

PETROBRAS ENERGIA PARTICIPACIONES SA

Form 20-F/A

July 09, 2004

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The following item was subject of a Form 12b-25 and is included herein: Item 18

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

FORM 20-F/A

(Amendment No. 1)

**ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2003

Commission file number 333-11130

PETROBRAS ENERGÍA PARTICIPACIONES S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

REPUBLIC OF ARGENTINA

(Jurisdiction of incorporation of organization)

**Maipú 1, 22nd Floor
(C1084ABA) Buenos Aires
Argentina**

(Address of principal executive offices)

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

Title of each Class

Name of Each Exchange On Which Registered

American Depositary Shares, each representing 10 Class B shares

New York Stock Exchange

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2003 was:

Class B Ordinary Shares, par value Ps.1.00 per share.....2,132,043,387

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

Yes No

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

Item 17 Item 18

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EXPLANATORY NOTE

This Amendment No. 1 to our annual report on Form 20-F for the fiscal year ended December 31, 2003 filed on June 30, 2004, or Amendment No. 1, is being filed solely for the purpose of amending Item 18. We did not file as part of the original filing of our Form 20-F the portion of Item 18 containing the financial statements of Compañía de Inversiones de Energía S.A., which we refer to as CIESA, a company of which we held 50% of the share capital as of December 31, 2003 and over which we exercised joint control, for the fiscal years ended December 31, 2003, 2002 and 2001. CIESA's financial statements were not included in a timely manner with the financial statements filed as part of our original filing because the information necessary could not be compiled in the form and manner required within the prescribed time period without unreasonable effort and expense. The other portions of Item 18, mainly our audited consolidated financial statements for the fiscal years ended December 2003, 2002 and 2001 and the required audit reports thereon, were filed as part of our original filing and are being refilled as part of this Amendment No. 1, without change.

This Amendment No. 1 consists of a cover page, this explanatory note, Item 18 (as amended), the signature page and the required certifications of our chief executive officer and the chief financial officer.

Other than for the purpose of including the financial statements of CIESA referred to above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any other item of the annual report on Form 20-F filed on June 30, 2004 or reflect any events that have occurred after the annual report on Form 20-F was filed on June 30, 2004.

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Item 18. FINANCIAL STATEMENTS

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

PETROBRAS ENERGÍA PARTICIPACIONES
S.A.

By: /s/ Alberto Guimarães
Name: Alberto Guimarães
Title: Chief Executive Officer

By: /s/ Luis Miguel Sas
Name: Luis Miguel Sas
Title: Chief Financial Officer

Date: July 8, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Petrobras Energía Participaciones S.A.:

1. We have audited the accompanying consolidated balance sheets of Petrobras Energía Participaciones S.A. (an Argentine Corporation) and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Those financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on those financial statements based on our audits.
2. The financial statements of the affiliates Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A. and Transportadora de Gas del Sur S.A. as of and for the years ended December 31, 2003 and 2001 and the financial statements of the affiliate Distrilec Inversora S.A. as of and for the year ended December 31, 2003, have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those affiliates, is based on the reports of the other auditors. Those financial statements, for the affiliates which have been proportionally consolidated, reflect assets constituting 27% as of December 31, 2003, and net sales constituting 16% for 2003 and 12 % for 2001 of the Company's respective consolidated totals, and the Company's investment and equity in the net income of the other affiliates is stated at Argentine pesos 325,000,000 as of December 31, 2003 and Argentine pesos 139,000,000 for 2003 and 29,000,000 for 2001. Certain reports of other auditors include a paragraph referring to going concern uncertainties as explained in paragraph 7.
3. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.
4. As described in note 3, 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 from March 1, 2003 to September 30, 2003, and has not discounted the nominal values of its deferred tax assets and liabilities as required by accounting principles generally accepted in Argentina. The effects of such matters in the financial position as of December 31, 2003 and results of operations for the year then ended have not been quantified by the Company.
5. In our opinion, based on our audits and on the reports of other auditors referred to in paragraph 2, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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 paragraph 4, with generally accepted accounting principles in Argentina, which differ in certain respects from U.S. generally accepted accounting principles to the extent discussed in notes 22 through 24.

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6. As discussed in note 3, effective January 1, 2003 the Company adopted new accounting pronouncements related to certain valuation and disclosure matters. As required by accounting principles generally accepted in Argentina, the Company has restated prior period financial statements presented for comparative purposes to reflect the changes in accounting principles.
7. The financial statements and the reports of the other auditors of the affiliates Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A. and Transportadora de Gas del Sur S.A. as of and for the years ended December 31, 2003 and 2001, stated that they have been prepared assuming that such affiliates will continue as going concerns. Those statements, for the affiliates which have been proportionally consolidated, reflect assets constituting 17% as of December 31, 2003 and net sales constituting 8% for 2003 and 12 % for 2001 of the Company's respective consolidated totals, and the Company's investment and equity in the net income of the other affiliates is stated at Argentine pesos 325,000,000 as of December 31, 2003 and Argentine pesos 139,000,000 for 2003 and 29,000,000 for 2001. As discussed in note 9, such affiliates have been negatively impacted by the Argentine Government's adoption of various economic measures including the de-dollarization of revenue rates, the renegotiation of License and Concession contracts and the devaluation of the Argentine peso. In addition, such affiliates have suspended the payment of their financial debt. These circumstances raise substantial doubt about the affiliates' ability to continue as going concerns. The affiliates' managements' plans in regard of these matters are also described in note 9. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Buenos Aires, Argentina

June 11, 2004

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

(Member firm of Ernst & Young Global)

/s/ Daniel G. Minenna

DANIEL G. MINENNA

Partner

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(English translation of the report originally issued in Spanish)**

To the Chairman and Directors of
Distrilec Inversora S.A.

1. We have audited:

- a) The accompanying balance sheet of Distrilec Inversora S.A. as of December 31, 2003, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended.
- b) The accompanying consolidated balance sheet of Distrilec Inversora S.A. and its subsidiary Empresa Distribuidora Sur Sociedad Anónima (EDESUR S.A.) as of December 31, 2003 and the related consolidated statements of income and cash flows for the year then ended, included in Chart I as supplementary accounting information.

These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit conducted with the scope described in paragraph 2.

2. We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements, taken as a whole, are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Company's Management, as well as evaluating the overall financial statement presentation.

3. In our opinion:

- a) The financial statements mentioned in paragraph 1.a) present fairly, in all material respects, the financial position of Distrilec Inversora S.A. as of December 31, 2003, the results of its operations, the evolution of its shareholders' equity and its cash flows for the year then ended, in accordance with accounting principles generally accepted in Argentina approved by the Professional Council of Economic Sciences of the City of Buenos Aires.

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2.

- b) The financial statements mentioned in paragraph 1.b) present fairly, in all material respects, the consolidated financial position of Distrilec Inversora S.A. and its subsidiary Empresa Distribuidora Sur Sociedad Anónima (EDESUR S.A.) as of December 31, 2003, the consolidated results of their operations and their consolidated cash flows for the year then ended, in accordance with accounting principles generally accepted in Argentina approved by the Professional Council of Economic Sciences of the City of Buenos Aires.
4. The financial statements as of and for the year ended December 31, 2002, presented for comparative purposes, were audited by other independent auditors who issued their audit report with an unqualified opinion on February 7, 2003. The information as of and for the year ended December 31, 2002 has been modified by the Company's Management in order to comply with the changes in the accounting principles generally accepted in Argentina mentioned in note 2.II to the stand alone financial statements and has been restated in constant currency up to February 2003.
5. Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected the determination of the shareholders' equity as of December 31, 2003 and the results of operations for the year then ended to the extent summarized in note 11 to the consolidated financial statements. Certain additional information required by the Securities and Exchange Commission (SEC), prepared in conformity with accounting principles generally accepted in the United States of America, was included in note 12 to the consolidated financial statements.

Buenos Aires, February 9, 2004.

DELOITTE & Co. S.R.L.

/s/ Carlos A. Lloveras

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Compañía Inversora en Transmisión Eléctrica Citelec S.A.:

We have audited the accompanying consolidated balance sheets of Compañía Inversora en Transmisión Eléctrica Citelec S.A. and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3.a. to the consolidated financial statements, in order to comply with regulations of the legal control authorities, the Company discontinued inflation accounting as from March 1, 2003 as well as recognized deferred income tax assets and liabilities on a non-discounted basis. The application of these regulations represent a departure from accounting principles generally accepted in Argentina, which require inflation accounting be discontinued as from October 1, 2003 and the recognition of deferred income tax assets and liabilities on a discounted basis. The Company has not quantified the impact of such a departure.

In our opinion, except for the effects of not recognizing inflation accounting until September 30, 2003 and not discounting deferred tax assets and liabilities as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compañía Inversora en Transmisión Eléctrica Citelec S.A. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in Argentina.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, during 2002 the Company was negatively impacted by the devaluation of the Argentine Peso and the Argentine Government adoption of various economic measures, including the conversion of dollar-denominated tariffs to Argentine pesos at an exchange rate of Ps.1 = US\$ 1. As a result of these circumstances, the Company did not comply with certain restrictive covenants contained in its debt agreements and suspended the payment of its financial debts. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management plans in regard to these matters are also described in Note 2. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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As discussed in Note 3.d. to the consolidated financial statements, effective January 1, 2003 the Company adopted new accounting pronouncements related to valuation and disclosure criteria. As required by accounting principles generally accepted in Argentina, the Company has restated its prior period financial statements presented for comparative purposes to reflect the adopted changes in accounting principles, except for certain valuation and disclosure criteria that in accordance with the transition provisions have been applied prospectively.

Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America and as allowed by Item 17 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 15 to the consolidated financial statements.

PRICE WATERHOUSE & Co.

by /s/ Miguel A. Urus (Partner)

Miguel A. Urus

Buenos Aires, Argentina.

June 11, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Transportadora de Gas del Sur S.A.

We have audited the accompanying consolidated balance sheets of Transportadora de Gas del Sur S.A. and its subsidiary at December 31, 2003 and 2002, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As indicated in Notes 2.c and 2.h, the Company has discontinued the restatement of financial statements into constant currency as from March 1, 2003 and has recorded deferred income tax assets and liabilities on a non-discounted basis as required by resolutions issued by the *Comisión Nacional de Valores* (*CNV*). Since generally accepted accounting principles in Argentina require companies to prepare price-level restated financial statements through September 30, 2003 and to recognize deferred taxes on a discounted basis, the application of the CNV resolutions represent a departure from generally accepted accounting principles in Argentina.

In our opinion, with the exceptions of the matters described in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transportadora de Gas del Sur S.A. and its subsidiary at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in Argentina.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As indicated in Notes 5 and 6, the Company has been negatively impacted by the deterioration of the Argentine economy, the Argentine government's adoption of various economic measures including the violation of the contractually-agreed License terms and the devaluation of the Argentine peso. In view of these circumstances, the Company has not been able to maintain the financial ratios required by its outstanding debt agreements and in May, 2003 had announced the suspension of payment on its financial debt. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Notes 5 and 6. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Accounting principles generally accepted in Argentina vary in certain significant respects from the accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 11 to the consolidated financial statements.

/s/ Héctor A. López
PRICE WATERHOUSE & CO.
Héctor A. López (Partner)
Buenos Aires, Argentina
June 11, 2004

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PETROBRAS ENERGÍA PARTICIPACIONES S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Stated in millions of Argentine pesos See Note 2.c)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	5,494	5,106	5,170
Costs of sales (Note 27.c)	(3,386)	(3,284)	(3,347)
	<u>2,108</u>	<u>1,822</u>	<u>1,823</u>
Gross profit	2,108	1,822	1,823
Administrative and selling expense (Note 27.e)	(559)	(609)	(665)
Exploration expenses (Note 27.e)	(196)	(58)	(41)
Other exploitation (expenses) income, net (Note 17.c)	(121)	(28)	23
	<u>1,232</u>	<u>1,127</u>	<u>1,140</u>
Exploitation income	1,232	1,127	1,140
Equity in earnings of affiliates (Note 9.b)	163	(638)	119
Financial income (expense) and holding gains (losses)			
Generated by assets:			
Interest	65	88	91
Exchange difference	(155)	1,986	82
Gain from remeasurement and translation		3,742	
Loss due to exposure to inflation	(27)	(2,967)	
Holding gains (losses) and income from sale of shares	98	(15)	(1)
Other financial income, net	10	22	2
	<u>(9)</u>	<u>2,856</u>	<u>174</u>
Generated by liabilities:			
Interest	(623)	(882)	(612)
Exchange difference	554	(10,402)	(89)
Loss from remeasurement and traslation		(2,242)	
Gain due to exposure to inflation	67	9,472	
Derivatives	(294)	(524)	8
Other financial expense, net	(112)	(105)	(54)
	<u>(408)</u>	<u>(4,683)</u>	<u>(747)</u>
Other expenses, net (Note 17.d)	(421)	(187)	(88)
	<u>557</u>	<u>(1,525)</u>	<u>598</u>
Income (loss) before income tax and minority interest in subsidiaries	557	(1,525)	598
Income tax provision	(18)	(82)	(385)
Minority interest in subsidiaries	(158)	28	(112)

Net income (loss)	381	(1,579)	101
	<u> </u>	<u> </u>	<u> </u>
Earnings (losses) per share Stated in Argentine pesos	0.179	(0.744)	0.048
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of these consolidated financial statements.

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PETROBRAS ENERGÍA PARTICIPACIONES S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002
(Stated in millions of Argentine pesos See Note 2.c)

	<u>2003</u>	<u>2002</u>
CURRENT ASSETS		
Cash	153	93
Investments (Note 9.a)	802	664
Trade receivables	886	784
Other receivables (Note 17.a)	861	734
Inventories (Note 8)	319	356
Other assets	3	178
	<u>3,024</u>	<u>2,809</u>
NONCURRENT ASSETS		
Trade receivables	36	21
Other receivables (Note 17.a)	131	220
Inventories (Note 8)	61	39
Investments (Note 9.a)	1,284	1,103
Property, plant and equipment (Note 27.a)	11,559	10,433
Other assets	43	24
	<u>13,114</u>	<u>11,840</u>
Total noncurrent assets	<u>13,114</u>	<u>11,840</u>
Total assets	<u>16,138</u>	<u>14,649</u>
CURRENT LIABILITIES		
Accounts payable	860	651
Short-term debt (Note 12)	3,204	1,543
Payroll and social security taxes	93	76
Taxes payable	172	133
Reserves (Note 14.f)	44	28
Other liabilities (Note 17.b)	379	344
	<u>4,752</u>	<u>2,775</u>
Total current liabilities	<u>4,752</u>	<u>2,775</u>
NONCURRENT LIABILITIES		
Accounts payable	7	9

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Long-term debt (Note 12)	5,098	6,130
Payroll and social security taxes	6	25
Taxes payable	11	120
Other liabilities (Note 17.b)	262	496
Reserves (Note 14.f)	277	86
	<u> </u>	<u> </u>
Total noncurrent liabilities	5,661	6,866
	<u> </u>	<u> </u>
Total liabilities	10,413	9,641
	<u> </u>	<u> </u>
TRANSITORY DIFFERENCES		
Measurement of derivative financial instruments determined as effective hedge	(18)	
Foreign currency translation	(56)	
	<u> </u>	<u> </u>
Total transitory differences	(74)	
	<u> </u>	<u> </u>
MINORITY INTEREST IN SUBSIDIARIES	966	556
	<u> </u>	<u> </u>
SHAREHOLDERS EQUITY (Per respective statements)	4,833	4,452
	<u> </u>	<u> </u>
	16,138	14,649
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**PETROBRAS ENERGÍA PARTICIPACIONES S.A. AND SUBSIDIARIES****STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

(Stated in millions of Argentine pesos See Note 2.c)

	2003						2002	2001	
	Capital stock			Retained earnings					
	Capital stock	Adjustment to capital stock	Additional paid-in capital	Legal reserve	Unappropriated retained earnings	Treasury stock (a)	Total	Total	
Balances at beginning of the year	2,132	2,554	664	37	(541)	(33)	4,813	6,014	5,952
Change in balances at beginning of the year due to changes in accounting method (Note 3)					(361)		(361)	17	132
Adjusted balances at beginning of the year	2,132	2,554	664	37	(902)	(33)	4,452	6,031	6,084
Special Shareholders Meeting decision of April 4, 2003 and April 9, 2001:									
Distribution of unappropriated retained earnings									
- Cash dividends									(134)
- Negative retained earnings absorption			(504)	(37)	541				
Acquisition of own stock held by subsidiary									(20)
Net income (loss)					381		381	(1,579)	101
Balances at end of the year	2,132	2,554	160		20	(33)	4,833	4,452	6,031

(a) See Note 4.m).

The accompanying notes are an integral part of these consolidated financial statements.

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FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Stated in millions of Argentine pesos - See Note 2.c)**

	2003	2002	2001
Cash provided by (used in) operations:			
Net income (loss)	381	(1,579)	101
Reconciliation to net cash provided by (used in) operating activities:			
Minority interest in subsidiaries	158	(28)	112
Equity in earnings of affiliates	(163)	638	(119)
Financial (Income) expense, net	(585)	140	
Dividends collected (Note 9.c)	26	20	55
Depreciation and depletion of property, plant and equipment	1,016	1,051	877
Impairment of Ecuadorian assets	309	63	
Loss (income) from sale of oil and gas areas and participation in joint ventures	27	(41)	65
Income from assets exchange			(251)
Impairment of allocated purchased price related to CIESA			202
Impairment of assets	64	96	
Impairment of unproved oil and gas properties	180	17	
Debt restructuring		17	
Income tax provision	18	82	385
Income tax paid	(48)	(27)	(196)
Accrued interest	598	878	520
Interest paid	(488)	(814)	(526)
Other	(7)	87	111
Changes in assets and liabilities:			
Trade receivables	(115)	208	(13)
Other receivables	411	44	59
Inventories	(12)	(70)	(1)
Other assets	73		
Accounts payable	(66)	(16)	150
Payroll and social security taxes	17	(34)	15
Taxes payable	(9)	75	(167)
Other liabilities	61	362	347
	<hr/>	<hr/>	<hr/>
Payments in advance	1,846	1,169	1,726
	(493)	(459)	
	<hr/>	<hr/>	<hr/>
Net cash provided by operations	1,353	710	1,726
Cash provided by (used in) investing activities:			
Acquisition of property, plant and equipment and interest in companies and oil and gas areas	(829)	(674)	(2,009)

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Net (increase) decrease in investments other than cash and cash equivalents	(97)	32	(86)
Contributions and advances to unconsolidated affiliates	(12)	(127)	(56)
Sales of investments	20	593	227
Other	3	(6)	
	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	(915)	(182)	(1,924)
	<u> </u>	<u> </u>	<u> </u>
Cash provided by (used in) financing activities:			
Net (decrease) increase in short-term debt	(196)	(193)	1,022
Payments of long-term debt	(646)	(1,762)	(1,290)
Increase in long-term debt	591	130	1,408
Acquisition of own stock			(21)
Cash dividends paid		(2)	(223)
	<u> </u>	<u> </u>	<u> </u>
Net cash used in financing activities	(251)	(1,827)	896
	<u> </u>	<u> </u>	<u> </u>
Devaluation and inflation effect on cash	(88)	755	
	<u> </u>	<u> </u>	<u> </u>
Increase (decrease) in cash	99	(544)	698
Cash and cash equivalents at beginning			
Cash and cash equivalents at beginning	725	1,334	565
Additions (deductions) of cash and cash equivalents at beginning from proportional interest in CIESA	103	(65)	71
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end	927	725	1,334
	<u> </u>	<u> </u>	<u> </u>

(a) Cash and cash equivalents include highly liquid, temporary cash investments with original maturities of three months or less when purchased.

The accompanying notes are an integral part of these consolidated financial statements.

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**PETROBRAS ENERGÍA PARTICIPACIONES S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003, 2002 AND 2001
(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. (hereinafter Petrobras Participaciones or The Company) 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 hydrocarbons. It has businesses 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 authorities) approving the transaction whereby Petrobras Participaciones 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 Energía 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. There is no period established for the divestiture.

Effective with the CNDC approval, Petrobras Participaciones became a majority-owned subsidiary of Petroleo Brasileiro S.A.-Petrobras.

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

The 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 Generally 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 the United States Securities and Exchange Commission (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 period. While it is believed that such estimates are reasonable, actual results could differ from those estimates.

a) Basis of consolidation

In accordance with the procedure set forth in Technical Resolutions No. 4 and 19 of the FACPCE (Argentine Federation of Professional Councils in Economic Sciences), Petrobras Participaciones 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,

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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 group have been completely eliminated.

In the consolidation of companies over which the Company exercises joint control, the amount of the investment in the company under joint control and the interest in its income (loss) and cash flows are replaced by the Company's proportional interest in the company'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 27.f).

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 December 31, 2003, 2002 and 2001, the Company has not consolidated proportionally the interests in Citelec S.A. taking into account the commitment to divest of such equity interest as described in Note 1. In order to preserve the information's comparability, the Company did not proportionally consolidate line by line, in its comparative financial statements, the assets, liabilities, income (loss) and cash flows of Citelec S.A. As of December 31, 2002, the Company did not proportionally consolidate on a line-by-line basis the assets, liabilities, income (loss) and cash flows of CIESA since, as of that date, such equity interest was stated at zero value.

b) Foreign Currency translation

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

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

- a) transactions with the Company are not a high proportion of the entity's activities abroad;
- b) activities of foreign businesses are partially financed with funds from their own transactions and with local loans;
- c) sales, workforce, materials and other costs of goods and services related to transactions abroad are settled mainly in a currency other than the currency of the investor's financial statements; and
- d) 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 operations are remeasured into US dollars (functional currency for such operations), as follows:

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

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

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

Assets and liabilities are translated by using the closing exchange rate.

Income (loss) is translated at the historical exchange rates.

The translation effect arising from the translation of the financial statements is disclosed in the Transitory differences -foreign currency translation account.

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The above also applies to exchange differences arising from liabilities in foreign currency that are designated as a hedge the net investment in the foreign entity.

c) Restatement in constant money

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

Under such method, the consolidated financial statements integrally recognize the effects of the changes in the purchasing power of Argentine peso through August 31, 1995. 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 March 31, 2002, allowing for the accounting measurements restated based on the change in the purchasing power of the peso through the interruption of adjustments, such as those whose original date is within the stability period, to be stated in pesos as of December 2001. Through 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 professional accounting standards effective in the city of Buenos Aires. The CPCECABA, through Resolution N° 287/03 discontinued the application of the restatement method as from October 1, 2003.

Amounts, and the income (loss) for the years ended December 31, 2002 and 2001 presented 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 Argentine GAAP and the applicable CNV regulations, 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 recognition of the restatement in constant money provided for in FACPCE Technical Resolution No. 6, as described in note 2.c).

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As from January 1, 2003, 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.; viii) disbursements for maintenance costs, which may be allocated to the income for the period when they are made or capitalized, as appropriate.

The Company amended the method used to recognize future estimated abandonment costs in oil & gas areas. Consistently with Statement of Financial Accounting Standards (SFAS) N° 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 74, (378) and (115) for the years ended December 31, 2003, 2002 and 2001, respectively, and a 361 and 22 reduction to retained earnings at the beginning of the fiscal years ended on December 31, 2002 and 2001, respectively, as disclosed below:

	Gains (losses)				
	Income for			Retained earnings as of December 31,	
	2003	2002	2001	2002	2001
Derivatives financial instruments (1)	(133)	(334)	8	(417)	(83)
Foreign currency translation (2)	55				
Future abandonment costs (3)		15	(1)	45	30
Labor costs	18	19	(7)	(24)	(43)
Effects on affiliates		18	1	(8)	(26)
Maintenance expenses (4)				16	16
Discounted effect of nominal values of assets and liabilities (5)	13	(4)		(4)	
Deferred tax (6)	(27)	(92)	(116)	31	123

(74)	(378)	(115)	(361)	17
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(1) Previously, 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) Previously, gains (losses) on foreign currency translation were charged to income.

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

(4) Previously, maintenance costs were accrued.

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

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(6) Previously, 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 derivative 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 period, including accrued interest, if applicable. The summary of accounts denominated in foreign currency is disclosed in Note 27.d).

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.

Stock of liquid petroleum gases (NGL) in the gas pipeline system in excess of the line pack and held by third parties and stock of NGL obtained from the natural gas processing: at replacement or reproduction cost, as appropriate.

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

c) Investments:

Government securities:

Available for sale: at market value at the end of each period, 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.

Held to maturity: at original value increased based on its internal rate of return at acquisition. Interest gain is credited to income on accrual basis.

Under the government-securities voluntary conversion system provided by Federal Executive Decree No. 1387/01, the Company volunteered to swap provincial and federal government securities for secured loans for a carrying value of 6 and a market value of 3. Executive Decree 1579/02 established the issuance of secured bonds, with final maturity date in 2018, monthly payable as from 2005. The principal balance shall be adjusted by the Benchmark Stabilization Coefficient (CER), accruing interest at an annual 2% fixed rate. Foreign currency liabilities of the federal, provincial and municipal public sector effective as of February 3, 2002, whose applicable law is only Argentine law, shall be translated into pesos at the exchange rate of 1.40 pesos per US dollar and adjusted by CER, plus an annual 2% interest rate.

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In addition, as of December 31, 2003, the Company carries other securities with a market of 1, while their book value amounted to 2.

Certificates of deposit and loans to affiliates over which significance influence is exercised: at face value plus accrued interest.

Unlisted Government securities: at the original value increased based on the internal rate of return at acquisition limited by the recoverable value.

Tax credit certificates: at the estimated value based on the application of the certificates to the payment of federal taxes.

Investments in mutual funds: at market prices at the end of each period.

Shares Participation in affiliates, in which the Company exercises significant influence:

By the equity method, following the procedure established by Technical Resolution No. 5 of the FACPCE. For the determination of the Company's equity in affiliates over which significance influence is exercised, the Company has used financial statements from affiliates, or the best available financial information.

For the determination of the Company's equity in affiliates, consideration has been given to the adjustments to adapt the valuation methods of some affiliates to those of the Company, irrevocable contributions made by others, elimination of reciprocal investments, intercompany profits and losses, the difference between acquisition cost and book value of affiliates at the time of the acquisition and the holding of preferred stock and dividends by the affiliates. Cash dividends from affiliates approved by shareholders' meetings held prior to the date of issuance of these financial statements, which are placed at the shareholders' disposal within a term not exceeding one year are deducted from the value of the investment and included in current investments.

Other shares' interests in affiliates in which the Company does not exercise significant influence: at acquisition cost restated in constant money as shown in Note 2.c) to the consolidated financial statements.

d) Trade receivables and accounts payable:

Trade receivables and accounts payable have been valued at the spot cash estimated at the time of the transaction, plus accrued financial components.

Trade receivables include billed uncollected services and services rendered but not yet billed as of each period. The services rendered but not yet billed were estimated on the basis of series of actual historical data billings subsequent to each period. The total amount of receivables is net of an allowance for doubtful account, which is based on estimates of collection carried out by the company.

e) Financial receivables and payables:

Financial receivables and payables have been valued according to the money paid and collected, respectively, net of transaction costs, plus accrued financial gains (losses) on the basis of the explicit or estimated rate at such time.

f) Other receivables and payables:

Other receivables and payables have been valued on the basis of the best possible estimate of the amount to be collected and paid, respectively, discounted in the relevant cases, using the estimated rate at the time of initial measurement, except for the deferred tax assets and liabilities. As established by CNV regulations, deferred tax assets and liabilities have not been discounted. This criterion does not comply with accounting standards effective in the City of Buenos Aires, which required such balances to be discounted.

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g) Property, plant & equipment:

Property, plant & equipment, except as indicated below, have been valued at acquisition cost restated in constant money less related accumulated depreciation. Property, plant & equipment related to foreign transactions were converted into US dollars since that is the functional currency for such transactions and they have been translated into Argentine pesos at the exchange rate effective as of closing in accordance with the method for converting foreign transactions described in note 2.b).

The value of CIESA's PP&E transferred from the privatization of Gas del Estado was determined based on the price paid for 70% of the capital stock of TGS. Such price was the basic to determine the total common stock, which when added to the initial debt assumed under the transfer contract, resulted in the total value for PP&E. Such value, translated at the effective exchange rate as of the date of the transfer contract, was restated in constant pesos.

Petrobras Participaciones uses the successful efforts method of accounting for its oil and gas exploration and production activities.

Exploration costs, excluding exploratory well costs, are charged to expenses for the period in which they are incurred. Drilling costs of exploratory wells, including stratigraphic test wells, are capitalized until it is assessed if proved reserves justifying the commercial development thereof are discovered. If such reserves are not found, such drilling cost are charged to expense. Occasionally, an exploratory well may determine the existence of oil and gas reserves but they cannot be classified as proved when drilling is complete. In these cases, one of the following would be applicable: (I) whether the well found reserves in an area requiring a major capital expenditures before production may start, and classification of such reserves as proved is dependent upon whether additional reserves are found justifying the abovementioned investment. In this case, the cost of the exploratory well continues capitalized as long as it meets the following two conditions: (a) reserves found are sufficient to justify completion of the well as producer if the capital investment is made, and (b) the drilling of additional exploratory wells is in progress or firmly planned for the near future. Otherwise, drilling costs are charged to expense. (II) in all other cases, drilling costs of exploratory wells do not remain capitalized for more than one year after the completion of the drilling. If after one year found reserves may not be classified as proved, exploratory well costs are charged to expense.

The Company depreciates productive wells, as well as machinery, furniture and fixtures and camps in the production areas according to the units of production method, by applying the ratio of oil and gas produced to the proved developed oil and gas reserves. The acquisition cost of property with proved reserves is depreciated by applying the ratio of oil and gas produced to estimated proved oil and gas reserves. Mining property related to unproved reserves has been valued at cost and its recoverability is assessed from time to time on the base of geological and engineering estimates of possible and probable reserves that are expected to be proved over the life of each concession.

