

PETROBRAS ENERGIA PARTICIPACIONES SA

Form 6-K

March 13, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

March 12, 2007

PETROBRAS ENERGIA PARTICIPACIONES S.A.

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

(Exact Name of Registrant as Specified in its Charter)

Maipú 1, Piso 22

(1084) Buenos Aires, Argentina

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

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

N/A.

PETROBRAS ENERGIA PARTICIPACIONES S.A.

Consolidated Financial Statements and Summary of Events

as of December 31, 2006, 2005 and 2004

Independent Auditors' Report

#

To the Shareholders

To our Shareholders:

In 2006, the Company continued to move forward with the idea of meeting its strategic plan, and consolidating as an integrated international energy company with solid basis in the country.

The general environment was favourable to our Company's operations, international prices for oil and its derivatives were high and the economic indicators reflected a steady growth of the Argentine economy. However, this context presented major challenges, such as state regulations that affected particularly the energy sector, including the migration of our operating agreements in Venezuela, among others.

We met those challenges and opportunities with a full range of competitive strategies. We implemented measures that provided a vehicle for new business opportunities and helped mitigate restrictions. We fostered integration among our businesses and people, creating unified policies and procedures to maximize efficiency. We continued working with governmental authorities in our effort to maximize asset value, with an eye toward promoting the development of the countries where we operate in a sustainable fashion.

Our results reflect the effort invested. Petrobras Energía net income increased 46% to 1,416 million pesos in 2006 compared to 2005.

These achievements were accomplished largely due to our ambitious investment plan. In 2006 investment exceeded P\$2,000 million, which confirms our commitment to fostering an ongoing and shared development of the country and the region. Fully aware of the central role of the energy industry, we promote development through each of our businesses.

In the Oil and Gas Exploration and Production segment, we continued to implement the strategy for change aimed at changing the company's profile and moving from oil production in mature oil fields to an exploration-based production. Therefore, we entered into two agreements with the province of Santa Cruz to demarcate gas fields, and also created consortiums for the exploration, development and exploitation of two off-shore areas in Argentina; we were awarded two exploration sites in the province of Salta and increased our exploration investments to US\$47 million. In Peru, we added three new exploration sites. We had a three-fold increase in our exploration area, to 32 million acres. Moreover, the production of our assets in Argentina, Peru and Ecuador continued to increase. In Colombia we contracted an exploitation area jointly with Petrobras that will allow an increase in production and reserves also beneficial to this country. In Venezuela the migration was completed of operating agreements to mixed-owned companies with Petróleos de Venezuela S.A. and the government, while in Bolivia the migration of the exploitation and exploration agreement of Colpa Caranda was completed under the provisions of the new Hydrocarbons Law.

The Company's business environment is complex; however, we increased our investments and entered into co-operation agreements to have access to greater discovered reserves opportunities.

In the field of Refining and Distribution we continued implementing the Refining Master Plan to expand and modernize installed capacity of refineries to produce fuels that meet future specifications. Due to this investment, production at the San Lorenzo refining plant was increased 33%, among other benefits. And we continue enhancing our value chain to offer the highest quality products to our customers. Being one of the first three Argentine companies that market liquid fuels, we increased our market share of asphalt, bunker and lubricants. In the lubricants market, the sales of Lubrix, our flagship product, increased 56% in 2006.

We also continued to add value to the petrochemical business by expanding the installed capacity of styrene plant in Puerto General San Martín from 110 to 160 thousand tons per year. Besides, we accompanied the sustained

agricultural growth with a 13% increase of fertilizers sales, and, according to independent surveys, we were selected as the most respected company in the sector.

We also showed our competitive skills in the Gas and Energy business segment, providing energy solutions to a steady growing demand of electricity. Our thermal electrical plant Genelba hit a new record: 5,005 gigawatts, the highest yield since its start-up.

Petrobras Energía has not only become a leading economic player, but also become a transparent company, environmentally responsible and community oriented.

In this sense, we continued working to implement the SOX certification required by 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). We adopted corporate governance best practices in order to ensure respect for and balance between the interests of shareholders and other public players involved. We improved the management of accounting and financial irregularities and conflicts of interests, in line with our updated Code of Business Conduct and Ethics.

In order to conduct safer operations, while preserving the environment and our equipment, we trained over 4,000 people, between own staff and hired personnel. We enhanced waste treatment and fire protection plans. We started development of ecoefficiency guidelines and indicators, and guaranteed performance excellence through the implementation of more than 40 plans aimed at the improvement of our operative units.

We also maintained close relationship with the communities in which we operate, contributing to their development in the conviction that our growth depends on the country's growth. We continued with the implementation of our corporate social responsibility programs in the fields of culture, road safety and child health.

Another milestone was the appointment of Carlos Fontes as Chief Executive Officer of Petrobras Energía, a respected professional with vast experience in Petrobras, who will contribute to the corporate strategy adopted by the company.

These actions clearly show that Petrobras Energía is a company in motion, solidly positioned for continued growth in the region and engaged in the project of building a better future. A company prepared to overcome any challenge that may come up during 2007.

Outlook

The Company will continue to enhance its presence in Argentina, and will contribute through the provision of energy services to the socioeconomic development of the country. In that sense, investment estimated for the following five-year term will be well over US\$2,000 million.

In the Oil and Gas Exploration and Production segment, we will continue supporting exploration as the main way to replace oil and gas reserves. In Argentina, production and reserves will be increased as a result of the recent acquisition of exploration assets through agreements and tender offers, maximizing at the same time the existing integration between Refining and Gas and Energy. We will also move forward in the *offshore* exploration of the continental shelf, where we expect to apply the state-of-the art technology of Petrobras. In the Neuquén Basin we will use a novel technology which is not yet used in the country - for the development of low permeability reservoirs. We will advance in the exploration and demarcation of assets that we have acquired in Peru and will add to our portfolio - for the first time and as a result of our participation in Consorcio Tibú - production and reserves from Colombia. We are planning new investments in our productive assets so as to continue development of reserves and maintain production levels.

With respect to Refining and Distribution, we will continue our work to increase the operative reliability of our plants, to improve gasoline quality and to reduce formulation costs. To that end we will implement a business results program. We will continue studying the possibility to increase conversion and volume of processed crudes, and to adapt quality to satisfy market demands and meet future specifications. At the same time we will continue with our strategy to strengthen Petrobras brand image, by offering high quality and technology products and services. To achieve that aim, we will work in the selective development of new businesses, in the reidentification of agro centers and gas stations, the implementation of new *Spacio 1* stores, in the achievement of a larger GNC market share, a higher growth in the lubricants market with the strengthening of Lubrax brand, and the positioning of the company in the asphalt and bunker businesses.

In the petrochemical area, we will continue to maintain the regional leadership position, particularly in the styrene business, so as to serve the growing needs of our clients.

In Gas and Energy, the Company will develop diversified projects to offer energy solutions to the Company's own assets and to the market.

We expect that upon the endorsement of some Memorandums of Agreement along 2007, new tariff schedules for utilities will be renegotiated, restoring the financial economic feasibility of regulated businesses and ensuring their long term economic sustainability.

In conclusion, 2007 will be plenty of challenges and opportunities. We will continue working to expand our company, achieve maximum efficiency and innovate our products and services, and foster the development of the communities

in which we operate.

