	-
Oleoducto de Crudos Pesados Ltd.	-	-	-	-	-	-	-	156	-	-
Transportadora de Gas del Sur S.A.	-	1	-	3	1	-	-	-	-	-
Refinería del Norte S.A.	-	9	4	2	-	-	-	-	-	-
Petroleo Brasileiro - Petrobras	-	11	9	-	-	-	-	-	-	-
Petrobras International Finance Co.	119	23	-	5	-	-	-	-	-	-
Petrolera Entre Lomas S.A.	-	-	-	46	-	-	-	-	-	-
Petrobras Internacional - Braspetro B.V.	-	-	-	-	-	4	-	-	4	149
Petrobras Energía Participaciones S.A.	12	-	-	-	-	-	-	-	-	-
Others	-	4	4	7	1	-	3	-	-	-
Total	131	48	18	63	2	10	3	156	4	149

The main transactions with affiliates for the fiscal years ended December 31, 2006, 2005 and 2004 are as follows:

	2006		2005		2004	
Company	Purchases	Sales	Purchases	Sales	Purchases	Sales
Oleoductos del Valle S.A.	23	-	10	-	20	-
Transportadora de Gas del Sur S.A.	40	34	17	-	35	-
Refinería del Norte S.A.	132	53	69	19	106	26
Petrobras International Finance Co.	101	1,428	99	675	121	488
Petroquímica Cuyo S.A.	-	33	-	-	-	-
Petrolera Entre Lomas S.A.	440	1	247	1	198	-
Petróleo Brasileiro S.A.	102	14	-	5	-	240
Petrobras Bolivia Refinación.S.A.	-	33	3	25	-	36
Total	838	1,596	445	725	480	790

20. Business segments and geographic consolidated information

The Company’s business is mainly concentrated in the energy sector, especially through its activities in exploration and production of oil and gas, refining and distribution, petrochemical and gas and energy. According to this, the identified business segments are as follows:

a) The Oil and Gas Exploration and Production segment is 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) The Refining and Distribution segment includes the Company´s operations in Refinería San Lorenzo and Bahía Blanca, its own gas station network and the Company´s interests in Refinería del Norte S.A. and Petrobras Bolivia Refinación S.A.
c) Petrochemicals, comprising the Company’s own fertilizer and styrenics operations developed in Argentina and Brazil plants and interest in Petroquímica Cuyo S.A.
d) Gas and Energy segment comprises operations in Marketing and Transportation of Gas and Electricity. The Marketing and Transportation of Gas operations includes the sale of gas and the liquefied petroleum gas brokerage and trading, and its interest in Transportadora de Gas del Sur S.A. The Electricity operations

includes Company's operations in the Genelba plant and in the Pichi Picún Leufú Hydroelectric Complex, and its interest in Edesur S.A., Transener S.A., Enecor S.A. and Yacylec S.A.

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 all 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.

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

	2006						
				Gas and Energy			
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Marketing and Transportation of Gas	Electricity	Corporate and Eliminations	Total
Total Assets	9,752	2,549	1,710	2,832	2,292	1,354	20,489
Total Liabilities	2,966	811	590	2,191	720	4,604	11,882

	2005						
				Gas and Energy			
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Marketing and Transportation of Gas	Electricity	Corporate and Eliminations	Total
Total Assets	9,170	2,151	1,475	2,830	2,285	684	18,595
Total Liabilities	4,881	692	593	2,313	713	2,298	11,490

	2004						
				Gas and Energy			
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Marketing and Transportation of Gas	Electricity	Corporate and Eliminations	Total
Total Assets	8,825	2,114	1,369	2,690	2,300	862	18,160
Total Liabilities	4,323	856	619	2,318	692	3,306	12,114

2006	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Gas and Energy: Marketing and Transportation of Gas	Gas and Energy: Electricity	Corporate and Eliminations	Total
Consolidated Statement of Income							
Net sales							
To third parties	2,653	4,262	2,447	1,202	1,181	-	11,745
Inter-segment	2,128	269	43	184	26	(2,650)	-
	4,781	4,531	2,490	1,386	1,207	(2,650)	11,745
Cost of sales	(2,119)	(4,715)	(2,183)	(1,050)	(863)	2,679	(8,251)
Gross profit	2,662	(184)	307	336	344	29	3,494
Administative and selling expenses	(288)	(290)	(177)	(28)	(116)	(193)	(1,092)
Exploration expenses	(117)	-	-	-	-	-	(117)
Other operating (expenses) income, net	(78)	6	32	37	(36)	(96)	(135)
Operating income (loss)	2,179	(468)	162	345	192	(260)	2,150
Equity earnings of affiliates	89	114	15	-	1	-	219
Other (expenses) income	(411)	15	(8)	(222)	1	(328)	(953)
Net income (loss)	1,857	(339)	169	123	194	(588)	1,416