Estimated future restoration and abandonment costs discounted at an estimated rate at the time of their initial measurement, are included in the value at which the assets that gave rise to such costs are capitalized, and are depreciated using the units of production method. Additionally, a liability is recognized for such costs at the estimated value of the amount payable, discounted at an estimated rate at the time of their initial measurement.

The Company estimates its reserves at least once a year. Total oil and gas reserves as of December 31, 2003, 2002, and 2001, were audited by Gaffney, Cline & Associates Inc., independent international technical and management advisors.

Petrobras Participaciones's remaining property, plant & equipment are depreciated by the straight-line method based on their existing exploitation concession terms and their estimated useful lives as the case may be.

The cost of works in progress, whose construction will extend over time, includes the computation of financial costs accrued on loans granted by third parties, if applicable, and the costs related to putting the facilities into operation that are considered net of any income obtained from the sale of commercially valuable production during such process.

The carrying value of property, plant & equipment, taken as hole, does not exceed its recoverable value.

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h) Environmental costs:

The costs incurred to limit, neutralize or prevent environmental pollution are only capitalized if at least one of the following conditions is met: (a) such costs relate to improvements in the plant's (or some other production asset's) capacity and safety; (b) environmental pollution is prevented or limited; or (c) the costs are incurred to prepare the assets for sale and the book values of such assets together with the additional cost do not exceed their respective recoverable values.

Liabilities related to future remediation costs are recorded when environmental assessments are probable, and the costs can be reasonably estimated. The timing and magnitude of these accruals are generally based on the Company's commitment to a formal plan of action, such as an approved remediation plan or the sale or disposal of an asset. The accrual is based on the probability that a future remediation commitment will be required.

The Company records the related liabilities based on its best estimate of future costs, using currently available technology and applying current environmental regulations as well as the Company's own internal environmental policies.

i) Income tax, tax on minimum presumed income, royalties and withholdings on export of hydrocarbons:

The Company and its affiliates estimate income tax on individual basis under the deferred tax method.

The deferred tax balance as of the end of each period has been determined on the basis of the temporary differences generated in certain items that have a different accounting and tax treatment.

To book such differences, the Company uses the liability method, which established the determination of net deferred tax assets and liabilities on the basis of temporary differences determined between the accounting measurement of assets and liabilities and the related tax measurement. Temporary differences determine the balance of tax assets and liabilities where its future reversal decreases or increases the taxes determined. Where there are unused Tax loss carryforwards that may be offset against future taxable income, the Company will recognize a deferred tax asset, only to the extent that recovery of such asset is probable.

Deferred tax assets and liabilities have been valued at their nominal value, as established by CNV's General Resolution No. 434. The professional accounting standards effective in the City of Buenos Aires require that such nominal value be discounted at a current rate estimated as of each period-end.

The tax on minimum presumed income is supplementary to income tax, since while the latter is levied on the year's taxable income, the tax on minimum presumed income is a minimum tax levied on the potential income of certain productive assets at the rate of 1%, so that the Company's final liability will be equal to the higher of both taxes. However, should the tax on minimum presumed income exceed the tax based on income in any given year, such excess may be applied to reduce any excess of income tax over the tax on minimum presumed income in any of the ten succeeding years.

For the operations in Argentina, Venezuela, Brazil, Peru, Ecuador and Bolivia the income tax accrual was calculated at the tax rates of 35%, 34%, 34%, 30%, 25% and 25%, respectively. Additionally, payment of Bolivian-source income to beneficiaries outside Bolivia is subject to a 12.5% withholding income tax and, a 34% income tax is levied on the dividends paid by Venezuelan companies, in event of income in excess of taxable income.

Law No. 25,239 and its Administrative Order No. 1037/2000 amended income tax law to establish, among other things, that shareholders residing in Argentina of companies organized or operating in countries with low or

no-taxation with non-operating income exceeding 50% of net income, are to book accrued passive income such as interest, dividends, royalties, rents or other similar passive income to the fiscal year, although the income was not remitted or credited to any account. The Law and Administrative Order also establish that such companies shall not generate Argentine tax credits for the tax paid abroad.

Royalties are paid in Argentina, Peru and Bolivia for the production of crude oil and for effectively used volumes of natural gas. Those royalties are 12%, 24.5% and from 40% to 60%, respectively, of the wellhead

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estimated price for oil and gas. The wellhead price represents the final sales price less treatment, storage and transportation costs. Royalties are charged to production costs in the Oil and gas royalties account. In Venezuela, for the Acema, Mata and La Concepción (Third Round) areas, 30% royalties are paid with respect to the excess production, calculated based on the crude wellhead estimated price. Under contractual terms, royalties of the Third Round areas are deducted from the sales price. In Ecuador, the exploitation agreement for Block 18 provides for a schedule of differential royalties, that in the case of Pata field are applied over a production volume scale and for Palo Azul field, according to oil prices.

As regards the Pichi Picún Leufú Hydroelectric Complex, as provided in the concession agreement, the Company pays hydroelectric royalties of 1% increasing at a rate of 1% per annum up to the maximum percentage of 12% of the amount resulting from applying the rate for the bulk sale to the power sold under the terms of Section No. 43 of Law No. 15,336, as amended by Law No. 23,164. In addition, the Company is subject to a license fee payable monthly to the Federal Government for the use of the power source equivalent to the 0.5% of the same amount base for hydroelectric royalty calculation.

The Public Emergency and Exchange System Reform Law No. 25,561 establishes the creation of a system of withholdings on exports of hydrocarbons for five years, since March 1, 2002. The rate of those withholdings is 5% for certain refined products and 20% for the crude oil.

j) Liabilities for labor costs and commitments that generate losses:

Liabilities for labor costs are accrued in the periods in which the employees provide the services that trigger the consideration.

For purposes of determining the estimated cost of benefit pension plans granted to employees, the Company has used actuarial calculation methods, making estimates with respect to the applicable demographic and financial variables.

k) Contingencies:

Certain conditions may exist as of the date of financial statements which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. Such contingent liabilities are assessed by the Company's management based on the opinion of Petrobras Participaciones's legal counsel and the available evidence.

Such contingencies include outstanding lawsuits or claims for possible damages to third parties in the ordinary course of the Company's business, as well as third party claims arising from disputes concerning the interpretation of legislation.

If the assessment of a contingency indicates that it is probable that a loss has been incurred and the amount can be estimated, a liability is accrued in the Reserves account. If the assessment indicates that a potential loss contingency is not probable, but is reasonably possible, or is probable but it cannot be estimated, then the nature of the contingent liability, together with an estimate of the possibility of occurrence, is disclosed in a note to the financial statements. Loss contingencies considered remote are not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of management, may be of interest to the users of the financial statements.

Significant litigations in which the Company is involved and the movements of reserves are disclosed in Note 14.

l) Earnings (losses) per share:

Earnings (losses) per share for the years ended December 31, 2003, 2002 and 2001, were calculated on the basis of the number of outstanding shares in each period. Since the Company does not have preferred assets or convertible debt securities, the basic earnings (losses) per share is equal to the diluted earnings (losses) per share.

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m) Shareholders equity accounts:

They were restated into constant money, according to Note 2.c), as of year-end, except for Capital stock that represents subscribed and paid-in capital. The adjustment arising from the restatement into constant money is disclosed under Adjustment to capital stock. The account Treasury stock relates to the purchases of shares of Petrobras Energía Participaciones S.A. by Petrobras Energía, and are deducted from the shareholders equity at acquisition cost, disclosed in a separate line in the statement of changes in shareholders equity.

n) Revenue recognition:

Revenues from sales are recognized when the products are delivered or the services are provided, the price is fixed or determinable, collection is probable and the risk of loss has been transferred to customers.

Revenues from sales resulting from the firm natural gas transportation are recognized by the accrued reserve of the transportation capacity hired, regardless of the volumes carried.

With respect to crude oil prices, in January 2003, at the federal executive branch's request, hydrocarbon producers and refineries executed a temporary agreement in connection with crude oil, gasoline and diesel oil price stability in the domestic market. After successive renewals, the term of this agreement was extended until May 2004. This agreement provides for crude oil deliveries to be invoiced and paid based on the West Texas Intermediate Crude reference price, or WTI, of U.S.\$28.5 per barrel instead of the actual relevant WTI. Any positive or negative difference between the actual relevant WTI, not exceeding U.S.\$36 per barrel, and the reference price would be paid out of any balance generated in periods where the actual WTI is below U.S.\$28.5 per barrel. Refineries, in turn, will reflect the crude oil reference price in domestic market prices. In May 2004, hydrocarbon producers and refineries executed a new agreement effective until June 2004, which provided that, while the WTI per barrel ranges between U.S.\$32 and U.S.\$42, crude oil deliveries will be invoiced and paid considering a reference price equal to (i) 86% of the WTI as long as this price does not exceed U.S.\$ 36 per barrel, or (ii) 80% of the WTI, in cases where this price exceeds U.S.\$36 per barrel. We did not recognize any revenue over U.S.\$28.5 for the WTI

o) Statement of income accounts:

Restated into constant money through the end of the period, according to Note 2.c), considering the following:

- Depreciation and consumption expenses related to non monetary assets were charged to income (losses) taking into account the restated costs of such assets.

- Financial income (expense) and holding gains (losses) are broken down as generated by assets and generated by liabilities. Financial (expense) income, net discloses financial income and expenses, exchange differences and income (loss) from changes in the quotation of government securities and shares, at their restated nominal value, according to Note 2.c). Additionally, it also discloses the effects of inflation of monetary assets and liabilities in the balance sheet.

For the years ended December 31, 2002, and 2001, Financial income (expense) and holding gains (losses) includes net income from conversion and translation on non monetary assets of foreign operation, in real terms.

CNV General Resolution No. 398 allows, as an exceptional treatment, the one provided for in Resolution M.D. No. 3/2002 of the CPCECABA, whereby the exchange differences originated as from January 6, 2002, from liabilities in foreign currency existing as of such date directly related to the acquisition, construction, or production of property, plant & equipment, intangibles, and long-term investments in other companies organized in the country should be allocated at the cost values of such assets with a number of conditions established in such professional standard.

Direct financing shall mean that granted by the supplier of the goods, billed in foreign currency, or that obtained from financial institutions for identical purposes. In the cases in which there is an indirect relation between the financing and the acquisition, production, or construction of the assets, such exchange differences may also be allocated, under certain conditions, to the cost values of such assets. The Company has adopted the method of capitalizing exclusively the foreign exchange differences resulting from direct financing.

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As mentioned above, as of December 31, 2003, and 2002, the Company has capitalized exchange differences booked with a residual value of 46 and 48, respectively.

5. Accounting for derivative financial instruments

Hedging and other derivatives:

The Company uses various derivative financial instruments such as options, swaps and others, mainly to mitigate the impact of changes in crude oil prices, interest rates and future exchange rates.

Such derivative instruments are designated as hedging specific exposures, highly correlated to the risk exposure in question and highly effective in offsetting changes in cash flows inherent to the covered risk.

The use of derivative financial instruments exposes the Company to credit risk. In addition, the Company uses strict policies for the approval of lines of credit, applies several procedures to evaluate these risks and seeks to reduce this credit exposure by means of the use of certain tools, such as anticipated collections or payment agreements for such operations and the offsetting of collections and payments.

Derivative financial instruments are measured at their fair value, determined as the amount of cash to be collected or paid to settle the instrument as of the date of measurement.

a) Instruments that qualify for hedge accounting

Changes in the accounting measurement of derivative financial instruments designated as cash flow hedge, which have been determined as effective hedge, are recognized under *Transitory differences-Measurement of derivative financial instruments designated as effective hedge*, and any other change is recognized under *financial income (expense) for the year*. Changes in the accounting measurement of derivative financial instruments recognized under *Transitory differences-Measurement of derivative financial instruments determined as effective hedge* are subsequently reclassified to income (loss) for the year or years in which the hedged item affects such results.

A hedge is considered to be effective when at its inception, as well as during its life, its changes offset from eighty to one hundred and twenty five percent the opposite changes of the hedged item. In the respect, the Company excludes the specific component attributable to the time-value of an option when measuring the effectiveness of instruments that qualify for hedge accounting.

Hedge accounting must cease for the future upon occurrence of any of the following events: (a) the hedge instrument has matured or has been settled; (b) the hedge transaction is no longer effective; (c) the projected transaction does not have a high likelihood of occurrence. Should that be the case, the income (loss) arising from the hedge instrument that would have been allocated to *Transitory differences-Measurement of derivative financial instruments determined as effective hedge* should remain there until the committed or projected transactions occurs in the case of (a) and (b), and are charged to income in the case of (c).

Pursuant to the transitional standards of FACPCE Technical Resolution No. 20, the Company applied the standard of booking derivative positions at their market value on a prospective basis. As indicated above, as of December 31, 2002 and 2001, the gains (losses) on hedge transactions related to the crude oil price, without distinguishing between hedge and non-hedge transactions, were deferred until the related anticipated transaction was recognized, when they were booked as an integral part of hedged sales.

Hedge of produced crude oil price

These instruments use West Texas Intermediate (WTI) as reference price, which is used mainly to determine the sale price in the market.

During 2003, the Company maintained hedge transactions through flexible option contracts, with a total covered volume of 8.3 million barrels. In addition to the referred hedge, during 2002, the Company settled positions in the aggregate amount of 42,500 bbls/day for 2003. This volume was realized at market value with a discount of USD 1.11/bbl.

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For the years ended December 31, 2003, 2002, and 2001, the accrued portions of hedge instruments represented a lower sale of 81, 373 and 341, respectively.

As of year-end, the Company did not have positions in derivatives of the crude oil price related to the future production that qualify for hedge accounting purposes.

Hedge of interest rates

As of December 31, 2003, the Company has an agreement for the purpose of hedging class C notes exposed to fluctuations with the LIBOR, fixing the rate at 7.93% per annual.

Such contract term expires in July 2005, payable in quarterly installments as from 2004. The market value for the year amounts to 23.

During the period, the changes in Transitory differences-Measurement of derivative financial instruments determined signated as effective hedge was:

	2003		
	Price of Oil	Interest Rate	Total
Balance at begining at year			
Cumulative effect of accounting change	67	42	109
Changes of fair value	15		15
Reclasification to net income (loss)	(81)	(24)	(105)
Ineffectiveness	(1)		(1)
	—	—	—
Balances at end of year		18	18

b) Instruments that do not qualify for hedge accounting

Changes in the accounting measurement of derivative financial instruments that do not qualify for hedge accounting are recognized in the statement of income under Financial income (expense) and holding gains (losses). The difference between the current value of such instruments and the previous value booked by the Company in the year ended December 31, 2002, was charged to unappropriated retained earnings recognizing a loss of 426. For the year ended December 31, 2003, losses of derivative financial instruments that do not qualify for hedge accounting amount to 294.

The main conditions and terms by type of instrument as of December 31, 2003 are as follows:

Expected maturity

	2004	2005	Total
Sales price exposure			
<i>Crude oil price swap (1)</i>			
Contract volumes (million barrels)	4.10		4.10
Average settlement prices (US\$ per barrels)	18.64		
Fair value before advanced payments			(152.00)
<i>Swap options (2)</i>			
Contract volumes (million barrels)	6.90	7.30	14.20
Average settlement prices (US\$ per barrels)	19.00	19.00	
Fair value before advanced payments			(397)

1) Options on swaps exercised by the other party.

2) The transaction included herein are sold swaptions.

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6. Oil and gas areas and participation in joint ventures

As of December 31, 2003, Petrobras Participaciones and its subsidiaries were part of the oil and gas consortiums, joint-ventures and areas indicated in Note 27.g). As of that date, the aggregate joint ventures and consortia assets, liabilities and results in which the Company is a party, included in each account of the balance sheet and the statement of income, respectively, utilizing the proportionate consolidation method are disclosed in Note 27.h).

The production areas in Argentina, Ecuador and Peru indicated in Note 27.g) are operated pursuant to concession production agreements with free crude oil availability. Those related to Venezuela are exploitation service agreements, in which Petróleos de Venezuela S.A. (PDVSA) owns all the oil and gas produced and is responsible for the payment of all royalties and taxes related to the production and will receive, upon expiration of the agreement term, the exclusive ownership of all operating facilities, property and equipment used by the joint ventures to perform the activities under the agreement. In Bolivia it is a shared-risk contract signed with Yacimientos Petrolíferos Fiscales Bolivianos (YPF) with free production availability.

The Company is jointly and severally liable with the other joint venturers for meeting the contractual obligations under these arrangements.

As regards the Oritupano-Leona area, in Venezuela, the joint venture awarded the area receives a variable operation fee based on production volumes, which amounts to US\$ 6.14 per barrel as of December 31, 2003, plus a capital fee for reimbursement of certain exploration and development investments. Under the terms of the service agreement executed with PDVSA, the total amount to be paid may not exceed approximately US\$ 28.72 per barrel, variable according to a basket of oil market prices.

In relation to the Mata, Acema and La Concepción fields, also in Venezuela, the joint ventures awarded the areas are paid a fee for the operation services rendered, which covers the investments and production costs plus a gross profit. The fee has a fixed component related to contractual baseline production and a variable component related to the incremental production, that covers investments and production costs plus a gross profit up to a maximum tied to a basket of international oil prices.

Divestments of equity in oil and gas areas

In August 2003, Petrobras Energía sold to Central International Corporation, Argentine Branch, the 85% interest over the rights and obligations on the concession of the Catriel Oeste area. Considering the transfer price agreed, of US\$ 7 million, Petrobras Energía recognized a loss of 28 presented under Other expenses, net .

In June 2003, Petrobras Energía sold to Geodyne Energy Inc., Argentine branch, the 50% equity interest over the rights and obligations pertaining to the Faro Vírgenes concession area, recognizing a loss of 11, disclosed under Other expenses, net . This transaction shall be settled over a ten-year period, in quarterly installments, whose value in US dollars shall be determined as 8.8% of the total production of gas from the Faro Vírgenes area for each quarter. Petrobras Energía has the option to receive such consideration directly in gas. Such future revenue stream is recognized in income for the period as natural is produced.

In October 2002, Petrobras Energía signed an association agreement with Teikoku Oil Co., Ltd., whereby it transferred 50% of its rights and obligations to exploit gas in exploratory areas in San Carlos and Tinaco, located in the State of Cojedes, Venezuela. The participation assignment agreement provides the initial cash payment of US\$ 1 million and a subsequent disbursement of US\$ 2 million, which shall finance the plan of exploratory investments of the Tinaco area, as regards geological studies, 2D seismic and evaluations and interpretation thereof. Also if the development of those areas is agreed, Petrobras Energía will receive an additional payment of US\$ 3 million.

Considering the recoverable value as of December 31, 2002, Petrobras Energía recognized a loss of 37, disclosed under Other expenses, net .

In October 2001 the Company sold the operating rights over the Pampa del Castillo-La Guitarra field and the 13.79% shareholding in Terminales Marítimas Patagónicas S.A. For such the net realizable value which was fixed in 225 and represented a loss of 65.

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Table of Contents*Assets exchange*

In February 2001, the Company concluded an asset exchange, which had economic effects as from January 1, 2001. Under the exchange terms: (i) the Company incorporated interest in the Santa Cruz I (30%) and Santa Cruz II (62.2%) joint ventures; (ii) in contrast, the Company conveyed its 50% interest in the Manantiales Behr and Restinga Alí areas, together with the 40.5% holding in Andina Corporation, holder of 50% of Empresa Petrolera Andina S.A. (Bolivia). Such transaction was approved by the Federal Anti-Trust Board in May 2001, and generated an income of 251 in the year ended December 31, 2001.

Investment commitments

Petrobras Energía operates oil and gas areas under several contractual arrangements that provide for minimum investment commitments for exploration and development of oil and gas fields. Total commitments as of December 31, 2003, are approximately US\$ 7 million through 2005.

7. Credit risk

Petrobras Participaciones provides credit in the normal course of business to refiners, petrochemical companies, marketers of petroleum products, crude oil exporting companies, electric power generation companies, retail customers, natural gas distributors, electric power large users and power distribution companies, among others.

As a result of the business of Petrobras Participaciones and sale locations, the portfolio of receivables is well diversified, and such diversification makes the credit risk moderate. Thus, Petrobras Participaciones constantly performs credit evaluations of the financial capacity of its clients, which minimizes the potential risk of bad debt losses.

Sales for the year ended December 31, 2003, were made mainly to Petróleos de Venezuela S.A., Petroperú Petróleos del Perú S.A., Repsol YPF Trading y Transporte S.A. and Glencone AG and represented about 11%, 7%, 5% and 4%, respectively, of sales for such period, before computing gain (loss) generated by derivative financial instruments and before deducting export duties.

Sales for the year ended December 31, 2002, were made mainly to Petróleos de Venezuela S.A., Petroperú Petróleos del Perú S.A., Repsol YPF Trading y Transporte S.A. and Petrobras and represented about 16%, 8%, 7% and 6%, respectively, of sales for such period, before computing gain (loss) generated by derivative financial instruments and before deducting export duties.

Sales for the year ended December 31, 2001, were made mainly to Petróleos de Venezuela S.A., Repsol YPF Trading y Transporte S.A., Petroperú Petróleos del Perú S.A., Petrobras and EG3 S.A., and represented about 13%, 6%, 6%, 4% and 3%, respectively, of sales for such period, before computing gain (loss) generated by derivative financial instruments and before deducting export duties.

8. Inventories

	<u>2003</u>		<u>2002</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Crude oil stock	41		32	

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Materials	125	63	166	39
Work in progress and finished products refining and petrochemical	122		149	
Prepayments to vendors	33		9	
Other	2		3	
Reserve for materials ' obsolescence (Note 14.f)	(4)	(2)	(3)	
	<u>319</u>	<u>61</u>	<u>356</u>	<u>39</u>

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Table of Contents**9. Investments, equity in earnings of affiliates and dividends collected from affiliates**

The breakdown of current and noncurrent investments, the equity in earnings of affiliates and dividends collected from affiliates as of December 31, 2003 and 2002, and for the years ended December 31, 2003, 2002 and 2001, are as follows:

a) Investments

Name and issuer	2003		2002
	Cost	Book value	Book value
Current:			
Government securities	41	23	59
Certificates of tax credits	5	5	4
Certificates of deposit	146	146	83
Mutual funds	626	626	492
Loans to unconsolidated affiliates (Note 18)			19
Other	2	2	7
	<u>820</u>	<u>802</u>	<u>664</u>
Noncurrent:			
Government securities	2	2	26
Advances to joint ventures	157	157	245
Loans to unconsolidated affiliates (Note 18)	127	127	
Equity in affiliates (Note 27 b.)	1,007	996	832
Other		2	
	<u>1,293</u>	<u>1,284</u>	<u>1,103</u>

Table of Contents**b) Equity in earnings of affiliates**

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cerro Vanguardia S.A.		59	16
Cia. de Inversiones de Energía S.A.	(33)	(398)	
Citelec S.A.	87	(241)	19
Empresa Boliviana de Refinación S.A.	(5)	12	8
Enron de Inversiones de Energía S.C.A.		(32)	5
Oleoducto de Crudos Pesados Ltd.	(5)		
Pecom Agra S.A.			17
Inversora Mata S.A.	4	(9)	(2)
Oleoductos del Valle S.A.	2	11	11
Petrolera Entre Lomas S.A.	13	12	8
Petroquímica Cuyo S.A.	16	(10)	4
Refinería del Norte S.A.	28	9	6
Transportadora de Gas del Sur S.A.	52	(52)	10
Yacylec S.A.	2	2	5
Other	2	(1)	12
	<u>163</u>	<u>(638)</u>	<u>119</u>

c) Dividends collected from affiliates

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Citelec S.A.			15
Pecom Agra S.A.			4
Yacylec S.A.	3	1	7
Empresa Boliviana de Refinación S.A.		4	
Petrolera Entre Lomas S.A.	9	12	7
Oleoductos del Valle S.A.	7	3	7
Transportadora de Gas del Sur S.A.			11
Refinería del Norte S.A.	7		
Other			4
	<u>26</u>	<u>20</u>	<u>55</u>

I. Investment in companies over which joint control or significant influence is exercised and are subject to transfer restrictions:

a) *Distrilec Inversora S.A. (Distrilec)*:

Distrilec is able to change its equity interest and sell its shares of Edesur S.A. (Edesur) only with the approval of the ENRE (Federal Power Regulation Authority).

In addition, over the entire term of the concession, the Class A shares in Edesur shall remain posted as bond to guarantee compliance with the obligations undertaken in the Concession Agreement. This bond in no way limits the exercise of financial and voting rights associated with the Edesur shares.

b) *Cía. de Inversiones de Energía S.A. (CIESA)*:

Shareholders of CIESA, parent company of Transportadora de Gas del Sur S.A. (TGS), may not sell over 51% of its Class A shares representing 51% of CIESA's capital stock, without the prior authorization of the regulatory agency and the approval of the shareholders of CIESA.

There are certain disagreements between the Company and the Enron Group, which jointly control CIESA, as to the actual occurrence of an event of change of shareholders . Under the CIESA Shareholders Agreement, in the event of a change in the ultimate parent of a shareholder, such shareholder must offer its shares to the others. Although from opposing standpoints, both companies interpret that such an event has taken place: the Company interprets it has occurred with the bankruptcy of the Enron Group, while the Enron

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Group interprets it has occurred upon the transfer of the shares of the Company. In January 2003, the Company was notified by Enron's legal counsel that such company would file arbitration proceedings in this regard. See note 26 for events subsequent to December 31, 2003.

c) Compañía Inversora en Transmisión Eléctrica Citelec S.A. (Citelec):

The Company may not modify or sell its equity interest in Citelec in a proportion and number of shares exceeding 49% of its shareholding without prior approval by the ENRE.

Citelec is not permitted to modify its 65% equity interest in Compañía de Transporte de Energía en Alta Tensión Transener S.A. (Transener) nor sell its Class A shares representing 51% of Transener's capital stock, without prior approval by the ENRE.

Transener may not modify or sell its shareholding in Empresa de Transporte de Energía Eléctrica por Distribución Troncal de la Provincia de Buenos Aires Transba S.A., without prior approval by the ENRE.

d) Yacylec S.A. (Yacylec):

Yacylec's Class A shares will remain pledged during the term of the concession, as security for the compliance with the obligations undertaken under the concession agreement. Any transfer of shares requires ENRE's prior authorization.

II. Enecor S.A.

For the entire term of the concession, the Class A shares in Enecor shall remain posted as bond to guarantee compliance with the obligations undertaken in the Concession Agreement. Prior authorization from the ENRE is required for any transfer of shares.

III. Assets exchange

The Regular Shareholders' Meeting held on April 3, 2002, approved an agreement with economic effects as from January 1, 2002, whereby:

- i) Petrobras Energía sold to IRHE (Argentine Branch) and GENTISUR S.A. (a company wholly owned by IRHE) its 50% equity interest in Pecom Agra S.A. in the amount of US\$ 30 million, which represented a gain of 81.
- ii) IRHE (Argentine Branch) and GENTISUR S.A. transferred to Petrobras Energía:

0.75% interest in the Puesto Hernández joint venture in the amount of US\$4.5 million;

7.5% interest in Citelec, in the amount of US\$15 million;

9.187% interest in Hidroneuquén S.A., a company holding 59% of Hidroeléctrica Piedra del Águila S.A. stock, in the amount of US\$ 5.5 million.

The remaining balance, US\$ 5 million, was settled through a document maturing in October 2002, which accrues interest at six-month LIBOR plus annual 3% spread.

IV. Sale of companies

a) Disposal of farming, forestry and mining activity assets

The agreements made in relation to the transfer of the controlling shares of Petrobras Participaciones granted Petrobras an option, whereby if, within a 30-day term subsequent to the end of the purchase-sale of shares, Petrobras Energía would not have sold the assets related to agricultural, forestry and mining activities, Petrobras would be entitled to, but not required to, make the seller acquire those assets in an amount of US\$ 190 million or, if any of those assets has been sold, the amount resulting from deducting from such addition, the price received in consideration of the sale made.

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Under these agreements, during 2002 Petrobras Energía performed the following transactions:

In July 2002, Petrobras Energía sold to Anglogold its indirect ownership interest of 46.25% in Cerro Vanguardia S.A., and the assets associated therewith. The price of the transaction has been fixed at US\$ 90 million. The transaction represented a profit of 123.

In September 2002, Petrobras Energía sold to Argentina Farmland Investors LLC the ownership interest representing 100% of the capital stock of Pecom Agropecuaria S.A. The price of the transaction totaled US\$ 53 million, which implied a profit of 27.

In December 2002, it concluded the disposal of the operations that form part of the forestry business, which included the sale of the 100% shareholding in Pecom Forestal S.A., jointly with the ownership of forestry located in the Paraná delta region, to DRT Investments LLC. In addition, it transferred the going concern related to forestry related industrial activities in Misiones to Alto Paraná S.A. In January 2004, the Company completed all the formalities needed for the transfer of the going concern of forestry related industrial activities. The total price of the abovementioned transactions amounted to US\$ 53.16 million, resulting in a 153 loss.

b) Sale of interest in Combustibles Nucleares Argentinos S.A. (CONUAR)

In October 2002, the Company sold its 66.67% shareholding in CONUAR to Sudacia S.A., a company controlled by the Perez Companc Family, including the 68% interest in Fabricación de Aleaciones Especiales S.A. The transaction price amounted to US\$ 8 million, while no income (loss) was derived from such sale.

V. Situation of the interests in public utility companies

The new scenario after enactment of the Law on Public Emergency deeply changed the financial equation of public utility companies. Particularly, the tremendous effect of the devaluation, within a context where revenues remained fixed, as a consequence of de-dollarization of rates, has affected the financial and cash flow position of companies, as well as their ability to comply with certain loan covenants. This situation has extremely conditioned the financial ability to comply with obligations.

