PETROBRAS ENERGIA PARTICIPACIONES SA
Form 6-K
August 28, 2003

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

August 27, 2003

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 X   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 X

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

N/A

EXHIBIT		**1.**
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A.	Attached hereto as Exhibit A Petrobras Energía Participaciones S.A. (MERVAL: PC, NYSE: PC) announces Financial Statements and Summary of Events as of June 30, 2003 and the Independent Public Accountant´s Review Report	3

EXHIBIT A

Attached hereto as Exhibit A Petrobras Energía Participaciones S.A. (MERVAL: PC, NYSE: PC) announces Financial Statements and Summary of Events as of June 30, 2003 and the Independent Public Accountant´s Review Report

PETROBRAS ENERGIA PARTICIPACIONES S.A.

Financial Statements and Summary of Events

as of June 30, 2003

Independent Public Accountant´s Review Report

PETROBRAS ENERGIA

PARTICIPACIONES S.A.

SUMMARY OF EVENTS

FOR THE SIX-MONTH PERIOD ENDED

JUNE 30, 2003

(Not covered by Auditor´s Report)

MACROECONOMIC OVERVIEW 2003 Second Quarter

International Scenario

World economy continued to grow slowly in the second quarter. The high levels of uncertainty prevailing in the first months of the year somehow yielded after the end of the war in Iraq. Several qualitative indicators, such as consumer confidence, showed a quick recovery after the end of the war, but those expectations became gradually diluted as real indicators failed to show a substantial improvement. In fact, United States growth in the second quarter had government spending as its most dynamic factor and private consumer growth is accounted for by a remarkable increase in the acquisition of durable goods, which is not sustainable in time. The tax cuts implemented in July sought to change this situation. As far as monetary policy is concerned, the Federal Reserve lowered the reference rate by a quarter of a point to 1.00%, the lowest rate in over four decades, and has given out signals that the reference rate will remain low as long as necessary for the economy to grow again, and might even be reduced further if necessary. Long-term rates initially fell to unusually low levels, partly due to an exaggerated fear of deflation, but the trend took a sudden turn in mid-June and started to reflect more accurately the current economic reasons for large fiscal and current account deficits.

A mild recovery seems to be taking place in Japan, where some key indicators, such as consumer confidence, unemployment and salaries have slightly improved. This improves the chances for a recovery in consumer spending, which accounts for 55% of the GDP. In the second quarter, GDP reportedly grew slightly over the meager 0.1% level recorded in the first quarter of 2003. Industrial production, however, continued to fall. The threat that an appreciation of the Yen poses to the competitiveness of Japanese exports has forced the Bank of Japan to act strongly, by buying over US$ 75 billion in the first seven months of the year. The remaining Asian countries have recovered faster than expected from the impact of SARS, and previous activity levels have been reinstated. Pressure for an appreciation of the Chinese currency continues, but the government has resisted it, out of fear of a lower increase in exports and the potential impact on employment. Additionally, the growth in monetary supply has not resulted in inflationary pressure.

The European economy has shown a slight fall in activity levels in the second quarter, after remaining without changes in the first. The aggressive appreciation of the Euro has negatively affected the competitiveness of European exports and hurts investment prospects too. Nevertheless, a new reduction in interest rates mandated by the European Central Bank (the new interest rate is 2%), along with greater tax flexibility on the part of most European Union countries, and some indicia of recovery in the United States, have resulted in a minor increase in confidence indicators in the last few months.

The slow-paced recovery of crude oil production in Iraq, which is still far below pre-war levels, was a major factor in keeping WTI prices high, even after the war was over. Occupation forces have not been able to take full control of the situation in Iraq yet, where sabotage incidents occur. An oil strike in Nigeria, terrorist attacks in Saudi Arabia and Indonesia, and operational difficulties in Venezuela have also been a factor in keeping prices over U$S30 per barrel in the last few months, after an initial fall. Late in July, OPEC decided to maintain the quota established in the previous month (25.4 MM bbl/d (excluding Iraq)), on the grounds that the market was adequately supplied and prices did not reflect the economic factors involved. All the same, the quota was exceeded by 400,000 bbl/d in June.

Argentina

The Argentine economy continues to recover from the dramatic fall experienced in 2002, though at a lower pace now than in the previous quarters, especially in the manufacturing industry, which has fallen for three months in a row now, in non-seasonal terms. Exports have benefited from high commodity prices, although volumes have not increased significantly yet. The main area where exports have grown is the sales of oilseeds, as a result of increased purchases by Asian countries. Exports increased by 39% in the first half of the year. The rate of exchange has remained somewhere between 2.75 and 3.00 Pesos per U.S. dollar, repeatedly sustained by Central Bank s purchases. A strong increase trend, however, has been present since the end of July, in line with a dramatic reduction in domestic interest rates by the Central Bank, and the recovery of international interest rates. The early release of the bank restrictions known as *corralón* has not resulted in problems for banks. The amount of compensation payable to financial institutions as a result of asymmetric indexation has not been defined yet.

Argentina has exceedingly met the fiscal goals agreed upon with the IMF. The government is now negotiating a new long-term agreement that will enable it to refinance the portion of the debt that will become due in the next few years.

Finally, the former governor of Santa Cruz, Néstor Kirchner, took office as President of Argentina when former president Carlos Menem decided not to participate in the runoff election.

Latin America

Venezuela still maintains exchange control provisions, which are nevertheless more flexible now that the currency supply is more agile and sovereign bonds can be bought with local currency (this is yet to be implemented). Although Venezuelan oil production is below OPEC quota levels, a major amount of reserves (USD 18 billion) has been accumulated, thanks to a dramatic fall in imports and high oil prices. In the light of the recovery of oil production and currency accumulation, risk rating agencies have increased Venezuela s credit rating. In this favorable context, Venezuela has successfully exchanged Brady bonds for Global Notes, and additional exchange transactions are expected to enhance the country s foreign debt profile. While the oil economy has somehow recovered, the non-oil economy continues to fall. On the other hand, higher liquidity levels have induced banks to refinance government debt and cover for the increased fiscal deficit. In the political arena, Chávez has signed an agreement for a revocation referendum. At the National Assembly, the governing and opposition parties have not agreed yet as to the appointment of new members of the CNE, a critical agency in the revocation referendum. The opposition in turn is trying to unify their positions. If the revocation referendum is conducted after August 2004 and the President is defeated, the Vice President should step into office for the rest of the Presidential term, and a general election would be called only in 2006.