Macroeconomic Overview Year 2006

International Context

In 2006 global economy grew at a fast pace, about 5%, despite the persistence of high prices for commodities in general and energy in particular. The economic performance in the USA was affected by a slowdown in the real estate sector, but the pace of corporate investment and private consumption caused the growth rate to be above 3%. The external gap continued to grow, nearing 7% of GDP. In that scenario, the dollar depreciated against the euro throughout the year, but fluctuated aimlessly against the yen. The Federal Reserve maintained its policy of gradually increasing the reference interest rates to 5.25% during the first semester. The Fed Funds remained unchanged throughout the year, despite the weakening of some economic indicators and due to the hidden risk of inflation, which reached 2.6% by year-end, as a result of high energy costs. The long- term interest rate was of 4.8%.

In contrast, the European economy was more dynamic, about 3%, while Japan kept a good growth pace above 2% and consolidated its recovery. Southeast Asia countries maintained their growth level, especially China, with a gross product exceeding 10%.

Oil

In 2006 oil prices went up for the fifth year in a row. West Texas Intermediate (WTI) reference crude oil averaged US\$66 a barrel, up 17% compared to 2005. The rise in prices throughout the year hit nominal records of 80 dollars, and then slowed down as from September and stabilized at about 60 dollars. The sharp fall in prices was caused by risk premiums on supply (geopolitical risk in Iran and Nigeria, weather risk in the Mexican Gulf due to a strong hurricane season) and the slowdown of the American economy, with the consequent reduction of volumes demanded. During that period OPEC's output reduction policy - which had not been implemented for some time now- was resumed.

Demand for crude oil, even in a global growth scenario, only caused a 1.2%, or 0.98 million barrels/day increase, as a result of the demand of emerging countries. This is not a minor issue: it is the reflection that the regional historical consumption pattern is changing. In turn, supply increased at a rate lower than demand, as a consequence of the existence of large stocks, an incremental 0.8% per year, or 0.65 million barrels/day. New supply, mainly of heavy crudes, widened the price gap between heavy crudes and the potentially scarce light sweet crudes.

Argentina

Once again in 2006, for the fourth year in a row, Argentina showed high growth rates. Gross domestic product expanded by 8.5%, due to an increase in investments, particularly in the field of construction, and consumption, on the basis of a strong increase of credit and the recovery of wages in real terms. Industrial production kept on growing, with some sectors making high use of installed capacity. Labor indicators showed an improvement, and unemployment rate decreased to about 10%. In that scenario, the government implemented a wide range of measures and sectoral agreements to control inflationary pressure, and managed to keep the official inflation index below 10%. Tariff adjustments were postponed once again.

Foreign currency supply was expanded as a result of a widening trade surplus, by virtue of record exports and despite the massive growth of imports and an increasing level of capital flow into the country driven by the high level of global liquidity. As in previous years and in line with the explicit decision of the government of keeping a high exchange rate, the Central Bank systematically absorbed the excess of dollars, and had to apply a variety of money sterilization measures to achieve the objectives of the monetary scheme. International reserves amounted to US\$32,000 million at year-end, despite the early payment of outstanding IMF debt of approximately US\$10,000 million using Central Bank reserves. Average exchange rate at year-end was 3.07 pesos to the dollar.

The national public sector recorded a primary surplus of 3.5% of GDP despite a significant increase in spending. The financing needs were covered with voluntary financing and with the purchase of public bonds by the government of Venezuela. The average country risk was of 340 basis points, down from 500 in January to 220 in late December.

Oil production recorded a slightly smaller decrease compared to previous years (-0.8%), while the increase of crude processing capacity would be around 4.3%, with the refining sector reaching an average of 92.8% per year of the installed capacity. Consequently, export surplus was considerably reduced. The domestic price of oil continued to be fixed by agreements between crude producers and refiners that consider prices net of export withholdings. Despite the rise of the international price of crude that caused an increase in the acquisition cost at domestic level, domestic prices of fuels remained unchanged in local currency. Domestic sales of gasoline (+16%) and diesel oil (+6%) went up, in line with the growth in GDP, with a significant increase in the demand of premium gasoline of above 40%. The government implemented measures to ensure diesel oil supply, a market that is not satisfied by domestic production. Imports were made at a loss due to the gap between import parity and domestic prices.

Natural gas production recorded a slight rise of 1%, after a 1.6% fall during 2005. Domestic demand for gas went up 5%, mainly driven by industrial users, which demanded 13% more than the previous year, while electric power plants continued to replace gas with liquid fuels. Despite strong restrictions on exports, mainly during the winter season and particularly to Chile, exports did not record significant changes compared to the previous year. There was a 6% reduction in imports from Bolivia. The Argentine government entered into an agreement with Bolivia to gradually increase gas purchases and build a new pipeline, the GNA, but the project has not been tendered yet. Likewise, gas export withholdings were increased to 45% of the cost of import from Bolivia. Domestic well head prices continued to rise, except for gas for residential use and for the use of other customers of distributors.

The energy situation was particularly complex in the electricity sector where a 5.7% growth rate was recorded in demand with no additions to the existing generating facilities.

Latin America

Peru

In a scenario of international liquidity and high prices of commodities, Peruvian economy continued the expansion started in 2002, with growth rates above 7%, among the highest of the region. This great economic performance was backed by the growth of sectors such as construction, trade, extractive industry (mainly mineral exports, with record prices) and manufacturing industry.

External accounts were healthy, and the country risk, 160 points - the lowest limit of measurement - rated as one of the lowest in the region.

In the field of energy production, 7 exploration fields and 76 development fields were drilled. Besides, 16 Exploration Agreements were entered into. Liquid hydrocarbons production averaged 116 million bbl/d, and showed a 5% increase compared to the previous year. Natural gas production averaged 172 billion square feet/day, an 18% increase compared to the previous year.

Ecuador

During 2006 Ecuadorian economy grew by 4%, driven by high oil prices.

Ecuador's oil production remained unchanged compared to 2005 (532,000 barrels/day), although prices rose by 25% (to US\$51/Bbl).

Performance Highlights during 2006

Oil and Gas Exploration and Production

The Oil and Gas Exploration and Production segment is the Petrobras Energía core business, it is the first link of its value chain. The Company currently conducts oil and gas exploration and production operations in Argentina, Venezuela, Peru, Ecuador, Bolivia and Colombia. In addition, the Company acts as contractor in Mexico, where it also provides technical and operating support services.

Business Strategy

The Company's strategy in the Exploration and Production segment is to increase oil and gas reserves in order to secure its sustainable growth. In line with this strategy, the Company's business objectives are the following:

- * Increasing oil and gas production by capitalizing on its experience and presence in almost all Latin American oil producing countries.

- * Optimizing its investment portfolio by achieving a balance between exploration projects and development projects.

Major Achievements of the Year

* In Ecuador, production increased by 31 per cent and reached 11.8 thousand boe/d (annual average of holdings and net of royalties).

- * In Argentina and Peru, production increased 3% and 2%, respectively.

- * Exploration investments increased up to approximately US\$47 million.

- * The creation of Consorcio Tibú for the exploitation of Campo Tibú in Catatumbo basin, Colombia.

- * The Company was pre-awarded two exploration blocks during the First Bidding Round in the province of Salta and was admitted as participant in three exploration sites in Peru.

