

PETROBRAS ENERGIA PARTICIPACIONES SA

Form 20-F

June 30, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

Commission file number 001-14984

PETROBRAS ENERGÍA PARTICIPACIONES S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

REPUBLIC OF ARGENTINA

(Jurisdiction of incorporation of organization)

Maipú 1, 22 S.S. Floor

(C1084ABA) Buenos Aires

Argentina

(Address of principal executive offices)

CT Corporation System

111 Eighth Avenue

New York, New York 10011

(212) 894-8800

(Name, telephone, e-mail and/or facsimile number and
address of company contact person)

Commission file number 333-155319

PETROBRAS ENERGÍA S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

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(Address of principal executive offices)

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111 Eighth Avenue

New York, New York 10011

(212) 894-8800

(Name, telephone, e-mail and/or facsimile number and
address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each Class

**Name of Each Exchange
On Which Registered**

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American Depositary Shares, each representing 10 Class B shares of Petrobras Energía Participaciones S.A.

New York Stock Exchange

Class B shares of Petrobras Energía Participaciones S.A.

New York Stock Exchange*

American Depositary Shares, each representing 10 Class B shares of Petrobras Energía S.A.

Class B shares of Petrobras Energía S.A.

* Not for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the NYSE.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2008 was:

Petrobras Energía Participaciones S.A. Class B ordinary shares, nominal value P\$1.00 per share	2,132,043,387
---	---------------

Petrobras Energía S.A. Class B ordinary shares, nominal value P\$1.00 per share	1,009,618,410
---	---------------

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.

Petrobras Energía Participaciones S.A.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
--	---

Petrobras Energía S.A.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
------------------------	---

Petrobras Energía S.A. is expected to qualify as a well-known seasoned issuer as a successor issuer to Petrobras Energía Participaciones, pursuant to Rule 12g-3 of the Securities Exchange Act

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of 1934.

If this report is an annual or transitional report, indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

Petrobras Energía Participaciones S.A. Yes No

Petrobras Energía S.A. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Petrobras Energía Participaciones S.A. Yes No

Petrobras Energía S.A. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.495 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Not applicable.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP IFRS Other

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Petrobras Energía Participaciones S.A. Large accelerated filer Accelerated filer Non-accelerated filer

Petrobras Energía S.A. Large accelerated filer Accelerated filer Non-accelerated filer

Petrobras Energía S.A. is expected to qualify as a large accelerated filer as a successor issuer to Petrobras Energía Participaciones, pursuant to Rule 12g-3 of the Securities Exchange Act of 1934.

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Petrobras Energía Participaciones S.A. Yes o No

Petrobras Energía S.A. Yes o No

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NOTE ON JOINT FILING

This annual report on Form 20-F has been jointly filed by Petrobras Energía Participaciones S.A. and Petrobras Energía S.A. On January 30, 2009, separate shareholders' meetings of these two companies approved their merger, pursuant to which Petrobras Energía Participaciones would be merged and absorbed into Petrobras Energía, and Petrobras Energía would be the surviving company. The companies are currently in the process of completing the necessary formalities in Argentina to finalize this merger.

Once the requisite Argentine formalities have been completed, shareholders of Petrobras Energía Participaciones will receive shares of Petrobras Energía (in the United States, in the form of American Depositary Receipts), and the American Depositary Receipts of Petrobras Energía Participaciones will be removed from listing on the New York Stock Exchange (the "NYSE") and from registration with the U.S. Securities and Exchange Commission (the "SEC"). Immediately subsequent to this exchange of shares, American Depositary Receipts, each representing 10 Class B shares of Petrobras Energía, will be listed and begin trading on the NYSE. Petrobras Energía S.A. will be a successor issuer to Petrobras Energía Participaciones S.A., as contemplated by Rule 12g-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Petrobras Energía Participaciones S.A. is a holding company that was created for the purpose of owning shares of Petrobras Energía S.A., and operates exclusively through Petrobras Energía S.A. and its subsidiaries. Petrobras Energía Participaciones S.A. has no independent operations other than the ownership of shares of Petrobras Energía S.A., and all disclosure in this annual report refers to the operations of Petrobras Energía S.A., unless otherwise indicated.

All references in this annual report to:

Petrobras Energía, PESA and the Company refer to Petrobras Energía S.A. and its subsidiaries, but excludes affiliates and companies under joint control. Prior to July 2003, Petrobras Energía's corporate name was Pecom Energía S.A. On March 27, 2009, the shareholders of Petrobras Energía approved the official change of the company's corporate name from Petrobras Energía S.A. to Petrobras Argentina, S.A. As of the date of this annual report, the Company is in the process of completing the necessary formalities to complete this name change. See Item 4. Information on the Company Our History and Development.