In Brazil, the government s overreaction designed to gain market credibility, by maintaining fiscal discipline and trying to curb inflation, has led the Central Bank to maintain high interest rates. This has negatively affected unemployment and economic activity levels. Industrial production fell in the second quarter, and GDP seems to have fallen too; the country is now technically in a recession. In order to reactivate demand, the government has implemented some special programs that include lower tax and interest rates. The foreign sector shows a remarkable trade balance surplus, while IED has fallen dramatically. Short-term capital inflows have also helped to lower country risk rates substantially and appreciate the local currency, a fact that has been partly reversed in the last few weeks. In the light of improved financial conditions, Brazil has successfully exchanged Global Notes for Brady bonds in an amount of US$ 1.3 billion. Yet, in spite of the fact that the country has exceedingly met primary fiscal surplus goals established by the IMF, and in spite of the appreciation of the exchange rate, debt has reached 55.4% of the country s GDP. In the political field, after some tough negotiations, the government has finally obtained approval of the retirement and pension system reform by the House of Representatives. The intended tax reform has also encountered difficulties. Approval of these two reforms is essential, both as a test of the government s political clout and as a key factor to making fiscal accounts sustainable.

Analysis of Consolidated Results of Operations

Figures for 2002 second quarter, presented for comparative purposes, were restated. The price index applicable for restatement of financial statements and for measuring results in constant currency is a general wholesale price index and therefore does not reflect any specific variation in the price of products and services sold by the Company and which represent the Company s core business. Consequently, variations in gains (losses) for both periods include positive or negative price variations in real terms subject to the fact that variations in specific indexes, including applicable exchange rates, may be higher or lower than the general price variation.

The table below shows the Company s results of operations for 2003 and 2002 second quarters.

Net income: Net income for 2003 second quarter increased 60% to P$255 million from P$159 million in 2002 quarter. This rise is mainly attributable to a 29% average decline in the US dollar price which had a significant impact on the Company s financial results, given the net borrowing monetary position mainly denominated in dollars. However, since a significant portion of the sales is dollar-denominated, the above mentioned peso appreciation adversely affected operating income for 2003 second quarter. In addition, operations for the period under review were affected by:

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lower margins of petrochemicals due to a drop in international reference prices,

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a decline in oil and gas sales volumes, reflecting reduced investments in 2002 and, to a lesser extent, the effects of the National Oil Strike in Venezuela,

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lower styrenics volumes given the significant shrinkage in the Brazilian market.

The Company s results of operations for the quarter were affected by the following positive facts:

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A P$47 million increase in gross profit for the Refining business segment, reflecting a 24% rise in sales volumes which allowed to capitalize on increased margins in the domestic market derived from a recovery in prices.

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Consolidated production in Block 18 (Ecuador), with a 2.8 thousand bbl/d average production.

Gross profit: Gross profit for 2003 quarter dropped 22.5% to P$426 million from P$550 million. The 2002 quarter includes P$36 million from farming and forestry activities, which assets were divested during 2002 fiscal year. Excluding such item, gross profit dropped P$88 million due to the above mentioned effects derived from the drop in prices, margins and volumes. All such effects resulted in a P$88 million and a P$54 million decline in gross profit for the Oil and Gas Exploration and Production and Petrochemicals business segments, respectively. Conversely, increased volumes and margins for the Refining business segment resulted in a P$ 47 increased gross profit.

Net sales: In 2003 quarter, net sales dropped to P$1,140 million from P$1,366 in 2002 quarter. The 2002 second quarter includes P$54 million attributable to sales from the farming and forestry activities and P$12 million attributable to Conuar sales, which assets were divested during 2002 fiscal year. Excluding these effects, sales declined P$160 million. Such drop mainly derived from:

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A P$148 million drop in the oil and gas exploration and production segment due to a 12.2% decline in oil and gas sales volumes and an 8% fall in average sales prices.

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A P$54 million fall in the Petrochemicals business segment due to a 20.8% drop in volumes and a 8.8% decline in styrenics sales prices.

Conversely, sales for the Refining business segment increased P$55 million due to increased prices and volumes.

Administrative and selling expenses: Administrative and selling expenses dropped to P$123 million or 16.9% from P$148 million in the same period of previous year, mainly due to the effect of reduced expenses incurred abroad in terms of dollars and reduced expenses in Argentina in terms of pesos.

Other exploitation expenses, net: Other Exploitation Expenses recorded P$1 million and P$17 million losses for both periods, respectively. The period under review basically includes a provision for the tax on banking transactions (P$12 million) and a provision for environmental remediation (P$8 million), offset by the favorable resolution of commercial claims in Venezuela and advisory services provided to other companies. The 2002 quarter loss was mainly attributable to the adverse resolution of commercial disputes and penalties paid to contractors for contract termination as a result of investment cuts (P$9 million) and the tax on banking transactions (P$13 million), partially offset by income from advisory services to other companies.

Exploitation income: Exploitation income dropped 21.8% to P$299 million from P$382 million in the same period of previous year.

Exploitation income for each business segment for 2003 and 2002 second quarters is broken down as follows:

Equity in earnings of affiliates: Equity in earnings of affiliates totaled P$137 million and P$111 million in both periods, respectively. Equity in earnings of utilities totaled P$123 million in 2003 quarter and P$81 million in 2002 quarter. Considering the uncertainty that characterizes such companies businesses, such investments were valued up to their recoverable value. The above increase is attributable to the significant recovery in the listed price of such companies shares in the second quarter of 2003. The Company s management believes that in the current scenario the listed price of shares is the most objective indicator to determine the respective recoverable values.