- * Two consortiums were created for the exploration, development, exploitation and marketing of hydrocarbons in two offshore areas, Enarsa 1 (E1) and Enarsa 3 (E3).

- * The Company executed two framework agreements with the province of Santa Cruz, Argentina, to continue the demarcation and exploration of two gas fields: Glencross and Estancia Chiripa.

Production and Investments

In 2006, Petrobras Energía S.A.'s oil and gas production declined 10% to 154 thousand boe/d. This decline was mainly caused by the migration of operating agreements to mixed companies in Venezuela, where production, which in 2005 represented 27.9 % of the Company's aggregate production (47.9 thousand boe/d), plummeted by 60%. Net of Venezuela's effect, production increased 4.9 %.

Argentina

In Argentina, production increased 3%, and reached an average of 95.9 thousand boe/d. Part of this growth originated in Medanito (field located in Neuquén Basin), where the Company's oil production surpassed 3,000 cubic meters daily, a historical record for that asset. Operations in Austral Basin also produced positive results, particularly in La Porfiada, where gas production increased to 1 million square meters daily (MMm³/d).

In order to increase production in Neuquen Basin, the Company continued with the study of gas reservoirs of low permeability gas (non conventional reservoirs); the new technology will be tested during 2007 with the implementation of a pilot project. In the same basin, in early December 2006 the Company ended works and started field operations in El Mangrullo, with 800 thousand m³/d gas production, and advanced its production commitment for January 2007.

Another highlight during last year was the start of operations of the Mercury Removal Plant in Santa Cruz, which started operations at mid-year to treat Santa Cruz crude. This asset allows the Company to reduce metal contents in oil, with a positive impact on the basin's projects, improving the trading conditions and increasing the oil volume that enters the Company's refining plant to be processed.

During 2006, Petrobras Energía developed an intense activity in Argentina: 223 producing and injection wells were drilled and 191 wells were repaired.

In addition, the Company divested Atamisqui and Tupungato fields in the Cuyo basin and sold 16.66 % of Atuel Norte field, in Neuquén basin.

Peru, Venezuela and Bolivia

In Peru, the Company increased 2.1% its production to 14.5 thousand boe/d, and executed cooperation agreements with Perúpetro and Petroperú and increased investments by 18 %.

In Venezuela, the migration of operating agreements to mixed companies was completed, while in Bolivia the migration of Colpa Caranda Exploitation and Exploration Agreement took place, in compliance with the provisions of the new Hydrocarbons Law.

Ecuador

With the drilling and completion of 8 wells, Petrobras Energía increased 31% its production in Ecuador to 11.8 thousand boe/d net. Besides, the construction of Palo Azul treatment plant and the pipe network was completed, which will allow the Company to increase gross production of the Block to 40 thousand barrels of oil per day as of 2007.

Investments in Ecuador during 2006 were focused on well drilling and construction of facilities and pipes. During 2007, Petrobras Energía will continue with development investments in Block 31 to permit the exploitation of Apaika-Nenke field. The Company's plans for Block 18 are to continue with the development with the drilling and building of facilities, such as the Electric Power Plant.

In addition, the Company managed to reduce costs related to the Ship or Pay transportation agreement entered into with Oleoducto de Crudos Pesados, in Ecuador, by selling transportation capacity to third parties.

Colombia

Petrobras Energía entered into the Consorcio Tibú for the exploitation of Campo Tibú in Catatumbo basin, Colombia, with a 30% interest. This consortium executed with state-owned oil company Ecopetrol an agreement for Additional Development of Campo Tibú. The project's objective to which Petrobras Energía will contribute with its *know-how* in the development and exploitation of mature fields is the promotion of the Company's international growth strategy and the diversification of its asset portfolio.

During the first stage of the project, two and a half years as of January 2007, Consorcio Tibú will invest US\$40 million to conduct studies and works that will determine the actual prospects of the field, which currently produces 1,800 barrels per day. During the second stage, Consorcio Tibú will make 55% of the investments (Ecopetrol will be in charge of the remaining 45%) with a right to 40 % of the field production net of royalties. Consorcio Tibú will be in charge of conducting investment projects intended to generate additional production, while Ecopetrol will continue as field operator.

Exploration

To Petrobras Energía exploration is the main vehicle for reserve replacement. In this line, during 2006 the Company invested approximately US\$47 million in exploration, mainly seismic and drilling activities.

During 2006 the Company completed the drilling of 17 wells, 11 of which were successful.

The Company signed different agreements. On the one hand, two offshore exploitation agreements: Enarsa 1 and Enarsa 3; in December, the seismic survey of 1,870 km² was started. On the other hand, two framework agreements were entered into with the province of Santa Cruz to continue the re-demarcation and exploitation of two gas fields: Glencross and Estancia Chiripa. In addition, Petrobras Energía pre-awarded two exploration sites during the First Bidding Round in the province of Salta. In Peru the Company signed agreements in relation to three exploration sites, Site 57, Site 117 and Site 103.

In whole, the Company, through farm-in agreements and concessions, increased three-fold the exploration area to 32 million acres.

Liquid Hydrocarbon and Natural Gas Reserves

As of December 31, 2006, liquid hydrocarbon and natural gas proved reserves of Petrobras Energía totaled 527 million oil-equivalent barrels (324 million oil barrels and 1,220 thousand million cubic feet of gas), which indicates a 31% decrease in reserves compared to reserves as of December 31, 2005 (40% corresponding to liquid hydrocarbons and 8 % to natural gas). Estimated reserves as of December 31, 2006 were audited by Gaffney, Cline & Associates Inc., international technical consultants, and the audit covered approximately 93% of estimated reserves of the Company.

During fiscal year 2006 a net revision of reserves of approximately 172 million boe was recorded, as detailed below:

* 181 million boe were subject to revision as a result of migration of agreements in Venezuela assets, mainly due to the changes in relation to interest holding in operating agreements.

* In Peru 16 million boe were subject to revision.

* 25 million boe were added in Argentina and Ecuador due to extensions of known accumulations through exploration.

Asset divestment in Cuyana Argentina basin resulted in a 5 million boe reduction.

Production totalled 56 million boe.

Liquid hydrocarbons and natural gas accounted for 61% and 39%, respectively, of the total proved reserves; 53% of total proved reserves are located in Argentina.

As of December 2006, the total oil and gas proved reserves of Petrobras Energía was equal to 9.4 years of production, measured according to 2006 oil and gas production levels.

Hydrocarbon Transportation

Oleoductos del Valle S.A. Oldelval

During 2006 the average of oil volumes transported from Allen to Puerto Rosales was of 30.8 thousand m³/day, 8% higher compared to the previous fiscal year, totaling 70.5 million barrels transported.

During this year, a number of works were conducted to ensure reliability to the system, such as an internal inspection of pipes using ultrasound tools, and minor expenses were incurred for an improved operation of the system.

During 2006 new jackets were installed and the overhaul of turbines, pumps and tanks was carried out, due to operative reasons and in compliance with environmental and safety regulations.

Refining and Distribution

Through the Refining and Distribution business segment, Petrobras Energía moves towards vertical integration of its operations as a tool to capitalize on its significant hydrocarbon reserves. The Company's refining and distribution operations both in Argentina and Bolivia are the necessary link in the business value chain which starts with crude oil and gas exploration and processing and ends with full customer service at the gas station network and the supply of petrochemical products.