Petrobras Energía Participaciones, and PEPSA refer to Petrobras Energía Participaciones S.A., the parent company of Petrobras Energía. Prior to July 2003, the corporate name of Petrobras Energía Participaciones was Perez Compan S.A.

Unless otherwise noted, we, us, our, and similar terms refer to Petrobras Energía Participaciones and its subsidiaries including Petrobras Energía.

Petrobras refers to Petróleo Brasileiro S.A. PETROBRAS.

Argentine pesos, pesos or P\$ refer to the currency of the Republic of Argentina.

U.S. dollars, US\$ or U.S.\$ refer to the currency of the United States of America.

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FORWARD LOOKING STATEMENTS

Some of the information included in this annual report contains information that is forward looking, including statements regarding capital expenditures, competition and sales, oil and gas reserves and prospects and trends in the oil and gas, refining and distribution, petrochemicals and electricity industries.

Certain statements contained in this annual report are forward-looking statements and are not based on historical fact, such as statements containing the words believe, may, will, estimate, continue, anticipate, intend, expect, words. These forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed in Item 3. Key Information Risk Factors and elsewhere in this annual report. Factors that could cause actual results to differ materially and adversely include, but are not limited to:

Changes in general economic, business, political or other conditions in Argentina or changes in general economic or business conditions in other Latin America countries;

The availability of financing at reasonable terms to Argentine companies, such as us;

The failure of governmental authorities to approve proposed measures or transactions described in this annual report;

Changes in the price of hydrocarbons and oil products;

Changes to our capital expenditure plans;

Changes in laws or regulations affecting our operations;

Increased costs; and

Other factors discussed under Risk Factors in Item 3 of this annual report.

Forward-looking statements speak only as of the date they were made. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. In light of these limitations, you should not place undue reliance on forward-looking statements contained in this annual report.

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PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The financial information set forth below may not contain all of the financial information that you should consider when making an investment decision. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Risk Factors included in this annual report. See Risk Factors . You should also carefully read our financial statements and Item 5. Operating and Financial Review and Prospects included in this annual report for additional financial information about us.

The consolidated financial statements for both Petrobras Energía Participaciones and Petrobras Energía are prepared in accordance with regulations of the Argentine National Securities Commission (*Comisión Nacional de Valores*) (CNV), and, except for the matters described in Note 3 to the consolidated financial statements of each of Petrobras Energía Participaciones and Petrobras Energía, with generally accepted accounting principles in Argentina (as approved by the Professional Council of Economic Sciences of the City of Buenos Aires, or its Spanish acronym CPCECABA), or Argentine GAAP. Argentine GAAP differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 20 to each of Petrobras Energía Participaciones s and Petrobras Energía s financial statements provide a description of the principal differences between Argentine GAAP and U.S. GAAP, and Note 22 for each of Petrobras Energía Participaciones and Petrobras Energía, provides a reconciliation to U.S. GAAP of net income, shareholders equity and certain other selected financial data.

In compliance with Rule 3-09 of Regulation S-X, this annual report contains the audited financial statements of our equity investee, Petroritupano S.A., as of and for the years ended December 31, 2008 and 2007. The independent registered public auditors of Petroritupano S.A. have indicated in their report that Petroritupano has not complied with various formal tax duties, which, pursuant to current tax regulations, may give rise to the payment of sanctions and interest amounting to approximately US\$24 million. The independent registered public auditors have noted that the accruals and other liabilities caption of the balance sheet as of December 31, 2008 and net income for the year then ended are understated and overstated by such amount, respectively. We do not believe that this fact has had or will have a material impact on the financial results of either Petrobras Energía Participaciones or Petrobras Energía.

Proportional consolidation of companies under which we exercise joint control

In accordance with the procedure set forth in Technical Resolution No. 21 of the Argentine Federation of Professional Councils in Economic Science (or its Spanish acronym FACPCE), we have consolidated both of our financial statements line by line on a proportional basis with the companies in which we exercise joint control (other than Compañía Inversora en Transmisión Eléctrica Citelec S.A., or Citelec). See Item 5. Operating and Financial Review and Prospects Proportional Consolidation and Presentation of Discussion . In the consolidation of companies over which we exercise joint control, the amount of the investment in the companies under joint control and the interest in their income (loss) and cash flows are replaced by our proportional interest in the subsidiaries assets, liabilities and income (loss) and cash flows. In addition, related party receivables, payables and transactions within the consolidated group and companies under joint control are eliminated on a pro rata basis pursuant to our ownership share in that company.

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On August 10, 2005, the Board of the CPCECABA approved Resolution CD No. 93/2005, which introduced a series of changes to professional accounting standards, effective for fiscal years beginning on or after January 1, 2006. Through General Resolution Nos. 485 and 487, dated December 29, 2005, and January 26, 2006, respectively, the CNV approved the aforementioned changes, which were effective for years beginning as from January 1, 2006.