2005	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Gas and Energy: Marketing and Transportation of Gas	Gas and Energy: Electricity	Corporate and Eliminations	Total
Consolidated Statement of Income							
Net sales							
To third parties	2,935	3,572	2,140	1,009	999	-	10,655
Inter-segment	1,722	284	38	110	18	(2,172)	-
	4,657	3,856	2,178	1,119	1,017	(2,172)	10,655
Cost of sales	(2,022)	(3,749)	(1,801)	(849)	(757)	2,132	(7,046)
Gross profit	2,635	107	377	270	260	(40)	3,609
Administative and selling expenses	(248)	(251)	(143)	(22)	(86)	(188)	(938)
Exploration expenses	(34)	-	-	-	-	-	(34)
Other operating (expenses) income, net	(314)	(5)	33	32	(4)	(71)	(329)
Operating income (loss)	2,039	(149)	267	280	170	(299)	2,308
Equity earnings of affiliates	15	101	7	127	31	-	281
Other (expenses) income	(1,390)	86	(28)	(180)	(39)	(67)	(1,618)
Net income (loss)	664	38	246	227	162	(366)	971

Statement of income	2004						
	Oil and Gas Exploration and Production	Refining	Petrochemical	Hydrocarbons Marketing and Transportation	Electricity	Corporate and Eliminations	Total
Net sales							
To third parties	2,080	3,085	1,857	930	811	-	8,763
Inter-segment	1,567	274	20	49	14	(1,924)	-
	3,647	3,359	1,877	979	825	(1,924)	8,763
Cost of sales	(1,737)	(3,102)	(1,503)	(711)	(628)	1,900	(5,781)
Gross profit	1,910	257	374	268	197	(24)	2,982
Administative and selling expenses	(221)	(244)	(123)	(22)	(75)	(160)	(845)
Exploration expenses	(133)	-	-	-	-	-	(133)
Other operating (expenses) income, net	(286)	(3)	27	(1)	11	(72)	(324)
Operating income (loss)	1,270	10	278	245	133	(256)	1,680
Equity earnings of affiliates	33	57	16	35	(39)	-	102
Other (expenses) income	(964)	6	7	(192)	(36)	222	(957)
Net income (loss)	339	73	301	88	58	(34)	825

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

	12/31/2006								
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Total Assets	13,557	3,272	432	1,076	675	1,045	432	-	20,489
Net sales	8,751	312	207	902	1,215	652	14	(308)	11,745
Operating income (expenses)	1,132	186	45	446	54	287	1	(1)	2,150

	12/31/2005								
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Total Assets	12,052	3,588	389	957	706	791	112	-	18,595
Net sales	7,378	1,175	136	705	972	449	12	(172)	10,655
Operating income (expenses)	1,160	639	18	385	48	66	(8)	-	2,308

	12/31/2004								
	Argentina	Venezuela	Bolivia	Peru	Brazil	Ecuador	Other	Eliminations	Total
Total Assets	12,155	3,638	327	830	680	444	86	-	18,160
Net sales	6,429	811	108	458	774	211	11	(39)	8,763
Operating income (expenses)	1,159	325	3	221	104	(128)	(4)	-	1,680

21. Controlling Group

Petrobras Energía Participaciones S.A. is the parent company of Petrobras Energía S.A., with the ownership interest of 75.82%. Petróleo Brasileiro S.A. – PETROBRAS ("Petrobras"), through Petrobras Participaciones S.L., a wholly owned subsidiary, is the controlling shareholder of Petrobras Energía Participaciones S.A., with the ownership interest of 58.6%.

Additionally, Petrobras Participaciones S.L. owns 22.8% of Petrobras Energía S.A. 's capital stock.

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

22. Subsequent events

a) Award of two oil blocks in the Northern area of Argentina.

On January 15, 2007, Petrobras Energía was awarded the exploration permits related to two oil areas in the Province of Salta, Argentine Republic. These areas are Chirete and Hickmann, the latter having been awarded through a consortium in which Petrobras Energía has a 50% interest. According to the offers made, Petrobras Energía will make initial investments in the amount of approximately U$S 22 million, mainly in seismic works.

b) Execution of a Stock Purchase Agreement for the Sale of Shareholding in Hidroneuquén S.A.

On January 17, 2007, Petrobras Energía subscribed a stock purchase agreement with a consortium composed of Merril Lynch, Pierce, Fenner & Smith Inc. and Sociedad Argentina de Energía S.A., for the sale of its 9.19% shareholding 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 is U.S.$15 million.

c) ENRE Resolution No. 50/2007

According to ENRE 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 (See Note 9.II) became effective on February 1, 2007. As a consequence, a 23% increase is 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 the beforementioned distribution costs for the execution of a work plan. In addition, the ENRE authorized to apply to the beforementioned 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 212.