Public Emergency Law provided for the conversion into Argentine pesos and the elimination of indexation clauses on public service rates, thus fixing them at the exchange rate of ARS 1 = US\$ 1. In addition, the Executive Branch was empowered to renegotiate those agreements entered into to provide public services, pursuant to the following criteria: (i) rates impact on economic competitiveness and revenue allocation, (ii) service quality and investment plans, to the extent that they were contractually agreed upon, (iii) users interests and access to services, (iv) the safety in the system involved, and (v) utilities profitability.

To allow for preserving the provision of public services, and consistently the renegotiation process underway, the Executive Branch issued Executive Order No. 146/03 authorizing to increase gas and electric power rates. This caused a 10% increase for TGS, 9% for Edesur and 22% for Transener. The increase in rates was objected by the ombudsman and consumer associations. On February 25, 2003, a trial court issued an injunction and suspended the increase in rates authorized by Executive Order No. 146/03.

On October 1, 2003, Argentine Congress passed a bill that established the extension to December 2004 of the term granted by the Federal Executive by virtue of Public Emergency Law to renegotiate the agreements executed with privatized public-service companies. Such law also will allow the Federal Executive to fix public utilities rates until the completion of the renegotiation process.

It is not possible to foresee the future development of the rate renegotiation process. In addition, it is not possible to guarantee that regulations will not be changed and that they will not have an adverse impact on the financial position

and results of operations of such companies.

CIESA, TGS and Transener have defaulted on their obligations and strive to reschedule them (see Note 12.X). The managements of these companies have drafted and implemented a plan of action to mitigate the adverse impact caused by these circumstances. The Company cannot guarantee the success in implementing it and whether it will fulfill the proposal aims. The impact generated by the measures adopted by the Federal Government on CIESA, TGS, Transener and Citelec financial statements was recognized based on the evaluations and estimations carried out by the related managements. Actual future income or losses could differ from estimates and such differences may be significant. Consequently, these companies' financial statements may not report all the adjustments that could derive from these circumstances.

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As of December 31, 2003, the valuation of the equity interests in CIESA (which has been proportionally consolidated), TGS and Citelec amounts to 190, 167 and 158, respectively. In the opinion of the Company's Management, the book value of such equity interests does not exceed the recoverable value. The estimation of the respective recoverable values is subject to the significant uncertainties described, which affect the quality of the assumptions, estimations and evaluations inherent in such determination. Consequently, in the current situation, the listed value of shares of stock is the most objective guideline for determining the net realizable value of such holdings. The reliability and the applicability of any values in use that might be determined become relative because of the prolongation of the uncertainties and the fact that, in projecting the future, multiple scenarios can be drawn up while the estimation of their respective probabilities is extremely subjective, a problem that extends to agreeing on the discount rate to be applied.

As of December 31, 2002, the valuation of the equity interests in CIESA, TGS and Citelec amounted to zero, 88 and 71, respectively. The equity interest in CIESA valued under the equity method in conformity with accounting principles consistent with those applied by the Company would have represented an amount of 33 negative. However, considering that the Company has not undertaken commitments to contributing capital or providing financial aid to its affiliates, such equity interest has been stated at zero value, thus restricting the recognition of losses related to the respective book value. The value of the equity interest in Citelec was presented net of the allowance for impairment in value of 66, determined as mentioned above.

In the year ended December 31, 2001, the Company charged to expenses the CIESA acquisition value exceeding the related book value, which implied a 202 loss.

10. Impairment of assets

a) Operations in Argentine

The Argentine peso devaluation, the enactment of Public Emergency Law and the different events that took place caused a significant change in the Company's estimation of the future income or loss evolution and the flow of certain businesses and assets. Considering the uncertainties existing with respect to the final breakdown of the economic and financial equation and their recoverability, during 2002 and 2003 the Company adjusted the book value of certain investments to their related recoverable values, booking these allowances:

Gas areas in Argentina and shareholding in Hidroneuquén: Considering the significant adverse impact on gas and power local prices, and the limited possibilities of negotiating price increases within the context of Public Emergency Law, the Company adjusted the book value of certain investments in gas producing areas in Argentina to its recoverable value, booking 44 and 37 losses during 2003 and 2002, respectively. Also, during 2002, the Company adjusted the book value of its investment in Hidroneuquén to its recoverable value, booking 10 losses.

Argentine Government public securities: as a result of the Argentine Government declaration of its default on the payment of most its sovereign debt and the significant uncertainties over the Argentine economic scenario, as of December 31, 2003, the Company booked a valuation allowance for the notional value of Argentine External Bills in U.S. dollars, survey rate series 74, amounting to 23. As of December 31, 2002, the above mentioned allowance amounted 30. Applying a criterion of prudence, and recognizing the effects of applying Federal Executive Decree No. 1,264, which allows settling tax obligations with the principal coupons of such securities taken at nominal value, the Company reverses the allowance as and when the securities are actually applied.

- Tax on minimum presumed income credit: considering the future income (loss) evolution estimations, the Company carries an allowance for 72.

b) Operations in Ecuador

OCP is a company organized to build and operate a heavy crude oil pipeline in Ecuador. The pipeline has a transportation capacity of 450,000 barrels per day. During 2003, the oil pipeline construction was completed. After the maximum flow system had been tested and the Ministry of Energy and Mining 's approval had been obtained, the oil pipeline started to operate officially on November 10, 2003. The oil pipeline passes through sensitive areas from an ecological standpoint. Accordingly, such oil pipeline has been built under the strictest technical and environmental protection standards.

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The total cost of the oil pipeline was about US\$ 1.4 billion, which were financed by banks, including commercial loans and debt issuance at capital markets for an amount of US\$ 900 million and capital contributions. The original budget for investing in OCP amounted to US\$ 1.2 billion. Due to the restrictions on Petrobras Energía to make capital expenditures, Petrobras Energía decided not to increase its ownership interest in increasing the investments to US\$ 1.4 billion. Therefore, the ownership interest decreased from 15% to 8.96%.

To secure compliance of the capital contribution commitments, and in its capacity as shareholders, and with the corresponding OCP's financial obligations and Petrobras Energía Ecuador commercial obligations, as of December 31, 2003, Petrobras Energía placed letters of credit for a total amount of about US\$ 224 million.

Through Petrobras Energía Ecuador, the Company operates blocks 18 (operating) and 31 (undeveloped, without proved reserves). In relation to the exploitation of those blocks, Petrobras Energía Ecuador has executed a Ship or Pay Transportation agreement with OCP, whereby an oil transportation capacity of 80,000 barrels per day has been ensured for a 15-day term, as from November 10, 2003. Therefore, the Company should meet the contractual obligations for the entire volume hired, rather than the crude oil transportation, paying, as in the case of the other producers, a rate that covers the operating costs and financial services of OCP, among others. Cost of transportation capacity are billed by OCP monthly and charged to expenses as incurred.

The Company estimates that during the term of the agreement there will be successive shortages of crude oil carried due to several delays in developing Block 31, the new term of the capital expenditures flow for the joint development of blocks 18 and 31 and the new potentiality vision of Block 31.

Consequently, as of December 31, 2003, Petrobras Energía has expensed 321 representing impairment losses for its operations in Ecuador. During fiscal year 2003, the company accrued losses for 309, primarily due to the delays in block 31 developing, the increase in crude oil rate together with the dilution of the equity interest in OCP from 15% to 8.96% and the anticipation of the estimated date for the beginning of operations of the oil pipeline. The book value of net assets in Ecuador, after computing the referred allowance, does not exceed the recoverable value.

The Company and Techint Internacional Construction Corp. (Tenco) signed an agreement to exercise call and put options, whereby Tenco grants the Company the irrevocable call option of shares and subordinated debt composing its 2.4% equity interest, whereas the Company granted Tenco the irrevocable option to require the purchase of shares and subordinated debt composing such equity interest. Both options may be sold as from December 31, 2003, through December 31, 2004. The option price shall be determined in terms of the total amount paid by Tenco, or on its behalf, plus accrued interest, considering for that purpose that Tenco's put option rate will be 7.5% per annum and the Company's call option rate will be 18% per annum. See Note 26 for subsequent events to December 31, 2003.

11. Pichi Picún Leufú Hydroelectric Complex (the Complex)

The Company, through Petrobras Energía, has a thirty-year concession for the generation of hydroelectric power in the Complex from August 1999.

To ensure completion of works within the term of the concession and a profitability to make the investment viable, the Energy Department granted the Company the amount of 25, to be taken out of a Unified Fund created by section 37 of Law No. 24,065. For the purpose of determining whether or not such amount should be repaid, a support price system was implemented for the electric power to be generated by the Complex and sold on the Wholesale Electric Power Market.

Such support price system will be applied over a ten-year term, which will be divided into two consecutive five-year periods, as from December 1999. In order to implement such system, an Annual Monomial Support Price

(AMSP) was set in the amounts of \$/Kwh 0.021 and \$/Kwh 0.023 for the first and second period, respectively. In order to determine the amount to be reimbursed, every year of the above mentioned term, the difference between the Annual Average Monomial Price of the Complex bars generation, and the aforesaid AMSP, valued in terms of the electric power generated by the Complex during such year will be determined.

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Owing to the depressed selling prices set for the energy generated by the Complex, and the prices estimated for the remaining term of the initial five-year period, and considering that the above support price system entails a profitability reassurance to make the investment practicable, as of December 31, 2003, the Company accrued an income of 15 of which 3 were recognized in income for year then ended.

12. Financing

The detail of debt as of December 31, 2003 and 2002, is as follows:

	2003		2002	
	Current	Noncurrent	Current	Noncurrent
Financial institutions	923	293	710	212
Notes	2,214	4,474	712	5,427
Investment agreement with IFC	61	331	65	193
Related companies (Note 18)	6			
Payable for purchase of 10% interest in Distrilec S.A.			56	298
	<u>3,204</u>	<u>5,098</u>	<u>1,543</u>	<u>6,130</u>

I. Financial debt refinancing

In the course of 2002, Petrobras Energía was able to restructure comprehensively a substantial portion of its financial debt. This allowed it to align the principal amortization payments with the cash flows obtained from its operations, resulting in a manageable time frame for payments.

On June 10, 2002, Petrobras Energía made an offer to exchange four series of new corporate bonds for four series of existing notes, whose closing date was July 31, 2002. Based on the bids received by the holders of corporate bonds, on August 1, 2002, Petrobras Energía issued Class F, G, H and I notes, with a face value of US\$ 845.2 million. Additionally, and in line with the exchange offer conditions, Petrobras Energía simultaneously paid US\$ 70 million. As a result of the exchange offer, the remaining outstanding amounts of corporate bonds swapped have been reduced to reflect the amounts not exchanged.

Subsequently, on October 4, 2002, Petrobras Energía issued Class J, K, L and M notes for US\$ 599.4 million and other medium-term credit instruments for US\$ 249.2 million, having simultaneously settled a debt of US\$ 74 million.

Credit instruments issued replace short-term letters of credit, which cover the compliance with certain financial obligations related to hedge agreements of crude oil prices and the investment in OCP. Long-term letters of credit issued under this credit facility fall due annually, which may be automatically extended to successive annual periods, with maturity dates in December 2005, at the latest, for letters of credit related to crude oil derivative agreements, and

October 2007, for obligations related to OCP. In case those letters of credit are not renewed on their related maturity dates, they shall be disbursed, in which case they will constitute new loans granted to the Company.

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II. Petrobras Energía's Global Programs of nonconvertible notes

a) US\$ 2.5 billion program

The Regular Shareholders Meeting of Petrobras Energía held on April 8, 1998, approved the establishment of a global corporate bond program for up to a maximum principal amount outstanding at any time of US\$ 1 billion or its equivalent in other currency. Later, the Regular and Special Shareholders Meeting held on June 20, 2002, authorized the increase of the maximum program amount outstanding at any time during the effectiveness of the program up to US\$ 2.5 billion or its equivalent in other currency.

The Regular and Special Shareholders Meeting of Petrobras Energía held on July 8, 2003, extended the term of the Petrobras Energía Medium-Term Corporate Bonds Program for five years counted as from May 5, 2003, or the maximum term that may be allowed under any new regulations that might become applicable in the future.

The establishment of the Program was authorized by Certificate No. 202, dated May 4, 1998, and Certificate No. 290, dated July 3, 2002 and Certificate No. 296 dated September 16, 2003, of the CNV.

As of December 31, 2003, there remained outstanding the following classes of corporate bonds under the medium-term global program:

Class B, for US\$ 5 million, payable in a single installment in May, 2006, at a 9% fixed annual rate.

Class C, for US\$ 220 million, with the last maturity in July 2005, which will be amortized in quarterly installments as from 2004. Class C notes shall accrue interest at LIBOR plus 2.50% for the first year, 2.75% for the second year, and 3% for the third and fourth years. As to this transaction, the Company arranged an interest rate swap, fixing the annual interest rate at 7.93%. Should the Argentine Government impose restrictions on transfers of US dollars, the Company is entitled to meet the payment obligations arising from this transaction by delivering oil or a combination of US dollars and oil, at the Company's choice. In the event of payment being made in oil, the volume delivered to the holders of the securities shall be priced at the WTI spot price at the time; the guaranteed minimum price for such oil is 15 US\$/bbl, and the volume shall not exceed 18.5 million barrels over the whole life of the agreement. Deutsche Bank AG London undertook, if such conditions were verified, to buy such oil while guaranteeing holders of the securities full repayment of the debt. In this connection, the Company executed a conditional call option that will trigger if and when the price of WTI drops below 15 US\$/bbl. As regards the Company's exposure to the price of WTI, the effect of the above is economically and financially neutral.

Class F, for a face value of US\$64.4 million maturing in August 2005, at a 7,875% annual rate.

Class G, for a face value of US\$250 million maturing in January 2007 at a 9% annual rate.

Class H, for a face value of US\$181.5 million maturing in May 2009, at a 9% annual rate.

Class I, for a face value of US\$349.2 million maturing in July 2010, at a 8.125% annual rate.

Class K, for a face value of US\$ 286.3 million, quarterly payable as from January 2004 and with final maturity date in October 2007, accruing interest at three month LIBOR per annum, plus 4%.

Class M, for a face value of US\$ 181.8 million, quarterly payable as from January 2004 and with final maturity date in October 2007, accruing interest at three month LIBOR per annum, plus 4.75%.

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Class N, for a face value of USD 97 million, with principal amortized in two installments, the first equivalent to 9.9099% of face value settled on the same day of issuance, January 24, 2003, and the remaining due in June 2011, accruing interest at six-month LIBOR plus 1%.

Class O, for a face value of USD 15,3 million, with due in March 2004, accruing interest at 7.5%.

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Class P, for a face value of USD 3.6 million, with due in March 2004, accruing interest at 8.5%.

Class Q, for a face value of US\$ 3.98 million, with two principal amortization installments: the first equivalent to 10% of the face value settled on the same day of issuance, April 25, 2003, and the remainder in April 2008, at an interest rate of 5.625%. As of December 31, 2003, the Company is carrying US\$ 760,000 of such issuance in its own portfolio.

Class R, for a face value of USD 100 million, with due in October 2013, accruing interest at 9.375%.

b) US\$1.2 billion program

As of December 31, 2003, under the medium-term Global Program which date for the issuance of new notes expired in June 1998, the following classes of general unsecured notes were outstanding, ranking pari passu in right of payment with all other unsecured and unsubordinated obligations of the Company:

- Fourth Series, for US\$ 22.8 million, payable in a single installment in January 2004, at a 9% fixed annual rate.
- Sixth Series, for US\$ 32.6 million, payable in a single installment in July 2007, at a 8.125% fixed annual rate.

The proceeds from all issuances, were used to refinance liabilities, increase working capital, for capital expenditures of fixed assets located in Argentina or capital contributions to affiliates.

The obligations arising out of issuances, are disclosed net of the issuance discounts to be accrued. The deferred cost for such issuances are included in Prepaid expenses and interests within Other receivables account.

III. Cross default covenants

Class F, G, H, I, N, O, P, Q and R notes include cross default covenants, whereby the Trustee, as instructed by the noteholders representing at least 25% of the related outstanding capital, shall declare all the amounts owed due and payable, if any debt of the Company or its significant subsidiaries is not settled upon the maturity date, provided that those due and unpaid amounts exceed the higher of US\$ 25 million or 1% of Petrobras Energía s shareholders equity upon those maturities, and that the default has not been defeated or cured within 30 days after the Company has been served notice of the default.

Class K and M notes include cross default covenants, whereby the Trustee, as instructed by the noteholders representing at least the majority of the respective outstanding capital, shall declare all the amounts owed due and payable, if any debt of the Company or its significant subsidiaries is not settled upon the maturity date, provided that those due and unpaid amounts exceed the higher of US\$ 15 million or 1% of Petrobras Energía s shareholders equity upon those maturities.

Class C notes issued under the US\$2.5 billion program, as well as certain loan agreements, include cross default covenants, whereby the Trustee or the creditor bank, as appropriate, shall declare all the amounts owed as due and payable, if any debt of the Company is not settled upon the maturity date, provided that those due and unpaid amounts exceed the amount of US\$ 10 million or 1% of Petrobras Energía s shareholders equity in relative terms, upon those maturities.

The remaining outstanding amount of the Fourth and Sixth Series and Class B notes does not include cross default covenants, as unanimously decided by the special meetings held by the noteholders of those series on July 10, 2002.

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IV. Covenants

In relation to the issuance of Class K and M notes and medium-term credit instruments (the refinanced financial debt), while some portion of the debt remains unpaid, the Company shall be subject to the compliance with a series of restrictions and obligations, which include, among others, the following:

- i) Restrictions on liens: Petrobras Energía shall not create, except for limited number exceptions, any lien upon the whole or any part of its assets and its current or future income, including any right to earn income, unless it grants identical security interests to the refinanced financial debt.
- ii) Restrictions on the payment of dividends: Petrobras Energía shall not distribute cash dividends prior to December 31, 2004, in cash exceeding U\$S 650,000. As an exception, Petrobras Energía could make a sole payment of extraordinary dividends to its shareholders up to US\$ 19 million, based on whether Petrobras Participaciones allocates its share of distributed dividends to settle Petrobras Participaciones s payable to Petrobras Energía. On July 8, 2003, Special and Regular Shareholders meeting approved the payment of an extraordinary cash dividend for an amount equivalent in pesos to the above mentioned amount. After this date, the aggregate amount paid shall not exceed 50% of the excess cash (cash provided by operating activities less aggregate capital expenditures allowed, up to the amount of actual capital expenditures, less financial debt repaid) for the immediately preceding fiscal year, less the extraordinary dividends paid.
- iii) Restrictions on capital expenditures: Petrobras Energía shall not make any capital expenditure, including the amount of debt incurred in relation thereto, in excess of US\$ 425 million in 2003, US\$ 450 million in 2004, US\$ 425 million in 2005 and US\$ 475 million in 2006 and 2007. These limits shall be increased by: (i) proceeds from the sale of capital assets, (ii) 50% of the excess cash for the prior fiscal year, (iii) contributed capital for capital increases, subordinated debt and project finance, and (iv) 50% of contributed capital for new debt issuance. Otherwise, the aggregate dividends paid shall decrease the limit of capital expenditures.
- iv) Restrictions on the incurrence of financial debt: Petrobras Energía shall not incur any financial debt as long as, after the estimation thereof, the ratio of: (A) consolidated financial debt, and (B) consolidated EBITDA (defined as gross profit less administrative, selling and exploration expenses, plus depreciation and amortization, dividends and advisory services collected) exceeds 3.5. The referred restriction shall be not applicable to subordinated debt, debt resulting from the investment project finance and that incurred to settle the existing debt.
- v) Restrictions on the ratio of consolidated financial debt (excluding subordinated debt) and consolidated EBITDA: the ratio of both shall not be greater than 4.5 in 2003, 3.5 in 2004 and 3 as from 2005 through 2007. For interim periods, the restriction will be weighted considering the period of four consecutive quarters prior to the end of the quarter.
- vi) Restrictions on the ratio of EBITDA to Interest: the ratio between both shall not be lower than 2.75 in 2003 and 3 as from 2004 through 2007. For interim periods, the restriction will be weighted considering a period of four consecutive quarters prior to the end of the quarter.
- vii) Restrictions on the maturity date of the financial debt: at any time, the short-term financial debt shall not exceed an amount equal to US\$ 650 million.
- viii) Export obligation: the exports to total principal services (principal repayments, plus accrued interest) ratio for Series K shall be higher than 1.1.
- ix)

Mandatory financial debt redemption: Within a term that shall not exceed 120 days as from fiscal year-end, the Company shall mandatorily redeem on a pro rata basis a portion of the refinanced financial debt of up to 50% of the excess cash during such fiscal year. Likewise, proceeds from the sale of assets, excluding those that constitute the business purpose, not reinvested within 360 days, and the 50% of the cash proceeds from new debt, shall be used to prepay the refinanced financial debt.

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V. Financing of the Genelba Electric Power Generation Plant

The investment was financed through debt granted by international banks, which are being semiannually repaid from June 1998 over a period of 10 years. They may be settled in advance at any time, at Petrobras Energía's discretion, and the remainder with the use of cash inflows. The debt may be prepaid at any time at Petrobras Energía's option. As of December 31, 2003, the amounts outstanding from the financing of the plant were US\$ 51 million, of which US\$ 20 million is related to a contract which contains restrictive covenants, including restriction on selling or leasing more than 40% of the plant during the year in which the debt is outstanding.

VI. Loan from International Finance Corporation (IFC) to Innova S.A. (Innova)

In October 1999, Innova executed a long-term loan agreement for US\$80 million comprising tranches A and B of US\$20 million and US\$60 million, respectively. Amortization of principal will be as from June 2002, in 16 and 12 semiannually installments for tranches A and B, respectively. The originally applicable interest rate is LIBOR plus 3.25%.

The loan was secured by a mortgage on certain real property owned by Innova. In addition, unless certain conditions indicated in the loan agreement occur, Petrobras Energía guarantees its timely payment.

The IFC financing was completed by issuing preferred stock in the amount of US\$5 million, fully paid-in during December 1999.

Certain covenants in the agreement prescribe restrictions in relation to dividends, investments in property, plant and equipment, restrictions upon the transfer, sale or rental of an important part of the assets, incurring long-term debt and providing mortgages. In addition, Petrobras Energía directly or through its subsidiaries, is committed to retain a 51% participating interest in Innova's common stock.

The funds provided by the IFC were used to construct styrene and polystyrene plants in the Brazilian State of Rio Grande do Sul.

VII. Payable for purchase of 10% interest of Distrilec

In June 1999, the Company, through its subsidiary Petrobras Bolivia International S.A., or PBI, acquired a 10% interest in Distrilec for an amount of US\$ 101 million. The related payment was documented through a promissory note issued by PBI and secured by Petrobras Energía for the benefit of Entergy, with a maturity date in June 2002, at a 7% annual fixed rate. The note was later transferred to a financial trust located in Argentina through a securitized transaction, whereby bonds denominated in US dollars were issued and placed among Argentine investors.

Upon the promissory note maturity date, the Company and holders of trust certificates represented contrary interpretations with respect to the application to that debt of measures related to the conversion into pesos (dedollarization) of payable obligations stated in foreign currencies issued under the Public Emergency and Foreign Exchange System Reform Law. At the request of the trustee, the Company started a mediation process to reach an agreement that documents the debt payment. This agreement expired without fulfilling its terms and conditions.

In November 2002, PBI irrevocably transferred all its rights and duties by virtue of the promissory note issuance to Petrobras Energía. Afterwards, on January 8, 2003, Petrobras Energía launched a Class N corporate bonds swap offer for a face value amounting up to US\$ 101 million maturing in 2011, for all and each of the debt securities, stating that such offer was not a waiver or release from any of the Company's rights in favor of the conversion of the abovementioned promissory note in Argentine pesos, or an acknowledgement or acceptance of any claim against such conversion.

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Petrobras Energía has received and accepted offers from debt security holders equivalent to 96.0594% of their outstanding face value. To offset this, and according to the conditions of the swap offer, the Company issued class N corporate bonds amounting to a face value of US\$ 97 million. Given that the terms and conditions of the new debt instruments differ substantially from the original as regards both maturity and financial expense, upon refinancing, the Company recognized a new liability that has been measured in accounts on the basis of the best estimate of the discounted value of total amount payable. On such a basis, the original liability was reduced to US\$ 77 million, giving rise to a gain of 34.

On April 16, 2003, the Company launched an offer to exchange every and all trust debt securities that had not been entered into the previous exchange for Class Q Corporate Bonds for an aggregate face value of up to US\$ 4 million and maturing in 2008. Due to the offers received, the Company issued Class Q for a face value of US\$ 3.98 million.

As of December 31, 2003, the Company offset in its accounts the receivable resulting from its holding of trust debt-securities against the payable resulting from the promissory note issued by PBI, which amounted to about US\$ 100.24 million, considering that it has the financial capacity to settle it in full.

VIII. Distrilec Indebtedness

Certain loan agreements entered into by Edesur S.A. contain cross-default covenants, whereby creditor banks are entitled to declare all amounts owed to be due and payable if any debt item is not paid when due and the outstanding past due amounts exceed the respective stipulations in the agreements.

Some of the abovementioned agreements include cross-acceleration covenants, whereby the creditor banks are entitled to declare all amounts owed to be due and payable in the event of Edesur S.A. being subject to the acceleration of any other debt in circumstances provided for in such agreements.

As of the date of issuance of these financial statements, the Company is negotiating with creditor banks the refinancing and/or the manner of repayment of certain short-term loans. Based on the results of other refinancings obtained by Edesur S.A. during 2002, such company's financial statements have been prepared assuming that it will reach agreements with its creditors allowing it to avoid the default situations mentioned above. This assumption remained unchanged for purposes of the proportional consolidation of Distrilec S.A.

IX. Loan agreement signed between Petrobras Energía Venezuela S.A. and the IFC

In July 2003, Petrobras Energía Venezuela S.A., a wholly-owned subsidiary of Petrobras Energía, executed loan agreements in the amount of US\$ 105 million with the International Finance Corporation.

In December 2003, the first principal installment was disbursed in the amount of USD 70 million.

The loan is primarily composed of Tranche A for USD 80 million, maturing in a term of eight years and a half, including one grace period, payable semiannually and at an annual LIBO nominal rate + 4.75%, and Tranche C for USD 25 million, maturing in a term of 9 years and a half.

These loans will be used in executing the investment plan related to the development of the Company's oil reserves in Venezuela in the Acema, Mata, La Concepción and Oritupano Leona areas.

The Company believes that the IFC will disburse the financing remainder during 2004.

X. CIESA and TGS indebtedness

As of December 31, 2003, CIESA's financial debt relates to the issuance of corporate bonds with a par value of up to USD 220 million and with original maturity in April 2002.

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In the wake of the new Argentine macroeconomic situation, as from the enactment of Public Emergency Law (see Note 9.IV Situation of interests in public utility companies), CIESA did not pay the principal and the last interest installment upon maturity and obligations under cap and collar agreements.

CIESA's Management is currently negotiating with the creditors to agree to extend the term to fulfill the related payment. In relation to those negotiations, CIESA has engaged an international prestigious financial advisor. No pledges have been made by CIESA's shareholders to provide financial aid.

On February 24, 2003, TGS started a global rescheduling process of USD 1,027 billion of its current financial indebtedness, which represents almost the entire debt. This process is primarily intended to spread out the maturity dates in the short term, change certain financial restrictions included in the financial agreements and adjust the interest rate and amortization term, so as to adjust the cash flows required for the debt repayment to the estimated cash flows, without requiring debt principal reductions.

Based on TGS's proposal to its creditors, the debt rescheduling agreement would be implemented through the out-of-court composition agreement (APE), recently introduced by Argentine laws, whereby the approval by two thirds of the creditors should be required for the judge's approval. As TGS could not meet this required majority, on May 14, 2003, it withdrew the referred rescheduling proposal and simultaneously announced the postponement of the interest payment.

As of the date of issuance of these financial statements, TGS continues to negotiate with its main creditors in order to achieve the financial debt rescheduling.

In the wake of the withdrawal of the debt rescheduling proposal and the postponement of the interest payment, TGS's indebtedness has been reclassified as Short-term debt , since, according to the financial agreements executed between TGS and its creditors, obligations may become due and payable.