Figures for the years 2005 and 2004 have been restated to give effect to the aforementioned changes in the professional accounting standards.

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

	Gain (loss) Income for		Increase (decrease) Shareholders' equity as of December 31,	
	2005	2004	2005	2004
	(in millions of pesos)			
Comparison with recoverable values (i)	(120)	10	(190)	(70)
Deferred tax (ii)	272	118	(1,060)	(1,332)
Total effect on unappropriated retained earnings			(1,250)	(1,402)
Deferred loss (iii)			(14)	(49)
Total effect on Shareholders' equity	152	128	(1,264)	(1,451)

For explanation of footnotes, please see the table below.

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

	Gain (loss) Income for		Increase (decrease) Shareholders' equity as of December 31,	
	2005	2004	2005	2004
	(in millions of pesos)			
Comparison with recoverable values (i)	(120)	10	(190)	(70)
Deferred tax (ii)	272	118	(1,060)	(1,332)
Minority interest	(36)	(31)	303	339
Total effect on unappropriated retained earnings			(947)	(1,063)
Deferred loss (iii)			(22)	(49)
Total effect on Shareholders' equity	116	97	(969)	(1,112)

- (i) In calculating the recoverability of Property, plant and equipment

and certain intangible assets, the recoverable value is considered to be the higher of the net realizable value and the discounted value of the expected cash flows. Before the changes in the standards, the book value was adjusted to its recoverable value if its carrying amount exceeded the undiscounted value in use. This first comparison has now been eliminated.

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

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

instead, are
classified in
shareholders
equity.

U.S. GAAP Information

Neither the effects of inflation accounting nor the proportional consolidation of Distrilec Inversora S.A. (Distrilec) (for all years presented) or Petrobras de Valores Internacional de España S.L. (PVIE) (for the years ended December 31, 2007 and 2008), jointly controlled companies under Argentine GAAP, have been reversed in the reconciliations to U.S. GAAP.

The proportional consolidation of Compañía de Inversiones de Energía S.A. (CIESA), another company under joint control in 2008, 2007, 2006, 2005 and 2004 under Argentine GAAP, has been reversed in the U.S. GAAP information. This reversal was a result of (1) CIESA having negative shareholders equity for each of those five years for purposes of U.S. GAAP, and (2) our not having assumed commitments to make capital contributions or to provide financial assistance to CIESA, which caused our interests in CIESA to be valued at zero.

The following tables set forth selected financial data for Petrobras Energía, including data for joint control companies consolidated under the proportional consolidation method, as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004:

Table of Contents**Petrobras Energía Income Statement Data**

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)				
Argentine GAAP:					
Net sales	15,175	13,458	11,745	10,655	8,763
Cost of sales	(11,000)	(10,111)	(8,062)	(6,848)	(5,657)
Gross profit	4,175	3,347	3,683	3,807	3,106
Administrative and selling expenses	(1,756)	(1,463)	(1,281)	(1,136)	(969)
Exploration expenses	(238)	(172)	(117)	(34)	(133)
Other operating expenses, net	(229)	(176)	(135)	(329)	(324)
Operating income	1,952	1,536	2,150	2,308	1,680
Equity in earnings of affiliates	305	176	219	281	102
Financial expenses and holding losses, net	(786)	(495)	(504)	(897)	(1,264)
Other income (expenses), net	(93)	131	99	(456)	(36)
Income before income tax and minority interest in subsidiaries	1,378	1,348	1,964	1,236	482
Income tax	(529)	(494)	(465)	(211)	317
Minority interest in subsidiaries	(73)	(92)	(83)	(54)	26
Net income	776	762	1,416	971	825
Basic/diluted Earning per share	0.769	0.755	1.403	0.962	1.058
Number of shares outstanding (in millions):					
Class B	1,010	1,010	1,010	1,010	779
U.S. GAAP:					
Net sales	14,385	12,712	11,085	10,129	8,351
Operating income	1,295	681	1,942	619	1,350
Net income (loss)	434	(24)	1,295	(91)	781
Basic/diluted net income (loss) per share	0.430	(0.024)	1.282	(0.090)	1.003