23. 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) Costs of sales.
d) Foreign currency assets and liabilities.
e) Consolidated detail of expenses incurred and depreciation.
f) Information about ownership in subsidiaries and affiliates.
g) Oil and gas areas and participation in joint ventures.
h) Combined joint ventures and consortia assets, liabilities and results.

a) Property, plant and equipment as of December 31, 2006, 2005 and 2004

(Stated in millions of Argentine Pesos - See Note 2.c)

	2006						
				Gas and Energy			
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Electricity	Marketing and Transportation of Gas	Corporate and Eliminations	Total
Net book value at beginning of the year	6,913	947	702	1,863	2,069	163	12,657
Effect of translation	47	-	5	-	-	-	52
Net increase	1,327	238	194	82	68	1	1,910
Deconsolidation of the assets in Venezuela (Note 6)	(2,660)	-	-	-	-	-	(2,660)
Depreciation	(720)	(62)	(80)	(139)	(93)	(27)	(1,121)
Net book value at the end of the year	4,907	1,123	821	1,806	2,044	137	10,838

	2005						
				Gas and Energy			
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Electricity	Marketing and Transportation of Gas	Corporate and Eliminations	Total
Net book value at beginning of the year	6,624	835	670	1,940	2,087	121	12,277
Effect of translation	62	-	6	-	-	-	68
Net increase	1,047	177	95	60	72	70	1,521
Depreciation	(820)	(65)	(69)	(137)	(90)	(28)	(1,209)
Net book value at the end of the year	6,913	947	702	1,863	2,069	163	12,657

	2004						
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Gas and Energy		Corporate and Eliminations	Total
				Electricity	Marketing and Transportation of Gas		
Net book value at beginning of the year	6,472	831	652	2,016	2,124	137	12,232
Effect of translation	50	-	3	-	-	-	53
Net increase	864	72	86	62	50	14	1,148
Depreciation	(762)	(68)	(71)	(138)	(87)	(30)	(1,156)
Net book value at the end of the year	6,624	835	670	1,940	2,087	121	12,277

b) Equity in affiliates as of December 31, 2006, 2005 and 2004

(Stated in millions of Argentine Pesos - See Note 2.c)

	12/31/2006				12/31/2005	12/31/2004
	Description of securities					
Name and issuer	Face Value	Amount	Cost	Book value	Book value	Book value
Citelec S.A. (Note 9.I.c)	$ 1	73,154,437	-	-	-	7
Coroil S.A.	Bs 1,000	490	48	48	46	49
Petrobras Bolivia Refinación S.A.	$Bl 1,000	178,752	103	183	177	121
Hidroneuquén S.A.	-	-	-	-	26	26
Inversora Mata S.A.	Bs 1,000	490	94	94	95	100
Oleoducto de Crudos Pesados Ltd.	U$S 0.01	31,500	98	96	95	91
Oleoductos del Valle S.A.	$ 10	2,542,716	64	64	65	67
Petrolera Entre Lomas S.A.	$ 1	96,050	68	68	55	45
Petroquímica Cuyo S.A.	$ 0.083	240,000,000	51	51	39	42
Refinería del Norte S.A.	$ 10	2,610,809	63	123	102	93
Transportadora de Gas del Sur S.A.			-	-	-	93
Cost related with CIESA S.A reestructuring (Note 9.III)			-	110	110	-
TGS S.A. goodwill in CIESA S.A.			-	24	25	26
Yacylec S.A.			-	-	15	22
Reserve for impairment of investments			-	(26)	(36)	(10)
Other			-	2	-	-
			589	837	814	772

c) Costs of sales for the fiscal years ended December 31, 2006, 2005 and 2004

(Stated in millions of Argentine Pesos - See Note 2.c)

	2006						
				Gas and Energy			
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Electricity	Marketing and Transportation of Gas	Corporate and Eliminations	Total
Inventories at the beginning of the year	165	527	263	42	10	(146)	861
Effect of traslation	2	-	1	-	-	-	3
Costs (Section e)	2,017	205	245	271	682	-	3,420
Holding gain (losses)	(1)	17	18	1	(3)	(7)	25
Purchases, consumption and other	95	4,535	1,974	589	368	(2,650)	4,911
Inventories at the end of the year	(159)	(569)	(318)	(40)	(7)	124	(969)
Costs of sales	2,119	4,715	2,183	863	1,050	(2,679)	8,251

	2005						
				Gas and Energy			
	Oil and Gas Exploration and Production	Refining and Distribution	Petrochemical	Electricity	Marketing and Transportation of Gas	Corporate and Eliminations	Total
Inventories at the beginning of the year	130	331	278	33	3	(77)	698
Effect of traslation	1	-	-	-	-	-	1
Costs (Section e)	1,884	151	171	275	507	-	2,988
Holding gain (losses)	(6)	88	(6)	(10)	-	(26)	40
Purchases, consumption and other	178	3,706	1,621	501	349	(2,175)	4,180
Inventories at the end of the year	(165)	(527)	(263)	(42)	(10)	146	(861)
Costs of sales	2,022	3,749	1,801	757	849	(2,132)	7,046