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Long-term debt as of December 31, 2003, are made up as follows:

Type	Amount	Currency	Annual interest rate
Financial institutions	43	US\$	Libor+0.125
	28	US\$	Libor+0.75
	34	US\$	Libor+2.00
	23	US\$	6.15%
	81	US\$	Libor+5.75
	11	US\$	Libor+3.5
	17	US\$	5.73%
	20	US\$	4.68%
	24	US\$	3.54%
Investment agreement with IFC	125	US\$	Libor+3.25
	132	US\$	Libor+5.75
	74	US\$	Libor+1.50
Notes			
Class B	15	US\$	9.00%
Class C	277	US\$	Libor+2.50/3.00
Class F	190	US\$	7.875%
Serie Sixth	96	US\$	8.125%
Class G	735	US\$	9.00%
Class H	534	US\$	9.00%
Class I	1,027	US\$	8.125%
Class K	656	US\$	Libor+4
Class M	417	US\$	Libor+4.75
Class N	227	US\$	Libor+3
Class Q	11	US\$	5.625%
Class R	294	US\$	9.375%
Other	7		
	5,098		

(1)

The maturities of long-term debt as of December 31, 2003 and 2002, are as follows:

	2003	2002
From 1 to 2 years	1,055	994
From 2 to 3 years	480	1,051

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From 3 to 4 years	1,283	514
From 4 to 5 years	48	1,447
Over 5 years	2,232	2,124
	<u>5,098</u>	<u>6,130</u>

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The Company's provision for income taxes was comprised of the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current	(48)	(66)	(268)
Deferred tax (loss) gain	30	(16)	(117)
	<u> </u>	<u> </u>	<u> </u>
Total income tax	(18)	(82)	(385)
	<u> </u>	<u> </u>	<u> </u>

The tax effect of the significant differences between the book value and the tax value of the Company's assets and liabilities and tax loss carryforwards are as follows:

	<u>2003</u>	<u>2002</u>
Deferred tax assets		
Tax loss carryforwards and other tax losses	1,898	2,146
Current investments	6	3
Reserve for contingencies	77	30
Pension plan obligations	7	7
Derivatives	216	149
Receivables	10	15
Other	66	2
Less-valuation allowance	(1,786)	(2,055)
Deferred tax liability		
Revenue Recognition	(33)	(4)
Current Investments	(14)	
Property, plant and equipment	(137)	(155)
Prepaid expenses	(25)	(32)
Investories	(16)	(19)
Discounted assets and liabilities	(11)	
Non-current investments	(124)	(18)
Other	(12)	(10)
	<u> </u>	<u> </u>
	122	59
	<u> </u>	<u> </u>

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The reconciliation of tax provision at the statutory rate to the tax provision, (before taxes) and the minority interest in the subsidiary's earnings (losses), is as follows:

	2003	2002	2001
Income (losses) before income tax and minority interests in the subsidiaries income (loss)	557	(1,525)	598
Statutory tax rate	35%	35%	35%
Statutory tax rate applied to income (loss) for the period	195	(534)	209
Permanent differences at income tax rate			
- Equity in (earnings) losses from noncurrent investments	(59)	85	37
- Inflation adjustment	116	(26)	34
- (Decrease) increase in allowances for tax loss carryforwards	(525)	1,176	
- Foreign (earnings) losses	277	(639)	(66)
- Tax on minimum presumed income		19	102
- Other	14	1	69
Income tax expense	18	82	385

Tax loss carryforwards and deferred losses include the following items and may be used through the dates indicated below:

Items	2003	2002	2001
General Tax loss carryforwards	1,691	1,867	324
Deferred losses	207	279	
	1,898	2,146	324
Use up to	2003	2002	2001
2004		58	8
2005	15	27	9
2006	43	54	11
2007	52	100	40
2008 and thereafter	1,788	1,907	256

1,898 2,146 324

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14. Contingencies and environmental matters

a) Petrobras Energía Stamp Tax Contingency

In previous years, Petrobras Energía received inquiries from some Argentine Provinces with the purpose of imposing stamp tax on instruments which, under effective legislation, are not subject to such tax. These actions are the consequence of a decision of the Supreme Court of the Province of Neuquén dated October 2, 1996 (in the case SOLBA vs. the Province of Neuquén) to the effect that an agreement that could be inferred from correspondence exchanged between the parties that did not meet the taxability requirements provided in the related Tax Code was, however, indeed subject to stamp tax. The Federal Supreme Court rejected the case on the basis of Section 280 of the Code of Procedures (considering there was no Federal issue involved or that the issue did not merit its attention).

In March and April 2001, the Federal Supreme Court changed its view and accepted its jurisdiction to hear the declaratory judgment filed by TGS, as described in c) below, whereby TGS expects the requests made by the Province of Santa Cruz and Río Negro to apply stamp tax on the agreements reached by mail and other acts related to the privatization process, to be considered illegitimate and contrary to the Argentine Constitution.

In July 2003, by virtue of the decision on the case Banco Río de la Plata S.A. vs. Province of La Pampa, the Federal Supreme Court of Justice reasserted the instrumentation requirement established by the Federal Revenue Sharing Law in connection with the performance of acts, agreements and transactions levied by stamp tax. On April 15, 2002, the Federal Supreme Court issued its judgment regarding the declarative judgment requested by TGS, upholding the latter's position to the effect that the instruments that are autonomously executable are not subject to the tax. Given that it is very recent, the Company is studying consequences that such ruling will have on its operations.

As of December 31, 2003, the estimated aggregate amount of claims, including interest and fines, is 70. The Company keeps booking a provision for the potential adverse effects of those claims amounting to 7. Setting an allowance is a conservative measure adopted to comply with the applicable accounting principles and, therefore, should not be considered as a recognition of the claim made.

b) Environmental matters

The Company is subject to extensive environmental regulation at both the federal and local levels in Argentina and in other countries in which it operates. Petrobras Participaciones's management believes that its current operations are in material compliance with applicable environmental requirements, as these are currently interpreted and enforced, including sanitation commitments assumed. Petrobras Participaciones and its subsidiaries have not incurred any material pollution liabilities as a result of their operations to date. Petrobras Participaciones undertakes environmental impact studies for new projects and investments and, to date, environmental requirements and restrictions imposed on such new projects have not had material adverse impact on Petrobras Participaciones's business. There are no significant lawsuits or administrative proceedings against the Company related to environmental issues.

The Company's management has produced policies, objectives and procedures relating to environmental care and control. Through its policies, the Company assumed the commitment to ensure product and service quality preserving the environment in which it operates, the safety and health of its personnel, contractor, and neighboring communities. Management believes that this policy is an integral part of its business and, therefore, it forms the framework within which each business area sets its annual objectives in this regard. This policy ratifies the commitment to meeting the applicable laws and implementing environmental management, quality, security, and occupational health systems.

The Company has over 90 Environment (ISO 14001), Quality (ISO 9001) and Security & Occupational Health (OHSAS 18001/IRAM 3800) certifications.

In view of this situation, the Company engaged an international consulting firm to conduct the environmental audit of its operations pursuant to effective laws, future requirements and, in light of the lack of local regulations, based on international environmental standards.

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The final audit report confirmed the high environmental standards under which the Company's operations are carried out and determined the necessary actions to be taken to implement the Security, Environment and Occupational Health Policy principles whereby the Company commits to preserving the environment where it operates, as well as the security and health of its personnel, contractors and neighboring communities.

Being responsible therefore and as a result of an environmental study, the Company will make investments of nearly USD 23 million in the coming years, which include improvements of prevention systems and production facilities. Additionally, several corrective and remediation actions will be taken, due to incurred damages according to which the Company booked a loss of P\$45 million in the fiscal year ended December 31, 2003.

c) TGS stamp tax

TGS has received inquiries from the Provincial Tax Bureaus of the Provinces of Neuquén, Río Negro, Santa Cruz and La Pampa, for an approximate amount of 813 (including interests and penalties), with the purpose of collecting stamp tax that, according to tax authorities, would be applicable to the Share-Transfer Agreement executed in the privatization of Gas del Estado (GdE) and the transportation services offers from TGS to its customers.

TGS filed declarative actions with the Federal Supreme Court, seeking that such court issue its opinion about the legitimacy of provincial claims and requiring that provinces be ordered to refrain from conducting any actions intended to collect the tax claimed until the Federal Supreme Court decides on the merits of the case. In all the cases, the Federal Supreme Court granted the precautionary measures requested by TGS.

TGS's management considers that agreements predating takeover date were not subject to provincial stamp tax as the parties to the agreement were stamp tax exempt. Furthermore, TGS's management believes that even if the agreements executed before takeover date had been subject to stamp tax, under the terms of the Transfer Agreement such tax should be borne by GdE or the Argentine government. As regards the remaining assessments, TGS's management is of the opinion that offers to render transportation services are not subject to the tax in question. TGS believes that, should it be determined that such offers are taxable, this should be considered a change in interpretation of tax law and, its impact should be reflected in the tariff according to regulations on the subject. Ente Nacional Regulador del Gas (ENARGAS, the federal gas regulatory agency) believes that the claims for stamp tax lack merit because it considers the tax unlawful.

d) Fixed charges for connection with Transener

The ENRE authorized, by Resolution No. 1650/98, an increase in the connection charge, in full compliance with effective rules and regulations. Many generation companies filed administrative appeals before the Energy Department seeking that such increase be reversed; the Energy Department rejected such appeals. Only Central Térmica Güemes S.A. filed an appeal directly with the Federal Administrative-Contentious Court of Appeals, which decided in favor of the request. Transener and the ENRE filed an extraordinary appeal before the Supreme Court of Justice of the Nation. On June 27, 2003, the appellate court allowed the appeal before the Supreme Court. The case was referred to the Supreme Court and is pending resolution.

As reported by the legal counsel, Transener considers that the final outcome of this issue will not give rise to any significant obligation. Therefore, no provisions have been booked in this regard.

e) Contractual commitments, warranty bond, suretyships and guarantees granted

The warranty bonds, suretyships and guarantees as of December 31, 2003, which are not disclosed in the remaining notes, amount to 57.

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In addition, as of December 31, 2003, the Company had the following contractual commitments:

	Total Units	Total	Until
		(In millions of pesos)	
Purchase Commitments			
Ship or pay agreement with OCP (in bbls/ day) (1)	80,000	3,298	2018
Long term service agreement (in millions of USD)	47	141	2006
Gas transportation agreement with TGS (in MMm3)	11,873	300	2014
Ethylene (in thousands of tons)	337	550	2015
Benzene (in thousands of tons)	930	1,233	2015
Sales commitments			
Natural gas (in MMm3)	18,854		2019
Styrene (in thousands of tons)	56		2004
Electric power (in MWh)	329,115		2004

(1) Equivalent to about USD 200,000 per day.

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The movements of reserves for contingencies were as follows:

<u>Account</u>	<u>Balances at beginning</u>	<u>Net increase (decrease)</u>	<u>Balances at end</u>
Deducted from assets:			
Current			
For investments (a)	30	(7)	23
For doubtful accounts	27	15	42
For other receivables	72		72
Inventories obsolescence	3	1	4
	<u>132</u>	<u>9</u>	<u>141</u>
Noncurrent			
For investments (a)	68	(58)	10
For property, plant & equipment (b)	44	18	62
Inventories obsolescence		2	2
	<u>112</u>	<u>(38)</u>	<u>74</u>
2003	<u>244</u>	<u>(29)</u>	<u>215</u>
2002	<u>208</u>	<u>36</u>	<u>244</u>
Included in liabilities:			
Current			
Labor and commercial contingencies	28	16	44
	<u>28</u>	<u>16</u>	<u>44</u>
Noncurrent			
Labor and commercial contingencies	24	51	75
Operations in Ecuador	62	140(c)	202
	<u>86</u>	<u>191</u>	<u>277</u>
2003	<u>114</u>	<u>207</u>	<u>321</u>

2002	96	18	114
	<u> </u>	<u> </u>	<u> </u>

a) See Note 9.IV and 10.

b) See Note 10.

c) Includes a charge for 2003 fiscal year in the amount of 269, a transitory translation difference amounting to (10) and reclassification for (119) to account payable

15. Contribution, benefit pension and stock option plans of Petrobras Energía

a) Contribution and benefit pension plans

Defined contribution plan:

The Company sponsors a defined contribution plan that applies to all employees of Petrobras Energía with salaries above a specified level. Through this plan, the Company matches contributions by employees which are in excess of legally required amounts. Such contributions are charged to expenses in the year they are paid. Due to the significant changes in the Argentine economic scenario and the uncertainties posed by the Argentine economic conditions, as from January 2002, Petrobras Energía has suspended, at the moment, this benefit. Such benefit will be reestablished as soon as there is a social security savings means considered adequate to such end.

Defined benefit pension plan:

All employees of the Company, that take part without interruption in the defined contribution plan, that have joined the Company prior to May 31, 1995, and that qualify subject to certain years of service, are

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participants in this plan. The employee benefit is based on the last computable salary and years of service of the employee.

The plan is of a supplemental nature, that is to say the benefit to the employee is represented by the amount determined under the provisions of this plan, after deducting benefits payable to the employee under the contribution plan and the public retirement system, in order that the aggregate benefit to each employee from the three plans equals the one stipulated in the plan. Once retired, the employees are entitled to a fixed monthly payment.

The plan calls for a contribution to a fund exclusively by the Company and without any contribution by the employees, provided that they should make contributions to the retirement system for their whole salary. Assets of the fund were contributed to a trust and they are invested mainly in bonds, corporate bonds, mutual funds, and certificates of deposits. The Bank of New York is the trustee and Watson Wyatt is the managing agent. The Company determines the liability related to this plan by applying actuarial calculation methods. As of December 31, 2003, the most relevant actuarial information on the defined-benefits pension plan is as follows:

Plan assets	47
Projected benefit obligations	(51)
	<hr/>
Position uncovered	(4)
Unrecognized actuarial gain	(3)
	<hr/>
Net liability recognized	(7)
	<hr/>

According to its By-laws, the Company contributes to the fund through a contribution proposed to the Shareholders meeting by the Board of Directors and can increase up to a maximum of 1.5% of the net income for the year. During the years ended December 31, 2003, 2002, and 2001, the Board of Directors did not make use of this power.

Should there be an excess (duly certified by an independent actuary) of the funds under the trust agreement to be used to settle the benefits granted by the plan, the Company will be entitled to make a choice and use such excess, in which case it would have to notify the trustee thereof.

During the last quarter of 2002, Petrobras Energía admitted the advanced collection of this plan by beneficiaries should they expressly state so. All the individuals that exercised the abovementioned option before February 13, 2003, have lost their rights to collect their retirement supplement, thus they are no longer plan beneficiaries.

b) Stock option plan

The Board of Directors of Petrobras Energía approved the application of a long-term incentive program for the purpose of aligning the interests of officers and shareholders.

As part of this program, the Board of Directors of Petrobras Energía approved the Plans for year 2001 (2001 Plan) and for year 2000 (2000 Plan), focused on senior officers of Petrobras Energía. Both plans consist in granting the right to exercise certain options to receive Petrobras Participaciones shares or the cash equivalent at market, as described below:

2001 Plan

- i. 5,364,125 options to receive the value arising from the positive difference between the average listed price of Petrobras Participaciones shares on the New York Stock Exchange during the 20 days prior to exercising the option and 1.64 Argentine pesos per share, for such number of shares (appreciation rights).

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Regarding these options, 1,609,237 options may be exercised as from March 5, 2002, 1,609,238 options may be exercised as from March 5, 2003, and 2,145,650 options as from March 5, 2004. As of December 31, 2003 and March 31, 2004 the exercised options amount to 967,152 and 2,834,550, respectively.

- ii. 596,014 options to receive the same number of shares at no cost for the beneficiary. These options may be exercised as from March 5, 2005 (full value).

Beneficiaries of this plan will be entitled to exercise their rights until March 5, 2007, from the dates mentioned above.

2000 Plan

- i. 3,171,137 options to receive the value arising from the positive difference between the average listed price of Petrobras Participaciones shares on the New York Stock Exchange during the 20 days prior to exercising the option and 1.48 Argentine pesos per share, for such number of shares (appreciation rights).

Regarding these options, 951,341 options may be exercised as from May 29, 2001, 951,341 options may be exercised as from May 29, 2002, and 1,268,455 options as from May 29, 2003. As of December 31, 2003 and March 31, 2004, the exercised options amount to 1,232,692 and 2,275,589, respectively.

- ii. 352,347 options to receive the same number of shares at no cost for the beneficiary. These options may be exercised as from May 29, 2004 (full value).

Beneficiaries of this plan will be entitled to exercise their rights until May 29, 2006, from the dates mentioned above.

The cost of such benefit is allocated on proportional basis to each year within the exercise years and adjusted in accordance with the listed price of the share. Accordingly, an amount of 8 was charged to operating expenses for year ended December 31, 2003.

16. Capital stock and restrictions on unappropriated retained earnings

As of December 31, 2003 the Company's capital stock totaled 2,132 fully subscribed, issued, paid-in and registered.

Changes in capital stock in the last three fiscal years:

		December, 31		
		2003	2002	2001
Common stock	face value	\$ 1	1	1
Class A: 5 votes per share				628
Class B: 1 vote per share		2,132	2,132	1,504
		2,132	2,132	2,132

Since January 26, 2000, the Company Class B shares are listed on the Buenos Aires Stock Exchange and on the New York Stock Exchange.

Based on the change in the interest control described in Note 21, on October 17, 2002, the BCBA (Buenos Aires Stock Exchange) authorized the conversion of class A common shares into the same number of class B common shares and their admission into the listing system. In addition, the CNV approved their public offer.

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Table of Contents**17. Other receivables, other liabilities, other exploitation income, and other expenses, net.**

	2003		2002	
	Current	Noncurrent	Current	Noncurrent
a) Other receivables				
Joint ventures	53		74	
Related companies (Note 18)	3		4	
Tax credits	287	73	251	116
Advisory services to other companies	40		30	
Receivables from the sale of companies	89	16	3	25
Premiums and derivatives collateral payments			30	11
Letters of credit advances	175		143	
Prepaid expenses and interest	66	22	83	50
Gas oil supply stability agreement			12	
Other collaterals	23			
Other	125	20	104	18
	<u>861</u>	<u>131</u>	<u>734</u>	<u>220</u>

	2003		2002	
	Current	Noncurrent	Current	Noncurrent
b) Other liabilities				
Sale of capital fees (1)	107		126	122
Debt for investments in companies	16			
Derivatives	102	98		268
Unified Fund Basic Price of Electric Power (Note 11)	5	5		13
Related companies (Note 18)			48	
Financial advances	34		34	
Accrual for expenses				
- Environmental remediation		66		18
- Other	52		71	
Innova preferred stock		17		17
Abandonment cost in oil & gas areas		73		57
Joint ventures	7		16	
Other	56	3	49	1
	<u>379</u>	<u>262</u>	<u>344</u>	<u>496</u>

- (1) In December 2001, the Company, through its subsidiaries Petrobras Energía Venezuela S.A. and Corod Producción S.A., assigned to an international lending institution a part of the capital fees (related to investments made by such companies) to be collected from PDVSA, as provided by the Oritupano Leona Consortium Service Agreement (see Note 6), in the amount of US\$ 120 million. Capital fees assigned are settled by PDVSA in twelve quarterly, equal, and consecutive installments starting February 2002. This transaction was made net of the discount made at LIBOR plus 2.75%. In order to guarantee the lending institution that PDVSA will meet the obligations under this agreement, the Company assigned an additional part of the capital fees to be collected from PDVSA in the amount of US\$ 10 million. Should PDVSA not settle any amount payable on this account by the due-date, exclusively in the event that such noncompliance stems from any commercial challenge or claim that such company may have with respect to billings for investments made, the Company may choose to assign the lending institution additional capital fees in an amount equivalent to that challenged, or else it may settle the payable in cash. This assignment does not release Consortium members from the obligations under the previously mentioned service agreement.

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	<u>2003</u>	<u>2002</u>	<u>2001</u>
c) Other exploitation (expenses) income, net			
Advisory services to other companies	36	37	57
Idle facilities	(7)	(10)	(11)
Environmental remediation expenses	(58)	(15)	
Taxes on bank transactions	(45)	(37)	(15)
Contingencies	(57)		
Other, net	10	(3)	(8)
	<u> </u>	<u> </u>	<u> </u>
	(121)	(28)	23
	<u> </u>	<u> </u>	<u> </u>

	<u>2003</u>	<u>2002</u>	<u>2001</u>
d) Other expenses, net			
Income (loss) from sale of:			
- Pecom Agra S.A.		81	
- Pecom Agropecuaria S.A.		27	
- Cerro Vanguardia S.A.		123	
- Catriel Oeste field	(28)		
- Faro Vírgenes field	(11)		
- San Carlos field		(37)	
- Forestry activity	12	(153)	
- Pampa del Castillo La Guitarra and Terminales Marítimas Patagónicas S.A.			(65)
- Other assets		(5)	
Asset impairment of:			
- Operations in Ecuador	(309)	(63)	
- Gas producing areas	(37)	(44)	
- Hidroneuquén S.A.		(10)	
- Impairment of allocated purchased price related to CIESA			(202)
- Other assets	(12)	(8)	(15)
Projects		(5)	(4)
Loans granted to exploitation partners in Venezuela	(27)	(42)	
Debt restructuring		(17)	
Income from assets exchange			251
Discounted values for assets and liabilities	17		
Reversal of provision for TGS rates increase			(64)
Other, net	(26)	(34)	11
	<u> </u>	<u> </u>	<u> </u>
	(421)	(187)	(88)
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**18. Balances and transactions with related companies**

The outstanding balances from transactions with related companies are as follows:

Company	2003				
	Current				Noncurrent
	Trade receivables	Other receivables	Accounts payable	Loans	Advances to Investments
Oleoductos del Valle S.A.			1		
Petroquímica Cuyo S.A.				6	
Oleoductos de Crudos Pesados Ltd.					127
EG3 S.A.	55		2		
Transportadora de Gas del Sur S.A.	9		4		
Refinería del Norte S.A.		3			
Petrobras Petroleo Brasileiro S.A.	10				
	—	—	—	—	—
Total	74	3	7	6	127
	—	—	—	—	—
Company	2002				
	Current				
	Investments	Trade receivables	Other receivables	Accounts payable	Other liabilities
Empresa Boliviana de Refinación S.A.	19				
Oleoductos del Valle S.A.				3	
Petroquímica Cuyo S.A.		1	2		
Petrobras Petroleo Brasileiro S.A.		17			
Transportadora de Gas del Sur S.A.				3	
Refinería del Norte S.A.		1	2	4	
Coroil S.A.					48
	—	—	—	—	—
Total	19	19	4	10	48
	—	—	—	—	—

The principal transactions with affiliates for the years ended December 31, 2003, 2002 and 2001, were as follows:

2003	2002	2001
------	------	------

Company	Purchases	Sales	Purchases	Sales	Purchases	Sales
Oleoductos del Valle S.A.	17		14		20	
Transportadora de Gas del Sur S.A.	13		48		106	
Refinería del Norte S.A.	55	1	60		37	
Petrobras Petroleo Brasileiro S.A.		149		79		
EG3 S.A.	26	196		1		
Petroquímica Cuyo S.A.				5		9
Petrolera Entre Lomas S.A.			22			
	—	—	—	—	—	—
Total	111	346	144	85	163	9

In addition, losses on derivatives for the crude oil price hedge made with Petrobras International Finance Co. (PIFCO) amounted 12.

19. Business segment and geographic consolidated information

Petrobras Participaciones' s business is mainly concentrated in the energy sector, especially through its activities in oil and gas exploration and production, hydrocarbons marketing and transportation, refining, petrochemicals and electricity.

The Oil and Gas Exploration and Production segment is composed of Petrobras Energía' s directly held oil and gas operations and the operations of some of its subsidiaries and affiliates.

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The Refining segment includes Petrobras Energía's operations in Refinería San Lorenzo, and its interests in Refinería del Norte S.A. and Empresa Boliviana de Refinación S.A.

The Petrochemical segment includes Petrobras Energía's operations in PASA, and its interests in Innova S.A. and Petroquímica Cuyo S.A.

The Hydrocarbons Marketing and Transportation segment includes Petrobras Energía's operations of hydrocarbons trading and liquids processing and its interest in Transportadora de Gas del Sur S.A., Oleoductos del Valle S.A. and Oleoducto de Crudos Pesados Ltd.

The Electricity segment includes Petrobras Energía's operations in the Genelba plant and Pichi Picún Leufú Hydroelectric Complex, and its interest in Conuar S.A. (See Note 9.III), Edesur S.A., Transener S.A., Enecor S.A., Yacylec S.A. and Hidroneuquén S.A.

Assets and results of operations related to the Corporate Structure, those not attributable to any given business segment, discontinued operations including mining, farming, and forestry and related activities and intercompany eliminations are all disclosed together.

The applicable valuation methods to report business segment information are those described in Note 4 to these financial statements. The transfer prices of inter-segment transactions are the respective market prices.

The following information shows total assets, total liabilities and net income (loss) for each of the business segments identified by Petrobras Participaciones's management:

	Oil and Gas					Corporate, Other	
	Exploration		Hydrocarbons Marketing and			Discontinued Investments and	
	and		and			Eliminations	Total
	Production Refining	Petrochemical	Transportation	Electricity			
Total assets 2003	7,809	642	1,100	3,096	2,461	1,030	16,138
Total liabilities 2003	3,742	179	361	2,078	592	3,461	10,413
Total assets 2002	8,764	592	1,280	258	2,581	1,174	14,649
Total liabilities 2002	4,577	192	688		798	3,386	9,641

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	2003						Total
	Oil and Gas Exploration and Production	Refining	Petrochemicals	Hydrocarbons Marketing and Transportation	Electricity	Corporate, Other Discontinued Investments and Eliminations	
Statement of income							
Net sales							
To third parties	1,785	1,231	1,294	502	680	2	5,494
Inter-segment	944	71	—	19	11	(1,045)	—
	<u>2,729</u>	<u>1302</u>	<u>1294</u>	<u>521</u>	<u>691</u>	<u>(1,043)</u>	<u>5,494</u>
Cost of sales	(1,448)	(1,179)	(982)	(281)	(523)	1,027	(3,386)
	<u>1,281</u>	<u>123</u>	<u>312</u>	<u>240</u>	<u>168</u>	<u>(16)</u>	<u>2,108</u>
Gross profit							
Administrative and selling expenses	(178)	(57)	(110)	(34)	(73)	(107)	(559)
Exploration expenses	(196)						(196)
Other exploitation income (expense), net	(46)	(12)	(17)	(1)	17	(62)	(121)
	<u>861</u>	<u>54</u>	<u>185</u>	<u>205</u>	<u>112</u>	<u>(185)</u>	<u>1,232</u>
Exploitation income (loss)							
Equity earnings of affiliates	19	22	16	16	90		163
Other income (expense)	(943)	10	(39)	26	(19)	(49)	(1,014)
	<u>(63)</u>	<u>86</u>	<u>162</u>	<u>247</u>	<u>183</u>	<u>(234)</u>	<u>381</u>

2002

	2002						Total
	Oil and Gas Exploration and Production	Refining	Petrochemicals	Hydrocarbons Marketing and Transportation	Electricity	Corporate, Other Discontinued Investments and Eliminations	

Statement of income

Net sales							
To third parties	2,033	942	1,254	16	755	106	5,106
Inter-segment	773	66			11	(850)	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2,806	1008	1254	16	766	(744)	5,106
Cost of sales	(1,600)	(944)	(892)	(11)	(608)	771	(3,284)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross profit	1,206	64	362	5	158	27	1,822
Administrative and selling expenses	(224)	(48)	(122)	(2)	(92)	(121)	(609)
Exploration expenses	(58)						(58)
Other exploitation income (expense), net	(22)	(16)	11	13	23	(37)	(28)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Exploitation income (loss)	902		251	16	89	(131)	1,127
Equity earnings (losses) of affiliates	2	20	(10)	(470)	(239)	59	(638)
Other income (expense)	447	190	190		271	(3,166)	(2,068)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	<u>1,351</u>	<u>210</u>	<u>431</u>	<u>(454)</u>	<u>121</u>	<u>(3,238)</u>	<u>(1,579)</u>

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	2001						Total
	Oil and Gas Exploration and Production	Refining	Petrochemicals	Hydrocarbons Marketing and Transportation	Electricity	Corporate, Other Discontinued Investments and Eliminations	
Statement of income							
Net sales							
To third parties	1,502	788	809	695	1,248	128	5,170
Inter-segment	473		9		38	(520)	
	<u>1,975</u>	<u>788</u>	<u>818</u>	<u>695</u>	<u>1286</u>	<u>(392)</u>	<u>5,170</u>
Cost of sales	(1,188)	(711)	(666)	(297)	(906)	421	(3,347)
	<u>787</u>	<u>77</u>	<u>152</u>	<u>398</u>	<u>380</u>	<u>29</u>	<u>1,823</u>
Gross profit							
Administrative and selling expenses	(167)	(59)	(95)	(37)	(137)	(170)	(665)
Exploration expenses	(41)						(41)
Other exploitation income (expense), net	(4)	(13)	2	17	44	(23)	23
	<u>575</u>	<u>5</u>	<u>59</u>	<u>378</u>	<u>287</u>	<u>(164)</u>	<u>1,140</u>
Exploitation income (loss)							
Equity earnings of affiliates	6	14	4	26	24	45	119
Other income (expense)	34	(7)	(53)	(511)	(179)	(442)	(1,158)
	<u>615</u>	<u>12</u>	<u>10</u>	<u>(107)</u>	<u>132</u>	<u>(561)</u>	<u>101</u>

The following information shows total assets and net sales by geographic area.

	2003							Total	
	Argentina	Venezuela	Bolivia	Perú	Brazil	Ecuador	Other		Eliminations
Total assets	10,269	3,544	461	678	547	586	53		16,138
Net sales	3,804	594	108	374	502	115	2	(5)	5,494

2002

	<u>Argentina</u>	<u>Venezuela</u>	<u>Bolivia</u>	<u>Perú</u>	<u>Brazil</u>	<u>Ecuador</u>	<u>Other</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	7,744	3,886	379	908	722	751	259		14,649
Net sales	3,368	700	112	359	561	28	3	(25)	5,106

2001

	<u>Argentina</u>	<u>Venezuela</u>	<u>Bolivia</u>	<u>Perú</u>	<u>Brazil</u>	<u>Ecuador</u>	<u>Other</u>	<u>Eliminations</u>	<u>Total</u>
Net sales	4,122	489	84	182	297			(4)	5,170

20. Argentine s economic situation

Argentina is under a serious economic situation that is mainly characterized by the high foreign debt level, a financial system in crisis, a country risk that reached unprecedented international levels and an economic recession. This situation has generated a major fall in product and service demand, a significant increase in unemployment levels, and has hampered the Argentine Government s ability to meet its obligations thus declaring the default on public debt services at the end of 2001.

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In order to address the crisis in which Argentina is enmeshed by, since December 2001, Argentine authorities implemented a number of monetary and exchange control measures that mainly included restrictions on the free disposition of funds deposited with banks and the practical impossibility of making transfers abroad, with the exception of transfers related to foreign trade and other authorized transactions subject, in some cases, to the previous authorization of the Central Bank of Argentina (BCRA).