Table of Contents**Petrobras Energía Balance Sheet Data**

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)				
Argentine GAAP:					
Consolidated Balance Sheet					
Assets					
Current assets					
Cash	492	98	86	104	139
Investments	1,030	1,132	1,512	881	946
Trade receivables	1,635	1,605	1,438	1,626	1,181
Other receivables	1,593	2,658	1,226	663	759
Inventories	1,536	996	843	746	624
Other assets	5		1		1
Total current assets	6,291	6,489	5,106	4,020	3,650
Non-current assets					
Trade receivables	154	228	124	78	47
Other receivables	522	657	691	672	943
Inventories	95	100	81	79	71
Investments	3,477	3,270	3,630	1,072	1,107
Property, plant and equipment	12,556	10,609	10,838	12,657	12,277
Other assets	35	41	41	47	65
Total non-current assets	16,839	14,905	15,405	14,605	14,510
Total assets	23,130	21,394	20,511	18,625	18,160
Liabilities					
Current liabilities					
Accounts payable	1,873	1,728	1,475	1,363	1,071
Short-term debt	2,445	1,922	2,646	1,805	1,709
Payroll and social security taxes	351	261	276	177	98
Taxes payable	454	274	360	255	233
Reserves	125	124	95	48	31
Other current liabilities	530	305	214	198	657
Total current liabilities	5,778	4,614	5,066	3,846	3,799
Non-current liabilities					
Accounts payable	136	179	143	103	109
Long-term debt	5,152	5,430	4,716	5,708	6,248
Other liabilities	560	367	402	356	190
Taxes payable	1,508	1,428	1,492	1,404	1,692
Reserves	119	86	85	103	76
Total non-current liabilities	7,475	7,490	6,838	7,674	8,315

Total liabilities	13,253	12,104	11,904	11,520	12,114
Minority interest in subsidiaries	930	860	771	688	1,869
Total Shareholders Equity	8,947	8,430	7,836	6,417	4,177
Total liabilities and shareholders equity	23,130	21,394	20,511	18,625	18,160
Capital Stock	1,010	1,010	1,010	1,010	779
U.S. GAAP:					
Total assets	20,540	19,343	18,049	16,181	16,763
Shareholders equity	8,886	8,689	7,786	6,502	6,549

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The following tables set forth selected financial data for Petrobras Energía Participaciones, including data for joint control companies consolidated under the proportional consolidation method, as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004:

Petrobras Energía Participaciones Income Statement Data

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)				
Argentine GAAP:					
Net sales	15,175	13,458	11,745	10,655	8,763
Cost of sales	(11,000)	(10,111)	(8,062)	(6,848)	(5,657)
Gross profit	4,175	3,347	3,683	3,807	3,106
Administrative and selling expenses	(1,758)	(1,465)	(1,283)	(1,139)	(971)
Exploration expenses	(238)	(172)	(117)	(34)	(133)
Other operating expense, net	(231)	(177)	(135)	(329)	(324)
Operating income	1,948	1,533	2,148	2,305	1,678
Equity in earnings of affiliates	305	176	219	281	102
Financial expenses and holding losses, net	(782)	(495)	(506)	(899)	(1,265)
Other income (expenses), net	(96)	130	93	(459)	(40)
Income before income tax and minority interest in subsidiaries	1,375	1,344	1,954	1,228	475
Income tax	(529)	(494)	(465)	(211)	317
Minority interest in subsidiaries	(261)	(277)	(425)	(288)	(17)
Net income	585	573	1,064	729	775
Basic/diluted Earning per share	0.276	0.270	0.501	0.343	0.365
Number of shares outstanding (in millions):					
Class B	2,132	2,132	2,132	2,132	2,132
U.S. GAAP:					
Net sales	14,385	12,712	11,085	10,129	8,232
Operating income	1,288	677	1,934	613	1,348
Net income (loss)	326	(23)	972	(77)	760
Basic/diluted net income (loss) per share	0.154	(0.011)	0.458	(0.036)	0.356

Table of Contents**Petrobras Energía Participaciones Balance Sheet Data**

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in millions of pesos, except for per share amounts and number of shares or as otherwise indicated)				
Argentine GAAP:					
Consolidated Balance Sheet					
Assets					
Current assets					
Cash	492	98	86	104	139
Investments	989	1,094	1,479	857	934
Trade receivables	1,635	1,605	1,438	1,626	1,181
Other receivables	1,595	2,659	1,227	663	759
Inventories	1,536	996	843	746	624
Other assets	5		1		1
Total current assets	6,252	6,452	5,074	3,996	3,638
Non-current assets					
Trade receivables	154	228	124	78	47
Other receivables	522	657	691	672	943
Inventories	95	100	81	79	71
Investments	3,477	3,270	3,630	1,072	1,107
Property, plant and equipment	12,556	10,609	10,838	12,657	12,277
Other assets	35	41	41	47	65
Total non-current assets	16,839	14,905	15,405	14,605	14,510
Total assets	23,091	21,357	20,479	18,601	18,148
Liabilities					
Current liabilities					
Accounts payable	1,873	1,728	1,475	1,363	1,072
Short-term debt	2,445	1,922	2,646	1,805	1,709
Payroll and social security taxes	351	261	276	177	98
Taxes payable	463	280	365	259	241
Reserves	125	124	95	48	31
Other current liabilities	530	305	214	198	657
Total current liabilities	5,787	4,620	5,071	3,850	3,808
Non-current liabilities					
Accounts payable	136	179	143	103	109
Long-term debt	5,152	5,430	4,716	5,708	6,248
Other liabilities	560	367	402	356	190
Taxes payable	1,508	1,428	1,492	1,404	1,692
Reserves	119	86	85	103	76
Total non-current liabilities	7,475	7,490	6,838	7,674	8,315