In addition, equity in earnings of Refinor dropped P$9 million as a consequence of the strong impact of holding gains (losses) on inventories for the same period of previous year derived from the strong devaluation in such period.

Financial income (expense) and holding gains (losses): Financial income (expense) and holding gains (losses) accounted for P$79 million and P$267 million losses for 2003 and 2002 quarters, respectively. Such reduction is attributable to the exchange rate appreciation in 2003 quarter compared to 2002 quarter. Interest expense dropped to P$101 million from P$243 million boosted by a decline in the dollar price and a 5.8% drop in the average dollar-denominated indebtedness. Income from measurement of derivative instruments accounted as non-hedge instruments declined to P$40 million from P$87 million mainly as a result of the impact of the peso depreciation in the same period of previous year. In 2002 second quarter, such negative effects were offset by a P$33 million gain from exposure to inflation, net of the exchange difference effects and the conversion into pesos of foreign assets.

Other expenses, net: Other expenses, net totaled P$59 million and P$33 million in the same period of previous year. In both periods, estimated future contingencies related to compliance with the crude oil transportation contract subscribed with OCP, accounted for P$39 million and P$33 million losses, respectively. In addition, 2003 quarter losses were mainly attributable to: (i) P$11 million impairment charge to write off book value of interest in Faro Vírgenes area for valuation at net realizable value; and (ii) P$8 million reserve on the book value of loans granted to hydrocarbon production joint ventures in Venezuela given the Venezuelan crisis context.

<u>Analysis of exploitation income by business segment</u>

Oil and Gas Exploration and Production

Exploitation income: Exploitation income for the Oil and Gas Exploration and Production business segment dropped to 12.4% P$255 million in 2003 second quarter from P$291 million in 2002 quarter. Such drop mainly derived from (i) a 29% decline in the US dollar price in real terms which adversely affected the dollar-denominated flow from foreign operations and, to a lesser extent, the flow from the country s operations, and (ii) a 12.2% drop in oil and gas sales volume. Such drop is partially offset by a P$21 million gain in other exploitation income compared to a P$11 million loss in the same period of previous year.

The table below shows the Company s exploitation income for Oil and Gas Exploration and Production business segment:

Net sales: net sales for 2003 second quarter decreased 19.2% to P$622 from P$770 million in 2002 second quarter mainly due to the combined effect of a drop in prices and sales volumes.

During 2003 second quarter, including the effects of hedging transactions and the tax on exports, the average crude oil price decreased 9.3% to P$54.7 per barrel from P$60.3 per barrel in 2002 quarter.

The drop in sales prices derived from the beforementioned decline in the dollar price in addition to existing limitations to increase gas sales prices. Such effects were partially offset by a 10.3% increase in international crude oil prices along with a 49% increase in the production exposed to the WTI, on account of a reduction in hedged volumes and this allowed to capitalize on the quarter s high prices.

In such respect, the crude oil hedging policy accounted for a P$19 million and a P$117 million opportunity cost in both periods, respectively. For the rest of the year, the Company has an extended hedge, but under put contracts that allow for a downside protection against low crude oil price without limiting the upside potential due to WTI increases.

Tax on exports in Argentina accounted for a P$14 million and P$24 million lower revenue in 2003 and 2002 quarters, respectively.

Combined sales volumes of oil and gas decreased to 160.9 thousand boe/d in 2003 second quarter from 183.2 thousand boe/d. Oil sales volumes dropped to 113.1 thousand bbl/d or 7.5% from 122.3 thousand bbl/d in the same period of previous year. Gas sales volumes dropped 21.5% to 286.5 million cubic feet per day in 2003 quarter from 364.9 million cubic feet per day in the same period of previous year. The drop in sales volumes is in line with the restrictive investment policy implemented in 2002. Though such policy proved to be effective in 2002 context to protect operating cash flow, it delayed the development of hydrocarbon reserves to cover the natural fields decline.

Argentina

In Argentina, sales decreased 19.7% to P$351 million from P$437 million in 2002 quarter due to the combined effect of a 5.5% decline in sales prices and a 15.6% drop in sales volumes as a consequence of the mature fields decline as a result of investments cuts and a reduction in the demand for gas at the beginning of the quarter.

Crude oil sales dropped to P$319 million from P$370 million in 2002 quarter. The crude oil price per barrel dropped to P$62 from P$66.5 in 2002 quarter. Sales volumes decreased 7.8% to 56.5 thousand bbl/d in 2003 quarter from 61.3 thousand bbl/d in 2002 quarter.

Natural gas sales revenues declined to P$30 million from P$66 million in 2002 quarter. Daily gas sales volumes dropped 25.2% to 220.3 million cubic feet on account of the restrictive investment policy in 2002 and a reduction in the demand for gas at the beginning of 2003 quarter. Sales prices fell 39.3% to P$1.50 per thousand cubic feet from P$2.47 per thousand cubic feet pursuant to the Public Emergency Law provisions which limit the possibility of increasing the sales price of the gas sold in the domestic market, mainly in connection with sales agreements entered into with utility companies.

Outside of Argentina

Combined sales of oil and gas outside of Argentina dropped 18.6% to P$271 million in the period under review from P$333 in 2002 quarter. Total oil and gas sales volumes decreased 7% to 67.7 thousand boe/d. The average sales price of oil per barrel dropped to P$47.4 or 12.3% from P$54.1 in 2002 quarter.

Venezuela

Oil and gas sales in Venezuela dropped 31.3% to P$145 million in 2003 second quarter from P$211 million in 2002 quarter. The average oil sales price per barrel dropped 17.8% to P$38.2 in 2003 quarter from P$46.5 in 2002 quarter.

Daily sales volumes of oil equivalent dropped to 43.9 thousand barrels 17.8% in 2003 quarter compared to 53.4 thousand barrels in 2002 quarter mainly as a consequence of (1) the natural fields decline on account of the investment cuts and (2) the effects of the difficulties involved in resuming production in the wells affected by PDVSA strike. As of the date of these financial statements, production at the four fields is normal and the effects of the abovementioned strike have been overcome.