The obligation was established to deposit with Argentine banks foreign currency arising from exports, as long as no prior exemption mechanisms were in place. In this regard, Executive Decree No. 1,589/89 establishes that producers with free availability of crude oil, natural gas and/or liquefied gases under the terms of Law No. 17,319 and supplementary executive orders, and producers who agree so in the future, shall have the free availability of the percentage of funds established by the bids and/or renegotiations, or provided in the respective agreements, in which case they shall not be required to pay and settle the funds related to that percentage. In all cases, the freely available maximum percentage of funds shall not exceed 70% of each transaction. No assurance can be given whether the government will not amend the above mentioned system in the future.

Later, the Federal Government declared the official default on foreign debt payments and, on January 6, 2002, the Argentine Congress approved Law No. 25,561 on Public Emergency and Exchange System Reform that introduced dramatic changes to the economic model implemented until that date which resulted in a significant devaluation of the peso with the ensuing rise in domestic prices.

The government measures included the switch into pesos of certain assets and liabilities denominated in foreign currency and held in Argentina and the rescheduling of bank deposits, subsequently enabling the option to convert deposits into ten-year bonds in US dollars, or three- or five-year bonds in pesos, of fixed-term bills; the issuance of Federal Treasury bonds to compensate the losses resulting from the asymmetrical switch into pesos of the receivables and payables mentioned above; the switch into pesos of all private agreements executed before January 6, 2002, at the exchange rate of US\$ 1 = ARS 1 and their subsequent indexation by the CER; the de-dollarization and elimination of indexation on public utility service rates, with rates remaining set at the exchange rate of US\$ 1 = ARS 1; and imposing duties on the export of oil and gas and their derivatives.

On March 5, 2003, the Supreme Court declared that the conversion of deposits denominated in U.S. dollars into Argentine pesos was not constitutional. The Supreme Court authorized the claim of the Province of San Luis to redollarize its deposits. Although this decision does not generalize the redollarization, it constitutes an important background for the remaining bank deposits converted into pesos, regarding the treatment of the rest of the actions initiated in connection with de-dollarized bank deposits.

Since 2002, the Argentine federal government has implemented several measures relaxing controls and restrictions on economic activity and fostering the gradual normalization of the foreign exchange market and commercial and financial flows. In this respect the measures included lifting the restrictions on demand deposits, relaxing restrictions on principal and interest payments to foreign creditors, increased latitude in the payment terms for capital goods exports and imports, easier access to foreign exchange markets by entities and individuals, and authorization for authorized foreign-exchange dealers to channel remittances abroad of earnings and dividends from fiscal years closed and with financial statements certified by external auditors.

On September 22, 2003, the Argentine government submitted to the bondholders a rescheduling plan related to Argentine bonds in default. By virtue of such plan, the Argentine bonds issued prior to December 31, 2001, would be eligible (eligible debt) for the proposed swap of bonds, maintaining a strict equity principle among all types and classes of creditors. The interest past due as from the default that took place in early 2002 would not be paid and the debt principal would be reduced by 75%. Negotiations are likely to be complicated as a result of the large number of creditors holding over 100 different bonds denominated in different currencies. The government's main objective is to

restore the solvency by improving the debt to GDP and debt service to tax revenues ratios in order to establish a new debt profile consistent with the Argentine payment ability.

These financial statements comprise the effects deriving from the new political, economic and foreign exchange regulations known as of their date of issuance. All the Company's Management estimations have been made considering such policies. The impact deriving from the additional measures to be implemented by Government and from putting those previously adopted in practice shall be booked once the Company's Management becomes aware of them.

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21. Controlling Group

On October 17, 2002, Petrobras Participacoes, S.L., a wholly-owned subsidiary of Petróleo Brasileiro S.A. PETROBRAS (Petrobras), acquired 58.6% of Petrobras Participaciones s capital stock from the Perez Compañ Family and Fundación Perez Compañ. Petrobras is a Brazilian company, whose business is concentrated on exploration, production, refining, sale and transportation of oil and its byproducts in Brazil and abroad.

22. Summary of significant differences between accounting principles followed by the Company and US GAAP

The Company s financial statements have been prepared in conformity with Argentine GAAP, which differ in certain respects from US GAAP. The differences are reflected in the amounts provided in Note 23 and relate to the items discussed in the following paragraphs. As explained in Note 3, several accounting changes were made in the year ended December 31, 2003 under Argentine GAAP on retroactive basis. As a result of such retroactive changes, the following discussions and the reconciliations, and other information presented in Note 23 and 24, were restated accordingly for figures corresponding to prior years under Argentine GAAP.

a) Restatements of financial statements for general price-level changes

Prior to September 1, 1995, Argentine GAAP required the restatement of non-monetary assets and liabilities into constant Argentine pesos as of the date of the financial statements. Effective September 1, 1995, the CNV passed General Resolution No. 272 which provided that public companies would no longer be permitted to present financial statements that were adjusted to recognize the effect of inflation prevailing after such date. Therefore for periods ending subsequent to September 1, 1995, and until December 31, 2001, there had been no further restatement of non-monetary items or recognition of monetary gains and losses. This resolution matched Argentine GAAP so long as the change in the price index applicable to the restatement did not exceed 8% per annum.

Due to the new inflationary environment in Argentina in 2002, and the conditions created by the Public Emergency Law, the Professional Council in Economic Sciences of the City of Buenos Aires (CPCECABA) approved on March 6, 2002 Resolution MD No. 3/2002 applicable to financial statements for fiscal years or interim periods ending on or after March 31, 2002. Resolution MD No. 3/2002 required the reinstatement of the adjustment-for-inflation method of accounting in financial statements, which provides that all recorded amounts be restated by changes in the general purchasing power through August 31, 1995, as well as those arising between that date and December 31, 2001 stated in currency as of December 31, 2001.

On July 16, 2002, the Argentine government issued Decree 1,269/02, instructing the CNV and other regulatory authorities to issue the necessary regulations for the delivery to such authorities of balance sheets or financial statements prepared in constant currency. On July 25, 2002, under Resolution No. 415/02, the CNV reinstated the requirement to submit financial statements in constant currency. As the inflation rate stabilized, on March 25, 2003, Decree 664/03 rescinded the requirement that financial statements be prepared in constant currency. On April 8, 2003, the CNV issued Resolution 441/03 discontinuing inflation accounting as of March 1, 2003. Through Resolution No. 287/03 the CPCECABA also discontinued inflation accounting, but as from October 1, 2003. Accordingly, inflation accounting for the period from March 1, 2003 to September 30, 2003 is required by the CPCECABA but not allowed by the CNV.

In accordance with the above, our financial statements for the fiscal years ended December 31, 2002 and 2001 were restated in constant pesos as of February 28, 2003 based on changes in the Argentine wholesale price index published by the INDEC. This price index does not reflect any specific variation in the price of products and services sold by us, and therefore, variations in gains (losses) for both periods include positive or negative price variations that may be higher or lower than the general price variation or price variations for the products or services sold by us. After March 1, 2003, in accordance with the CNV standards described above, we no longer apply adjusting-for-inflation accounting.

Under US GAAP, general price level adjusted financial statements are not required. However, pursuant to the SEC's rules, these adjustments are not removed when performing the reconciliation to US GAAP included in Note 23.

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b) Capitalization of exchange differences

Under Argentine GAAP, Resolution No. 3/2002 of the CPCECABA requires that exchange differences resulting from the peso devaluation on liabilities denominated in foreign currencies existing as of January 6, 2002, that are directly related to the acquisition, construction or production of property, plant and equipment, intangibles and long-term investments in other companies incorporated in Argentina, should be capitalized at the cost values of such assets, subject to a number of conditions.

As described in Note 4.o), as of December 31, 2003 and 2002, the Company records capitalized negative foreign exchange differences through its affiliates Citelec and CIESA.

Under US GAAP, foreign currency exchange gains or losses are recognized currently in income.

c) Accounting for peso devaluation in January 2002

Under Argentine GAAP, assets and liabilities in foreign currency as of December 31, 2001, have been valued at the P\$1=U.S.\$ 1 exchange rate that was in effect when transactions in the foreign exchange market were suspended. Accordingly, all the effects of the devaluation of the Argentine peso were recognized in the 2002 fiscal year.

Under US GAAP, such assets and liabilities in foreign currency should be valued at the exchange rate effective as of the date of reopening of the exchange market (January 11, 2002), which was P\$ 1.70 to US\$ 1.00. As a result, the effects of such devaluation were recognized in 2001 fiscal year, and included as an adjustment in the reconciliation of net income to US GAAP in Note 23, on the following line items:

On net income:

Exchange differences

US GAAP adjustments applicable to equity in affiliates and to equity in earnings of affiliates.

Since no difference in exchange rates is verified as of December 31, 2002, the effects described above are reversed on 2002 fiscal year in the reconciliation presented in Note 23.

d) Income taxes

Both Argentine GAAP and US GAAP, require the liability method to be used to account for deferred income taxes. Under this method, deferred income tax assets or liabilities are recorded for temporary differences that arise between the financial and tax bases of assets and liabilities at each reporting date. The benefits of tax loss carry-forwards are recognized as deferred income tax assets, with an appropriate valuation allowance. A valuation allowance is provided when it is more likely than not (under US GAAP) or probable (under Argentine GAAP) that some portion or all of the deferred tax assets will not be realized.

However, Argentine GAAP and US GAAP may differ under certain circumstances in deferred income tax accounting. Under Argentine GAAP, differences between accounting and tax basis generated due to the recognition of the inflation effect on non-monetary assets, are accounted for as permanent differences for deferred income tax purposes. Under US GAAP, pursuant to Emerging Issues Task Force (EITF) No. 93-9, such differences are accounted for as temporary differences for deferred income tax purposes.

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e) Deferred charges

Under Argentine GAAP, costs such as organization and pre-operating expenses may be deferred and amortized over the resultant period of benefit, under certain circumstances.

For US GAAP purposes these amounts are expensed as incurred.

f) Discounting of certain receivables and liabilities

Under Argentine GAAP, certain receivables and liabilities which are valued on the basis of the best possible estimate of amount to be collected and paid, are required to be discounted using the estimated rate at the time of the initial measurement.

Under US GAAP, receivables and liabilities arising from transactions with customers and suppliers in the normal course of business, which are done in customary trade terms not exceeding one year, are accounted for at nominal value, including accrued interest, if applicable.

g) Proportionate consolidation

Under Argentine GAAP, an investor is required to consolidate proportionally line by line its financial statements with the financial statements of the companies over which it exercises joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of votes, share the power to define and establish a company's operating and financial policies on the basis of written agreements. In the consolidation of companies over which an investor exercises joint control, the amount of the investment in the company under joint control and the interest in its income (loss) and cash flows are replaced by the investor's proportional interest in the company's assets, liabilities, income (loss) and cash flows. Under Argentine GAAP, participations in Distrilec and CIESA qualify for proportionate consolidation.

Under US GAAP, participation in companies over which the investor exercises joint control is accounted for by the equity method and no proportional consolidation is allowed. However, pursuant to the SEC's rules, differences in classification or display that result from using proportionate consolidation in the reconciliation to US GAAP, may be omitted if certain requirements are met. Such requirements are met by Distrilec but not by CIESA. As a result such differences corresponding to proportional consolidation of Distrilec are not presented.

h) Accounting for business combinations

In July 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* and SFAS No. 142 *Goodwill and Other Intangible Assets*. These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting. In addition, SFAS No. 142 requires that, effective January 1, 2002, goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life, cease amortizing. The new rules also require that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. The Company has completed the annual impairment test of goodwill under the new standard and no additional adjustment was required. Business combinations performed before June 30, 2001 were accounted for under APB Opinion No. 16.

Under this past standard, goodwill was amortized on a straight-line basis over 40 years, resulting in an accumulated amortization of 46 through December 31, 2001. As from January 1, 2002, goodwill is no longer amortized. All business combinations described below were performed before June 30, 2001.

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1) Petrobras Energía share exchange offer

Under US GAAP, the 2000 exchange offer was accounted for under the purchase method. The purchase price of 6,766, calculated based upon the market price of Petrobras Energía common stock, has been allocated to the identifiable assets acquired and liabilities assumed based upon their fair value as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired has been reflected as goodwill, which was amortized on a straight-line basis over 40 years until December 31, 2001. The purchase price has been allocated as follows:

Fair value of assets acquired	10,927
Goodwill	928
Fair value of liabilities assumed	(5,089)
	<hr/>
Total purchase price	6,766
	<hr/>

Under Argentine GAAP, the accounting practice followed in 2000 fiscal year for nonmonetary exchange of shares was to recognize net assets at book value. Accordingly, issued shares of Petrobras Energía Participaciones S.A. (formerly Perez Companc S.A.) were subscribed and accounted for at the book value of Petrobras Energía shares exchanged. Therefore, the US GAAP reconciliation of shareholders' equity reflects the additional purchase price of Petrobras Energía capital stock, and the reconciliation of net income reflects the incremental depreciation, depletion, amortization, effective interest rate of liabilities and the related effects on the deferred income tax, as a result of the purchase price allocation mentioned above and the amortization of goodwill until December 31, 2001, which amounted to 24 for the year ended December 31, 2001.

Beginning 2003 fiscal year, new Argentine GAAP pursuant to CNV Resolution N° 434 adopted the purchase method or the pooling of interests method, depending on the circumstances. However, such new standards are not applied in retroactive basis.

2) Impairment of goodwill, Property, Plant and Equipment, and equity in affiliates

As described above, the purchase price of Petrobras Energía has been allocated under US GAAP (but not under Argentine GAAP) to the identifiable assets acquired and liabilities assumed, based upon their fair values as of acquisition date, being the excess reflected as goodwill.

In 2001 fiscal year, the US GAAP reconciliation reflected impairment charges of goodwill of 571, impairment charges of Property, plant and equipment of 628, and impairment charges of equity in affiliates of 411, to reduce the book value under US GAAP to fair values as of year-end, because such goodwill was not reflected under Argentine GAAP and book value of equity in affiliates subject to impairment was higher under US GAAP, as explained above.

Impairment losses reflected under US GAAP in 2001 fiscal year were a consequence of the crisis in Argentina as described in Notes 20 and 9.VI), and included identified goodwill and equity in the affiliates: CIESA, TGS, Enron de Inversiones de Energía S.C.A. (Edidesca), Distrilec and Citelec. Total impairment loss adjustments from Argentine GAAP to US GAAP were 653 for hydrocarbons, marketing and transportation segment, and 987 for electricity segment. For purposes of determining impairment loss, fair values were estimated based on quoted market prices and other information available.

As a result of recognizing such impairment losses and the devaluation effects on 2001 fiscal year as explained in Note 22.c), under US GAAP the value of the Company's interest in Citelec, Transener, CIESA, TGS and Edidesca as of December 31, 2001, accounted for under the equity method was nil.

As of December 31, 2003 and 2002, as a result of the devaluation effects mentioned above, under US GAAP the book value of the Company's interest in Citelec, Transener and CIESA accounted for under the equity method is nil. As of such dates, the valuation of the interest in TGS amounts to 82 and 37, respectively, under US GAAP.

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3) Negative goodwill

For the Hidroeléctrica Pichi Picún Leufú S.A. (HPPL) acquisition, the fair value of assets was substantially represented by the acquired deferred tax assets, consisting of the tax effects of the difference between tax and book basis of fixed assets and net operating loss carry forwards, which were only recognized under US GAAP. To the extent of the excess of such deferred tax assets acquired over the consideration paid, a negative goodwill was recognized under US GAAP, which was amortized over a 30 year period beginning at the plant start-up of operations until December 31, 2001. As the Company adopted SFAS 142 effective January 1, 2002, such negative goodwill has been reversed, and a cumulative effect of change in accounting principle of 179 was recognized in 2002.

Neither the deferred tax assets nor the related negative goodwill and its reversal were recognized under Argentine GAAP.

4) Deferred charges in privatized companies acquired

In Argentina, it is an accepted practice for costs associated with voluntary retirement programs incurred in the acquisition and start-up of a privatized company to be recognized as a liability with a corresponding deferred asset, which is amortized over the period expected to be benefited.

The only difference between US and Argentine GAAP related to qualifying liabilities assumed is that for Argentine GAAP the offsetting purchase price is allocated to intangible assets and for US GAAP the offsetting purchase price is allocated to the fair value of the acquired assets which, in this case, is property, plant and equipment (PP&E). Therefore, the US GAAP reconciliation of net income and shareholders' equity reflects in this respect, the difference between intangible asset amortization and property, plant and equipment depreciation.

i) Foreign Currency Translation

Under Argentine GAAP, all foreign operations are remeasured into U.S. dollars, their functional currency. Assets and liabilities, stated at current values are to be converted at the closing exchange rates, assets and liabilities measured at cost and revenues, expenses, gains and losses are to be converted at the historical exchange rates. Once the transactions are remeasured into U.S. dollars, assets and liabilities are translated into pesos at current rate, and revenues, expenses, gains and losses are translated at historical exchange rates. Resulting remeasurement and translation gain or loss is recognized currently in earnings in the Financial income (expense) and holding gain (losses) account for fiscal years 2002 and 2001.

In accordance with new accounting standards pursuant to CNV Resolution No. 434 as from fiscal year 2003, the translation gain or losses arising from the translation into pesos of the financial statements of all foreign operations is presented in the Transitory differences foreign currency translation account, a separate component of the balance sheet.

Under US GAAP, gains or losses resulting from translation of U.S. dollars remeasured operations into pesos, are included as other comprehensive income, a separate component of shareholder's equity.

A portion of the company's foreign currency denominated debt portfolio is designated as a hedge of the volatility in stockholders' equity caused by changes in the functional currency exchange rates with respect to the peso. Exchange differences resulting from such debt are reflected in the Transitory differences Foreign currency translation account under Argentine GAAP (for 2003), and in the cumulative translation adjustment account under US GAAP (for all periods presented), thereby offsetting the translation gain or loss from hedged foreign subsidiaries' net assets. Remaining exchange differences recognized in income differ from Argentine GAAP to US GAAP, as a result of differences in the book value of foreign subsidiaries' net assets and resulting designated debt.

j) Capitalization of interest costs on certain assets

Prior to January 1, 1993, Argentine GAAP did not require capitalization of interest charges relating to the financing of major projects under construction. Capitalization of interest as part of the acquisition cost of an asset is required under US GAAP. However, qualifying assets and eligible interest cost may differ under certain circumstances. Under US GAAP, foreign currency exchange gains or losses are excluded from interest cost base.

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k) Depreciation of Property, plant and equipment

Under Argentine GAAP, depreciation of certain non-oil and gas fixed assets is accounted for by the Company by applying rates established for technical revaluation, which are based on engineering formulas.

Under US GAAP depreciation of such assets is calculated primarily using the straight-line method over the useful lives of the assets.

l) Minority interest

An adjustment to record the portion of all US GAAP adjustments attributable to minority interests in consolidated subsidiaries has been recorded.

m) Accounting for derivative instruments

Under US GAAP, SFAS No. 133 as amended by SFAS No. 137 and SFAS No. 138, requires that all derivative financial instruments be recognized in the consolidated balance sheets as either an asset or liability measured at fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. For derivatives accounted for as hedges, fair value adjustments are recorded to earnings or other comprehensive income, a component of shareholders' equity, depending upon the type of hedge and the degree of hedge effectiveness. For hedges classified as fair value hedges, adjustments are recorded through earnings with an offsetting, partial mark to fair value of the hedged item currently through earnings. For hedges classified as cash flow hedges, adjustments are recorded to other comprehensive income, and the gain or loss on the derivative is removed from equity and recognized in earnings in the same period as the loss or gain on the hedged cash flow.

Under Argentine GAAP in the fiscal year 2003, changes in the fair value or derivatives accounted for as effective hedges are recognized in the Transitory differences Measurement of derivative financial instruments determined as effective hedge account, a separate component of the balance sheet.

Prior to the adoption of new accounting standards in fiscal year 2003 pursuant to CNV Resolution No. 434, under Argentine GAAP there were no specific requirements governing derivatives accounting and the Company used hedge accounting for derivatives in fiscal years 2002 and 2001 in conjunction with its risk management objectives.

Pursuant to special transition standards, the balances as of December 31, 2002 resulting from the recognition, measurement and booking of financial instruments, which qualified as effective hedges, were not adjusted retroactively.

n) Valuation of timber

Under Argentine GAAP, timber was valued at current values, recognizing their organic growth currently in income.

Under US GAAP, timber is valued at historical cost. Forestry operations were sold in 2002.

o) Debt refinancing costs

Under Argentine GAAP, unamortized deferred costs incurred with third parties related to debt issuance are charged to expenses when such debt is restructured, while such costs related to the new debt are capitalized and amortized on a

straight line basis.

Under US GAAP, SFAS No. 15 and SFAS No. 140 and related EITF issues require for debt restructuring not considered to be an extinguishment, the Company continues amortizing those costs related to the old debt and charge to expenses for debt restructuring direct costs.

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p) Guarantor's Accounting for Guarantees

Under US GAAP, FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee.

Under Argentine GAAP, guarantees issued are generally not recognized as liabilities.

q) Accounting for stock option plans

Under Argentine GAAP, the Company has accounted for stock option plans consistently with Accounting Principles Board (APB) Opinion No. 25, *Accounting for stock issued to employees*, in accounting for its employee stock option plan. Since Petrobras Energía's stock option plan is a liability award, there is no differences in the reported net income and earning per share for the years 2003, 2002 and 2001 based on SFAS No. 123, *Accounting for stock based compensation*, amended by SFAS No. 148.

r) Classification of sale of future revenues

Under Argentine GAAP, net proceeds from an assignment of future capital fees to be earned in Venezuela are presented in the Balance Sheet as current and noncurrent other liabilities for US\$ 36 million and US\$ 73 million as of December 31, 2003 and 2002, respectively.

Under US GAAP, a sale of future revenues of this nature is classified as debt. Therefore, a reclassification was made for purposes of US GAAP consolidated balance sheet data presented in Note 23.

s) Classification of impairment losses

Under Argentine GAAP, impairment losses for fixed assets, if any, are generally presented in the income statement as non-operating expenses.

US GAAP requires such losses to be presented as operating. Therefore, impairment losses recognized under Argentine GAAP and additional impairment losses recognized under US GAAP, are included in the Operating income (loss) subtotal of the US GAAP Consolidated income data presented in Note 23.

t) Accounting for discontinued operations

Under Argentine GAAP, the gain or loss on sales of a business segment is presented in the Other expenses, net account.

According to US GAAP, the results of continuing operations should be presented separately from discontinued operations and any gain or loss from disposal of a component of business segment should be reported in conjunction with the result of discontinued operations. Therefore, required reclassifications have been made for purposes of US GAAP consolidated income data presented in Note 23.

u) Accounting for changes in accounting principles - Asset retirement obligations

Under Argentine GAAP, changes in accounting principles are generally accounted for on retroactive basis.

Under US GAAP, such changes are generally recognized as a cumulative effect in current earnings for the period the change is effective.

In connection with the adoption of SFAS No. 143 Accounting for Asset Retirement Obligations for both US GAAP and Argentine GAAP as from January 1, 2003, the reconciliation of net income presented in Note 23 reflects the difference described above in recognizing such change in accounting principle.

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v) *New accounting standards under US GAAP*

1) Derivative Instruments

In May 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 149 did not impact the Company's consolidated financial statements.

2) Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. SFAS No. 150 did not impact the Company's consolidated financial statements.

3) Employers' Disclosures about Pensions and Other Postretirement Benefits

On December 23, 2003 the Financial Accounting Standards Board released revised FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (SFAS No. 132). The revised standard provides required disclosures for pensions and other postretirement benefit plans and is designed to improve disclosure transparency in financial statements. The revised standard replaces existing pension disclosure requirements. The requirements of the standard are effective for public entities for fiscal years ending after December 15, 2003. The adoption of SFAS No. 132 did not have a material impact on the Company's consolidated financial statements.

4) Revenue recognition

On December 17, 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104 (SAB No. 104), which revises or rescinds portions of the interpretative guidance included in Staff Accounting Bulletin No. 101, *Revenue Recognition* (SAB No. 101). The main modifications introduced by SAB No. 104 are aimed at making this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The principal revisions relate to the rescission of material no longer necessary because of private sector developments in the US generally accepted accounting principles. The adoption of SAB No. 104 did not have a material impact on the Company's consolidated financial statements.

Table of Contents**23. Reconciliation of net income and shareholders' equity to US GAAP**

The following is a summary of the significant adjustments to net income for the years ended December 31, 2003, 2002 and 2001, and the shareholders' equity as of December 31, 2003 and 2002, which would be required if US GAAP had been applied instead of Argentine GAAP in the Company's financial statements.

Reconciliation of net income to US GAAP

	2003	2002	2001
	<hr/>	<hr/>	<hr/>
Net income (loss) in accordance with Argentine GAAP	381	(1,579)	101
US GAAP adjustments:			
Exchange differences from devaluation of the Argentine peso		218	(218)
Foreign currency translation adjustment	(108)	87	
Valuation of timber		(2)	2
Deferred charges		1	2
Amortization of deferred charges	3	5	4
Debt refinancing costs	24	(64)	
Deferred income taxes	66	(1,123)	34
Derivatives	88	91	138
Depreciation of PP&E	(168)	(252)	(168)
Impairment of PP&E			(628)
Fair value of liabilities	(36)	12	(46)
Negative goodwill		179	7
Amortization of goodwill			(24)
Impairment of goodwill			(571)
Discounted value of assets and liabilities	17		
Difference in accounting basis for assets sold	(29)	(92)	(207)
Asset retirement obligations	45	(15)	1
Minority Interest	(4)	46	54
Other	41	20	25
Deferred income taxes on US GAAP adjustments	97	148	582
US GAAP adjustments applicable to equity in earnings of affiliates			
Impairment of equity in affiliates			(441)
Exchange differences from devaluation of Argentine peso		803	(803)
Other differences	(317)	(37)	(110)
	<hr/>	<hr/>	<hr/>
Total US GAAP adjustments	(281)	25	(2,367)
Reclassification of discontinued operations and cumulative effect of changes in accounting principles, net of income tax	9	(314)	12
	<hr/>	<hr/>	<hr/>
Income (loss) from continuing operations	109	(1,868)	(2,254)
Discontinued operations:			
Income (loss) from operations (1)	7	72	(12)
Income (loss) from disposal (2)	(46)	63	
	<hr/>	<hr/>	<hr/>

Income (loss) before cumulative effect of changes in accounting principles	70	(1,733)	(2,266)
Cumulative effect of changes in accounting principles, net of tax (3)	30	179	—
	<u> </u>	<u> </u>	<u> </u>
Net income (loss) under US GAAP	100	(1,554)	(2,266)
	<u> </u>	<u> </u>	<u> </u>

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	<u>2003</u>	<u>2002</u>	<u>2001</u>
Basic net income (loss) per share under US GAAP			
Class A			(0.786)
Class B	0.047	(0.729)	(1.179)
Diluted net income (loss) per share under US GAAP	0.047	(0.729)	(1.063)
Basic net income (loss) per share under US GAAP			
Class A			
Continuing operations			(0.782)
Discontinued operations			(0.004)
Class B			
Continuing operations	0.051	(0.876)	(1.172)
Discontinued operations	(0.018)	0.063	(0.006)
Cumulative effect of changes in accounting principles	0.014	0.084	
Diluted net loss per share under US GAAP			
Continuing operations	0.051	(0.876)	(1.057)
Discontinued operations	(0.018)	0.063	(0.006)
Cumulative effect of changes in accounting principles	0.014	0.084	
Basic net income (loss) per share under Argentine GAAP			
Class A			0.035
Class B	0.179	(0.744)	0.053
Diluted net income per share under Argentine GAAP	0.179	(0.744)	0.047
Number of shares -in millions (4)	2,132	2,132	2,132

(1) Net of applicable income tax expenses of 26 and 27 for the years ended December 31, 2002 and 2001.

(2) Including applicable income tax benefit of 10 and 3 for the years ended December 31, 2003 and 2002.

(3) Net of applicable income tax expense of 15 for the year ended December 31, 2003.

(4) Earnings per share are calculated based on the weighted average number of shares outstanding during the year.