Total liabilities	13,262	12,110	11,909	11,524	12,123
Minority interest in subsidiaries	2,777	2,583	2,350	1,922	1,626
Total Shareholders Equity	7,052	6,664	6,220	5,155	4,399
Total liabilities and shareholders equity	23,091	21,357	20,479	18,601	18,148
Capital Stock	2,132	2,132	2,132	2,132	2,132
U.S. GAAP:					
Total assets	20,501	19,306	18,017	16,158	16,751
Shareholders equity	7,020	6,874	6,195	5,233	5,286

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From April 1, 1991 until the end of 2001, the Convertibility Law No. 23,928 and Regulatory Decree No. 529/91 (together, the Convertibility Law) established a fixed exchange rate under which the Central Bank of Argentina (the Central Bank) was obliged to sell U.S. dollars at a fixed rate of one peso per U.S. dollar. On January 6, 2002, the Argentine Congress enacted the Public Emergency and Foreign Exchange System Reform Law No. 25,562 (the Public Emergency Law), which suspended certain provisions of the Convertibility Law, including the fixed exchange rate of P\$1 to U.S.\$1, and granted the executive branch of the Argentine government the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market. Following a brief period during which the Argentine government established a temporary dual exchange rate system, pursuant to the Public Emergency Law, the peso has been allowed to float freely against other currencies since February 2002. The following table sets forth the annual high, low, average and period-end exchange rates for the periods indicated, expressed in Argentine pesos per U.S. dollar and not adjusted for inflation. There can be no assurance that the Argentine peso will not depreciate or appreciate again in the future. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

	Argentine peso per U.S. dollar			
	High	Low	Average	Period-end
2009				
June ⁽¹⁾	3.77	3.74	3.76	3.77
May	3.75	3.70	3.73	3.75
April	3.72	3.67	3.69	3.72
March	3.72	3.57	3.65	3.72
February	3.57	3.48	3.51	3.57
January	3.49	3.45	3.46	3.49
2008				
December	3.37	3.47	3.42	3.45
For the year ended December 31,				
2008	3.47	3.37	3.42	3.45
2007	3.16	3.08	3.12	3.15
2006	3.08	3.05	3.06	3.07
2005	3.03	2.86	2.92	3.03
2004	2.99	2.94	2.97	2.98

(1) From June 1, 2009 through June 19, 2009.

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Exchange Controls

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. From December 1989 until April 1991, Argentina had a freely floating exchange rate for all foreign currency transactions, and the transfer of dividend payments in foreign currency abroad and the repatriation of capital were permitted without prior approval of the Central Bank. From April 1, 1991, when the Convertibility Law became effective, until December 21, 2001, when the Central Bank decided to close the foreign exchange market, the Argentine currency was freely convertible into U.S. Dollars.

On December 3, 2001, the Argentine government imposed a number of monetary and currency exchange control measures, which included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad without the Central Bank's prior authorization subject to specific exceptions for transfers related to foreign trade. The Central Bank has gradually eased these restrictions with a view to gradually normalizing the domestic exchange market, and as a result, most restrictions relating to the repayment of foreign creditors and the payment of dividends to foreign shareholders have been lifted. In June 2003 the Argentine government set restrictions on capital flows into Argentina, which mainly consisted of a prohibition against the transfer abroad of any funds until 180 days after their entry into the country. Furthermore, in June 2005 the Argentine government established further restrictions on capital flows into Argentina, including increasing the period that certain incoming funds must remain in Argentina to 365 calendar days and requiring that 30% of such incoming funds be deposited with a bank in Argentina in a non-transferable, non-interest bearing account for 365 calendar days. Export and import financing operations, as well as primary public offerings of debt securities listed on self-regulated markets, among others, are exempt from the foregoing provision.

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RISK FACTORS

Factors Relating to Argentina

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

Both Petrobras Energía Participaciones and Petrobras Energía are Argentine corporations (*sociedades anónimas*). As of December 31, 2008, with respect to Petrobras Energía, approximately 70% of our total assets, 73% of our net sales, 68% of our combined crude oil and gas production and 62% of our proved oil and gas reserves were located in Argentina. Fluctuations in the Argentine economy and actions adopted by the Argentine government have had and may continue to have a significant impact on Argentine companies, including us. Specifically, we have been affected and may continue to be affected by inflation, interest rates, the value of the peso against foreign currencies, price controls, regulatory policies, business and tax regulations and in general by the political, social and economic scenario in Argentina and in other countries that may affect Argentina.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high and variable levels of inflation and currency devaluation.