Bolivia

Combined oil and gas sales in Bolivia dropped 6.9% to P$27 million from P$29 million in the same period of previous year. Combined daily oil and gas sales volumes increased 11.3% to 7.9 thousand boe/d in 2003 quarter from 7.1 thousand boe/d in 2002 quarter as a consequence of increased gas exports to Brazil. The sales price of gas decreased to P$5.13 per thousand cubic feet from P$5.68 per thousand cubic feet in the same period of previous year.

Peru

Combined oil and gas sales in Peru decreased 8.9% to P$82 million in 2003 quarter from P$90 million in 2002 quarter. This drop was mainly boosted by an 11.7% fall in oil sales prices per barrel to P$73.3 from P$83 in the same period of previous year, partially offset by a 6.5% increase in oil and gas sales volumes to 13.1 thousand boe/d from 12.3 thousand boe/d.

Ecuador

Oil sales in Ecuador increased to P$16 million in 2003 quarter on account of the approval of the Development Plan for Block 18 in 2002 fourth quarter while no significant sales were recorded in the same period of previous year.

Daily crude oil sales volumes in 2003 second quarter, net of the Government s interest, totaled 2.8 thousand barrels per day.

Gross profit: Gross profit for this business segment dropped 23.9% to P$280 million in 2003 second quarter from P$368 million in 2002 quarter in line with the decline in the dollar price and, to a lesser extent, lower sales volumes. Gross margin on sales decreased to 45% in 2003 quarter from 47.8% in 2002 quarter.

Administrative and selling expenses: Administrative and selling expenses decreased to P$43 million from P$63 million in 2002 quarter mainly reflecting the effects of the decline in the dollar price. The administrative and selling expenses to sales ratio was 6.9% in 2003 quarter and 8.2% in 2002 quarter.

Other exploitation income: Other exploitation income for 2003 quarter accounted for a P$21 million gain compared to an P$11 million loss in 2002 quarter. Exploitation income for the period under review mainly results from the favorable resolution of commercial disputes in Venezuela. The 2002 quarter includes P$9 million as a result of the resolution of commercial disputes and penalties paid to contractors for contract termination as a consequence of the investment plan reduction.

Refining

Exploitation income: Exploitation income for the Refining business segment totaled P$35 million in 2003 quarter compared to an P$11 million loss in 2002 quarter, boosted by a general recovery in contribution margins and increased sales volumes.

Gross profit: Gross profit increased P$47 million to P$52 million in 2003 second quarter from P$5 million. Gross margin on sales increased to 16% in 2003 quarter from 2% in 2002 quarter. Gross margin improvement mainly derived from improved operations in the domestic market as a consequence of the combined effect of increased volumes and improved operations competitiveness resulting from higher sales prices and lower dollar-denominated supply costs.

In the period under review, domestic market sales prices increased 10%, 30%, 26% and 12% for diesel oil, gasoline, by-products of the reformer process and heavy products, respectively. Such increases reflect the gradual recovery in prices during 2002 second semester. Conversely, and mainly as a consequence of the effect of a decline in the dollar price, heavy products, paraffins and diesel oil export prices decreased 24%, 27% and 13%, respectively.

As regards costs, in 2003 second quarter the average crude oil price decreased 14.9% to P$73.4 per barrel compared to P$86.2 per barrel in 2002 quarter due to the impact of the decline in the dollar price. The average cost of operations in 2003 quarter reflects the application of Resolution 85/03. Such Resolution ratified the agreement signed between Producers and Refineries (effective through July 2003) whereby refineries committed themselves to reflect a reference crude oil price of US$28.5 per barrel in the prices offered by them to the domestic market.

Within this relative price context and in line with the strategy designed to maximize product contribution margins implying the optimization of crude oil processed, crude oil volumes processed increased 27.5% to 36,732 bbl/d in 2003 quarter.

Net sales: net sales of refinery products increased 20% to P$324 million in 2003 quarter, from 269 mainly boosted by increased sales volumes in addition to higher local sales prices for gasoline and diesel oil.

Total sales volumes in 2003 quarter increased 24% mainly due to higher diesel oil sales to re-sellers. Sales volumes in Argentina increased an average of 53% with increases of 103%, 168%, 63% and 8% for diesel oil, asphalts, heavy products and gasolines, respectively. Such volumes allowed for a market share growth to 4.4% in 2003 quarter from 3.8% in 2002 quarter for diesel oil and to 3% in 2003 quarter from 2.3% in 2002 quarter for gasolines. This is particularly significant within a context of a 0.8% and 13.6% demand shrinkage, respectively.

Export volumes decreased 13%, mainly diesel oil (36%) and paraffins (29%), reflecting the effects of a trade policy that prioritized higher contribution margins and the consequent development of the domestic market.

Other exploitation income: Other exploitation income accounted for P$3 million and P$4 million losses for 2003 and 2002 second quarters, respectively. In the period under review, such loss is attributable to a provision for environmental remediation and in 2002 quarter to the underabsorption of fixed costs in relation to reduced crude oil volumes processed.

<u>Petrochemicals</u>

Exploitation income: Exploitation income for the Petrochemicals business segment decreased 63% to P$33 million in 2003 second quarter from P$88 million in 2002 second quarter mainly due to a drop in styrenics business margins and a significant shrinkage in sales volumes, mainly in Brazil.

Gross profit: Gross profit dropped 47.4% to P$60 million from P$114 million. Gross margin on sales decreased to 22.2% in 2003 quarter from 33.9% in 2002 quarter.

As regards styrenics, sales volumes dropped and sales margins decreased as a consequence of lower international prices and, to a lesser extent, higher supply costs. As regards sales volumes, the Brazilian market shrinkage was a determining factor. In 2003 second quarter, the Brazilian industry has faced its worst crisis after the second quarter of 1999 when the *real* devaluation took place.