Business Strategy

The Company's strategy in the Refining and Distribution segment is to grow through

- * a balanced crude oil-refining-logistics-commercial chain

- * quality-differentiated products and services

Major Achievements of the Year

- * San Lorenzo refining plant completed in October 2006 the projected expansion of its processing capacity, from 37,700 bbl/day to 50,300 bbl/day, and as a result the gas supply was increased in the same proportion.

- * Bahía Blanca refining plant successfully completed the works aimed at improving liquid and gaseous effluent quality.

- * The Refining Master Plan (PDR) moved forward significantly in enhancing quantity and quality of processed crudes.

- * Petrobras Energía consolidated among the first three companies in the liquid fuels market.

- * The Company strengthened market penetration of Lubrax increased by 11.1% sales volumes in the domestic market.

* The Company maintained its leading position in the bunker market.

Refining Division

Through its Refining Division, Petrobras Energía moved forward with the enhancement of crude quality and quantity. Aggregate installed capacity of its refineries Ricardo Eliçabe (located in the city of Bahía Blanca, province of Buenos Aires) and San Lorenzo (located in the city of San Lorenzo, province of Santa Fe) grew in October 2006 to 80,800 oil barrels per day, adding 12,600 more than the previous year.

Bahía Blanca Refinery

In 2006 Bahía Blanca refinery worked close to the limit of its installed capacity, increasing from 30,500 barrels per day to an average of 30,221 barrels per day, and totalled 10,031,000 barrels of crude oil per year. 99.3% of crude oil processed was produced in Medanito, in the Neuquen basin, an oil field that produces high quality and good yield. Another highlight of the refinery was the successful completion of the works aimed at improving liquid and gaseous effluent quality.

San Lorenzo Refinery

In 2006 San Lorenzo refinery increased its crude oil processing capacity by 33%, as a result of the programmed stoppages, which included renewal, repair and maintenance works started in November 2005 to optimize reliability, safety and efficiency of the plant. Among other improvements, the refinery renewed some topping and vacuum furnaces and built up new latest generation furnaces.

Therefore, in October 2006, the installed capacity for processing crude oil increased from 37,700 to 50,300 barrels per day, which represents a yearly average of 32,887 barrels of oil per day. 82% of that amount, equal to a total 12,003,755 barrels per year, was produced in Medanito field and 12% in María Inés field. The increase of diesel oil production was proportional to the increase in the crude processing capacity of the refinery.

Refining Master Plan (PDR)

The Refining Master Plan (PDR) aims at expanding and revamping the installed capacity in the refineries with a view to producing by-products derived from other crudes with increased quantity and quality to ensure compatibility with future specifications.

The activities scheduled for 2006 were successfully completed in full compliance with the plan. Once completed the works, the Company's diesel oil and fuel production will meet the most stringent standards relating to sulfur, benzene and aromatics content in gasoline.

Distribution Division

The Argentine Market

In 2006 the fuel market in Argentina grew for the third year in a row, at a faster pace than the previous two years. The traded volume for gasoline and diesel oil surpassed 17 million cubic meters, the highest sales level since 1998 and 8.7 % more than in 2005.

Sales of diesel oil grew 6.6 % to 12.8 MM cubic meters, boosted by the strong demand from the agricultural, industrial and transport sectors. In line with this increase, the domestic gasoline sales totaled 4.3 MM cubic meters, 16% more than in 2005, due to the remarkable economic growth of the last years, the increase of the purchasing power, the sales of new cars and price stabilizations since 2004. Premium gasolines grew 42.2% compared to common gasoline, that dropped by 15.6%.

On the contrary, compressed natural gas (CNG) prices dropped 2.9 % for the first time, due to a lower gasoline to CNG conversion rate in cars, the increase of CNG prices compared with the stabilization of gasoline prices and the uncertainty about gas availability during the winter season.

Petrobras Fuels

Domestic sales of Petrobras Energía liquid fuels gasoline and diesel oil reached 2.4 MM cubic meters per year, 5% more than in 2005, and propelled the Company into the third place in the market, with 13.8 % market share.

1.7 MM cubic meters out of the total 2.4 MM cubic meters correspond to diesel oil, with a 13.5 % market share. However, the highest growth was recorded for gasolines, with 620 thousand cubic meters, a 16.4% growth compared to the previous year and a 14.6 % market share. Podium, Petrobras Energía premium gasoline, the only 100- octane gasoline in the Argentine market, registered a 58% sales increase with a 9.2% market share.

Asphalt and Bunker Markets

One of the goals of the Distribution division was to consolidate the Company's share in the asphalt and bunker markets (diesel oil and IFO + fuel oil and diesel oil mix).

In 2006 the domestic road asphalt market grew 13% and reached 459 thousand tons traded. In line with this growth, during 2006 Petrobras Energía focused on domestic market. The aggregate volume reached 159 thousand tons, placing Petrobras Energía in the second position in the market. In addition, the Company recorded sales for 2.6 thousand tons of polymer-modified asphalts, a 52% growth compared to 2005. Conversely, asphalt exports, mainly to bordering countries, Paraguay, Bolivia, Uruguay and Chile, declined 26.3%, totalling 19.6 thousand.

On the other hand, the bunker market increased, both for diesel oil and IFO. In line with this growth trend, Petrobras Energía marketed 46.9 thousand cubic meters of bunker diesel oil + 23.3 % more than the previous year and ranked second in the market. Besides, the Company maintained the leading position in the IFO market, with 47.9% market share, and 4.5 increase in its sales compared to 2005.

Lubricants

The lubricants market was another highlight in the development of Petrobras Energy during 2006. The Company aimed at consolidating Lubrax brand in the Argentine market through a series of marketing actions: the establishment of exclusive lubricant customers, combined sale with liquid fuels, product advertising and promotion in points of sale and mass communication campaigns.

As a result, in 2006 Lubrax hit another historical sales record: 36,610 cubic meters sold in the Argentine market. This amount represents a 28.6% growth compared to 2005, against a market growth of 2.9%. So, the Company reached an 11.1% market share.

To obtain these results the Company had to increase its production. In May a second production shift was implemented at Avellaneda plant, and new products were launched to satisfy the needs of different market segments: Lubrax alto rodaje, Lubrax GNC and Lubrax GNC plus.

Gas Stations and Agro-centers

During 2006 Petrobras Energía continued with implementation of the corporate image program in its gas station and agro-center network and with the development of Spacio 1. This program is aimed at strengthening customers' good value perception of Petrobras brand in the market.

Throughout the year the Company identified under the Petrobras brand another 41 gas stations, reaching 492 outlets under the corporate brand. As a result, 68 % of the 719 outlets of the network already bear Petrobras image.

The Company also continued with the implementation of the reidentification program in another 12 agro-centers, reaching a total of 38 identified outlets, and strengthened the development of convenience stores Spacio 1, adding 2 of these stores to the network, with 20 Spacio 1 at year end.

Customer Loyalty Program and Advances in Land Logistics

In November, Petrobras Energía launched in the city of Rosario (Santa Fe) the customer loyalty program for end users of liquid fuels and lubricants, Premmia. The Company's aim is to create an accurate and reliable customer database, strengthen relationships with them, retain more profitable customers and optimize marketing actions.

In 2006 the Company opened a dispatch plant in Caleta Paula to enhance fuel distribution in the southern part of the country. The new plant will enable Petrobras Energía to store fuels and lubricants, have greater product availability, satisfy the demand more efficiently, and reduce logistics costs.