Consolidated pro forma income data

As mentioned in Note 22, SFAS No. 142 and SFAS No. 143 were effective from January 1, 2002 and January 1, 2003, respectively. If the new standards had been effective before January 1, 2001, net income for the years ended December 31, 2003, 2002 and 2001, would have been as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income (loss) under US GAAP	100	(1,554)	(2,266)
Amortization of goodwill			9
Reversal of negative goodwill		(179)	(7)
Accounting for asset retirement obligation, net of tax	(30)	10	(1)
Proforma net income (loss) under US GAAP	70	(1,723)	(2,265)

	—	—	—
Proforma basic net income (loss) per share under US GAAP			
Class A			(0.785)
Class B	0.033	(0.808)	(1.178)
Proforma diluted net income (loss) per share under US GAAP	0.033	(0.808)	(1.062)

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Table of Contents**Consolidated statement of comprehensive income**

	2003	2002	2001
	<hr/>	<hr/>	<hr/>
Net income (loss) under US GAAP	100	(1,554)	(2,266)
Foreign currency translation adjustment:			
Net change during period, net of tax	(78)	(374)	455
Deferred hedge gains and losses, net of tax:			
Cumulative effect of accounting change			(228)
Reclassification to net income	(15)	78	162
Deferred hedge (loss) gains	17	(54)	26
Total Comprehensive Income	24	(1,904)	(1,851)
	<hr/>	<hr/>	<hr/>
Cumulative Other Comprehensive Income:			
Foreign currency translation adjustment	(48)	30	404
Deferred hedge gains and losses, net of tax	(12)	(14)	(38)
	<hr/>	<hr/>	<hr/>
Total Cumulative Other Comprehensive Income	(60)	16	366
	<hr/>	<hr/>	<hr/>

Reconciliation of shareholders' equity to US GAAP

	2003	2002
	<hr/>	<hr/>
Shareholders' equity in accordance with Argentine GAAP	4,833	4,452
US GAAP adjustments:		
Deferred charges	(29)	(37)
Debt refinancing costs	(41)	(65)
Deferred income taxes	(1,242)	(1,308)
Minority interest	132	136
Derivatives	(18)	(109)
Foreign currency translation adjustment	(161)	(123)
PP&E	1,513	1,909
Goodwill	155	155
Fair value of liabilities	86	140
Discounted value of assets and liabilities	17	
Asset retirement obligations		(45)
Other	11	6
Deferred income taxes on U.S. GAAP adjustments	(360)	(543)
US GAAP adjustments applicable to equity in affiliates	(373)	(69)
	<hr/>	<hr/>
Total US GAAP adjustments	(310)	47

	_____	_____
Shareholders equity in accordance with US GAAP	4,523	4,499
	_____	_____

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Table of Contents**Description of changes in shareholders' equity under US GAAP**

	2003	2002	2001
Shareholders' equity under US GAAP as of beginning of the year	4,499	6,403	8,408
Cash dividends			(134)
Acquisition of own stock held by subsidiary			(20)
Other comprehensive income	(76)	(350)	415
Net income (loss) under US GAAP	100	(1,554)	(2,266)
	<u> </u>	<u> </u>	<u> </u>
Shareholders' equity under US GAAP as of the end of the year	4,523	4,499	6,403
	<u> </u>	<u> </u>	<u> </u>

US GAAP Summarized Consolidated Data

The consolidated income data and the consolidated cash flow data for the years ended December 31, 2003, 2002 and 2001, and the consolidated balance sheets data as of December 31, 2003 and 2002, presented below have been adjusted to reflect the differences between US GAAP and Argentine GAAP discussed above:

	Year ended December 31,		
	2003	2002	2001
US GAAP consolidated income and loss data			
Sales	5,192	5,321	4,658
Less taxes on sales and services	(114)	(139)	(28)
	<u> </u>	<u> </u>	<u> </u>
Net sales	5,078	5,182	4,630
Cost of sales	(3,282)	(3,374)	(3,084)
	<u> </u>	<u> </u>	<u> </u>
Gross profit	1,796	1,808	1,546
Administrative and selling expenses	(529)	(645)	(629)
Exploration expenses	(196)	(58)	(41)
Other operating income (expense), net	(449)	(275)	(23)
	<u> </u>	<u> </u>	<u> </u>
Operating income	622	830	853
Equity in earnings of affiliates	65	(125)	(2,713)
Financial income (expense) and holding gains (losses)	(663)	(1,564)	(911)
Other income, net			185
	<u> </u>	<u> </u>	<u> </u>
	24	(859)	(2,586)

Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of changes in accounting principles			
Income tax (expense) benefit	92	(1,089)	326
Minority interest in subsidiaries	(7)	80	6
Discontinued operations			
Income (loss) from discontinued operations, net of income taxes (1)	7	72	(12)
Income (loss) from disposal, net of income taxes (2)	(46)	63	
Cumulative effect of changes in accounting principles (3)	30	179	
	<u> </u>	<u> </u>	<u> </u>
Net income (loss) for the year	100	(1,554)	(2,266)
	<u> </u>	<u> </u>	<u> </u>

(1) Net of income tax expense of 26 and 27 for the years ended December 31, 2002 and 2001.

(2) Net of income tax benefit of 10 and 3 for the years ended December 31, 2003 and 2002.

(3) Net of income tax expense of 15 for the year ended December 31, 2003.

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US GAAP condensed consolidated balance sheet data	Year ended December 31,	
	2003	2002
Current assets	2,614	2,750
Investments	1,071	1,055
Property, plant and equipment	10,522	12,105
Other non current assets	301	198
Total non current assets	11,894	13,358
Total assets	14,508	16,108
Short-term debt	1,304	1,624
Other liabilities	1,282	1,155
Total current liabilities	2,586	2,779
Long-term debt	5,027	6,152
Other non current liabilities	1,967	2,238
Total noncurrent liabilities	6,994	8,390
Total liabilities	9,580	11,169
Minority interest in subsidiaries	405	440
Shareholders' equity	4,523	4,499
	14,508	16,108

US GAAP condensed consolidated cash flow data	Year ended December 31,		
	2003	2002	2001
Net cash provided by operations	1,209	826	1,415
Net cash used in investing activities	(886)	(172)	(1,746)
Net cash (used in) provided by financing activities	(369)	(1,953)	986

	_____	_____	_____
(Decrease) Increase in cash	(46)	(1,299)	655
Effect of the exchange rate on cash	(88)	(63)	818
Cash and cash equivalent at beginning	725	2,087	614
	_____	_____	_____
Cash and cash equivalent at end	591	725	2,087
	_____	_____	_____

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Table of Contents**24. Additional financial statements disclosures required by US GAAP and the SEC***a) Income taxes*

The tax effect of the significant differences between the book value and the tax value of the Company's assets and liabilities and tax loss carryforwards are as follows:

	<u>2003</u>	<u>2002</u>
Deferred tax assets		
Tax loss carryforwards	1,399	1,867
Other tax losses	207	279
Property, plant and equipment	62	58
Reserve for contingencies	76	29
Non-current investments	82	86
Pension plan obligations	7	7
Derivatives	216	187
Receivables	10	22
Accounts payable	12	5
Other deferred tax assets, not significant individually	68	17
Less-Valuation allowance	(1,619)	(2,071)
Deferred tax liabilities		
Revenue recognition	(40)	(21)
Current investments	(16)	
Fair value of liabilities	(30)	(49)
Prepaid expenses	(29)	(8)
Property, plant and equipment	(1,551)	(1,827)
Non-current investments	(351)	(352)
Other deferred tax liabilities, not significant individually	(41)	(21)
	<u> </u>	<u> </u>
Net deferred tax liabilities	(1,538)	(1,792)
	<u> </u>	<u> </u>

The tax loss carryforwards as of December 31, 2003 expire as follows:

2005	15
2006	43
2007	52
Beyond 2008	<u>1,496</u>
	1,606
Valuation allowance on tax loss carryforwards	(1,516)

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The reconciliation of tax provision at the statutory rate to the tax provision for the years ended December 31, 2003, 2002 and 2001, computed in accordance with US GAAP, is as follows:

	2003	2002	2001
Pre-tax income (loss) in accordance with U.S. GAAP	6	(523)	(2,574)
Statutory tax rate	35%	35%	35%
Statutory tax rate applied to pre-tax income (loss)	2	(183)	(901)
Equity in (earnings) losses and dividends from affiliates	(56)	(97)	20
Inflation adjustment on nonmonetary assets and liabilities	13	973	
Inflation adjustment, remeasurement and foreign earnings	332	1	4
Increase (decrease) in valuation allowances	(422)	333	279
Tax on minimum presumed income	11	19	104
Impairment, amortization and other decreases of goodwill	13	39	218
Tax adjustments and other, net	20	27	(23)
Tax (benefit) expense	(87)	1,112	(299)

The Company's provision for income taxes under US GAAP was comprised of the following:

	2003	2002	2001
Current			
Argentina		44	180
Foreign	48	22	20
	48(1)	66	200
Deferred			
Argentina	(74)	1,118	(585)
Foreign	(61)	(72)	86
	(135)	1,046	(499)
Total tax (benefit) expense	(87)	1,112	(299)

(1) Net of P\$483 million for loss tax carryforward utilization in 2003.

b) Fair value of financial instruments

US GAAP requires disclosure of the estimated fair value of the Company's financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

The carrying amounts of cash, cash equivalents, accounts receivables and short-term obligations approximate its fair value, because of the short-term maturities of these instruments.

Fair value of trading and held-to-maturity investments is based on quoted market prices. The fair value of publicly traded long-term debt is based on quoted market prices, and for the remaining long-term debt was estimated based on the current rates available to the Company for debt of similar remaining maturities. Fair values of derivative financial instruments represent the estimated amount that would have been required to terminate the contracts. The fair value of performance bonds and other guarantees approximate the notional amount of these instruments.

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The estimated fair values of financial instruments are as follows, except for those financial instruments noted above for which the carrying values approximate fair values:

	<u>2003</u>		<u>2002</u>	
	Carrying amount under US GAAP	Fair Value	Carrying amount under US GAAP	Fair Value
Financial assets:				
Held-to-maturity securities	2	1	14	5
Financial liabilities:				
Long-term debt	5,027	5,161	6,152	5,324
Derivative financial instruments:				
Energy commodities price swaps and options:				
Accounted for as a hedge:				
· Unfavorable			(67)	(67)
Accounted for as non-hedge:				
· Favorable			105	105
· Unfavorable	(583)	(583)	(507)	(507)
Foreign currency and interest rate:				
Accounted for as a hedge:				
· Unfavorable	(23)	(23)	(47)	(47)

*c) Held-to-maturity securities***Held-to-maturity securities:**

The change in the carrying amount of held-to-maturity securities has been as follows:

	<u>2003</u>	<u>2002</u>
Balance at beginning of the year	14	13
· Increase for securities to held to maturity		2
· Inflation and remeasurement effect	(2)	(1)
· Decrease for securities to held to maturity	(2)	
· Redemption and interest collection	(8)	
	<u>—</u>	<u>—</u>
Balance at end of year	<u>2</u>	<u>14</u>

At December 31, 2003 and 2002 the outstanding held-to-maturity securities are scheduled to mature in one to

sixteen years.

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Table of Contents*d) Summarized financial information of unconsolidated affiliates*

The following table provides summarized financial information on a 100% basis, for the main affiliates accounted for by the equity method, combined per business unit, under Argentine GAAP.

Each business unit includes the following companies as of December 31, 2003 and 2002:

Oil and Gas Exploration and Production: Petrolera Entre Lomas S.A., Inversora Mata S.A. and Coroil S.A.

Refining: Refinería del Norte S.A. and Empresa Boliviana de Refinación S.A.

Petrochemical: Petroquímica Cuyo S.A.

Hydrocarbons marketing and Transportation: TGS S.A., Oleoductos del Valle S.A. and Oleoducto de Crudos Pesados Ltd.

Electricity: Citelec S.A., Yacylec S.A. and Uruguay-í S.A.

As of December 31, 2001, the Other Investments business unit includes the following companies: Pecom Agra S.A. and Cerro Vanguardia S.A. (see Note 9.IV and 9.V)

	2003				
	Oil and Gas	Hydrocarbons marketing and			
	Exploration and Production	Refining	Petrochemical	Transportation	Electricity
Current Assets	115	893	105	1,221	263
Noncurrent Assets	517	524	115	8,864	2,209
Current Liabilities	49	848	60	3,862	1,208
Noncurrent Liabilities	32	17	34	3,739	614
Shareholders' Equity	551	552	126	2,484	430
Minority interest					220
Sales	278	1,988	225	1,196	324
Gross profit	150	350	68	582	96
Income (loss) from continuing operations before extraordinary items and Cumulative effect of changes in accounting principles	78	87	21	236	50
Net income	78	87	21	236	50
	2002				
	Oil and Gas	Hydrocarbons			
	Exploration				

	and		marketing and		
	Production	Refining	Petrochemical	Transportation	Electricity
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current Assets	130	878	110	1,182	172
Noncurrent Assets	575	535	121	13,728	2,391
Current Liabilities	73	819	114	8,428	1,252
Noncurrent Liabilities	22	42	12	3,086	715
Shareholders' Equity	610	552	105	2,603	398
Minority interest				793	198
Sales	272	2,145	211	2,000	343
Gross profit	143	340	69	1,070	131
Income (loss) from continuing operations before extraordinary items and Cumulative effect of changes in accounting principles	46	151	(2)	(1,154)	(319)
Net income	46	151	(2)	(1,154)	(319)

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	2001					
	Oil and Gas	Hydrocarbons marketing and			Other	
	Exploration and Production	Refining	Petrochemical	Transportation	Electricity	Investments
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current Assets	90	514	110	581	150	285
Noncurrent Assets	433	539	131	5,371	2,362	661
Current Liabilities	61	590	110	852	574	266
Noncurrent Liabilities	8	12	12	2,206	762	286
Shareholders Equity	454	451	119	2,894	776	394
Minority interest					400	
Sales	212	1,409	132	1,357	527	956
Gross profit	104	200	24	862	281	166
Income (loss) from continuing operations before extraordinary items and Cumulative effect of changes in accounting principles	50	39		284	75	82
Net income	50	39		284	75	82

e) Summarized financial information of proportionally consolidated jointly controlled companies

The following table provides summarized financial information on a proportional basis, for jointly controlled companies, which are proportionally consolidated under Argentine GAAP:

	2003			2002 (a)	2001		
	CIESA	Distrilec	Total	Distrilec	CIESA	Distrilec	Total
Current Assets	406	129	535	115			
Noncurrent Assets	2,348	1,372	3,720	1,488			
Current Liabilities	2,053	348	2,401	481			
Noncurrent Liabilities	7	103	110	63			
Shareholders Equity	234	600	834	606			
Minority Interest	460	450	910	453			
Sales	432	447	879	519	595	946	1,541
Gross Profit	232	74	306	113	376	292	668
Income (loss) from continuing operations before extraordinary items and cumulative effect of changes in accounting principles	110	(6)	104	(9)	36	49	85
Net Income (loss)	110	(6)	104	(9)	36	49	85
Cash provided by (used in):							
Operating activities	261	90	351	177	213	141	354
Investing activities	(31)	(28)	(59)	(69)	(236)	(96)	(332)

Financing activities	1	(46)	(45)	(74)	65	(83)	(18)
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(a) As mentioned in Note 2.a, as of December 31, 2002, CIESA was not proportionally consolidated since such equity interest was stated at zero value.

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Table of Contents*f) Supplemental cash flow information*

Cash and cash equivalents include:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash	200	93	93
Time deposits and Mutual Funds	388	582	1,994
Securities	3	50	
	<u>591</u>	<u>725</u>	<u>2,087</u>

Non-cash investing and financing activities for the years ended December 31, 2003, 2002 and 2001, include an increase in accounts payable for the acquisition of property, plant and equipment in the amount of 141, 50 and 192, respectively. Additionally, an increase in the Other receivables account is included for the sale of subsidiaries and other business in the amount of 106 for the year ended December 31, 2002.

*g) Pension plan:***Defined contribution plan:**

Contributions expensed under this plan amounted to 1 for the year ended December 31, 2001. During 2003 and 2002 fiscal years, no contributions were made under this plan (see Note 15.a).

Defined benefit pension plan:

Information for the Company's major defined benefit plan is as follows:

	<u>2003</u>	<u>2002</u>
Change in benefit obligation		
Benefit obligation at beginning	78	128
Service cost	1	2
Interest cost	2	4
Actuarial gain	9	45
Effect of remeasurement in constant money	(1)	(70)
Benefits paid	(5)	(5)
Curtailement effect	(33)	(26)
	<u>51</u>	<u>78</u>
Benefit obligation at end of year		

Change in plan assets

Fair value of plan assets at beginning	97	130
Actual return on plan assets	(11)	67
Effect of remeasurement in constant money	(1)	(69)
Benefits paid	(5)	(5)
Settlement payments	(33)	(26)
	<u> </u>	<u> </u>
Fair value of plan assets at end of year	47	97
	<u> </u>	<u> </u>

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	<u>2003</u>	<u>2002</u>
Reconciliation of funded (unfunded) status		
Funded status, end of year	(4)	19
Unrecognized net actuarial gain	(3)	(40)
	<u> </u>	<u> </u>
Net amount recognized	(7)	(21)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit liability	(7)	(21)
	<u> </u>	<u> </u>
Projected benefit obligation	51	78
Accumulated benefit obligation	51	77
Fair value of plan assets	47	97
Components of net periodic benefit cost		
Service cost	1	2
Interest cost	2	4
Expected return on plan assets	(3)	(4)
Amortization of unrecognized transition obligation		1
Amortization of unrecognized gains	(1)	(2)
Gains from settlements	(14)	
Effect of remeasurement in constant money	1	(24)
	<u> </u>	<u> </u>
Net periodic benefit (gain) cost	(14)	(23)
	<u> </u>	<u> </u>
Weighted-average assumptions		
Discount rate	4%	4%
Expected return on plan assets	4%	4%
Rate of compensation increase	2%	2%

As of December 31, 2003 and 2002, pension plan assets are investments in mutual funds. The Company expects to contribute approximately 1 to its pension plan fund in 2004, which will be subject to Board of Directors approval.

Benefit obligations are expected to be paid as follows:

	<u>Pension Benefits</u>
2004	3
2005	3
2006	3
2007	3
2008	3
2009 - 1013	18

Table of Contents*h) Business segment consolidated information*

The Company determines operating segments based on differences in the nature of their operations, consistent with the measure of profit and the basis used by its management in making strategic decisions. The Company applies the same accounting policies to each of the segments that are used in the preparation of the consolidated financial statements under Argentine GAAP. Intersegment revenues are generally representative of market prices or arms-length negotiated transactions. Likewise, affiliated sales are not segregated because they are generally made at market prices. Management's measure of segment profit does not include interest, income taxes and other non-operating income and expenses. Other non-cash items in segment income are principally comprised of undistributed earnings of affiliates.

The following information shows additional disclosures under Argentine GAAP about the Company's business segments as defined by its management.

	2003						Total
	Oil and Gas Exploration and Production	Refining	Petrochemicals	Hydrocarbons marketing and Transportation	Electricity	Corporate, other Investments and Eliminations	
Unaffiliated revenues	1,785	1,231	1,294	502	680	2	5,494
Intersegment revenues	944	71		19	11	(1,045)	
Total revenues	2,729	1,302	1,294	521	691	(1,043)	5,494
Depreciation, depletion and amortization	653	20	77	86	147	33	1,016
Equity in earnings of unconsolidated affiliates	19	22	16	16	90		163
Interest expense	(267)	(1)	(30)	(134)	(23)	(168)	(623)
Interest revenue	28	1	5	9	12	10	65
Dividends received from unconsolidated affiliates	9	7		7	3		26
Additions to property, plant and equipment	508	23	37	12	40	33	653
Identifiable assets	7,610	419	1,054	2,768	2,261	1,030	15,142
Investments in and advances to unconsolidated affiliates	199	223	46	328	200		996
Total assets	7,809	642	1,100	3,096	2,461	1,030	16,138

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	2002						Total
	Oil and Gas Exploration and Production	Refining	Petrochemicals	Hydrocarbons marketing and Transportation	Electricity	Corporate, other Investments and Eliminations	
Unaffiliated revenues	2,033	942	1,254	16	755	106	5,106
Intersegment revenues	773	66			11	(850)	
Total revenues	2,806	1,008	1,254	16	766	(744)	5,106
Depreciation, depletion and amortization	749	18	94		150	40	1,051
Equity in earnings of unconsolidated affiliates	2	20	(10)	(470)	(239)	59	(638)
Interest expense	(350)		(42)		(52)	(439)	(883)
Interest revenue	12	1	11		33	31	88
Dividends received from unconsolidated affiliates	12	4		3	1		20
Additions to property, plant and equipment	366	5	30		37	(264)	174
Identifiable assets	8,575	367	1,251	(17)	2,467	1,174	13,817
Investments in and advances to unconsolidated affiliates	189	225	29	275	114		832
Total assets	8,764	592	1,280	258	2,581	1,174	14,649

	2001						Total
	Oil and Gas Exploration and Production	Refining	Petrochemicals	Hydrocarbons marketing and Transportation	Electricity	Corporate, other Investments and Eliminations	
Unaffiliated revenues	1,502	788	809	695	1,248	128	5,170
Intersegment revenues	473		9		38	(520)	
Total revenues	1,975	788	818	695	1,286	(392)	5,170

	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciation, depletion and amortization	514	15	64	88	164	32	877
Equity in earnings of unconsolidated affiliates	6	14	4	26	24	45	119
Interest expense	(227)		(28)	(116)	(23)	(218)	(612)
Interest revenue	20	2	13	6	25	25	91
Dividends received from unconsolidated affiliates	7			18	22	8	55
Additions to property, plant and equipment	1,891	26	13	226	159	49	2,364
Identifiable assets	6,903	433	1,132	2,483	2,648	2,204	15,803
Investments in and advances to unconsolidated affiliates	160	132	39	285	271	180	1,067
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	7,063	565	1,171	2,768	2,919	2,384	16,870
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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i) Derivative financial instruments

As described in Note 5, the Company holds several derivative financial instruments to reduce exposure to crude oil price fluctuations and changes in interest rates. Changes in the accounting measurement of derivative financial instruments designated as cash flow hedge, which have been determined as effective hedge, are recognized under US GAAP in the other comprehensive income account. The following information refers to the other comprehensive income accounted for the years ended December 31, 2003, 2002 and 2001:

Commodity Price Risk

As of December 31, 2003, there are no unrealized gains or losses in the accumulated other comprehensive income. As of December 31, 2002 and 2001, the Company has a net unrealized gain of 14 after taxes and a net unrealized loss of 22 after taxes, respectively, on derivative instruments entered into to hedge production recorded in accumulated other comprehensive income. Net income (loss) under US GAAP for 2002 and 2001 fiscal years includes 99 of net loss, and 44 of net gain, respectively, due to recognition of unrealized gains and losses related to hedge ineffectiveness.

Interest rate risk

As of December 31, 2003, 2002 and 2001, the Company has an after taxes net unrealized loss of 12, 28 and 16, respectively, on a derivative instrument entered into to hedge interest rate recorded in accumulated other comprehensive income. Approximately, 9 of net loss in the accumulated other comprehensive income balance as of December 31, 2003, is expected to be reclassified into financial expenses during 2004 as hedged transaction occurs.

25. Oil and Gas Supplementary Disclosures (unaudited)

The following information for the oil and gas producing activities has been prepared in accordance with the methodology prescribed by Statement of Financial Accounting Standards N° 69 Disclosures about Oil and Gas Producing Activities and includes the Company and its subsidiaries oil and gas production activities as well as the equity shares in its affiliates valued by the equity method. The Company has oil and gas properties in the Argentina and other countries of Latin America; the respective detail is disclosed in Note 27.g. to the financial statements.

The amounts derived from minority interest in consolidated subsidiaries are not significant, therefore, they have not been included.

Amounts in millions of pesos are stated as mentioned in Note 2.c. to the financial statements.

Table of Contents**Capitalized costs**

The following table presents the capitalized costs as of December 31, 2003 and 2002, for proved and unproved oil and gas properties, and the related accumulated depreciation, depletion and amortization.

	2003		2002	
	Argentine GAAP	US GAAP	Argentine GAAP	US GAAP
	(In millions of constant pesos note 2.c)			
Consolidated companies:				
Proved properties:				
Equipment, camps and other facilities	2,036	1,926	2,527	2,354
Producing properties and wells	7,372	8,192	7,012	7,921
Unproved properties	569	569	950	950
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capitalized costs	9,977	10,687	10,489	11,225
Accumulated depreciation, depletion and amortization, and allowances which reduce the value of assets	(3,528)	(2,913)	(3,264)	(2,447)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal of consolidated companies	6,449	7,774	7,225	8,778
Company's share in capitalized costs by unconsolidated affiliates				
	198	285	206	300
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net capitalized costs	<u>6,647</u>	<u>8,059</u>	<u>7,431</u>	<u>9,078</u>

Table of Contents**Costs incurred**

The following table presents those costs capitalized as well as expensed that were incurred during each of the years ended as of December 31, 2003, 2002 and 2001. The acquisition of properties includes the cost of acquisition of proved or unproved oil and gas properties. Exploration costs include geological and geophysical costs, costs necessary for retaining undeveloped properties, and drilling costs and exploratory well equipment. Development costs include drilling costs and equipment for developmental wells, costs incurred in improved recovery, the construction of facilities for extraction, treatment and storage of hydrocarbons and all necessary costs to maintain facilities for the existing developed reserves.

	2003			2002		
	Argentine and US GAAP			Argentine and US GAAP		
	Argentina	Rest of Latin América	Total	Argentina	Rest of Latin América	Total
(In millions of constant pesos - note 2.c)						
Consolidated Companies						
Acquisition of properties						
Proved				26		26
Unproved						
Exploration Costs		103	103	22	67	89
Development Costs	343	346	689	222	262	484
Total Costs incurred by consolidated companies	343	449	792	270	329	599
Company's share in costs incurred by unconsolidated companies	9	5	14	7	10	17
Total costs incurred	352	454	806	277	339	616

2001		
Argentine and US GAAP		
Argentina	Rest of Latin América	Total
(In millions of constant pesos - note 2.c)		

Consolidated Companies

Acquisition of properties			
Proved	468	71	539
Unproved	173	132	305
Exploration Costs	35	22	57
Development Costs	497	736	1,233
	<u> </u>	<u> </u>	<u> </u>
Total Costs incurred by consolidated companies	1,173	961	2,134
Company's share in costs incurred by unconsolidated companies	7	46	53
	<u> </u>	<u> </u>	<u> </u>
Total costs incurred	<u>1,180</u>	<u>1,007</u>	<u>2,187</u>

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Table of Contents**Results of operations**

The breakdown of results of the operations shown below summarizes revenues and expenses directly associated with oil and gas producing activities for the years ended December 31, 2003, 2002 and 2001. These activities are a part of the Oil and Gas Exploration and Production segment. This breakdown does not include any allocation of financial costs or expenses from Corporate and therefore it is not necessarily an indicator of the contribution in operations for oil and gas producing activities to the net income of the Company. Income tax for the years presented was calculated utilizing the deferred income tax criteria.

	2003					
	Argentine GAAP			US GAAP		
	Argentina	Rest of Latin América	Total	Argentina	Rest of Latin América	Total
	(In millions of constant pesos - note 2.c)					
Results of operations of consolidated companies:						
Net sales:						
- to third parties	594	1,191	1,785	681	1,191	1,872
- transfers to other operations	944		944	944		944
Total net sales	1,538	1,191	2,729	1,625	1,191	2,816
Production costs:						
- Operating Costs	(242)	(247)	(489)	(242)	(247)	(489)
- Royalties and other	(245)	(161)	(406)	(245)	(161)	(406)
Total production costs	(487)	(408)	(895)	(487)	(408)	(895)
Exploration costs	(11)	(185)	(196)	(11)	(185)	(196)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(368)	(593)	(961)	(388)	(726)	(1,114)
Results of operations before income tax	672	5	677	739	(128)	611
Income tax	(235)	(1)	(236)	(228)	46	(182)
Results of operations - consolidated companies	437	4	441	511	(82)	429
Company's share in results of operations by unconsolidated affiliates	13	5	18	9	2	11
Total	450	9	459	520	(80)	440



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	2002					
	Argentine GAAP			US GAAP		
	Argentina	Rest of Latin América	Total	Argentina	Rest of Latin América	Total
	(In millions of constant pesos - note 2.c)					
Results of operations of consolidated companies:						
Net sales:						
- to third parties	849	1,184	2,033	1,006	1,292	2,298
- transfers to other operations	773	—	773	777	—	777
	<u>1,622</u>	<u>1,184</u>	<u>2,806</u>	<u>1,783</u>	<u>1,292</u>	<u>3,075</u>
Total net sales						
Production costs:						
- Operating Costs	(257)	(267)	(524)	(236)	(267)	(503)
- Royalties and other	(238)	(159)	(397)	(238)	(159)	(397)
	<u>(495)</u>	<u>(426)</u>	<u>(921)</u>	<u>(474)</u>	<u>(426)</u>	<u>(900)</u>
Total production costs						
Exploration costs	(21)	(37)	(58)	(21)	(37)	(58)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(356)	(391)	(747)	(395)	(593)	(988)
	<u>(734)</u>	<u>(817)</u>	<u>(1,551)</u>	<u>(714)</u>	<u>(719)</u>	<u>(1,433)</u>
Results of operations before income tax	750	330	1,080	893	236	1,129
Income tax	(280)	(32)	(312)	(519)	102	(417)
	<u>(470)</u>	<u>(364)</u>	<u>(1,024)</u>	<u>(1,112)</u>	<u>(114)</u>	<u>(284)</u>
Results of operations consolidated companies	470	298	768	374	338	712
Company's share in results of operations by unconsolidated affiliates						
	23	8	31	20	—	20
	<u>493</u>	<u>306</u>	<u>799</u>	<u>394</u>	<u>338</u>	<u>732</u>

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	2001					
	Argentine GAAP			US GAAP		
	Argentina	Rest of Latin América	Total	Argentina	Rest of Latin América	Total
	(In millions of constant pesos - note 2.c)					
Results of operations of consolidated companies:						
Net sales:						
- to third parties	714	787	1,501	827	796	1,623
- transfers to other operations	475		475	475		475
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net sales	1,189	787	1,976	1,302	796	2,098
Production costs:						
- Operating Costs	(272)	(162)	(434)	(264)	(154)	(418)
- Royalties and other	(218)	(97)	(315)	(218)	(97)	(315)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total production costs	(490)	(259)	(749)	(482)	(251)	(733)
Exploration costs	(20)	(21)	(41)	(20)	(22)	(42)
Depreciation, depletion, amortization and allowances which reduce the value of assets	(332)	(181)	(513)	(376)	(301)	(677)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Results of operations before income tax	347	326	673	424	222	646
Income tax	(125)	(57)	(182)	(231)	(103)	(334)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Results of operations consolidated companies	222	269	491	193	119	312
Company's share in results of operations by unconsolidated affiliates	9	4	13	4	2	6
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>231</u>	<u>273</u>	<u>504</u>	<u>197</u>	<u>121</u>	<u>318</u>

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Estimated oil and gas reserves

Proved reserves represent estimated quantities of oil (including crude oil, condensate and natural gas liquids) and natural gas, which available geological and engineering data demonstrates with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods.

The Company believes that its estimates of remaining proved recoverable oil and gas reserve volumes are reasonable and such estimates have been prepared in accordance with Rule 4-10 of Regulation S-X, the Company's reserve estimates as of December 31, 2003, 2002 and 2001, were audited by Gaffney, Cline & Associates Inc., international technical advisors. The choice of method or combination of methods employed in the analysis of each reservoir was determined by the stage of development, quality and reliability of basic data, and production history.