	2004						
				Energy and Gas			
	Oil and Gas Exploration and Production	Refining	Petrochemical	Electricity	Hydrocarbons Marketing and Transportation	Corporate, Other Discontinued Investments and Eliminations	Total
Inventories at the beginning of the year	114	255	155	35	8	(57)	510
Effect of traslation	(1)	-	-	-	-	-	(1)
Costs (Section e)	1,667	136	163	296	319	-	2,581
Holding gain (losses)	(9)	23	37	(17)	-	4	38
Purchases, consumption and other	94	3,020	1,426	347	387	(1,923)	3,351
Inventories at the end of the year	(130)	(331)	(278)	(33)	(3)	77	(698)
Costs of sales	1,735	3,103	1,503	628	711	(1,899)	5,781

d) *Foreign currency assets and liabilities as of December 31, 2006, 2005 and 2004*

(Stated in millions of Argentine Pesos - See Note 2.c)

	Foreign currency and amount		Exchange rate	Book amount in local currency
CURRENT ASSETS				
Cash	U$S	7	3.0900	21
	Eu	-	4.0454	-
	BS	5,602	0.0014	8
	Rs	6	1.4361	9
				38
Investments	US$	378	3.0700	1,160
	Rs	13	1.4361	19
				1,179
Trade receivables	US$	213	3.0700	654
	Rs	86	1.4361	124
	Eu	1	4.0454	6
	BS	2,801	0.0014	4
				788
Other receivables	US$	176	3.0700	539
	BS	83,333	0.0014	119
	Rs	8	1.4361	12
				670
	TOTAL 2006			**2,675**
	TOTAL 2005			**2,128**
	TOTAL 2004			**2,248**
NON-CURRENT ASSETS				
Trade receivables	US$	3	3.0700	**10**
Other receivables	US$	4	3.0700	13
	Rs	29	1.4361	41
				54
Investments	US$	95	3.0700	**292**
	TOTAL 2006			**356**
	TOTAL 2005			**163**
	TOTAL 2004			**434**
TOTAL ASSETS		**2006**		**3,031**
		2005		**2,291**
		2004		**2,682**

	Foreign currency and amount		Exchange rate	Book amount in local currency
CURRENT LIABILITIES				
Accounts payable	US$	277	3.0700	849
	Rs	15	1.4361	21
	BS	55,322	0.0014	79
	Sol	2	0.9196	2
				951
Short-term debt	US$	811	3.0700	2,490
	BS	18,207	0.0014	26
				2,516
Payroll and social security taxes	Sol	3	0.9196	3
	BS	-	0.0014	-
	Rs	7	1.4361	10
	US$	11	3.0700	33
				46
Taxes payable	U$S	-	3.0700	-
	Rs	6	1.4361	9
	BS	4,902	0.0014	7
				16
Other liabilities	Rs	1	1.4361	1
	US$	32	3.0700	98
				99
	TOTAL 2006			**3,628**
	TOTAL 2005			**3,019**
	TOTAL 2004			**3,150**
NON-CURRENT LIABILITIES				
Accounts payable	US$	2	3.0700	**6**
Long-term debt	US$	1,426	3.0700	**4,379**
Taxes payable	U$S	80	3.0700	246
	Rs	54	1.4361	77
				323
Other liabilities	U$S	109	3.0700	**334**
	TOTAL 2006			**5,042**
	TOTAL 2005			**6,047**
	TOTAL 2004			**6,433**
TOTAL LIABILITIES		**2006**		**8,670**
		2005		**9,066**
		2004		**9,583**

U.S.$ Millions of United States Dollars
BS Millions of Bolívares
Rs Millions of Reales
Sol Millions of Peruvian Soles

Eu Millions of Euros

e) Consolidated detail of expenses incurred and depreciation for the fiscal years ended

December 31, 2006, 2005 and 2004
(Stated in millions of Argentine Pesos - See Note 2.c)

Accounts	2004	2005	2006			
	Total	Total	Total	Costs	Administrative and selling expenses	Exploration expenses
Salaries and wages	354	435	531	230	301	-
Social security taxes	47	72	96	42	54	-
Other benefits to personnel	111	128	166	58	108	-
Taxes, charges and contributions	84	42	96	82	13	1
Fees and professional advisory	116	100	110	33	76	1
Depreciation of property, plant and equipment	1,156	1,209	1,121	1,030	91	-
Amortization of other assets	14	14	8	1	7	-
Oil and gas royalties	390	507	716	716	-	-
Spares and repairs	138	129	158	149	9	-
Geological and geophysical expenses	7	34	32	-	-	32
Transportation and freights	252	293	332	37	295	-
Construction contracts and other services	446	466	520	388	132	-
Impairment of unproved oil and gas properties	119	16	78	-	-	78
Fuel, gas, energy and other	51	68	71	61	10	-
Other operating costs and consumption	359	554	692	600	87	5
Recovery of expenses	(85)	(107)	(98)	(7)	(91)	-
				-	-	
Total 2006			4,629	3,420	1,092	117
Total 2005		3,960		2,988	938	34
Total 2004	3,559			2,581	845	133

f) *Information about ownership in subsidiaries and affiliates as of December 31, 2006*