Refinería del Norte Refinor

In 2006, Refinor marketed approximately 21,021 barrels per day (bbl/day) of fuels derived from crude oil, 6% less than in 2005, due to a decrease in sales on foreign markets (8%), mainly diesel oil sales to Bolivia, which sales decreased by 42% compared to the previous year.

Throughout the year, the refinery processed the total crude and condensate from the basin located northwest of Argentina. However, as from May the supply of condensate from Bolivia was not steady and at volumes less than expected, as a result of the hydrocarbon nationalization policy in the neighbor country. Nevertheless, the volume of crude processed during the period averaged 17.1 thousand bbl/day, 4% less than in 2005, which represents only 65% of the processing installed capacity of the topping unit.

Sales of fuels derived from crude oil amounted to 9,565 bbl/day in the domestic market, while in the foreign market sales amounted to 11,456 bbl/day (86% of which was virgin naphta). Besides, 18.7 thousand m3 of gas were processed daily, which represents a 96 % use of the installed capacity.

LPG production in the turboexpansion plants recorded a monthly average of 29.5 thousand tons, a historical record for the Company that boosted sales to 354.2 tons during the year.

Petrobras Bolivia Refinación PBR

During 2006, PBD hit record levels of crude oil and gasoline processing, averaging 39,900 barrels per day of crude as a result of a greater operative availability in the units and 50.4 thousand cubic meters per month of gasoline. Lubricant production also increased and reached a monthly average of 1.47 thousand cubic meters.

As regards sales, gasoline and reconstituted crude oil reached significant levels. Gasoline volumes surpassed the 2005 volumes, with a monthly average of 49.5 thousand cubic meters, while reconstituted crude averaged 51.3 thousand cubic meters per month. Diesel oil volumes were similar to those of the previous year, with an average of 53.6 thousand cubic meters sold per month.

The refinery, through PBR subsidiary, managed to increase its market share in the domestic market. This process took place until April 2006, when PBR reached a market share of approximately 34%. The sale of imported diesel oil was another highlight during that period, with an average of 14.4 thousand cubic meters per month. After that date, and as a result of a new government regulation, YPFB (Yacimientos Petrolíferos Fiscales Bolivianos) was made the exclusive wholesale distributor in the market, and PBR was limited to use only products from its stock and develop new markets for non-regulated new products.

Petrochemicals

The Petrochemicals business is a key component in Petrobras Energía's strategy of vertical integration of its operations. The Company produces a wide array of products such as styrene, polystyrene, synthetic rubber, fertilizers and polypropylene both for the domestic and foreign market. The petrochemical production is concentrated both in Argentina and in Brazil. Petrobras Energía has the largest installed capacity to produce styrene and polystyrene in the region (and is also the only producer of liquid fertilizers), thus providing a higher flexibility in customer service.

Business Strategy

The Company's strategy in the Petrochemicals segment consists in:

- * Taking advantage of current conditions in the styrenics market by increasing the supply.
- * Maximizing the use of the Company's own raw materials.
- * Consolidating the fertilizer business which uses natural gas and therefore adds value to the business.

Major Achievements of the Year

- * The expansion of Puerto General San Martín styrenics plant was completed, and the plant's production capacity increased from 110 to 160 thousand tons per year.
- * An ammonium thiosulphate plant started operation, in September 2006, which produced 1,900 tons during the first months and allowed early supply of farmers in the Cuyo and northeastern region of Argentina.
- * Production and sales volumes for Innova S.A. hit a historical record of 347 thousand tons and 257 thousand tons, respectively.

* The Company authorized the construction of a new ethylbenzene plant, in Innova S.A., Petrobras Energía's largest petrochemical project since the implementation of Innova.

Argentine Styrenics Division

For the Argentine Styrenics Division 2006 was a year of consistent growth. Taking into account the four product lines, the total volume traded reached 250 thousand tons of styrenics, 9 % more than the previous year. The business had a positive performance in the local market due to the economic recovery and the rise in the consumption. The Company's share in the styrene and bi-oriented polystyrene (BOPS) market was 100% and 82.4 % in the polystyrene market.

Styrene

The Company's total sales volume of monomer styrene increased by 11%, to 51 thousand tons. The growth in the domestic market, where the Company has 100% market share, was 12%, as a result of the rise in construction, consumption and works in general. In the foreign market the Company maintained its market share, 100% in Bolivia and Uruguay and 50% in Chile.

Another highlight in 2006 was the completion of the expansion works in the Styrenics Plant in Puerto General San Martín (PGSM). The expansion works, started in 2005, enabled the plant to increase its installed capacity from 110 to 160 thousand tons per year.

Besides, Petrobras Energía marketed 48.6 thousand tons of ethylbenzene (13% more than the previous year). As a consequence of scheduled shutdowns to perform the expansion works in the PGSM styrenics plant, the Company sent the additional ethylbenzene to Innova to be converted into styrene.

Polystyrene

Polystyrene production was of 57 thousand tons, while the Company's total sales volume reached 58.6 thousand, 12% more than in 2005.

In the domestic market, polystyrene sales grew 26% and hit a historical record: 44.8 thousand tons. That growth was the result of the price control policy implemented, which enabled Petrobras Energía to increase its market share by approximately 10 points (from 73% to 82.7%) to the detriment of its competitors.

In the foreign market, polystyrene sales fell by 17% to 13.8 thousand tons. The causes of this decrease were the need to supply the domestic market and union conflicts experienced during the year that restricted the plant's availability. Faced with this situation, and as a demonstration of its regional integration, the Company imported product from Innova to ensure normal supply.

Bi-oriented Polystyrene (BOPS)

Sales of bi-oriented polystyrene (BOPS) had another good year in 2006. The level of prices and volume traded enabled the Company to remain at levels similar to those of last year for the business.

Petrobras Energía sales of BOPS grew 5%, to 13.3 thousand tons. 78% of this amount was exported to other South American countries, United States and Europe. Besides, the Company optimized BOPS production supplies, and thus reduced raw material costs.

Synthetic Rubber

In the synthetic rubber business, the trend was reversed in 2006. Unlike last year, the Company increased its sales to 55.8 thousand tons, with 52% of this volume for exports, 11% more than the previous year. In the domestic market Petrobras Energía maintained its leading position and remained unchanged as compared to last year.

Innova S.A. - Innova

In Brazil, styrene and polystyrene markets grew 7.34% and 8.28%, respectively. In this scenario, Innova remained the main producer and seller, leading the styrene market, with 60% market share, and ranked second in the polystyrene market, with 26% market share, only two points below the leader.

In 2006, 233,784 tons of styrene were produced (14% more than in 2005) and domestic sales reached 118,875 tons. In the foreign market, Innova sales grew 91%, to 17,525 tons.

Innova also had a good performance in the polystyrene market, with a production of 112,943 tons and sales volume of 113,979 tons (114,300 tons including BOPS). Exports, mainly to Argentina, Central America, United States and South Africa, grew 57%.

Other Innova highlights during 2006 were related to maintain and increase the Company's market share in the Brazilian styrene market. In line with this aim, Innova entered into agreements to ensure supply and develop a price formula on the basis of international prices and other variables.