Reserves engineering is a subjective process of estimation of hydrocarbon accumulation, which cannot be accurately measured, and the reserve estimation depends on the quality of available information and the interpretation and judgment of the engineers and geologists. Therefore, the reserves estimations, as well as future production profiles, are often different than the quantities of hydrocarbons which are finally recovered. The accuracy of such estimations depends, in general, on the assumptions on which they are based.

The following table sets forth the estimated proved reserves of oil (includes crude oil, condensate and natural gas liquids) and natural gas as of December 31, 2003, 2002 and 2001:

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**CRUDE OIL, CONDENSATE AND
NATURAL GAS LIQUIDS IN
THOUSAND OF BARRELS**

	CONSOLIDATED COMPANIES		UNCONSOLIDATED COMPANIES		TOTAL
	ARGENTINA	REST OF LATIN- AMERICA	ARGENTINA	REST OF LATIN- AMERICA	
Proved reserves (developed and undeveloped)					
Reserves as of December 31,2000	286,321	474,794	8,270	44,779	814,164
Increase(Decrease) originated in:					
Revisions of previous estimates	(31,960)	(17,103)	(2,519)	(956)	(52,538)
Improved recovery	12,596	17,913	1,670	177	32,356
Extensions and discoveries	14,303	17,769		830	32,902
Purchase of proved reserves in place	24,115	18,398			42,513
Sale of proved reserves in place	(50,816)			(32,632)	(83,448)
Year s production	(24,122)	(21,645)	(578)	(432)	(46,777)
Reserves as of December 31,2001	230,437	490,126	6,843	11,766	739,172
Increase (Decrease) originated in:					
Revisions of previous estimates	(14,493)	(112,545)	(375)	(880)	(128,293)
Improved recovery	4,027	3,510	168		7,705
Extensions and discoveries	6,839	9,596	99	461	16,995
Purchase of proved reserves in place	516				516
Sale of proved reserves in place				(469)	
Year s production	(20,225)	(21,029)	(494)	(469)	(42,217)
Reserves as of December 31,2002	207,101	369,658	6,241	10,878	593,878
Increase (Decrease) originated in:					
Revisions of previous estimates	(18,987)	(3,215)	(39)	(63)	(22,304)

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Improved recovery	9,292	15,045	790	347	25,474
Extensions and discoveries	3,174	18,303	84		21,561
Purchase of proved reserves in place					
Sale of proved reserves in place	(7,707)				(7,707)
Year's production	<u>(20,538)</u>	<u>(20,367)</u>	<u>(559)</u>	<u>(376)</u>	<u>(41,840)</u>
Reserves as of December 31, 2003	<u>172,335</u>	<u>379,424</u>	<u>6,517</u>	<u>10,786</u>	<u>569,062</u>
Proved developed reserves:					
As of December 31, 2000	178,844	172,702	6,278	17,245	375,069
As of December 31, 2001	147,560	198,964	4,364	4,844	355,732
As of December 31, 2002	141,891	173,820	4,428	4,056	324,195
As of December 31, 2003	117,765	166,349	4,320	3,576	292,010

[Additional columns below]

[Continued from above table, first column(s) repeated]

**NATURAL GAS IN MILLION
OF CUBIC FEET**

	CONSOLIDATED COMPANIES		UNCONSOLIDATED COMPANIES		TOTAL
	ARGENTINA	REST OF LATIN-AMERICA	ARGENTINA	REST OF LATIN-AMERICA	
Proved reserves (developed and undeveloped)					
Reserves as of December 31, 2000	<u>1,162,028</u>	<u>421,810</u>	<u>24,975</u>	<u>1,162,492</u>	<u>2,771,305</u>
Increase(Decrease) originated in:					
Revisions of previous estimates	(402,740)	48,114	(7,054)		(361,680)
Improved recovery	20,605	18,605	1,798		41,008
Extensions and discoveries	71,307	30,582			101,889
Purchase of proved reserves in place	376,365				376,365
Sale of proved reserves in place	(18,002)			(1,162,492)	(1,180,494)
Year's production	<u>(98,206)</u>	<u>(24,058)</u>	<u>(1,590)</u>		<u>(123,854)</u>

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Reserves as of December 31,2001	<u>1,111,357</u>	<u>495,053</u>	<u>18,129</u>	<u></u>	<u>1,624,539</u>
Increase (Decrease) originated in:					
Revisions of previous estimates	(247,448)	(123,594)	(10,702)		(381,744)
Improved recovery	64,550	9,687	11,821		86,058
Extensions and discoveries	88,265	10,662			98,927
Purchase of proved reserves in place					
Sale of proved reserves in place					
Year s production	<u>(90,860)</u>	<u>(22,352)</u>	<u>(1,324)</u>	<u></u>	<u>(114,536)</u>
Reserves as of December 31,2002	<u>925,864</u>	<u>369,456</u>	<u>17,924</u>	<u></u>	<u>1,313,244</u>
Increase (Decrease) originated in:					
Revisions of previous estimates	(127,415)	23,110	(4,549)		(108,854)
Improved recovery		7,261			7,261
Extensions and discoveries	60,416	7,571	954		68,941
Purchase of proved reserves in place					
Sale of proved reserves in place	(49,450)				(49,450)
Year s production	<u>(72,819)</u>	<u>(22,517)</u>	<u>(1,006)</u>	<u></u>	<u>(96,342)</u>
Reserves as of December 31,2003	<u>736,596</u>	<u>384,881</u>	<u>13,323</u>	<u></u>	<u>1,134,800</u>
Proved developed reserves:					
As of December 31, 2000	495,936	241,754	19,793	473,684	1,080,125
As of December 31, 2001	548,526	290,638	13,308		852,472
As of December 31, 2002	539,731	209,854	14,373		763,958
As of December 31, 2003	444,951	207,144	10,514		662,609

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The estimated reserves were subjected to economic tests to determine economic limits. Such estimated reserves in Argentina, Perú and Bolivia, are stated prior to the payment of any royalties as they have the same attributes as taxes on production and, therefore, are treated as operating costs. In Ecuador, due to the type of contract in which the Government has the right to a percentage of production and takes it in kind, the reserves are stated after such percentage. In Venezuela, the Company receives, for its interest in the Oritupano-Leona Block, a fee per barrel delivered to the Government of Venezuela. Additionally, the Company receives a fee for reimbursement of certain capital expenditures. In the Mata, Acema and La Concepción areas, the Company collects a variable fee per barrel delivered that contemplates production costs plus a mark-up. Under these contracts, the Venezuelan government maintains full ownership of all hydrocarbons in fields. The reserve volumes in Venezuela are computed by multiplying the Company's working interest by the gross proved recoverable volumes for the contract area, in accordance with the agreement governing current petroleum operations in Venezuela. The Company is exempt from production royalty payments.

Had the economic method of calculating proved reserves (future expected cash flows of each field divided by the oil market prices at year end) been used, the reported amounts of crude oil, condensate and natural gas liquids proved reserves for consolidated companies in Rest of Latin America would have decreased by approximately 22.9 %, 28.4 % and 14.6 %, and the reported crude oil, condensate and natural gas liquids proved reserves for unconsolidated companies in Rest of Latin America would have decreased by approximately 37.3 %, 42 % and 30.1 % as of December 31, 2003, 2002 and 2001, respectively. The information in this paragraph was not audited by Gaffney, Cline & Associates.

Standardized measure of discounted future net cash flows

The following table discloses estimated future net cash flows from future production of proved developed and undeveloped reserves of crude oil, condensate, natural gas liquids and natural gas. As prescribed by Statement of Financial Accounting Standards N° 69, such future net cash flows were estimated using each year-end prices and costs held constant for the life of the reserves (except in such circumstances in which the sale of hydrocarbons is governed by contracts fixing the sale price or its escalation) and using a 10% annual discount factor. Future development costs include estimated drilling costs, exploitation installations and abandonment costs. These future development costs were estimated based on evaluations made by the Company and the operators of the fields in which the Company has an interest. The future income tax was calculated by applying the tax rate in effect as of the date this supplementary information was filed.

This standardized measure is not intended to be and should not be interpreted as an estimate of the market value of the Company's reserves. The purpose of this information is to give standardized data to help the users of the financial statements to compare different companies and make certain projections. It is important to point out that this information does not include, among other items, the effect of future changes in prices, costs and tax rates, which past experience indicates that are likely to occur, as well as the effect of future cash flows from reserves which have not yet been classified as proved reserves, of a discount factor more representative of the value of money over the lapse of time and of the risks inherent to the production of oil and gas. These future changes may have a significant impact on the future net cash flows disclosed below. For all these reasons, this information does not necessarily indicate the perception the Company has on the discounted future net cash flows derived from the reserves of hydrocarbons.

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	2003			2002			2001		
	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total	Argentina	Rest of Latin-America	Total
(in millions of constant pesos note 2.c.)									
Consolidated companies:									
Future cash flows	15,158	22,513	37,671	19,873	25,149	45,022	18,715	25,951	44,666
Future production costs	(3,522)	(6,653)	(10,175)	(3,793)	(6,994)	(10,787)	(5,122)	(8,945)	(14,067)
Future development and abandonment costs	(1,379)	(2,875)	(4,254)	(1,389)	(3,023)	(4,412)	(1,837)	(4,184)	(6,021)
Future income tax	(3,158)	(3,308)	(6,466)	(4,794)	(3,868)	(8,662)	(3,431)	(2,849)	(6,280)
Future net cash flows	7,099	9,677	16,776	9,897	11,264	21,161	8,325	9,973	18,298
10% annual discount	(2,784)	(4,466)	(7,250)	(4,079)	(5,268)	(9,347)	(3,359)	(4,957)	(8,316)
Subtotal of consolidated companies	4,315	5,211	9,526	5,818	5,996	11,814	4,966	5,016	9,982
Company's share in standardized measure by unconsolidated affiliates	150	117	267	156	143	299	117	136	253
Total	4,465	5,328	9,793	5,974	6,139	12,113	5,083	5,152	10,235

As described in Note 5, the Company uses various derivative financial instruments to mitigate the impact of changes in crude oil prices. Had such instruments been considered, the effects on (a) Future cash flows and (b) Total would have been as follows:

	2003	2002	2001
	Rest of Latin-	Rest of Latin-	Rest of Latin-

	<u>Argentina</u>	<u>America</u>	<u>Total</u>	<u>Argentina</u>	<u>America</u>	<u>Total</u>	<u>Argentina</u>	<u>America</u>	<u>Total</u>
Effect on increase (decrease):									
(a) Future cash flows				(38)		(38)	(9)	20	11
(b) Total				(22)		(22)	(7)	11	4

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Table of Contents**Changes in the standardized measure of discounted future net cash flows**

The following table discloses the changes in the standardized measure of discounted future net cash flows for the years ended December 31, 2003, 2002 and 2001:

	Consolidated and unconsolidated Companies								
	2003			2002			2001		
	Rest of Latin- Argentina	Rest of Latin- America	Total	Rest of Latin- Argentina	Rest of Latin- America	Total	Rest of Latin- Argentina	Rest of Latin- America	Total
	(in millions of constant pesos - note 2.c.)								
Standardized measure at beginning of year	5,974	6,139	12,113	5,083	5,152	10,235	3,697	4,109	7,806
Changes related to oil & gas activities:									
Sales net of production costs	(1,161)	(805)	(1,966)	(1,396)	(900)	(2,296)	(989)	(574)	(1,563)
Net change in sales prices, net of future production costs	(1,520)	(2,015)	(3,535)	2,675	3,245	5,920	1,815	2,429	4,244
Changes in future development costs	(325)	(112)	(437)	192	793	985	(710)	(1,845)	(2,555)
Extensions, discoveries and improved recovery, net of futures production and associated costs	444	800	1,244	905	256	1,161	802	736	1,538
Development costs incurred	351	352	703	229	272	501	504	783	1,287
Revisions of quantity estimates	(1,003)	(56)	(1,059)	(1,072)	(2,774)	(3,846)	(1,785)	(182)	(1,967)
Purchase of reserves in place				15		15	1,036	145	1,181
Sale of reserves in place	(164)		(164)				(466)	(805)	(1,271)
Net change in income taxes	944	230	1,174	(792)	(673)	(1,465)	(480)	(156)	(636)
Accretion of discount	899	835	1,734	730	669	1,399	461	472	933
Changes in production rates	(30)	(181)	(211)	(578)	353	(225)	1,125	(257)	868
Other changes	56	141	197	(17)	(254)	(271)	73	297	370
Standardized measure	4,465	5,328	9,793	5,974	6,139	12,113	5,083	5,152	10,235

at end of year



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26. Subsequent events

a) Master settlement and mutual release agreement for CIESA

In April 2004, the shareholders of CIESA reached a framework agreement whereby Petrobras Energía and Enron will reciprocally waive any right to make claims arising from or related to certain agreements executed by such groups in connection with their interests in CIESA and TGS. In addition, and in order to provide the flexibility necessary to make progress in restructuring CIESA's financial debt, the framework agreement also provides for the transfer in two phases of certain shares issued by TGS and CIESA. During the first phase (a) Enron will transfer 40% of the shares issued by CIESA to a trust to be organized or an alternative entity; and (b) Petrobras Energía will transfer common class B shares issued by TGS (representing 7.35% of the capital stock of TGS) to Enron. During the second phase, Enron will transfer its remaining interest in CIESA to the abovementioned trust or to an alternative institution while CIESA will simultaneously transfer common class B shares issued by TGS (representing about 4.3 % of the capital stock of TGS) to Enron. In no case shall Petrobras Energía hold (directly or indirectly) more than 50% of the capital stock currently held in CIESA or any controlling interest in CIESA. The transfers are subject to certain conditions, one of which is the approval by the ENARGAS (Argentine gas regulatory agency), which is pending. The framework agreement was subject to the definitive and unappealable approval by the Bankruptcy Court competent in the Enron bankruptcy, which has already been obtained.

b) Corporate bond issuance

On April 30, 2004, Petrobras Energía issued the second series of Class R medium-term corporate bonds for a total face value amounting to US\$ 100 million (the New Class R Corporate Bonds) which make up a single and fungible class with medium-term corporate bonds for a face value of US\$ 100 million issued on October 31, 2003. The New Class R Corporate Bonds will mature on October 30, 2013, and accrue interest at 9.375% p.a. The funds were used to settle existing liabilities.

c) Increase in our share in OCP:

The Company and Tenco entered into a put and call option agreement whereby Tenco granted the Company the irrevocable option to require Tenco to sell to the Company the shares and subordinated debt comprising its 2.46% ownership interest, and the Company granted to Tenco the irrevocable option to require the Company to purchase from Tenco the shares and subordinated debt comprising its ownership interest. On May 2004, the option was exercised by Tenco, causing the Company to pay US\$ 14 million. Consequently, the Company's current interest in OCP increased to 11.42%.

27. Other consolidated information

The following tables present additional consolidated financial statement disclosures required under Argentine GAAP.

- a) Property, plant and equipment.
- b) Equity in affiliates
- c) Costs of sales.
- d) Foreign currency assets and liabilities.
- e) Consolidated detail of expenses incurred and depreciation.
- f) Information about ownership in subsidiaries and affiliates.

- g) Oil and gas areas and participation in joint ventures.
- h) Combined joint ventures and consortia assets, liabilities and results.

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Table of Contents**a) Property, plant and equipment as of December 31, 2003, 2002 and 2001**

(Stated in millions of Argentine Pesos See Note 2.c)

	2003						Total
	Oil and Gas	Hidrocarbons Corporate, Other					
	Exploration	Marketing and		Discontinued Investments and			
	and Production	Refining	Petrochemical	Electricity	Transportation		
Net book value at beginning of the year	7,225	178	770	2,123		137	10,433
Net book value at beginning from proportional interest in CIESA					2,198		2,198
Effect of translation	(631)		(78)				(709)
Net increase	508	23	37	40	12	33	653
Depreciation	653	20	77	147	86	33	1,016
Net book value at end of year	<u>6,449</u>	<u>181</u>	<u>652</u>	<u>2,016</u>	<u>2,124</u>	<u>137</u>	<u>11,559</u>

	2002						Total
	Oil and Gas	Hidrocarbons Corporate, Other					
	Exploration	Marketing and		Discontinued Investments and			
	and Production	Refining	Petrochemical	Electricity	Transportation		
Net book value at beginning of the year	5,888	191	633	2,236	2,244	441	11,633
CIESA decolsolidation					(2,244)		(2,244)
Effect of translation	1,720		201				1,921
Net increase	366	5	30	37		(264)	174
Depreciation	749	18	94	150		40	1,051
Net book value at end of year	<u>7,225</u>	<u>178</u>	<u>770</u>	<u>2,123</u>	<u>2,124</u>	<u>137</u>	<u>10,433</u>

2001

	Oil and Gas Exploration and Production	Refining	Petrochemical	Electricity	Hydrocarbons Marketing and Transportation	Corporate, Other Discontinued Investments and Eliminations	Total
Net book value at beginning of the year	4,511	180	684	774		424	6,573
Net book value at beginning from proportional interest in CIESA and DISTRILEC				1,467	2,106		3,573
Net increase	1,891	26	13	159	226	49	2,364
Depreciation	514	15	64	164	88	32	877
Net book value at end of year	<u>5,888</u>	<u>191</u>	<u>633</u>	<u>2,236</u>	<u>2,244</u>	<u>441</u>	<u>11,633</u>

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Table of Contents**b) Equity in affiliates**

(Stated in millions of Argentine Pesos - See Note 2.c)

Company	2003			
	Description of securities			
	Face value	Amount	Cost	Book value
Shares				
Citelec S.A.	\$ 1	73,154,437	298	158
Coroil S.A.	Bs 1.000	490	47	56
Empresa Boliviana de Refinación S.A.	\$B1 1.000	178,752	103	114
Enron de inversiones de Energía S.C.A.				
Hidroneuquén S.A.	\$ 10	25,744,097	26	16
Inversora Mata S.A.	Bs 1.000	490	72	98
Oleoducto de Crudos Pesados Ltd.	U\$S 0,01	31,500	98	81
Oleoductos del Valle S.A.	\$ 10	2,542,716	61	80
Petrolera Entre Lomas S.A.	\$ 1	96,050	2	45
Petroquímica Cuyo S.A.	\$ 0,083	240,000,000	43	46
Refinería del Norte S.A.	\$ 10	2,610,809	63	109
Transportadora de Gas del Sur S.A.	\$ 1	58,408,751	169	167
Yacylec S.A.	\$ 0,1	100,000,000	25	26
Total			1,007	996

[Additional columns below]

[Continued from above table, first column(s) repeated]

Company	2003				2002
	Last available financial statements				
	Main business	Date	Capital stock	Net income for the year	Book value
Shares					
Citelec S.A.		30/09/2003	249	61	333

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	Investor in Transener S.A.					
	Investor in Acema consortium	30/09/2003	(3)	109		37
Coroil S.A.						
Empresa Boliviana de Refinación S.A.	Refining					136
Enron de inversiones de Energía S.C.A.						
Hidroneuquén S.A.	Electric transmission					16
	Investor in Mata consortium	30/09/2003	6	200		112
Inversora Mata S.A.						
Oleoducto de Crudos Pesados Ltd.	Oil storage and shipment					98
Oleoductos del Valle S.A.	Oil storage and shipment	31/12/2003	110	9	346	89
Petrolera Entre Lomas S.A.	Oil & Gas	31/12/2003	1	69	234	40
Petroquímica Cuyo S.A.	Petrochemical	30/09/2003	50	16	142	29
Refinería del Norte S.A.	Refining	30/06/2003	92	56	341	89
Transportadora de Gas del Sur S.A.	Oil transportation	30/09/2003	794	244	2,016	88
Yacylec S.A.	Electric transmission	30/09/2003	45	8	118	27
						<hr/>
Total						<hr/> 832

Table of Contents**c) Costs of sales for the years ended December 31, 2003, 2002 and 2001**

(Stated in millions of Argentine Pesos - See Note 2.c)

	2003						Total
	Oil and Gas	Hydrocarbons				Corporate, Other	
	Exploration	Marketing		Discontinued Investments and			
	and Production	Refining	Petrochemical	Electricity	Transportation	Eliminations	
Inventories at beginning	129	97	169	38		(38)	395
Effect of traslation	(10)		(6)				(16)
Investores at begining from proportional interest in CIESA					3		3
Costs (Section e)	1,383	54	149	283	156	1	2,026
Holding gain (losses)	2	12		1		(6)	9
Purchases, consumption and other	54	1,146	824	236	133	(1,044)	1,349
Inventories at end	(110)	(129)	(155)	(35)	(8)	57	(380)
Costs of sales	1,448	1,180	981	523	284	(1,030)	3,386

	2002						Total
	Oil and Gas	Hydrocarbons				Corporate, Other	
	Exploration	Marketing		Discontinued Investments and			
	and Production	Refining	Petrochemical	Electricity	Transportation	Eliminations	
Inventories at beginning	92	75	130	28	2	231	558
Effect of traslation	4		3				7
Costs (Section e)	1,538	40	157	337	3	55	2,130
Holding gain (losses)	16	(43)	(4)	5		21	(5)
Purchases, consumption and other	79	969	775	299	6	(939)	1,189
Assets for sales				(23)		(177)	(200)
Inventories at end	(129)	(97)	(169)	(38)		38	(395)
Costs of sales	1,600	944	892	608	11	(771)	3,284

	2001						
	Oil and Gas				Hydrocarbons Corporate, Other		
	Exploration and Production	Refining	Petrochemical	Electricity	Marketing and Transportation	Discontinued Investments and Eliminations	Total
Inventories at beginning	75	95	132	37		240	579
Costs (Section e)	1,139	49	145	384	239	63	2,019
Purchases, consumption and other	66	642	519	539	63	(493)	1,336
Inventories at end	(92)	(75)	(130)	(28)	(2)	(231)	(558)
Investores at end from proportional interest in CIESA and DISTRILEC				(26)	(3)		(29)
Costs of sales	1,188	711	666	906	297	(421)	3,347

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Table of Contents**d) Foreign currency assets and liabilities as of December 31, 2003 and 2002**

(Stated in millions of Argentine Pesos See Note 2.c)

	Foreign currency and amount		Exchange rate	Book amount in local currency
CURRENT ASSETS				
Cash	US\$	30	2.9400	88
	BS	575	0.0018	2
				<u>90</u>
Investments	US\$	248	2.9400	729
	Rs	3	1.0177	3
				<u>732</u>
Trade receivables	US\$	167	2.9400	491
	Rs	74	1.0177	75
	BS	4,948	0.0018	9
				<u>575</u>
Other receivables	US\$	132	2.9400	389
	BS	56,075	0.0018	102
	\$BoI	24	0.3750	9
	Rs	12	1.0177	12
				<u>512</u>
	TOTAL 2003			<u>1,909</u>
	TOTAL			1,908

	2002		
NONCURRENT ASSETS			
Trade receivables	US\$	11 2.9400	32
Other receivables	US\$	15 2.9400	45
	BS	43,980 0.0018	80
Investments	US\$	97 2.9400	125 284
		TOTAL	
		2003	441
		TOTAL	
		2002	282
TOTAL ASSETS 2003			2,350
TOTAL ASSETS 2002			2,190
	Foreign currency	Exchange	Book
	and amount	rate	amount in
			local
			currency
CURRENT LIABILITIES			
Accounts payable	US\$	182 2.9400	535
	Rs	4 1.0177	4
	BS	17,592 0.0018	32
			571
Short-term debt	US\$	1,072 2.9400	3,152
			3,152

				<u> </u>
Payroll and social security taxes	US\$	2	2.9400	5
	BS	1,100	0.0018	2
	Sol	2	0.8487	2
	Rs	3	1.0177	3
				<u> </u>
				12
				<u> </u>
Taxes payable	US\$	1	2.9400	2
	Rs	12	1.0177	12
	BS	23,090	0.0018	42
				<u> </u>
				56
Other liabilities	Rs	2	1.0177	2
	US\$	94	2.9400	276
				<u> </u>
				278
				<u> </u>
				4,069
				<u> </u>
				1,898
				<u> </u>
NONCURRENT LIABILITIES				
Accounts payable	US\$	1	2.9400	2
				<u> </u>
Long-term debit	US\$	1734	2.9400	5,098
				<u> </u>
Taxes payable	US\$		2.9400	1
	BS	1,100	0.0018	2
	Rs	3	1.0177	3
				<u> </u>
				6
				<u> </u>
Other liabilities	US\$	69	2.9400	204

	BS	12644	0.001819	<u>23</u>
				<u>227</u>
Reserves	US\$	68	2.9400	<u>201</u>
			TOTAL 2003	<u>5,534</u>
			TOTAL 2002	<u>6,315</u>
TOTAL LIABILITIES 2003				<u>9,603</u>
TOTAL LIABILITIES 2002				<u>8,213</u>

US\$ Millions of United States Dollars

BS Millions of Bolívares

Rs Millions of Reales

\$Bol Millions of Pesos Bolivianos

Sol Millions of Nuevos Soles Peruanos

Table of Contents**e) Consolidated detail of expenses incurred and depreciation for the years ended
December 31, 2003, 2002 and 2001**

(Stated in millions of Argentine Pesos See Note 2.c)

	2001	2002	2003			
	Total	Total	Total	Costs	Administrative and selling expenses	Exploration expenses
Salaries and wages	413	268	266	110	152	4
Social security taxes	55	32	37	17	19	1
Other benefits to personnel	70	58	100	30	69	1
Taxes, charges and contributions	67	51	47	28	18	1
Fees and professional advisory	140	81	80	37	42	1
Depreciation of property, plant and equipment	877	1,051	1,016	940	76	
Amortization of other assets	17	8	14	11	3	
Oil and gas royalties	264	348	332	331		1
Spares and repairs	99	103	110	109	1	
Geological and geophysical expenses	31	28	6			6
Transportation and freights	148	156	178	35	143	
Construction contracts and other services	291	328	309	252	56	1
Impairment of unproved oil and gas properties		17	180			180
Fuel, gas, energy and other	44	37	35	34	1	
Other operating costs and consumption	282	260	139	96	43	
Allowances for doubtful accounts	34	30	31	21	10	
Recovery of administrative expenses	(107)	(59)	(99)	(25)	(74)	
Total 2003			2,781	2,026	559	196
Total 2002		2,797		2,130	609	58
Total 2001	2,725			2,019	665	41

Table of Contents**f) Information about ownership in subsidiaries and affiliates as of December 31, 2003**

	% OF OWNERSHIP AND VOTES		BUSINESS SEGMENT
	DIRECT	INDIRECT	
Subsidiaries			
Corod Producción S.A. (Venezuela)		98.21	Oil and Gas Exploration and Production
Ecuadortlc S.A. (Ecuador)		98.21	Oil and Gas Exploration and Production
Enecor S.A.		68.74	Electricity
Innova S.A. (Brasil)		98.21	Petrochemical
PCI Power Edesur Holding Ltd. (Islas Bermudas)		98.21	Electricity
Petrobras Holding Austria AG (Austria)		98.21	Corporate
Pecom de Valores Internacional de España S.A. (España)		98.21	Corporate
Pecom Forestal S.A. (1)		98.21	Other investment
Petrobras Energia S.A.	98.21		Corporate
Pecom Energía Internacional S.A.		98.21	Corporate
Petrobras Energía Operaciones S.A. (Ecuador)		98.21	Oil and Gas Exploration and Production
Petrobras Financial Services (Gran Cayman)		98.21	Corporate
Petrobras Financial Services GMBH (Austria)		98.21	Corporate
Pecom Hispano Argentina S.A. (España)		98.21	Corporate
Petrobras Bolivia International S.A. (Bolivia)		98.21	Corporate
Petrobras Energía Ecuador (Gran Cayman)		98.21	Oil and Gas Exploration and Production
Petrobras Energia Perú S.A. (Perú)		98.21	Oil and Gas Exploration and Production
Petrobras Energia Venezuela S.A. (Venezuela)		98.21	Oil and Gas Exploration and Production
Petrolera San Carlos S.A. (Venezuela)		98.21	Oil and Gas Exploration and Production
Petroleum Commercial Supply, Inc. (EEUU)		98.21	Other investment
World Energy Business S.A.		99.21	Hydrocarbons Marketing and Transportation
World Fund Global Investment (Gran Cayman)		98.21	Corporate
World Fund Investment S.A. (Bolivia)		98.21	Corporate
World Fund Financial Services (Gran Cayman)		98.21	Corporate

Main affiliates join control

Cía. de Inversiones de Energía S.A.	49.10	Hydrocarbons Marketing and Transportation
Citelec S.A.	49.10	Electricity
Distrilec Inversora S.A.	47.63	Electricity
Edesur S.A.	26.84	Electricity
Transba S.A.	28.72	Electricity
Transener S.A.	32.50	Electricity
Transportadora de Gas del Sur S.A.	34.37	Hydrocarbons Marketing and Transportation

Main affiliates significance influence

Coroil S.A. (Venezuela)	48.12	Oil and Gas Exploration and Production
Empresa Boliviana de Refinación S.A. (Bolivia)	48.10	Refining
Hidroneuquén S.A.	9.02	Electricity
Inversora Mata S.A. (Venezuela)	48.12	Oil and Gas Exploration and Production
Oleoducto de Crudos Pesados Ltd. (Gran Cayman)	8.80	Hydrocarbons Marketing and Transportation
Oleoducto de Crudos Pesados S.A. (Ecuador)	8.80	Hydrocarbons Marketing and Transportation
Oleoductos del Valle S.A.	22.69	Hydrocarbons Marketing and Transportation
Propyme S.G.R	49.08	Corporate
Petrolera Entre Lomas S.A.	18.87	Oil and Gas Exploration and Production
Petroquímica Cuyo S.A.	39.28	Petrochemical
Refinería del Norte S.A.	27.99	Refining
Urugua-í S.A.	28.80	Electricity
Yacylec S.A.	21.82	Electricity

(1) See Vote 9.V.a)

Table of Contents**g) Oil and gas areas and participation in joint ventures as of December 31, 2003**

NAME	LOCATION	WORKING INTEREST (2)	OPERATOR	DURATION THROUGH
Production				
Argentina				
25 de Mayo Medanito S.E.	La Pampa and Río Negro	100.00%	Petrobras Energía	2016
Jagüel de los Machos	Río Negro and La Pampa	100.00%	Petrobras Energía	2015
Puesto Hernández U.T.E.	Mendoza and Neuquén	38.45%	Petrobras Energía	2016
Bajada del Palo U.T.E.	La Amarga Chica Neuquén	80.00%	Petrobras Energía	2015
Santa Cruz II U.T.E.	Santa Cruz Neuquén and Río Negro	100.00%	Petrobras Energía	2017
Río Neuquén	Neuquén and Río Negro	100.00%	Petrobras Energía	2019
Entre Lomas	Neuquén and Río Negro	17.90%	Petrolera Entre Lomas S.A.	2016
Aguada de la Arena	Neuquén	80.00%	Petrobras Energía	2022
Veta Escondida y Rincón de Aranda U.T.E.	Neuquén	55.00%	Petrobras Energía	2016
Santa Cruz I U.T.E.	Santa Cruz	71.00%	Petrobras Energía	2016
Foreign				
Colpa Caranda	Bolivia	100.00%	Petrobras Energía	2029
Oritupano Leona	Venezuela	55.00%	PE Venezuela	2014
Acema	Venezuela	86.23%	Petrolera Coroil	2017
La Concepción	Venezuela	90.00%	PE Venezuela	2017
Mata	Venezuela	86.23%	Petrolera Mata	2018
Lote X	Perú	100.00%	PE Perú	2024
Bloque 18	Ecuador	70.00%	Ecuadortlc	2021
Exploration				
Argentina				
Glencross (1)	Santa Cruz	96.68%	Petrobras Energía	1999
Santa Cruz I Oeste	Santa Cruz	100.00%	Petrobras Energía	2006
Santa Cruz II Oeste	Santa Cruz	100.00%	Petrobras Energía	2005
Cuenca Marina 2A Norte-U.T.E.	Santa Cruz	50.00%	Petrobras Energía	2006
Foreign				
San Carlos	Venezuela	50.00%	Pet. San Carlos	2005
Tinaco	Venezuela	50.00%	PE Venezuela	2005
Bloque 31	Ecuador	100.00%	Petrobras Energía	2004

(1)

Pecom Energía has requested that the lot be declared operational with commercial operation held in suspense.