Regarding fertilizers, in spite of the significant recovery in sales volumes, the margin was lower compared to 2002 quarter due to an increased participation of resale products in the final mix.

Net sales: Net sales dropped 19.6% to P$270 million in 2003 quarter from P$336 million in 2002 quarter, mainly in styrenics, due to the shrinkage of the demand in Brazil, the effect of the dollar depreciation on sales prices and lower international prices.

In Argentina, styrenics sales decreased 16.2% to P$109 million from P$130 million mainly due to a 12% drop in sales volumes (22% in exports and 2% in local sales) and reduced prices (15% and 3% for styrene and polystyrene, respectively), as a consequence of the dollar depreciation and in line with a 5% and 2% drop, respectively, in their international reference prices.

Styrene sales volumes dropped 34% due to a 60% decrease in exports in line with the Brazilian market shrinkage. Domestic market sales rose 16% as a consequence of the market recovery.

Polystyrene sales volumes (crystal, high impact and bi-oriented polystyrene) dropped an average of 16% compared to 2002 quarter. Crystal and high impact polystyrene volumes decreased 31% in the domestic market due to reduced stocks in transformer industries in the light of price drop prospects as a consequence of the war in Iraq, and a 25% reduction in the export market in line with the Brazilian market shrinkage. Bi-oriented polystyrene sales volumes increased 88% as a consequence of increased exports to the European market.

Synthetic rubber total sales volumes rose 11% due to a 37% increase in domestic market sales, mainly SBR rubber (55%) on account of import substitution in the pneumatic industry. As regards rubber, the average price dropped 3%.

Fertilizers sales increased 27.5% to P$65 million from P$51 million mainly due to increased sales volumes, partially offset by a 18% drop in prices. Volumes increased 45%, mainly resale products and liquid fertilizers produced by the Company. It is worth mentioning that 2002 quarter was characterized by reduced operations on account of the prevailing uncertain market scenario.

Innova sales for 2003 second quarter decreased 39.4% to P$97 million from P$160 million as a consequence of a strong shrinkage in volumes and, to a lesser extent, a reduction in sales prices. As a consequence of the low demand in Brazil, styrene and polystyrene sales volumes significantly declined 18% and 44% (37% in the domestic market and 72% in exports), respectively. Styrene and polystyrene average sales prices dropped 17% and 34%, respectively. Given the strong shrinkage in demand in Brazil and the high level of polystyrene stocks, the Company brought forward the crystal polystyrene plant shutdown scheduled for September 2003. Such shutdown lasted 48 days.

Administrative and selling expenses: administrative and selling expenses declined to P$25 million from P$30 million mainly due to the effect of inflation on expenses in 2002 quarter.

Other exploitation income: other exploitation income accounted for a P$2 million loss in 2003 quarter compared to a P$4 million gain in the same period of previous year. The period under review mainly includes a provision for environmental remediation.

Hydrocarbon Marketing and Transportation

Exploitation income: Exploitation income for the Hydrocarbon Marketing and Transportation business segment totaled P$6 million in 2003 and 2002 quarters.

Exploitation income for this business segment is broken down as follows:

The Company s own operations include oil, gas and LPG brokerage services. Sales revenues significantly increased in the period under review to P$17 million from P$5 million as the Company closed a specific oil transaction during 2003 second quarter taking advantage of logistics comparative advantages, though with low contribution margins. The reduced margin in the period under review derives from discontinuance of certain brokerage operations performed in 2002 quarter, which contributed P$1 million.

Other exploitation income: As regards advisory services provided to TGS s technical operator, the Company posted P$3 million and P$4 million gains in 2003 and 2002 quarters, respectively.

Electricity

Exploitation income: Exploitation income for the Electricity business segment rose to P$27 million or 80% in 2003 quarter from P$15 million in 2002 quarter. Higher power prices resulted in increased operations profitability. The 2002 quarter includes a P$3 million gain from equity in earnings of Conuar S.A., which asset was divested in 2002 fourth quarter.

Exploitation income for this business segment is broken down as follows:

Electricity Generation

Net sales: Net sales of electricity generation increased 10% to P$55 million from P$50 million in 2002 quarter as a consequence of increased electricity sales prices partially offset by a reduction in sales volumes.

The increase in energy sales prices was mainly attributable to the following: (a) energy deliveries by less efficient machines at higher market prices as a result of reduced gas supply availability during the first half of June 2003 as a consequence of lower temperatures and increased gas consumption by industries. The latter circumstance did not affect Genelba Power Plant operations given the firm gas supply contracts entered into; (b) the effect of the following regulatory changes: (i) during the 2003 April / October period, collection of additional energy income for guaranteed supply to the electricity market, recording higher sales (P$4 million); (ii) increased equipment maintenance costs derived from devaluation and (iii) increased power price.

Net sales attributable to Genelba Power Plant in 2003 quarter increased 9.5% to P$46 million from P$42 million. The average monomic price of energy and power delivered increased 34.6% to P$42.8 per MWh in 2003 quarter from P$31.8 per MWh in 2002 quarter, reflecting the above mentioned effects. In 2003 quarter energy delivered dropped 19.8% to 1,067 GWh from 1,330 GWh in 2002 quarter with a plant factor reduction from 82.2% in 2002 quarter to 63.7% in 2003 quarter. In spite of this decline, the Power Plant operated at full capacity during higher price periods.

Net sales attributable to Pichi Picún Leufú Hydroelectric Complex increased to P$9 million in 2003 quarter from P$8 in 2002 quarter. The average monomic price of energy and power delivered increased 24.1% to P$37.6 per MWh from P$30.3 per MWh in 2002 quarter. In 2003 quarter, energy delivered dropped 4.8% to 217 GWh from 228 GWh in 2002 quarter. In accordance with the Energy Support Price Method mechanisms and as a result of the prices recorded in both fiscal years and future estimates, the Company recorded a P$1 million gain in both periods.