The commercial strategy of the polystyrene segment focused on defending the market and giving priority to major customers. Innova tried to maintain its market share, protecting their customers from the predation of competitors, and tried to improve the relationship with the customers and obtain customer loyalty through actions that were not related to commercial matters. Besides, Innova worked on market development and achieved significant progress in the use of polystyrene in margarine and PC monitor packaging.

Petrobras Energía and Innova established a fully integrated logistics model, which evidences the powerful synergy created between Brazil and Argentina. This logistics model allows Innova to ensure supply to both markets.

In October 2006, the Company approved the construction of a new ethylbenzene plant, which represents US\$70 million investment. The new plant is projected to produce 270 thousand tons per year, which will be used to feed the styrene plant and satisfy the growing demand of the Brazilian market. The facility, built using cutting-edge technology (in full compliance with environment and health regulations) and located in the same site as the styrene plant, will result in a significant cost reduction.

Fertilizers

In 2006 the fertilizers market in Argentina recorded a growth of 24%, mainly due to three factors. In the first place, fertilizers consumption in the country is still low: Argentina is an immature market with high growth potential. In the second place, international grain prices remain high, and it encourages farmers to grow crops that require high inputs of fertilizers and to introduce new technologies to increase production. In the last place, the rebound effect after the 2005 drought, which had adversely affected fertilizer consumption.

In this scenario, Petrobras Energía increased its sales volume by 11%, below market growth. Liquid fertilizers increased their share in the product mix and set off the loss of the imported fertilizers market (phosphate fertilizers, with low profitability margin).

Sales of liquid fertilizers increased 28% through SolMIX brand (a product that has variable nitrogen and sulphur concentrations), and secured an 81% share in a market with a strong presence of leading products. Besides, the Company's performance was well recognized: according to two independent surveys, it was selected as the most respected company in the Fertilizers business.

In 2006 Petrobras Energía continued working to improve storage and distribution logistics. Storage facilities were opened in the city of America (province of Buenos Aires) to be used for the storage of liquid fertilizers that will supply the western region of the province of Buenos Aires, eastern region of La Pampa and Cuyo during critical periods. The Company also obtained the municipal approval of the terms and conditions for the construction of a port on the site acquired in the city of Campana, and concluded the basic engineering and main soil movements needed for the construction of the port and the simple superphosphate plant.

Besides, the ammonium thiosulphate plant started operation in September, as scheduled. The accumulated production during those first months was 1,900 tons, allowing the early supply to farmers in the Cuyo and North-western region of Argentina.

Petroquímica Cuyo S.A.

Polypropylene production of Petroquímica Cuyo S.A. amounted to 97,010 tons, 13% more than last year, mainly due to a good supply of raw materials during the year.

The production increase boosted sales in the domestic market, which amounted to 22.6% compared to 2005. Foreign market sales volumes also increased 30.1 % compared to last year. Another factor that accounted for those positive figures was the resale of polypropylene produced by third parties.

Another progress of the year was the expansion project for the plant's extrusion capacity, which will increase its installed capacity by 15%. Petroquímica Cuyo S.A. also proceeded to a full debt restructuring of financial liabilities (longer term and lower cost) and entered into long term agreements with Petrobras Energía S.A. for the supply of propylene and with PBB Polisar for the supply of ethylene.

Gas and Energy

The Gas and Energy segment serves as link to integrate the Company's other business units, maximizing profits from gas and electricity production and ensuring the self-supply through its active presence in the market.

In the gas segment, Petrobras Energía conducts sales operations of own gas and trading operations. The Company also provides brokerage services to producers who prefer to outsource gas and LPG sales. This activity enables the Company to position as a major commercial service provider, assisting its customers not only in sales but also in logistics, foreign trade and market knowledge. In addition, the Company was awarded the license to transport gas, through Transportadora de Gas del Sur S.A. (TGS), in the southern region of Argentina where it also processes and markets natural gas liquids.

In the electricity business, Petrobras Energía is engaged in all the industry segments: generation, transmission and distribution. Thus, the Company is positioned as a major player in the Argentine electricity market. Electricity generation allows the Company to accelerate monetization of gas reserves. Integration in the business chain provides the Company 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.

Business Strategy

The segment's business strategy is aimed at consolidating the company as an integrated energy company along the following lines:

* Profitable growth of the gas business, by creating solutions for internal needs and for the general market.

* Profitable growth of the LPG business, by increasing sales volumes.

* Profitable growth of the electric market share.

Major Achievements of the Year

* The Company ensured self-supply and gas businesses through its own firm transportation capacity and contracts with third parties.

* TGS started the expansion of its system to a total 1.6 million cubic meters per day, through the installation of 80 km of pipelines and the repowering of a compressor plant.

* Performance of generation units (Genelba Thermoelectric plant and Pichi Picún Leufú Hydroelectric plant) makes them stand out in the Argentine market for their reliability and efficiency. Besides, both power plants surpassed the sales level they had before the 2001 devaluation.

* Edesur S.A. invested 215 million pesos, and the total accumulated investments since the beginning of the concession was of 3.363 million. This investment plan implies the compliance with the terms of the Memorandum of Agreement entered into with the Government.

* A stock purchase agreement was entered into for the sale of a 50% interest in Citelec, holding company with 52.67% interest in Transener. The transaction is subject to the approval by regulatory bodies.

* A stock purchase agreement was entered into for the sale of 9.19% interest in Hidroneuquén S.A., holding company with 59% interest in Hidroeléctrica Piedra del Aguila S.A.

Gas

Marketing

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

During 2006, sales volumes corresponding to gas produced by the Company and gas imported totaled 267.8 million cubic feet daily. The Company also sold 157.3 million cubic feet of gas under the brokerage modality, and transported 1,284 million cubic meters of gas (owned and third parties) per year.

LPG volumes marketed totalled 181.6 tons, while the volumes traded under the brokerage modality amounted to 73.4 tons.

In 2006 the Company reached agreements to sell LPG in bulk directly to final users. To that end it installed LPG tanks at more than 25 customer premises, mainly in chicken farms and grain dryers. Petrobras Energía sales of LPG in bulk amounted to 486 tons.

Transportadora de Gas del Sur S.A. TGS

TGS continued to repay its financial debt that was restructured by late 2004 with the aim of making its capital structure more stable, in line with its growth expectations. In 2006, all TGS businesses increased, with sales revenues climbing 23%.

In the regulated segment, TGS recorded higher revenues from firm transportation, largely due to the system expansion as from the second half of 2005 amounting to 2.9 million cubic meters, which was funded through the trust fund scheme created by the Government. In addition, TGS started a new expansion of its firm transportation system to a total 1.6 million m³/d, by the installation of 80 km of additional pipelines and the repowering of a compressor plant which will start operations during the first half of 2007. In 2006, the company also increased its revenues from interruptible transportation as a result of a higher demand of natural gas.

Notwithstanding the growth of the contracted capacity, the performance of the regulated segment did not improve due to the delay in the adoption of new regulatory parameters applicable to tariffs. During 2006, Utilities Contract Renegotiation and Analysis Committee (UNIREN) drafted two tariff adjustment proposals similar to those presented last year that were not accepted by TGS. This lack of definition as regards regulatory matters has appeared to be one

of the biggest challenges that the company had to face since the 2001 crisis and is crucial to the gas transportation business in the mid term.