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. See Business Overview Our Principal Market . The crisis had significant and adverse consequences on our company, including (i) losses derived from the effects of the peso devaluation on our affiliates and our affiliates' net borrowing position, which primarily was denominated in U.S. dollars, (ii) the impairment of the book value of certain gas areas and tax assets due to material changes in the prospects of our operations, (iii) a decrease in U.S. dollar cash flows due to the imposition of export taxes, (iv) limits on the availability in the financial market to renew our short-term lines of credit and the current portion of our medium and long-term financings at maturity and (v) restrictions on our ability to pass through the effects of inflation to the prices of products sold by us in the domestic market. In 2002, we reported a significant net loss and our liquidity was adversely affected. Within this context and in order to secure compliance with our financial commitments, we reduced our investment plan and reached an agreement with our financial creditors and holders of notes to extend the maturity profile of a substantial portion of our debt, at face value. As a result, capital expenditures in 2002, net of divestments, totaled only P\$139 million, a relatively low amount compared to our historical average investment.

Although the Argentine economy has largely recovered from the crisis of 2001 and 2002, the current global economic crisis has led to a sudden deceleration of the economy, accompanied by political and social unrest, inflationary and peso depreciation pressures and lack of consumer and investor confidence. Uncertainty remains as to whether and how quickly Argentina may overcome the economic slowdown and regain economic growth, which depends on a variety of factors, including international demand for Argentine exports, the stability and competitiveness of the peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable and relatively low rate of inflation.

We cannot provide you with any assurance that future economic, social and political developments in Argentina, over which we have no control, will not adversely affect our financial condition or results of operations, including our ability to pay our debts at maturity or dividends.

The Argentine economy has been adversely affected by economic developments in other markets.

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other markets worldwide. Although economic conditions vary from country to country, investors' perceptions of events occurring in one country may substantially affect capital flows into and investments in securities from issuers in other countries, including Argentina. The Argentine economy was adversely impacted by the political and economic events that occurred during 2008, and continues to be affected by events in the economies of its major regional partners. Furthermore, the Argentine economy has been affected by events in developed economies which are trading partners or that impact the global economy. Consequently, there can be no assurance that the Argentine financial system and securities markets will not continue to be adversely affected by events in developed countries' economies or events in other emerging markets.

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A lack of financing for Argentine companies, whether due to government regulation or market forces, may negatively impact the execution of our strategic business plan.

The prospects for Argentine companies of accessing financial markets are limited in terms of the amount of financing available, and the conditions and cost of such financing. The default on the Argentine sovereign debt at the end of 2001, the recent global economic crisis, and the resulting international stock market crash and the insolvency of major financial institutions toward the end of 2008, have all significantly limited the ability of Argentine companies to access international financial markets as they had in the past.

Our ability to execute and carry out our strategic business plan depends upon our ability to obtain financing at a reasonable cost and on reasonable terms. In recent years, we have regularly obtained financing from the private pension fund system in Argentina, which has been a significant purchaser of our debt and shares. However, in November 2008 the Argentine National Congress passed a law eliminating the private pension system, mandating that funds administered by the private Retirement and Pension Funds Administrators (the AFJP), be transferred to a new administrator, the National Social Security Administrative Office (*Administración Nacional de la Seguridad Social*, or ANSES). Because the private pension funds had until recently been major institutional investors in the Argentine capital markets, the nationalization of these funds and the transfer of their assets to a state-run administrator has led to a decline in liquidity in the local capital markets, and may further limit the sources of financing for Argentine companies, including us. If we are unable to gain access to international or local financial markets to refinance our indebtedness at reasonable cost and on reasonable terms, we may have to reduce our projected capital expenditures, which, in turn, may negatively affect the implementation of our business plan.

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

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

The significant peso devaluation during 2002 adversely affected our results of operations and financial condition. Substantially all of our financial debt and a significant portion of our affiliates' debt were denominated in U.S. dollars. Before the enactment of the Public Emergency and Foreign Exchange System Reform Law No. 25,562 (the Public Emergency Law) in January 2002, our cash flow, generally denominated in U.S. dollars or dollar-adjusted, provided a natural hedge against exchange rate risks. The Argentine regulatory framework after the enactment of the Public Emergency Law (which included the pesification of utility rates, regulatory issues related to the renegotiation of pesified utility rates, new taxes on hydrocarbon exports, and the implementation of regulations to prevent an increase in prices to final users in the domestic market and restrictions on exports), however, limited our ability to hedge the impact of the peso devaluation.