Gross profit: Gross profit for the generation business totaled P$22 million in 2003 quarter and P$7 million in 2002 quarter. Gross margin increased to 40% in 2003 quarter from 14% in 2002 quarter, mainly boosted by increased generation prices.

Other exploitation income: income from advisory services provided to Edesur S.A. s technical operator totaled P$6 million in both periods

SUMMARIZED BALANCE SHEET AND INCOME STATEMENT STRUCTURE

The information below for the six-month periods ended June 30, 2002, 2001 and 2000 should be read together with the financial statements attached hereto and does not have the retroactive effect under the new professional accounting standards.

LISTED PRICE OF PETROBRAS ENERGIA PARTICIPACIONES´S SHARE

PETROBRAS ENERGIA S STATISTICAL DATA

Outlook

We will continue to evaluate all of our assets throughout this year, with a view to consolidating the Company s portfolio in the assets regarded as having the greatest potential and highest profitability.

As a part of our action plan for the second half of 2003, investments will be basically focused on Oil & Gas, especially in Argentina, Venezuela and Ecuador.

In the field of public utility companies, we will continue to work to obtain a reasonable and fair adjustment of the relevant rates.

The Company is strongly positioned to face the short-term challenges that we are bound to encounter in the remaining months of 2003, and to resume investment and growth plans in the new context of the Argentine economy.

Oscar Vicente	Alberto Guimarães
Director	Director

INDEPENDENT PUBLIC ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of

Petrobras Energía Participaciones S.A. (formerly Perez Companc S.A.):

1.

We have made a limited review of the accompanying consolidated balance sheet of Petrobras Energía Participaciones S.A. (an Argentine Corporation) and its subsidiaries as of June 30, 2003, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the six-month period then ended. These consolidated financial statements are the responsibility of the Company s management.

2.

We have not performed a limited review of the financial statements of Distrilec Inversora S.A. as of June 30, 2003, whose balances represent 11% of assets, 11% of liabilities, 9% of net sales, and 3% of net income of the Company's respective total consolidated as of June 30, 2003, and for the six-month period then ended. These financial statements were reviewed by other auditors whose report, which have been furnished to us, included an uncertainty regarding the effects that measures to be taken by the Government, as mentioned in note 9 VI to the consolidated financial statements, could have on the financial position, results of operations and future cash flows of its affiliate Empresa Distribuidora Sur S.A. (Edesur S.A.). In addition, such auditors' report mentioned that Edesur S.A. is in the process of negotiating the rescheduling of the due dates for certain debts. The financial statements of Distrilec Inversora S.A. and the Company do not include any adjustment that might result from the resolution of these uncertainties or the negotiations mentioned above.

3.

Except as described in paragraph 5, we conducted our review in accordance with auditing standards generally accepted in Argentina for the review of financial statements for interim periods. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Argentina, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

4.

The accompanying consolidated financial statements as of June 30, 2003 are presented in conformity with accounting principles generally accepted in Argentina. Certain accounting practices applied by the Company that conform with accounting principles generally accepted in Argentina, do not conform with accounting principles generally accepted in the United States of America. The effects of the differences between accounting principles generally accepted in Argentina and the accounting principles generally accepted in the United States of America have not been quantified.

5.

We have not made a limited review of the financial statements as of June 30, 2003 of the affiliates Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A., Transportadora de Gas del Sur S.A., Oleoductos del Valle S.A. and Empresa Boliviana de Refinación S.A. nor were we able to satisfy ourselves by other procedures as to the investment and equity in earnings balances of Argentine pesos 465,000,000 and Argentine pesos 112,000,000, respectively.

6.

As described in note 2 to the consolidated financial statements, the Company has not consolidated proportionally the investment in the affiliate Compañía de Inversiones de Energía S.A. as required by regulations of the National Securities Commission and accounting principles generally accepted in the City of Buenos Aires, Argentina. The effects of such matter in the financial position as of June 30, 2003 and results of operations for the six-month period then ended have not been quantified by the Company.

7.

As described in note 3 to the consolidated financial statements, in accordance with the regulations of the National Securities Commission, the Company has not recognized the effects of the variations in the purchasing power of the Argentine Peso as from March 1, 2003, as required by accounting principles generally accepted in the City of Buenos Aires, Argentina. The effects of such matter in the financial position as of June 30, 2003 and results of operations for the six-month period then ended have not been quantified by the Company.

8.

As described in note 3 to the consolidated financial statements, in accordance with the regulations of the National Securities Commission, the Company has recorded its deferred tax assets and liabilities at their nominal values. The accounting principles generally accepted in the City of Buenos Aires, Argentina, establish that such assets and liabilities must be booked at their discounted values. The effects of such matter in the financial position as of June 30, 2003 and results of operations for the six-month period then ended have not been quantified by the Company.

9.

Based on our review and on the other auditors' report mentioned in paragraph 2, except for the effect of the adjustments, if any, as might have been required had there been no limitation in the scope of our work described in paragraph 5 and the uncertainties describe in paragraph 2, and except for the effect of not consolidating proportionally the investment mentioned in paragraph 6, we are not aware of any material modifications that should be made to the financial statements mentioned in paragraph 1 for them to be in conformity with the Business Association Law and the pertinent regulations of the National Securities Commission, and except for the effect of the matters discussed in paragraphs 6, 7 and 8 with accounting principles generally accepted in the City of Buenos Aires, Argentina.

10.