Subsidiaries	% OF OWNERSHIP AND VOTES DIRECT	INDIRECT	BUSINESS SEGMENT
Corod Producción S.A. (Venezuela)	100.00	-	Oil and Gas Exploration and Production
Ecuadortlc S.A. (Ecuador)	100.00	-	Oil and Gas Exploration and Production
Enecor S.A.	69.99	-	Gas and Energy
EG3 Asfalto S.A.	99.15	-	Refining and Distribution
EG3 Red S.A.	100.00	-	Refining and Distribution
Innova S.A. (Brasil)	0.01	99.99	Petrochemical
Petrobras Energía de México S.A. de C.V. (México)	-	100.00	Oil and Gas Exploration and Production
Petrobras Finance Bermuda (Islas Bermudas)	-	100.00	Corporate
Petrobras Holding Austria AG (Austria)	100.00	-	Corporate
Petrobras de Valores Internacional de España S.A. (España)	100.00	-	Corporate
Petrobras Energía Internacional S.A.	95.00	5.00	Corporate
Petrobras Energía Operaciones S.A. (Ecuador)	-	100.00	Oil and Gas Exploration and Production
Petrobras Financial Services Austria GMBH (Austria)	-	100.00	Corporate
Petrobras Hispano Argentina S.A. (España)	100.00	-	Corporate
Petrobras Bolivia Internacional S.A. (Bolivia)	100.00	-	Corporate
Petrobras Energía Ecuador (Gran Cayman)	-	100.00	Oil and Gas Exploration and Production
Petrobras Energia Perú S.A. (Perú)	-	100.00	Oil and Gas Exploration and Production
Petrobras Energia Venezuela S.A. (Venezuela)	-	100.00	Oil and Gas Exploration and Production
Petrolera San Carlos S.A. (Venezuela)	-	100.00	Oil and Gas Exploration and Production
Transporte y Servicios de Gas en Uruguay S.A. (Uruguay)	51.00	13.55	Gas and Energy
World Energy Business S.A.	5.00	95.00	Gas and Energy
Electricidade Com S.A. (Brasil)	-	100.00	Gas and Energy
Petrobras Energía Colombia (Gran Cayman)	-	100.00	Oil and Gas Exploration and Production
World Fund Financial Services (Gran Cayman)	-	100.00	Corporate
Main affiliates - join control			
Cía. de Inversiones de Energía S.A.	25.00	25.00	Gas and Energy
Citelec S.A.	50.00	-	Gas and Energy
Distrilec Inversora S.A.	38.50	10.00	Gas and Energy
Edesur S.A.	-	27.33	Gas and Energy
Transba S.A.	-	24.15	Gas and Energy
Transener S.A.	-	26.84	Gas and Energy
Transportadora de Gas del Sur S.A.	-	27.65	Gas and Energy
Main affiliates - significance influence			
Coroil S.A. (Venezuela)	20.00	29.00	Oil and Gas Exploration and Production
Petrobras Bolivia Refinación S.A. (Bolivia)	-	49.00	Refining and Distribution
Oleoducto de Crudos Pesados Ltd. (Gran Cayman)	-	11.42	Oil and Gas Exploration and Production
Oleoducto de Crudos Pesados S.A. (Ecuador)	-	11.42	Oil and Gas Exploration and Production
Inversora Mata S.A. (Venezuela)	49.00	-	Oil and Gas Exploration and Production
Oleoductos del Valle S.A.	23.10	-	Oil and Gas Exploration and Production
Propyme S.G.R	50.00	-	Corporate
Petrolera Entre Lomas S.A.	19.21	-	Oil and Gas Exploration and Production
Petroquímica Cuyo S.A.	40.00	-	Petrochemical
Refinería del Norte S.A.	28.50	-	Refining and Distribution
Urugua-í S.A.	29.33	-	Gas and Energy
Yacylec S.A.	22.22	-	Gas and Energy
Petroven-Bras S.A.	29.20	5.29	Oil and Gas Exploration and Production
Petrokariña S.A.	29.20	5.29	Oil and Gas Exploration and Production
Petrowayu S.A.	36.00	-	Oil and Gas Exploration and Production
Petroritupano S.A.	22.00	-	Oil and Gas Exploration and Production
Other subsidiaries			
Hidroneuquén S.A. (see Note 22)	9.19	-	Gas and Energy
Ternoeléctrica José de San Martín S.A.	8.00	-	Gas and Energy
Ternoeléctrica Manuel Belgrano S.A.	8.00	-	Gas and Energy