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

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

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

In the past, inflation has undermined the Argentine economy and the government's ability to stimulate economic growth. For example, during 2002, the Argentine consumer price index increased by 41%, and the wholesale price index increased by 118.2%. This inflation reflected both the effect of the peso devaluation on production costs and a significant change in relative prices, which was partially offset by the elimination of rate adjustments and a strong drop in demand as a result of the recession. According to official inflation data published by the National Statistics Institute, in 2003, inflation slowed, with a 3.7% increase in the consumer price index and a 2.0% increase in the wholesale price index.

Since 2004, encouraged by the pace of economic growth, the consumer price index increased by 6.1% in 2004, 12.3% in 2005, 9.8% in 2006 and 8.5% in 2007 while the wholesale price index went up 7.9% in 2004, 10.8% in 2005, 7.1% in 2006 and 14.4% in 2007. In 2008, the consumer and wholesale price indexes increased by 7.2% and 0.9%, respectively. In 2009, official price indexes show a slowing of inflation. In spite of these official indicators, alternative measurements have exhibited higher inflationary pressure and a general price level with a more marked dynamics.

Uncertainty surrounding future inflation may result in slowed economic activity and reduced growth. A return to a high inflation environment would also undermine Argentina's foreign competitiveness by diluting the effects of the peso devaluation, with negative effects on the level of economic activity and employment. Sustained inflation in Argentina, without a corresponding increase in the price paid by consumers for our products in the local market would have a negative effect on our results of operations and financial condition. The variability of inflation in Argentina makes it impossible to estimate with a reasonable degree of certainty how our activities and results of operations will be affected in the future.

Exchange controls in Argentina may impair our ability to service our foreign currency-denominated debt obligations and pay dividends.

After December 2001, Argentine authorities implemented a number of monetary and currency exchange control measures that included restrictions on the withdrawal of funds deposited with banks, the obligation to deposit with the Argentine Central Bank foreign currency from exports, restrictions on the transfers of funds abroad as well as restrictions relating to the servicing of foreign debt. The Central Bank has since issued a number of regulations aimed at gradually normalizing the domestic exchange market and, as a result, most restrictions in connection with the repayment of foreign creditors and the payment of dividends to foreign shareholders have been lifted. Nevertheless, certain exchange controls, including those imposed on foreign loans to the Argentine private sector, remain in place, with related requirements concerning the term of such loans, their denomination and transferability. See Item 3. Exchange Rates Exchange controls, and Item 5. Description of Indebtedness.

As a result of the global economic crisis and political and economic instability in Argentina, the Argentine Government may impose exchange controls and other related measures. If the Argentine Government imposes exchange controls and other restrictions on the transfer of funds, we may be unable to make principal or interest payments on our debt when they become due or to pay dividends.

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

In recent periods, Argentina has faced difficulties in satisfying its domestic energy needs. As a result, the government has enacted a series of measures limiting the export of hydrocarbons and related oil products, which has inhibited our ability to profit from higher prices for these commodities on the international market, hindered us from offsetting sustained increases in costs endemic to the energy industry, and materially affected our competitiveness and results of operations.

In April 2004, in order to facilitate the recovery of natural gas prices, the Secretary of Energy entered into an agreement with natural gas producers requiring them to sell a specified amount of gas in the local regulated market. During 2006, the Secretary of Energy required producers to redirect gas earmarked for export to instead supply local thermal power plants and gas distribution companies. In January 2007, the Secretary of Energy confirmed that the ability to export hydrocarbons would be subject to the satisfaction of domestic needs and that exports sales would have to be authorized on a case-by-case basis by the Secretary of Energy. These measures prevent us from benefiting from the higher margins offered by the export market. In 2007, upon the expiration of the aforementioned agreement, the Argentine government and producers signed a new agreement effective until 2011 aimed at securing the domestic supply of gas.

Under these agreements, temporary limits on certain natural gas exports have been imposed to avoid a crisis in the local supply of natural gas, depriving us of the higher margins offered by export prices. During 2005 and 2006, the Secretary of Energy requested producers to redirect gas for export to supply thermal plants and gas distribution companies. This decision limited our total gas export volumes by a daily average of approximately 110 thousand cubic meters and 339 thousand cubic meters, respectively. In 2007 and 2008, our total gas export volume was limited by a daily average of about 420 thousand cubic meters and 31 thousand cubic meters, respectively.

Similarly to restrictions imposed on the export of natural gas, pursuant to Resolution No. 1679/04, enacted in December 2004, producers must obtain the approval of the Argentine government prior to exporting crude oil or diesel oil. To obtain this approval, exporters must demonstrate that they have either satisfied local demand requirements or have granted the domestic market the opportunity to acquire oil or diesel oil under terms similar to current domestic market prices and, in the case of diesel oil, they must also demonstrate, if applicable, that commercial terms offered to the domestic market are at least equal to those offered to their own gas station network. Furthermore, in December 2006, pursuant to Resolution No. 1338/06, the Secretary of Energy extended these regulations to the export of gasoline, fuel oil and fuel oil mixtures, diesel oil, aero kerosene, jet fuel, lubricants, asphalts, coke and by-products for use in the petrochemical industry. In response to an increase in fuel prices in the domestic market, in January 2008 the Argentine government temporarily prohibited the exports of gasoline and diesel oil until the domestic market was fully supplied at the prices in force on October 31, 2007.