TGS revenues from the non regulated business continued to account for a high percentage of the company's revenues, with approximately 55% during 2006. Production and marketing of LNG achieved remarkable results as a consequence of a significant increase in propane, butane and natural gasoline export prices. Prices also increased as of January 1st 2006 due to the renegotiation of the ethane sale contract. As a result of the 16% growth of LNG production export, revenues also increased during 2006.

Revenues from other services, which include midstream, pipeline construction and telecommunication services, reported a sharp increase of 50% compared to 2005, as a result of TGS constant search for new business opportunities to maximize the segment's value and promote synergy with the other business segments.

Among the most significant business opportunities of the year are two projects for pipelines designed to connect with the TGS gas transportation trunk pipeline and to set up a gas compression and dehydration plant. The company also reached agreements for the operation and maintenance of facilities.

Another highlight of the year was that TGS was awarded the OHSAS 18001 certification for Occupational Health and Safety Management, and renewed other certifications that TGS had been awarded in previous years (ISO 9001 and 14001).

Electricity

Generation

In 2006, the demand for power rose 5.49 %, mainly as a consequence of industrial and residential consumption. This growth was mostly covered by thermal generation, 51%, and hydraulic generation, 41 %. Nuclear generation and imports covered 7 % and 1 % of the demand, respectively.

One of the highlights of the year was Resolution 1281/06 issued by the Secretary of Energy at the end of 2006, which introduced major changes in the electric market: demands greater than 300kW that are not covered by agreements with the generation plants will be interruptible, and demands higher than demands recorded during 2005 must be covered by new generators that are not connected to the Wholesale Electric Market (WEM).

Besides, the Secretary of Energy approved the creation of a fund for investments required to increase the electric power supply in the Wholesale Electric Market (FONINVEMEM).

Genelba Thermoelectric Power Plant

In 2006 Genelba Thermal Electric Power Plant achieved a record generation: 5,005 GWh (GigaWatt per hour), the highest volume since its start up in 1997, with a 99.4 % reliability level and 99 % availability. Along these lines, Genelba had a 5% share of total power generation for the year and 10% share of thermal energy.

As a result of its excellent performance, Genelba stands out in the Argentine electricity market and is recognized as one of the combined cycle electric power plants with highest level of reliability, efficiency and availability. Genelba received customer recognition for its continued high quality supply despite the changes introduced to the electric market by Resolution 1281/06. In addition, in 2006 Genelba renewed the ISO 9001 certification including the Commercial Management and also increased significantly its share in the sales of the Forward Market, maintaining its position among the leading companies.

Pichi Picún Leufú Hydroelectric Complex - HPPL

In 2006 the incoming mean flows from the Limay and Collón Curá rivers were 26.2 % and 34.2 % higher than average, respectively. Consequently, HPPL generation surpassed its historical values since its start-up: 1,430 GWh. With this volume, that represents 21.5 % increase compared to 2005 and 32.7 % above mean historical values, HPPL had a 1.4 % share of the total power generation for the year and 3.5 % share of hydraulic generation.

HPPL reached that record generation despite non scheduled maintenance works in Unit No. 2, from November 2005 to June 10, 2006, that reduced HLLP availability to 85.3% (compared to 95 % estimated availability). Those maintenance works were conducted mostly by own personnel as a consequence of a failure in one of the turbine runners. Results of the repair were outstanding in terms of detection of the failure, repair quality and time and restart of operation.

Transportation

Transener S.A. Transener

During 2006 Transener continued working to maintain service quality, train its personnel and safeguard the environment through ISO 14000 certifications.

Transener strove to maintain service quality within the standards provided for under the concession contract, in the light of the significant growth of GDP and electric power consumption in Argentina. No major expansion was introduced in the electric system, so many of the electric lines and substations are overloaded or close to their limit, which is very inconvenient for electric power supply.

However, and despite the great demand for electric services, the company complied with its operation duties by performing works maintenance works that result in improved reliability and enable the company to maintain its efficiency rates, even in adverse scenarios. Another highlight was that the company was awarded contracts for electrical transformer stations and that, at the request of the Government, is performing works to expand their capacity.

Despite the fact that 2006 was a year full of uncertainty, the agreement reached with UNIREN in 2005, the company's operative efficiency and the prospective investments in the sector enabled Transener to continue improving income from operations, mid and long term corporate value and foresee ability, in order to return to international financial markets.

Distribution

Edesur S.A. Edesur

Argentina's economic growth had an impact on the demand for electricity which surpassed consumption levels recorded prior to the 2001 crisis and increased 4.9% compared to the previous year in Edesur concession area, almost in the limit of its capacity.

In December 2006, the company recorded a historical 3.028 MW maximum demand for power, 3.9 % higher than the previous value recorded during February 2006. In turn, energy delivered to Edesur network reached 16,585 GWh.

Electricity sales also hit maximum historical values with total annual sales of 14,837 GWh, accounting for a 6% increase compared to 2005. This figure includes 2,583 GWh for distribution services to large users.

During 2006 Edesur was able to reduce energy losses for the second year in a row. Energy losses amounted to 0.81 percentage points an improvement compared to 0.4 points recorded in 2005 and consequently the variable annual rate moved down from 11.35% to 10.54 %.

In addition, Edesur increased its customer portfolio by 1.45% to 2,195,914 users. This indicator keeps the upward trend of the previous year.

As regards service quality and continued improvement, Edesur implemented work plans that helped reduce commercial complaints by 35%. Surveys on customer service showed that the company's aim was achieved.

As part of the concession contract renegotiation process provided in by Law No. 25561 and supplementary provision, on August 29, 2005 Edesur executed the Memorandum of Agreement for the Renegotiation of the Concession Agreement, which was ratified by Executive Decree No. 1509 on December 2006.

Despite this significant progress, Edesur has not strengthened its economic and fiscal situation following the devaluation and pesification announced by the Government in January 2002, and has oriented its management policy to attenuate the adverse side effects of the situation. Edesur used the available resources to support the provision of service, and during 2006 invested P\$215 million, amounting to P\$3,363 million pesos the total accumulated investment of the company.

Quality, Safety, Environment and Health

Petrobras Energía is a socially oriented and environmentally responsible company, in continued search excellence management. This commitment is central to its corporate mission: the Company strongly believes that caring for the environment and for the health and safety of the people in the areas where we operate is crucial to the success of our business.

In this line, during 2006 the Company:

- * Moved forward with its Excellence Management Program and started more than 40 improvement plans in its operational units.

- * Completed the implementation of the Process Safety Program (PSP), which organized the CSMS governance system, standardized a best practices manual and implemented a plan which governs the relationship with contracting companies.

- * Trained approximately 4,000 people own staff and third parties personnel in safety, injury prevention and defensive driving.

- * Advanced in the implementation of waste treatment and fire protection plans, and started to develop ecoefficiency guidelines and indicators.

- * Equipped all its business units with automatic defibrillators and trained over 3,400 employees in terms of health promotion and protection.

Excellence in Management

In order to achieve high standards of excellence in management, Petrobras Energía implemented the Management Quality Excellence (MQE) program, which started with the evaluation of different business units to identify opportunities and design improvement plans. In 2006, over 40 improvement plans were started in the operational units evaluated during 2004/2005, reaching a compliance rate above 90%. Likewise, the evaluation cycle was repeated in two units, Innova and thermal electrical plant Genelba, to obtain information which will be used for the design of new projects.