Regarding the balance sheet of Petrobras Energía Participaciones S.A. as of December 31, 2002, and the statements of income, changes in shareholders equity, and cash flows of Petrobras Energía Participaciones S.A. for the six-month period ended June 30, 2002, presented for comparative purposes, we further report that:

a)

On March 11, 2003, we issued an audit report on the financial statements of Petrobras Energía Participaciones S.A. and its consolidated financial statements as of December 31, 2002, which included a qualification related to an uncertainty to the ultimate realization of the investments in its affiliates Compañía de Inversiones de Energía S.A., Transportadora de Gas del Sur S.A., Compañía Inversora en Transmisión Eléctrica Citelec S.A., and Hidroneuquén S.A. in the amount of approximately Argentine pesos 175,000,000. Such financial statements include the effects of the accounting changes mentioned in note 3 to the consolidated financial statements but they do not consider the effects of the variations in the purchasing power of the Argentine Peso as from March 1, 2003. We have not audited any financial statement as of any date or for any period subsequent to December 31, 2002.

b)

On August 8, 2002, we issued a limited review report on the financial statements of Petrobras Energía Participaciones S.A. and its consolidated financial statements for the six-month period ended June 30, 2002, which included a scope limitation since a limited review of the affiliates Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A., Transportadora de Gas del Sur S.A., and Enron de Inversiones de Energía S.C.A. had not been performed. The financial statements of Petrobras Energía S.A. and its consolidated financial statements for the six-month period ended June 30, 2003 include the accounting changes mentioned in note 3 to the consolidated financial statements but does do not include the effects of the variations in the purchasing power of the Argentine Peso as from March 1, 2003.

Buenos Aires, Argentina

August 7, 2003

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.

C.P.C.E.C.A.B.A. Vol.1 - F°13

DANIEL G. MINENNA

Partner

C.P.A. Buenos Aires University

C.P.C.E.C.A.B.A. Vol.175 - F°221

PETROBRAS ENERGÍA PARTICIPACIONES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2003

(Amounts stated in millions of Argentine pesos see Note 2.c, unless otherwise indicated)

1.

Business of the Company and change of corporate name

Petrobras Energía Participaciones S.A. is an integrated energy company, focused on oil and gas exploration and production, refining, petrochemical activities, generation, transmission and distribution of electricity and sale and transmission of hydrocarboons. It has business in Argentina, Bolivia, Brazil, Ecuador, Peru and Venezuela. Petrobras Energía Participaciones has a significant share of the regional energetic market.

The Company s Special and Regular Shareholders Meeting held on April 4, 2003, approved the change of corporate name from Perez Companc S.A. to Petrobras Energía Participaciones S.A. This change in corporate name remained subject to the Comisión Nacional de Defensa de la Competencia (CNDC, Argentine anti-trust authorties) approving the transaction whereby Petrobras Participacoes SL purchased stock representing a majority interest in the Company.

In addition, the Regular and Special Shareholders Meeting of Petrobras Energía S.A. held on April 4, 2003, approved the change of corporate name from Pecom Energia S.A. to Petrobras Energía S.A, also subject to the approval mentioned above.

The CNDC approved the transaction on May 13, 2003. Pursuant to this resolution, Petrobras Energía undertook to divest of all of its equity interest in Transener S.A., in accordance with Law No. 24,065 that provides the Electric Power Regulatory Framework; such process is subject to supervision by the ENRE and the approval of the Federal Department of Energy.

On July 4, 2003, the IGJ (regulatory agency of business associations) granted its approval for and registered both changes of corporate name, which were also approved by the CNV on June 9, 2003.

2.

Basis of presentation

Petrobras Energía Participaciones S.A. consolidated financial statements have been prepared in accordance with the regulations of the Argentine Securities Commission (Comisión Nacional de Valores or CNV) and except for the matters described in Note 3, with Accounting Principles Generaly Accepted in Buenos Aires City, Argentina (Argentine GAAP).

Certain disclosures related to formal legal requirements for reporting in Argentina have been omitted for purposes of these consolidated financial statements, since they are not required for SEC reporting purposes.

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

a) Basis of consolidation

In accordance with the procedure set forth in Technical Resolutions No. 4 and 19 of the FACPCE (Argentine Federation of Professional Councils in Economic Sciences), Petrobras Energía Participaciones S.A. (hereinafter Petrobras Participaciones or The Company) has consolidated line by line its financial statements with the financial statements of the companies over which Petrobras Participaciones exercises exclusive or joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of votes, have resolved, on the basis of written agreements, to share the power to define and establish a company s operating and financial policies.

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

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

The data about the companies over which the Company exercises control, joint control or significant influence are disclosed in Note 23.e).

Companies under joint control includes the interests in Distrilec Inversora S.A., Compañía de Inversiones de Energía S.A. and Compañía Inversora en Transmisión Eléctrica S.A.(Citelec S.A.). As of June 30, 2003, and 2002, and as of December 31, 2002, the Company consolidated proportionally line by line the assets, liabilities, income (loss) and cash flows of Distrilec Inversora S.A. The Company has not consolidated proportionally the interests in: (i) Compañía de Inversiones de Energía S.A. due to the uncertainty over the evolution of its business (see Note 9.VI), and (ii) Citelec S.A. taking into account the intention to divest of such equity as stated by Petrobras Participaciones when 58,62% of the shares in the Company were transferred to Petrobras. In order to preserve the information s homogeneity, the Company did not consolidate proportionally line by line, in its comparative financial statements, the assets, liabilities, income (loss) and cash flows of Citelec S.A.

b) Foreing Currency translation

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

In the opinion of the Company s Management, the transactions carried out abroad have been classified as not integrated to the Company s transactions in Argentina. Such transactions are not an extension of the Company s transactions due to, among others, the following reasons:

a)

transactions with the Company are not a high proportion of the entity s activities abroad;

b)

activities of foreign business are partially financed with funds from its own transactions and with local loans;

c)

sales, workforce, materials and other costs of goods and services related to transactions abroad are settled mainly in a currency other than the currency of the investor s financial statements; and

d)

Company s cash flows are independent from the day-to-day activities of the foreign business and are not directly affected by the size or frequency of the activities of foreign business.

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

•

Assets and liabilities stated at current value are converted at the closing exchange rates.

•

Assets and liabilities measured at historical values and the income (loss) are converted at historical exchange rates.

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

- Assets and liabilities are translated by using a current rate.
- Income (loss) is translated at the historical exchange rates.
- The translation effect arising from the translation of the financial statements is disclosed in the Transitory differences -foreign currency translation account.