g) Oil and gas areas and participation in joint-ventures as of December 31, 2006

NAME	LOCATION	WORKING INTEREST (2)	OPERATOR	DURATION THROUGH
Production				
Argentina				
25 de Mayo - Medanito S.E.	La Pampa and Río Negro	100.00%	Petrobras Energía	2016
Jagüel de los Machos	La Pampa and Río Negro	100.00%	Petrobras Energía	2015
Puesto Hernández	Mendoza and Neuquén	38.45%	Petrobras Energía	2016
Bajada del Palo - La Amarga Chica	Neuquén	80.00%	Petrobras Energía	2015
Santa Cruz II	Santa Cruz	100.00%	Petrobras Energía	2017 / 2024
Río Neuquén	Neuquén and Río Negro	100.00%	Petrobras Energía	2019
Entre Lomas	Neuquén and Río Negro	17.90%	Petrolera Entre Lomas	2016
Aguada de la Arena	Neuquén	80.00%	Petrobras Energía	2022
Veta Escondida y Rincón de Aranda	Neuquén	55.00%	Petrobras Energía	2016
Santa Cruz I	Santa Cruz	71.00%	Petrobras Energía	2016 / 2023
Sierra Chata	Neuquén	19.89%	Petrobras Energía	2022
El Mangrullo	Neuquén	100.00%	Petrobras Energía	2025
Atuel Norte	Mendoza	50.00%	Tecpetrol	2016
La Tapera - Puesto Quiroga	Chubut	21.95%	Tecpetrol	2016
El Tordillo	Chubut	21.95%	Tecpetrol	2016
Aguaragüe	Salta	15.00%	Tecpetrol	2017
Foreign				
Colpa - Caranda	Bolivia	100.00%	Petrobras Energía	2029
Oritupano - Leona	Venezuela	22.00%	PDVSA (5)	2034
Acema	Venezuela	34.50%	PDVSA (5)	2037
La Concepción	Venezuela	36.00%	PDVSA (5)	2037
Mata	Venezuela	34.50%	PDVSA (5)	2037
Lote X	Perú	100.00%	Petrobras Energía Perú	2024
Block 18 (4)	Ecuador	70.00%	Ecuadortlc	2022
Block 31 (4)	Ecuador	100.00%	Petrobras Energía Ecuador	2024
Exploration				
Argentina				
Glencross	Santa Cruz	87.00%	Petrobras Energía	(1)
Agua Fresca	Santa Cruz	50.00%	Petrobras Energía	(1)
Puesto Oliverio	Santa Cruz	50.00%	Petrobras Energía	(1)
Cerrito Oeste	Santa Cruz	50.00%	Petrobras Energía	(1)
El Campamento	Santa Cruz	50.00%	Petrobras Energía	(1)
Cerro Hamaca	Mendoza	39.64%	Petrobras Energía	(1)
Gobernardor Ayala	La Pampa	22.51%	Petrobras Energía	(1)
Cañadón del Puma	Neuquén	50.00%	Chevron San Jorge	2008
Parva Negra	Neuquén	47.63%	Petrobras Energía	(1)
Cerro Manrique (3)	Rio Negro	50.00%	Petrobras Energía	-
Estancia Chiripá	Santa Cruz	87.00%	Petrobras Energía	(1)
Enarsa 1 (E1)	Argentine continental shelf	25.00%	YPF	-
Enarsa 3 (E3)	Argentine continental shelf	35.00%	Petrobras Energía	-
Chirete (6)	Salta	100.00%	Petrobras Energía	2010
Hickmann (6)	Salta	50.00%	Tecpetrol	2011
Foreign				
Tinaco	Venezuela	50.00%	Petrobras Energía Venezuela	2007
Lot 57	Perú	35.15%	Petrobras Energía Perú	2008
Lot 58	Perú	100.00%	Petrobras Energía Perú	2007
Lot 103	Perú	30.00%	Petrobras Energía Perú	2008
Lot 110	Perú	100.00%	Petrobras Energía Perú	2007
Lot 112	Perú	100.00%	Petrobras Energía Perú	2007
Lot 117	Perú	100.00%	Petrobras Energía Perú	2008

(1) The granting of the concession is under progress and the term will be 25 years from such granting.

(2) Indirect interest through Petrobras Energía and its subsidiaries.

(3) The granting of the lots exploitation concession is under progress.

(4) See Note 6 - Operations in Ecuador.

(5) See Note 6 - Operations in Venezuela.