In the future, the extension of these restrictions could significantly and adversely affect the profitability of our operations, preventing us from capturing the upside of export prices, and negatively impacting the total volume of refined products sold in the domestic market, due to our need to manage crude oil volumes processed in accordance with our storage capacity.

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

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

In order to discourage exports, secure domestic supply and fix a reference price for crude between producers and refineries, on March 1, 2002, the Argentine government imposed a withholding tax on exports of hydrocarbons, initially lasting five years.

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This tax framework prevented us from benefiting from significant increases in international prices for oil, oil related products and natural gas, hindered us from offsetting sustained increases in costs endemic to the energy industry, and materially affected our competitiveness and results of operations.

Effective November 2007, the Ministry of Economy and Production adopted a more onerous method for calculating withholding taxes on exports of crude oil and certain oil by-products. In case of crude oil, under this method, when the international price for crude oil exceeds US\$60.90 per barrel, the price the producer receives is capped at US\$42 per barrel. At prices between US\$45 and US\$60.90 per barrel, the producer pays a withholding tax of 45%. This tax regime has had a negative impact on our Refining and Distribution business unit, particularly on exports of paraffins, other heavy products and gasoline. See Item 5. Operating and financial review and prospects Factors affecting our consolidated results of operations Regulations of the Energy Industry in Argentina Withholding Taxes on Exports . We cannot assure you that the Argentine government will reduce current export tax rates or will not increase them further. We do not know the government's future intentions in regard to export taxes. As a consequence, we cannot predict the impact that any changes may have on our results of operations.

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

The Argentine government has imposed a series of regulations on the energy sector to limit the prices charged to end users in an effort to reduce the inflationary impact of high international commodity prices and to guarantee domestic supply. These regulations have had a material adverse impact on our results of operations. See Regulation of our Businesses .

a) Natural gas and electricity

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

In April 2004, Petrobras Energía and other gas producers, entered into an agreement with the Argentine government that provided for a schedule of gradual increases in gas prices in the domestic market that would culminate in a complete deregulation of the wellhead price of natural gas in 2007. Since September 1, 2005, wellhead prices have been deregulated for sales to electricity generation and gas distribution companies supplying industrial clients directly, with the Gas Electronic Market (*Mercado Electrónico del Gas*) starting operations for gas surplus spot transactions. In 2007, upon expiration of the aforementioned agreement, the Argentine government and producers signed a New Natural Gas Producers Agreement. This new agreement modified the prescribed extent of the total deregulation of wellhead prices of gas, adopting a schedule of defined prices, whereby the 2005 price remains unchanged for the residential sector and an annual average increase of approximately 6.5% is established for the Compressed Natural Gas (CNG), electricity generation, and industrial sectors, although the price for the latter remains freely negotiable. This new resolution has already come into effect by sector according to schedule; the residential supply commitment is the last one to expire in the year 2011. This agreement provides for minimum supply requirements that gas producers must supply to the domestic market and electricity generators.

With respect to electricity generation, with the enactment of the Public Emergency Law, the Argentine government implemented the pesification of dollar-denominated prices in the Wholesale Electricity Market (WEM), and set a price cap on gas supplied for electric power generation. This regulatory change imposed a deviation from the marginal cost system previously in force, and forced generators to set prices based on the price of natural gas, regardless of the fuel actually used in generation activities. In December 2004, the Secretary of Energy agreed to approve successive seasonal electricity price increases to rates that would at least cover total monomic costs by November 2006 (to include compensation for actual output at spot market rates, or energy, plus compensation for capacity placed at the disposal of the spot market, or power capacity). This commitment has not been carried out in practice. In November 2008 partial adjustments to seasonal prices were approved, applicable to the period between November 2008 and April 2009, but the adjusted prices still fail to cover costs actually incurred in the generation system, as a whole.

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In addition, the Secretary of Energy committed to pay for energy at the marginal price obtained in the spot market and to pay for power capacity at the U.S. dollar values that were in effect prior to the enactment of the Public Emergency Law, once the new generation capacity is brought into the system under the Fund for the Investment Needed to Increase the Supply of Electricity in the Wholesale Market (*Fondo para las Inversiones Necesarias que permitan incrementar la oferta de energía eléctrica en el Mercado Eléctrico Mayorista*) (FONINVEMEM) plan. See Item 5. Operating and Financial Review and Prospects Analysis of Consolidated Results of Operations Factors Affecting our Consolidated Results of Operations Regulat