Day-by-day Improvement

The Company also implemented practises that enable a day-by-day improvement of the management: the Standard System, Defect Management and Audit Management with their respective IT support tools. Petrobras Energía also

strengthened its management systems which were awarded ISO 9001 certifications in business and IT support areas.

The Company aims at a more integrated management, with an even higher degree of efficiency, to obtain adequate support to other corporate projects such as SOX and PROANI.

Safety

Process Safety Program

The implementation of the Process Safety Program (PSP) was completed in October 2006. The program was developed to implement the new Safety, Environment and Health Policy launched in April 2004. The PSP was applied to all assets operated by Petrobras Energía and its centralized functions, and achieved the following results:

- * The structuring of the CSMS governance system in committees and subcommittees to ensure a two-way information flow, both in CSMS management issues and in technical issues.
- * The standardization of management practises through the CSMS Management Manual, which includes the 15 Guidelines and other global quality safety, environmental and health (SMS) management procedures.
- * The start-up of the plan which governs the relationship with contracting companies, that includes CSMS practises and standards, personnel training, definition and formation of managers and contract auditors and releases and events; among others, the First Meeting of Petrobras Energía Contractors focused on CSMS standards, held in September 2006.
- * The First Petrobras Energía Contest in SMS Good Practises, which enabled to share with the contractors the best works implemented by the Company during the 2000/2005 period (those works which resulted in an increase of the synergy among the different business units) and create a greater interest in CSMS excellence standards.

Accident Prevention

Petrobras Energía also designs actions tended to reinforce accident and minor incident prevention. In 2006 some of the actions taken in this respect were:

- * Increase supervisors more than 900 own and contracting parties accident awareness through the program Prevention never takes a break (La Prevención no descansa... en acción).

- * Training in safety, environment and health issues to 2,800 workers, supervisors and heads of contracting companies, coordinated by Petrobras University. 4,200 people were trained since its start in May 2005.
- * The project Injury Prevention Leadership (Liderazgo en Prevención de Lesiones) aimed at training supervisors in safety issues, to prevent injuries produced by wrong handling or slippery steps during work (amount to more than 70% of labour accidents).
- * Course on defensive driving for all Petrobras Energía personnel, including centralized staff.
- * The program Event Safety (Seguridad en Eventos) implemented to prevent accidents affecting own staff, third parties personnel and participants, even during public events sponsored by Petrobras Energía.

Environment

With the intent to continue minimizing the impact of its operations and reducing associated risks, Petrobras Argentina implemented several actions in 2006, including mainly:

- * Waste treatment plans: the Company began with several remediation projects (sanitation and recovery of soils and water affected by pollution) both at gas and oil fields and at refineries. In addition, it started implementing a corporate system for management of waste and advanced with the project for disposal of hazardous waste containing PCB: at Río Neuquén, Aguada de la Arena, Puesto Hernández and the San Lorenzo Refinery treatment was completed of oils of transformers with PCB-content, along with their dechlorination and final disposal of generated waste.
- * Projects for enhancement of fire protection systems: at Puerto General San Martín the construction of a new fire fighting water storage tank was completed and the works of the tank cooling system concluded as in the case of the San Lorenzo Refinery.
- * Environmental Defense Centers: during 2006, the Company worked on the maintenance of equipment and on an enhanced personnel training.
- * Ecoefficiency: the Company started developing ecoefficiency guidelines and indicators, i.e. the rational use of natural resources and energy with the minimum impact on the environment, without losing focus on profitability. It also started developing the guidelines and indicators related to biodiversity management in sensitive areas.

Environmental Training and Awareness

Petrobras Energía also worked throughout 2006 on the promotion of environmental awareness in the public -domestic and foreign - with which it interacts. It organized, as part of its in-house training program, a remote course on ecoefficiency and the life cycle with the participation of employees from Argentina and the rest of the countries where

the Company does business. In addition, it continued technically and financially supporting the Globe Environmental Education Program, which promotes the practical study of the environmental science and care at educational institutions.

Contingency Systems

Petrobras Energía successfully implemented throughout 2006 several improvements in contingency systems, which mainly include the Corporate Crisis Plan, the Nautical Emergency Plan and the Block 31 Emergency Plan, all of them incorporated to the InfoPAE, the information technology tool used by the Company to handle contingent environmental accidents.

Moreover, Petrobras Energía planned and carried out in Argentina 16 emergency drills including, in terms of size, the toxic substance spill drill in the international road to Chile, approximately at Uspallata (Mendoza) and the hydrocarbon spill drill in the Río de la Plata, which was the greatest in the Company's history.

In training terms, the Company advanced with its Comprehensive Training Program which involved not only its own personnel and contractors but also authorities, fire fighters and Civil Defense staff, organizing the different parties that are to make up a strong emergency response team. The 2006 agenda of this program went deeper in the Handling of Emergencies with Chemicals and incorporated the Handling of Emergencies with LPG, which is a major issue both for the Company and for the authorities and safety forces.

Health

To optimize the health and quality of life of its employees, the Company deepened its Health Promotion and Protection Program which promotes a healthy diet and physical activities habits and works on the handling of stress and the prevention of accidents. To achieve this objective, Petrobras Energía took the following actions in 2006:

- * It organized over 1,500 workshops training almost half of its employees. Workshops dealt, among other subjects, with feeding and pregnancy, diet guides for hypertense and dyslipemic individuals, overweight individuals, diabetic individuals, work and leisure, relax and stress, time handling, team relationships, assertiveness, effective confrontation, cigarette smoking, passive smokers, family and chronic diseases and wake and sleep cycle disorders.

- * It trained over 1,100 individuals in cardiopulmonary resuscitation (CPR) and first aid.

- * It implemented the modality of Individual Consulting (in which a specialized professional is available to hear individual employee inquiries at plants). Among other issues, specialists gave their advice on healthy feeding, stress, physical activity and smoking.

- * It trained health professionals participating in the Occupational Dental Health Plan -an on-going plan in all business units -together with Petrobras Brasil.
- * It provided all business units with automatic cardiac defibrillators and start providing them to gas stations.
- * In its community relations, it organized training sessions at schools on first aid and dental health. It also raised funds -together with Fundación Mc Donald's- for a health campaign with pediatric units visiting communities to provide general and dental health services.

Human Valuation

Petrobras Energía seeks to promote an attractive, challenging and encouraging work context for all its people because it assumes that it thus contributes to establish competitive advantages, through its employees, in the business and society.

In 2006, there was a change in leadership in the Human Resources Department and main work focuses were:

- * Excellence in work relationships
- * Managerial education
- * Functional integration among human resources areas

Different actions were developed, based on the above topics, which were inspired by the best market practises and contributed to the growth of people and a better quality of life. Petrobras Energía continued aiming its efforts at becoming the most preferred employer at those places where it does business.

Human Resources Management

Petrobras Energía is aware that the success of its business arises from its employees' talent, commitment and motivation. Therefore, it works year-on-year to strengthen dialogue and promote excellence in the management of individuals. These ongoing efforts are recognized both by Company employees and by other organizations: in 2006, Petrobras Energía was second in the first edition of the Awards for Innovation in Human Resources organized by the consulting firm Meta 4. In this regard, the Company was also recognized by the Revista Apertura which ranked it third among the 50 best employers in Argentina during 2006.

Moviliza

Petrobras Energía gives priority to fi