(6) See Note 22.

h) *Combined joint-ventures and consortia assets and liabilities as of December 31, 2006, 2005 and 2004 and results for the fiscal years ended December 31, 2006, 2005 and 2004*

Assets and liabilities	**2006**	**2005**	**2004**
Current assets	647	708	928
Non-current assets	1,656	3,722	3,811
Total assets	2,303	4,430	4,739
Current liabilities	724	909	409
Non-current liabilities	65	84	74
Total liabilities	789	993	483

Statement of income			
Net sales	1,686	2,105	1,437
Costs of sales	(634)	(878)	(746)
Gross profit	1,052	1,227	691
Administrative and selling expenses	(102)	(92)	(93)
Exploration expenses	(42)	(20)	(9)
Other operating (expenses) income	(93)	(219)	(111)
Financial (expenses) income and holding (losses) gains	(49)	(160)	91
Income tax provision	(146)	(98)	(22)
Net income	620	638	547

ANNEX A

SUMMARY OF CERTAIN DIFFERENCES BETWEEN ARGENTINE AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The following summaries of significant differences between Argentine GAAP and U.S. GAAP with respect to Petrobras Energía's financial statements do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the respective pronouncements of the Argentine and United States accounting professions.

The Company's financial statements have been prepared in conformity with Argentine GAAP, except for the matters discussed in Note 3, which differ in certain respects from U.S. GAAP. The main differences with U.S. GAAP are discussed in the following paragraphs.

1) Restatements of financial statements for general price-level changes

Prior to September 1, 1995, Argentine GAAP required the restatement of non-monetary assets and liabilities into constant Argentine pesos as of the date of the financial statements. Effective September 1, 1995, the CNV passed General Resolution No. 272 which provided that public companies would no longer be permitted to present financial statements that were adjusted to recognize the effect of inflation prevailing after such date. Therefore, for periods ending subsequent to September 1, 1995, and until December 31, 2001, there had been no further restatement of non-monetary items or recognition of monetary gains and losses. This resolution matched Argentine GAAP so long as the change in the price index applicable to the restatement did not exceed 8% per annum.

Due to the inflationary environment in Argentina in 2002, and the conditions created by the Public Emergency Law, the Professional Council in Economic Sciences of the City of Buenos Aires ("CPCECABA") approved on March 6, 2002 Resolution MD No. 3/2002 applicable to financial statements for fiscal years or interim periods ending on or after March 31, 2002. Resolution MD No. 3/2002 required the reinstatement of the adjustment-for-inflation method of accounting in financial statements, which provides that all recorded amounts be restated by changes in the general purchasing power through August 31, 1995, as well as those arising between that date and December 31, 2001 stated in currency as of December 31, 2001.

On July 16, 2002, the Argentine government issued Decree 1,269/02, instructing the CNV and other regulatory authorities to issue the necessary regulations for the delivery to such authorities of balance sheets or financial statements prepared in constant currency. On July 25, 2002, under Resolution No. 415/02, the CNV reinstated the requirement to submit financial statements in constant currency. As the inflation rate stabilized, on March 25, 2003, Decree 664/03 rescinded the requirement that financial statements be prepared in constant currency. On April 8, 2003, the CNV issued Resolution 441/03 discontinuing inflation accounting as of March 1, 2003. Through Resolution No. 287/03 the CPCECABA also discontinued inflation accounting, but as from October 1, 2003. Accordingly, inflation accounting for the period from March 1, 2003 to September 30, 2003 is required by the CPCECABA but not allowed by the CNV.

Under U.S. GAAP, general price level adjusted financial statements are not required. However, pursuant to the SEC Rules, these adjustments are not removed when performing the reconciliation to U.S. GAAP.

2) Proportionate consolidation

Under Argentine GAAP, an investor is required to consolidate proportionally line by line its financial statements with the financial statements of the companies over which it exercises joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of votes, share the power to define and establish a company's operating and financial policies on the basis of written agreements. In the consolidation of companies over which an investor exercises joint control, the amount of the investment in the company under joint control and the interest in its income (loss) and cash flows are replaced by the investor's proportional interest in the company's

assets, liabilities, income (loss) and cash flows. Under Argentine GAAP, participations in Distrilec and CIESA qualify for proportionate consolidation.

Under U.S. GAAP, participation in companies over which the investor exercises joint control is accounted for by the equity method and no proportional consolidation is allowed. However, pursuant to the SEC's rules, differences in classification or display that result from using proportionate consolidation in the reconciliation to U.S. GAAP, may be omitted if certain requirements are met.

4) Consolidation of Variable Interest Entities

Under U.S. GAAP, FASB Interpretation No 46R (FIN 46R) clarifies the application of Accounting Research Bulletin No. 51 (ARB No. 51) "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of those entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receives a majority of the entity's residual returns, or both. We do not currently have any interests that we believe fall within the scope of FIN 46 or FIN 46R.

Under Argentine GAAP, such entities are not required to be consolidated.

2) Debt refinancing costs

Under Argentine GAAP, unamortized deferred costs incurred with third parties related to debt issuance are charged to expenses when such debt is restructured, while such costs related to the new debt are capitalized and amortized on a straight – line basis.