The above also applies to exchange differences arising from liabilities in foreign currency assumed to hedge the net investment in the foreign entity.

c) Restatement in constant money

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

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

On March 6, 2002, the CPCECABA (Professional Council in Economic Sciences of the City of Buenos Aires) approved Resolution MD No. 3/2002 providing, among other things, the reinstatement of the adjustment-for-inflation method for the interim periods or years ended as from June 30, 2002, allowing for the accounting measurements restated based on the change in the purchasing power of the peso through the interruption of adjustments, such as those whose original date is within the stability period, to be stated in pesos as of December 2001. Through General Resolution No. 415 dated July 25, 2002, the CNV required that the information related to the financial statements to be filed after the date on which the regulation became effective be disclosed adjusted for inflation.

The restatement in constant pesos method is applied to the accounting cost values immediately preceding the capitalization of the exchange differences mentioned in note 4.o), which represent an anticipation of the effects of variances in the purchasing power of the Argentine peso, which will be subsequently absorbed by the restatement in constant pesos of the assets indicated in such note.

On March 25, 2003, the Federal Executive issued Executive Order No. 664 establishing that the financial statements for years ending as from such date be filed in nominal currency. Consequently, and under CNV Resolution No. 441, the Company no longer applied inflation accounting as from March 1, 2003. This method is not in accordance with accounting principles generally accepted in the City of Buenos Aires and the Company has not quantified such effect. In the period between March to June 2003 deflation amounted to 3.3%.

Amounts as of December 31, 2002, and the income (loss) for the six-month period ended June 30, 2002, disclosed for comparative purposes result from restating the amounts in the financial statements as of such date following the guidelines indicated in the paragraph above.

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

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

3. New accounting standards

These financial statements have been prepared in accordance with professional accounting standards effective in the City of Buenos Aires and the applicable CNV (Argentine Securities Commission) regulations to make the methods consistent with those used by the Parent, except for:

a) valuation of deferred tax at nominal value without applying any discounted values as required by CNV General Resolution No. 434.

b) the non recongnition of the restatement in constant money provided for in FACPCE Technical Resolution No. 6, as described in note 2.c).

FACPCE Technical Resolutions Nos. 16, 17, 18, 19, and 20, approved as amended by the CPCECABA and adopted by the CNV through its General Resolution No. 434. These new technical resolutions are a consequence of the process whereby Argentine professional accounting standards are being made consistent with the international accounting standards issued by the International Accounting Standards Committee (IASC); in addition, they provide clarification for certain issues which had not been provided for in past regulations.

The main changes included in the technical resolutions, that have resulted in significant effects on the Company s financial statements, are: (i) guidelines regarding the recognition, measurement, and disclosure of derivatives and hedging transactions; (ii) amendment of the method to translate the financial statements of foreign subsidiaries stated in foreign currency; (iii) the mandatory requirement to apply the deferred tax method to recognize income tax; (iv) measurement of asset and liability amounts on discounted bases; (v) changes in the frequency and method to compare assets with the recoverable values thereof; (vi) incorporation of guidelines to assess whether certain transactions including financial instruments, irrevocable capital contributions and preferred stock, among others, should be classified as liabilities or shareholders equity; (vii) incorporation of new disclosure requirements including proportional consolidation of companies under joint control, change in the disclosure of direct sales revenues, information by segment, earnings per share, and the comparative information to be disclosed.

In addition, the Company amended the method used to recognize future estimated abandonment costs in oil & gas areas. Consistently with SFAS 143 guidelines, such costs discounted at a rate estimated upon initial measurement are capitalized together with the assets from which they originate and are depreciated by the production units method. In addition, a liability is recognized on such account at the estimated value of the amounts payable discounted at a rate estimated in its initial measurement.

Adopting new accounting standards has resulted in income in the amount of 24 during the six-months period ended June 30, 2003, and a 377 reduction to retained earnings at the beginning of the fiscal year, as disclosed below:

	Gains (losses)	
	June 30, 2003	December 31, 2002
Derivatives financial instruments (1)	11	(417)
Foreign currency translation (2)	69	-
Future abandonment costs (3)	-	45
Labor costs	2	(24)
Effects on affiliates	-	(8)
Discounted effect of nominal values of assets and liabilities (4)	31	(4)
Deferred tax (5)	(89)	31
	24	(377)

(1) In the past, the fair value of such instruments was not booked but the related income (loss) was recorded in income when losses and/or gains occurred as a result of the hedged position. Premiums paid were capitalized and amortized over the term of the option.

(2) In the past, gains (losses) on foreign currency translation were charged to income.

(3) In the past, these costs were accrued at nominal value and charged as a higher depreciation using the production units method.

(4) Calculated as provided for in CPCECABA Resolution MD No. 32/2002.

(5) In the past, the Company estimated income tax applying the effective rate on taxable income for the period regardless of any temporary differences between book and taxable income.

As established in the new accounting standards, there are certain transition regulations enabling to apply prospectively the valuation and disclosure method incorporated thereto. The transition standards applied by the Company, affecting the comparability of the financial statements, are:

a) The new methods for translating the financial statements of foreign subsidiaries stated in foreign currency were not applied retroactively.

b) The beginning balances resulting from the recognition, measurement, and booking of financial instruments qualified as effective hedge were not corrected.

4. Valuation methods

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

a) Accounts denominated in foreign currency:

At the prevailing exchange rates at the end of each year, including accrued interest, if applicable. The summary of accounts denominated in foreign currency is disclosed in Note 23.c).

b) Inventories:

Crude oil stock: at reproduction cost.

Materials: of high-turnover, at replacement cost; low-turnover, at the last purchase price, restated in constant money, according to Note 2.c).

Work in progress and finished products relating to refining, petrochemical and electricity activities: at replacement or reproduction cost, as applicable proportional in the case of goods in process according to the degree of process of the related good.

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

c) Investments:

Listed shares and government securities:

-

Available for sale: at market value at the end of each year, less the estimated selling expenses. Any gain or loss due to market fluctuations is reflected currently in income in the Financial income (expense) and holding gains (losses) account.