Under U.S. GAAP, SFAS No. 15, SFAS No. 140 and related EITF issues require for debt restructuring not considered to be an "extinguishment", the Company continues amortizing those costs related to the old debt and charge to expenses for debt restructuring direct costs.

3) Pension Plan obligations

Recognition of pension plan obligations between Argentine and U.S. GAAP are essentially the same, except for the following:

Under U.S. GAAP, FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement benefit plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other nonowner changes in equity

6) Discounting of certain receivables and liabilities

Under Argentine GAAP, certain receivables and liabilities which are valued on the basis of the best possible estimate of amount to be collected and paid, are required to be discounted using the estimated rate at the time of the initial measurement.

Under U.S. GAAP, receivables and liabilities arising from transactions with customers and suppliers in the normal course of business, which are done in customary trade terms not exceeding one year, are generally accounted for at their nominal value, including accrued interest, if applicable.

7) Guarantor's Accounting for Guarantees

Under U.S. GAAP, FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee.

Under Argentine GAAP guarantees issued are generally not recognized as liabilities.

8) Accounting for inventories

Under Argentine GAAP, inventories must be accounted for at reproduction or replacement cost or, in other words, at the price we would pay at any given time to replace or reproduce such inventory, whereas under U.S. GAAP, inventories are generally accounted for at the lower of cost or market.

9) Accounting for business combinations -Petrobras Energía share exchange offer

Petrobras Energía Participaciones S.A. acquired control of Petrobras Energía on January 25, 2000 as a result of the consummation of an exchange offer pursuant to which Petrobras Energía Participaciones issued 1,504,197,988 Class B shares, with one vote per share, in exchange for 69.29% of Petrobras Energía 's outstanding capital stock, thereby increasing its ownership interest in Petrobras Energía to 98.21%.

Under Argentine GAAP, the accounting practice enforced in 2000 fiscal year for non-monetary exchange of shares was to recognize net assets at book value. Accordingly, issued shares of Petrobras Energía Participaciones S.A. were subscribed and accounted for at the book value of Petrobras Energía shares exchanged.

Under U.S. GAAP, the 2000 exchange offer was accounted for under the purchase method. The purchase price of 6,766, calculated based upon the market price of Petrobras Energía common stock, has been allocated to the identifiable assets acquired and liabilities assumed based upon their fair value as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired has been reflected as goodwill. Therefore, the U.S. GAAP reconciliation of shareholders' equity reflects the additional purchase price of Petrobras Energía capital stock, and the reconciliation of net income reflects the incremental depreciation, depletion, amortization, effective interest rate of liabilities and the related effects on the deferred income tax, as a result of the purchase price allocation mentioned above.

Beginning 2003 fiscal year, new Argentine GAAP pursuant to CNV Resolution N° 434 adopted the purchase method or the pooling of interests method, depending on the circumstances. However, such new standards were not applied on a retroactive basis.

10) Property, plant and equipment, and equity in affiliates

Under U.S. GAAP, once an impairment loss is allocated to the carrying value long-lived assets, the reduced carrying amount represents the new cost basis of the long-lived assets. As a result, SFAS 144 prohibits entities from reversing the impairment loss should facts and circumstances change in the future.

Under Argentine GAAP, impairment charges can be reversed in future years due to changes in the above-mentioned facts and circumstances.

11) Impairment of Property, plant and equipment

Under U.S. GAAP the book value of a long-lived asset is adjusted to its fair value if its carrying amount exceeds the undiscounted value in use.

Under Argentine GAAP, in 2005 the CNV approved changes that are applicable retroactively to the calculation of impairment test of PP&E. As a result, the use of undiscounted cash flows as the first measurement guideline to perform impairment tests of assets was eliminated. Due to the above-mentioned changes, the book value of a long-lived asset is adjusted to its recoverable value if its carrying amount exceeds the recoverable value in use. To such extent, recoverable value is defined as the larger of net realizable value and discounted value in use.

Prior to the issuance of the above-mentioned changes under Argentine GAAP, there were no substantial differences between Argentine GAAP and U.S. GAAP in the calculation of impairment of PP&E, except for the reversal of the impairment charges discussed in 10) above.

12) Capitalization of exchange differences

Under Argentine GAAP, Resolution No. 3/2002 of the CPCECABA requires that exchange differences resulting from the peso devaluation on liabilities denominated in foreign currencies existing as of January 6, 2002, that are directly related to the acquisition, construction or production of property, plant and equipment, intangibles and long-term investments in other companies incorporated in Argentina, should be capitalized at the cost values of such assets, subject to a number of conditions.

As of December 31, 2005 and 2004, the Company records capitalized negative foreign exchange differences through its affiliates Citelec and CIESA.

Under U.S. GAAP, foreign currency exchange gains or losses are recognized currently in income.