(2) Indirect interest through Pecom Energía and its subsidiaries.

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Table of Contents**h) Combined joint ventures and consortia assets and liabilities as of December 31, 2003 and 2002 and results for the years as of December 2003, 2002 and 2001 then ended.**

(Stated in millions of Argentine Pesos - See Note 2.c)

	<u>2003</u>	<u>2002</u>
Assets and liabilities		
Current assets	687	705
Noncurrent assets	2,726	2,909
	<u> </u>	<u> </u>
Total assets	3,413	3,614
	<u> </u>	<u> </u>
Current liabilities	353	206
Noncurrent liabilities	25	
	<u> </u>	<u> </u>
Total liabilities	378	206
	<u> </u>	<u> </u>

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Statements of income			
Net sales	1,071	1,224	881
Costs of sales	(536)	(661)	(426)
	<u> </u>	<u> </u>	<u> </u>
Gross profit	535	563	455
Administrative and selling expenses	(40)	(66)	(52)
Exploration expenses	(6)	(25)	(11)
Other exploitation income, net	18	(13)	4
Financial income (expense) and holding gains (losses)	2	1,195	2
Income tax provision	13	(14)	(15)
	<u> </u>	<u> </u>	<u> </u>
Net income	522	1,640	383
	<u> </u>	<u> </u>	<u> </u>

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net cash provided by operating activities	164	48	580
Net cash used in investing activities	(407)	(378)	(850)
Net cash provided by financing activities	249	354	273

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Compañía de Inversiones de Energía S.A.

We have audited the accompanying consolidated balance sheets of Compañía de Inversiones de Energía S.A. and its subsidiaries at December 31, 2003 and 2002, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As indicated in Notes 2.c. and 2.h., the Company has discontinued the restatement of financial statements into constant currency as from March 1, 2003 and has recorded deferred income tax assets and liabilities on a non-discounted basis as required by resolutions issued by the *Comisión Nacional de Valores* (CNV). Since generally accepted accounting principles in Argentina require companies to prepare price-level restated financial statements through September 30, 2003 and to recognize deferred taxes on a discounted basis, the application of the CNV resolutions represent a departure from generally accepted accounting principles in Argentina.

In our opinion, except for the effects of the matters described in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compañía de Inversiones de Energía S.A. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in Argentina.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As indicated in Notes 5 and 6, the Company has been negatively impacted by the deterioration of the Argentine economy, the devaluation of the Argentine peso and the Argentine government's adoption of various economic measures including the violation of the contractually-agreed License terms. In view of these circumstances, the Company has not been able to maintain the financial ratios required by its outstanding debt agreements and in May, 2003 had announced the suspension of payment on its financial debt. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Notes 5 and 6. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Accounting principles generally accepted in Argentina vary in certain significant respects from the accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 11 to the consolidated financial statements.

/s/ Héctor A. López
PRICE WATERHOUSE & CO.
Héctor A. López (Partner)
Buenos Aires, Argentina
June 11, 2004

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Stated in thousands of constant Argentine pesos as described in Note 2.c.
except for per share amounts in constant Argentine pesos)

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Net revenues (Note 3)	892,795	939,457	1,220,256
Cost of sales (Note 12.f)	(427,251)	(435,722)	(426,847)
	<u> </u>	<u> </u>	<u> </u>
GROSS PROFIT	465,544	503,735	793,409
Administrative expenses (Note 12.h)	(26,594)	(34,030)	(54,943)
Selling expenses (Note 12.h)	(32,695)	(34,244)	(40,123)
	<u> </u>	<u> </u>	<u> </u>
OPERATING INCOME	406,255	435,461	698,343
Other expenses, net	(26,438)	(11,493)	(126,996)
Equity in earnings/(losses) of affiliates	1,782	(6,862)	(95)
Net financial expense (Note 2.q)	(149,309)	(1,323,441)	(244,879)
	<u> </u>	<u> </u>	<u> </u>
NET INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	232,290	(906,335)	326,373
Income tax benefit (expense) (Notes 2.l and 2.m)	116,164	43,230	(134,196)
Minority interest	(127,931)	271,979	(107,256)
	<u> </u>	<u> </u>	<u> </u>
NET INCOME (LOSS) FOR THE YEAR	<u>220,523</u>	<u>(591,126)</u>	<u>84,921</u>
Net income (loss) per share (Note 2.r)	<u>0.85</u>	<u>(2.28)</u>	<u>0.33</u>

The accompanying notes are integral part of these consolidated financial statements.

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002

(Stated in thousands of constant Argentine pesos as described in Note 2.c)

	<u>2003</u>	<u>2002</u>
CURRENT ASSETS		
Cash and deposits in banks	12,234	6,779
Investments, net (Note 12.d)	664,149	202,703
Trade receivables, net (Note 3)	101,290	116,140
Other receivables	28,181	23,242
Inventories	5,454	6,771
	<hr/>	<hr/>
Total current assets	811,308	355,635
	<hr/>	<hr/>
NON CURRENT ASSETS		
Trade receivables	27,547	43,817
Other receivables	153,177	23,826
Investments, net (Note 12.c)	54,903	59,363
Property, plant and equipment, net (Note 12.a)	4,408,468	4,960,579
Intangible assets, net (Note 12.b)	52,566	65,622
	<hr/>	<hr/>
Total non-current assets	4,696,661	5,153,207
	<hr/>	<hr/>
Total assets	5,507,969	5,508,842
	<hr/>	<hr/>
CURRENT LIABILITIES		
Accounts payable	78,569	85,951
Loans (Note 5)	3,967,842	4,330,694
Payroll and social security taxes payable	9,002	4,846
Taxes payable	17,533	12,269
Other liabilities	33,400	14,754
	<hr/>	<hr/>
Total current liabilities	4,106,346	4,448,514
NON CURRENT LIABILITIES		
Accounts payable	3,516	10,802
Taxes payable	2,338	8,175
Loans (Note 5)	7,548	2,445

Total non-current liabilities	<u>13,402</u>	<u>21,422</u>
Total liabilities	<u>4,119,748</u>	<u>4,469,936</u>
MINORITY INTEREST	920,305	792,374
SHAREHOLDERS EQUITY	<u>467,916</u>	<u>246,532</u>
Total liabilities and shareholders equity	<u><u>5,507,969</u></u>	<u><u>5,508,842</u></u>

The accompanying notes are integral part of these consolidated financial statements.

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Stated in thousands of constant Argentine pesos as described in Note 2.c)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES			
Net Income / (loss)	220,523	(591,126)	84,921
Reconciliation of net income (loss) to cash flows provided by operating activities			
Depreciation of property, plant and equipment	180,559	201,411	167,863
Amortization of intangible assets	19,895	27,743	25,478
Write off of Property, plant and equipment retired	20,088	33,298	3,891
Write off of intangible assets retired	3,485		
(Decrease) increase in allowances and provisions	(22,422)	40,817	3,579
Equity in (earnings) losses of affiliates	(1,782)	6,862	95
Minority interest	127,931	(271,979)	107,256
PPI Adjustment Effect			38,513
Interest expense	266,994	349,293	232,825
Income tax (benefit) expense	(116,164)	(43,230)	134,196
Results for inflation and foreign exchange rate (earnings) losses	(162,510)	840,593	
Changes in assets and liabilities:			
Trade receivables	33,840	(88,454)	1,519
Other receivables	(6,592)	(12,730)	(10,435)
Inventories	1,267	(3,853)	(3,889)
Accounts payable	(5,578)	31,442	16,941
Payroll and social security taxes payable	4,192	(758)	2,442
Taxes payable	16,609	26,075	(11,503)
Other liabilities	22,348	561	(216)
Others	(10,253)	17,067	31,025
Interest paid	(51,785)	(305,726)	(255,704)
Income and asset tax paid	(14,194)	(22,033)	(152,479)
	<u>526,451</u>	<u>235,273</u>	<u>416,318</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of government bonds			(21,982)
Capital contributions in affiliated company	(577)	(1,407)	(1,493)
Purchases of property, plant and equipment	(60,888)	(95,290)	(443,997)
	<u>(61,465)</u>	<u>(96,697)</u>	<u>(465,472)</u>

Cash used in investing activities	(61,465)	(96,697)	(467,472)
	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS PROVIDED BY (USED IN)			
FINANCING ACTIVITIES			
Advance payments from clients	3,516		
Proceeds from loans		30,614	633,542
Payment of loans	(1,557)	(175,759)	(422,908)
Net increase in short-term debt		82,496	80,322
Settlement of hedges of anticipated transactions			(7,892)
Dividends paid			(148,651)
Shareholders' capital contributions	861		
	<u> </u>	<u> </u>	<u> </u>
Cash provided by (used in) financing activities	2,820	(62,649)	134,413
	<u> </u>	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH			
EQUIVALENTS			
Cash and cash equivalents at the beginning of year	467,806	75,927	83,259
	<u>204,962</u>	<u>129,035</u>	<u>45,776</u>
Cash and cash equivalents at the end of year	<u>672,768</u>	<u>204,962</u>	<u>129,035</u>

For supplemental cash flow information, see Note 4.

The accompanying notes are integral part of these consolidated financial statements.

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Stated in thousands of constant Argentine pesos as described in Note 2.c)

	Shareholders' contributions			Retained earnings			Total Shareholders' Equity
	Common stock nominal value	Cumulative inflation adjustment to common stock	Irrevocable capital contributions Subtotal	Legal reserve	Voluntary reserves for future dividends	Unappropriated retained earnings (deficit)	
Balances at December 31, 2000	258,858	375,247	634,105	57,191		142,329	833,625
Prior year adjustments (Note 2.b)						(24,831)	(24,831)
Modified balance at December 31, 2000	258,858	375,247	634,105	57,191		117,498	808,794
Resolutions of the Ordinary Shareholders Meeting held on March 2, 2001							
Appropriation to legal reserve				5,017		(5,017)	
Voluntary reserve for future dividends					31,216	(31,216)	
Approved by the Board of Directors meeting held on April 3, 2001 and December 27, 2001:							
Cash dividends					(31,216)	(24,841)	(56,057)
Net income for the year						84,921	84,921
Balances at December 31, 2001	258,858	375,247	634,105	62,208		141,345	837,658

Resolutions of the

Ordinary Shareholders Meeting held on May 14, 2002:								
Appropriation to legal reserve					2,323		(2,323)	
Net loss for the year							(591,126)	(591,126)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balances at December 31, 2002	<u>258,858</u>	<u>375,247</u>	<u> </u>	<u>634,105</u>	<u>64,531</u>	<u> </u>	<u>(452,104)</u>	<u>246,532</u>
Approved by the Board of Director s meeting held on May 26, 2003:								
Irrevocable capital contribution against future issuance of shares			861	861				861
Net income for the year							220,523	220,523
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balances at December 31, 2003	<u>258,858</u>	<u>375,247</u>	<u>861</u>	<u>634,966</u>	<u>64,531</u>	<u> </u>	<u>(231,581)</u>	<u>467,916</u>

The accompanying notes are an integral part of these consolidated financial statements.

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**COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
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(Amounts stated in thousands of constant Argentine pesos as described in Note 2.c.,
except for per share amounts in constant Argentine pesos or where otherwise indicated)

1. ORGANIZATION AND START-UP OF THE COMPANY

Compañía de Inversiones de Energía S.A. (CIESA or the Company) was created on December 14, 1992.

CIESA is currently owned 50% by Petrobras Energía S.A. (Petrobras Energía) and a subsidiary of Petrobras Energía and 50% by subsidiaries of Enron Corp. (Enron).

CIESA, together with Petrobras Energía and Enron, hold approximately 70% of Transportadora de Gas del Sur S.A. (TGS), one of the companies created as a result of the privatization of Gas del Estado S. E. (GdE) engaged in the transportation of natural gas and production and commercialization of natural gas liquids (NGL) and other services in Argentina. TGS 's pipeline system connects major gas fields in southern and western Argentina with distributors of gas in those areas and in the greater Buenos Aires area. The gas transportation license to operate this system for a period of thirty-five years (the License) was exclusively granted to TGS, which is entitled to a one-time extension of ten years provided that TGS has essentially met the obligations imposed by the License and by Ente Nacional Regulador del Gas (ENARGAS). The General Cerri Gas Processing Complex (the Cerri Complex), where TGS processes natural gas by extracting NGL, was transferred along with the gas transmission assets.

On January 19, 2001 CIESA Shareholders Meeting approved an amendment to its corporate by-laws, related to the expansion of its corporate purpose. This enabled the Company to render all services, commercial and industrial, related to the industry of hydrocarbons and electric power, both locally and abroad.

On April 16, 2004, the shareholders of CIESA entered into a Master Settlement and Mutual Release Agreement (the Settlement Agreement). The Settlement Agreement provides for, among other things, the transfer, in two stages, of certain shares issued by TGS and by CIESA. In the first stage: (a) Enron holding will transfer 40% of the outstanding share capital of CIESA to a trust to be formed or to an alternative entity; and (b) the Petrobras holding will transfer their TGS class B common shares (representing 7.35% of the outstanding share capital of TGS) to Enron holding. In the second stage, Enron holding will transfer their remaining outstanding share capital of CIESA to the trust mentioned above or to an alternative entity, subject to the simultaneous transfer of the TGS class B common shares held by CIESA (representing approximately 4.3% of the outstanding shares of TGS) to Enron holding.

CIESA 's Shareholders Agreement will be terminated and replaced by a new Shareholders Agreement addressing the ownership change following consummation of the first stage. At no time will the Petrobras holding hold, directly or indirectly, more than their current 50% shareholding in CIESA or hold a controlling interest in CIESA.

In May 2004, the bankruptcy court having jurisdiction over the bankruptcy of Enron approved the Settlement Agreement. In addition, the transfers referred to above are subject to several conditions, one of which is the approval from ENARGAS.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company 's consolidated financial statements have been prepared in accordance with generally accepted accounting principles used in Argentina (Argentine GAAP), (except for what is mentioned in c) and h) to this note) and the regulations of the Comisión Nacional de Valores (CNV), the National Securities Commission in Argentina. Argentine GAAP differs in certain significant respects from generally accepted accounting principles in the United

States of America (US GAAP). Such differences involve methods of measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission (SEC). A description of the significant differences between Argentine GAAP and US GAAP and a reconciliation of consolidated net income (loss) and shareholders equity to US GAAP are disclosed in Note 11 to these consolidated financial statements.

These consolidated financial statements are intended solely for the use of Petrobras Energía in the filing of its Form 20-F with the SEC, and should not be used, circulated, quoted or referred to for any other purpose.

The consolidated financial statements include the accounts of CIESA and its subsidiaries TGS and TELCOSUR S.A. (TELCOSUR) which have been consolidated following the methodology established in Technical Resolution (TR) No. 4 of the Argentine Federation of Professional Councils in Economic Sciences (Argentine Federation). The accounting policies used

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(Amounts stated in thousands of constant Argentine pesos as described in Note 2.c.,
except for per share amounts in constant Argentine pesos or where otherwise indicated)

by TGS and TELCOSUR are consistent with those applied by CIESA. All significant intercompany transactions have been eliminated in consolidation.

Detailed data reflecting subsidiaries direct control as of December 31, 2003, 2002 and 2001 is as follows:

Company	Percentage of shareholding and votes						Closing Date	Legal Address
	2003		2002		2001			
	Direct	Indirect	Direct	Indirect	Direct	Indirect		
TGS	55.30		55.30		55.30		December 31	Don Bosco 3672, 5th Floor, Buenos Aires
Telcosur S.A.		55.29		55.29		55.29	December 31	Don Bosco 3672, 6th Floor, Buenos Aires

For consolidation purposes for the years ended December 31, 2003, 2002 and 2001, audited consolidated financial statements of TGS as of those dates have been used.

a) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting year. Estimates are used when accounting for the allowance for doubtful accounts, depreciation, amortization, impairment of long-lived assets, income taxes and contingencies. Actual results could materially differ from such estimates.

Such estimates and assumptions include the financial impact on the consolidated financial statements of the Company as of December 31, 2003 caused by the measures adopted by the Argentine Government (relating to the economic crisis that started in December 2001). The projections, which include those related to the fair value of non-current assets and tax loss carryforwards accumulated at year end, contemplate alternative scenarios based on macroeconomic, financial, market and regulatory assumptions which are considered probable, and are aimed at restoring the financial condition of the Company. Actual results could materially differ from such evaluations and estimates, and such differences might be significant. Therefore, the Company's financial statements may not include all adjustments that could result from, or otherwise reflect, the impact of these conditions. Furthermore, at the time of the issuance of these financial statements it is not possible to foresee the future development of the country's economy, the results of the License renegotiation (see Note 6) or the global debt restructuring processes of TGS and CIESA (see Note 5), nor their consequences on the Company's financial condition and the results of its operations. Consequently, any decision taken on the basis of these consolidated financial statements must consider the effects of these events and conditions and their future development. Therefore, the Company's

financial statements must be read in the light of these uncertain circumstances.

b) New Accounting Standards

On December 21, 2001, the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires (CPCECABA) approved new accounting rules (Technical Resolutions (TR) 16 to 19 issued by the Argentine Federation, with certain amendments). The new accounting rules have modified the valuation principles for assets and liabilities, introduced new valuation techniques for certain issues not addressed by the previous accounting rules and also incorporated additional disclosure requirements for the preparation of financial statements. In addition, TR No. 20 Valuation of Derivative Financial Instruments and Hedging Operations became effective as from January 1, 2003. Also, CNV issued Resolution No. 434/03 which adopted such new accounting rules with certain amendments effective January 1, 2003.

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(Amounts stated in thousands of constant Argentine pesos as described in Note 2.c.,
except for per share amounts in constant Argentine pesos or where otherwise indicated)

The principal amendments introduced by the new accounting rules which have impacted CIESA's consolidated financial statements are: (i) the adoption of an accounting model which enhances the utilization of the Company's intention as valuation principle (such as the discounted value of receivables and liabilities); (ii) the incorporation of strict standards to make comparisons with fair values; (iii) the creation of standards to account for labor costs, derivative financial instruments and hedging operations; (iv) the mandatory adoption of the deferred income tax method to account for income taxes; and (v) new disclosure requirements relating to, among other things, segment and per share information and the information included for comparative purposes.

At December 31, 2003, the adoption of these new valuation and disclosure rules, in accordance with the transition period rules, generated adjustment for previous years as follows:

Changes in valuation of assets and liabilities	Prior year adjustments as of December 31,			
	2003	2002	2001	2000
1. Discount of receivables and liabilities	(1,205)			
2. Labor costs	(1,578)			
3. Valuation of derivative instruments ^(a)	(1,825)			
4. Application of deferred tax method	61,835	2,354	(23,973)	(24,831)

(a) In accordance with the applicable transition rule, the balance at the beginning of the year has not been modified pursuant to the new accounting standards for derivative instruments.

c) Presentation of consolidated financial statements in constant Argentine pesos

The consolidated financial statements have been prepared in constant Argentine pesos, recognizing the overall effects of inflation up to August 31, 1995. As from that date, in line with professional accounting standards and the requirements of the control authorities, the Company discontinued the restatement of its financial statements until December 31, 2001. As established by Resolution No.3/2002 of the CPCECABA and Resolution No. 415 of the CNV, as from January 1, 2002 the Company resumed the recognition of the effects of inflation in these financial statements, following the provisions of TR No. 6, as amended by TR. No.19, both issued by the Argentine Federation. Accounting measurements restated due to the change in the purchasing power of the currency up to August 31, 1995, as well as those which have been originated between that date and December 31, 2001, are considered to be stated in the currency value as of the later date.

On March 25, 2003 the Executive Branch issued Decree No. 664, which provides that financial statements for periods ending after such date shall be stated in historical Argentine pesos. As a consequence and in accordance with Resolution No. 441, issued by the CNV, the Company suspended inflation accounting effective March 1, 2003. This criterion is not in line with effective accounting standards, which stipulate that financial statements should be restated as of September 30, 2003. If the Company had applied inflation accounting for the period from March 1 to September 30, 2003, net assets would have decreased by Ps. 41 million and net income for the year would have decreased by Ps. 36 million.

The restatement methodology is computed at each balance sheet date, using the Argentine Wholesale Price Index (WPI) published by the INDEC, as follows:

- Non-monetary items and consolidated statement of income amounts are adjusted to reflect the then-current general purchasing power;
- Monetary items are not adjusted as such items are, by their nature, stated in terms of current general purchasing power in the financial statements; and
- Monetary gains or losses are recognized in the consolidated statement of income, reflecting the effect of holding monetary items. This gain or loss on exposure to inflation (monetary gain or loss) is included in the consolidated statement of income within Net financial expense .

Information presented for comparative purposes has been restated in constant currency as of February 28, 2003.

d) Short term receivables and liabilities in currency

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(Amounts stated in thousands of constant Argentine pesos as described in Note 2.c.,
except for per share amounts in constant Argentine pesos or where otherwise indicated)

Short term receivables and liabilities, including accrued interest if applicable at the end of each fiscal year, have been valued at their respective notional amount, which does not materially differ from the present value of the future cash flow that the receivables and liabilities will generate, using the internal rate of return estimated at inception.

e) Foreign currency assets and liabilities

Assets and liabilities denominated in foreign currencies, including accrued interest if applicable, are translated at the prevailing exchange rates at the relevant year-end.

In accordance with Resolution MD No. 1/2002 of the CPCECABA and Resolution No. 392 of the CNV, assets and liabilities denominated in foreign currencies as of December 31, 2001 were valued using the exchange rate of one Argentine peso per U.S. dollar, or its equivalent in other currencies (the exchange rate in effect when the exchange market was suspended in December 2001).

Assets and liabilities denominated in foreign currencies are disclosed in Note 12.g).

f) Inventories

Inventories consist of natural gas in the pipeline system owned by TGS in excess of line pack, which is classified as property, plant and equipment, and NGL obtained from natural gas processing at the Cerri Complex. TGS values these inventories at replacement or reproduction cost, as applicable, at the end of each year. The carrying value of inventories does not exceed its recoverable value.

g) Investments

Overnight accounts are valued at their face value plus accrued interest, which do not materially differ from their discounted value using the internal rate of return effective at inception.

Money market funds have been valued at their respective fair value.

Investments in Sovereign Bonds to be held to maturity (Notes 12.c) and 12.d)) have been valued based on the best estimate of the present value of the cash to be received, using the discount rate estimated at the time of acquisition of the assets. The book value of these investments, net of corresponding impairment, does not exceed their respective recoverable value at December 31, 2003 and 2002.

Equity investments in companies in which the Company's ownership interest ranges between 20% and 50%, such as Gas Link S.A. (LINK) and Emrendimientos de Gas del Sur S.A. (EGS), have been accounted for under the equity method. These investments have been valued based on the financial statements at the dates specified in Note 12.c), which have been prepared applying similar criteria to that used by the Company to prepare its consolidated financial statements. As of December 31, 2003, 2002 and 2001 the investment in LINK has been adjusted by Ps. 6,085, Ps. 6,255 and Ps. 1,794, respectively, due to the elimination of intercompany profits, as required by Argentine GAAP. Due to these adjustments, as of December 31, 2002, the Company's equity interest

in LINK was negative. Such balance is disclosed under the caption Other liabilities .

TGS considers its foreign subsidiary Transporte y Servicios de Gas en Uruguay S.A. (TGU , formerly Isonil S.A.) to be a non-integrated subsidiary . Consequently, TGU s assets, liabilities and results of operations have been translated into Argentine pesos using the exchange rate in effect at year-end, while its common stock and retained earnings accounts have been translated using historical exchange rates. The investment in this company has been accounted for under the equity method.

According to Resolution No. 3/2002 and 87/03 issued by the CPCECABA and Resolution N° 398 of CNV, the Company has capitalized an exchange loss (up to the recoverable value of the investment) amounting to Ps. 53,957 (net of accumulated amortization) originated on the exchange loss arising from the peso devaluation from January 6, 2002 to July 28, 2003 on the Company s outstanding dollar denominated Negotiable Obligations debt as of the first date, associated to the direct

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(Amounts stated in thousands of constant Argentine pesos as described in Note 2.c.,
except for per share amounts in constant Argentine pesos or where otherwise indicated)

financing of the investment in TGS.
This remaining balance is amortized
over a 26 year term, the remaining
term of the License.

h) Long term receivables and
liabilities in currency

As required by the CPCECABA,
long term receivables and liabilities
(except for deferred tax assets and
liabilities as described below) have
been valued based on the best
estimate of the discounted value of
the amounts expected to be
collected or paid, as applicable,
using the interest rate effective at
the time of initial measurement.
However, Resolution MD 32/02 of
the CPCECABA permits the use of
the interest rate for savings accounts
of *Banco de la Nación Argentina*, in
effect at the moment of the
acquisition or incurrence of such
assets or liabilities.

Assets and liabilities generated as a
result of the application of the
deferred tax method have been
calculated at their nominal value in
accordance with Resolution No. 434
of CNV (which is not in accordance
with CPCECABA rules), net of
valuation allowances for
non-recoverable tax loss
carryforward.

i) Property, plant and equipment, net

- Assets transferred from the privatization of GdE: The value of these assets was determined based on the price paid for the acquisition of 70% of TGS's common stock, which amounted to US\$ 561.2 million. This price was the basis to determine a total value of common stock of US\$ 801.7 million, which, when added to the debt assumed under the Company's privatization agreement (the Transfer Contract) of US\$ 395.0 million,

resulted in a total value for property, plant and equipment of US\$ 1,196.7 million. Such value, converted at the exchange rate in effect as of the date of the Transfer Contract, has been restated for the effects of inflation as described in Note 2.c).

- Line pack: It represents the natural gas in the transportation system that is necessary to keep the system at operating capacity, valued at acquisition cost and restated for the effects of inflation as described in Note 2.c).
- Capitalization of exchange loss: In accordance with Resolution No. 1/2002 of the CPCECABA and Resolution No. 392 of the CNV, TGS has recognized the effects of the devaluation of the peso as from January 1, 2002. Resolutions No. 3/2002 and 87/03 issued by the CPCECABA and Resolution No. 398 of the CNV established that exchange losses arising from the devaluation of the peso from January 6, 2002 to July 28, 2003, to the extent that they were related to foreign currency liabilities existing at the first date, are to be added to the cost basis of assets acquired or constructed with direct financing by such foreign currency liabilities. Similar accounting treatment is permitted, but not required, for exchange losses arising from indirect financing. It was assumed that the proceeds from such financings were used, firstly, to cover working capital requirements and secondly to finance the assets that do not qualify for capitalization. The remainder was assumed to relate to assets for which capitalization is permitted.
- Additions: They are valued at acquisition cost restated for the effects of inflation as described in Note 2.c). TGS capitalizes the net cost of debt used to finance work in progress until such assets are ready for their intended use. TGS has capitalized all the investments stipulated as mandatory in the License during the first five-year period, in order to achieve system integrity and public safety equal to those required by international standards. Such investments included, among others, the costs of survey programs related to internal and external pipeline inspection, cathodic protection and pipeline replacement and recoating. Additionally, Resolutions No. 1,660 and No. 1,903 issued by ENARGAS include definitions prescribing which costs should be considered improvements and which costs should be considered maintenance expenses.

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- Depreciation: TGS applied the straight-line method with a composite depreciation rate for all assets allocated to transportation service and to the NGL production and commercialization until December 31, 1999.

Assets allocated to natural gas transportation service: Resolutions No. 1,660 and No. 1,903 issued by ENARGAS established maximum useful lives applicable to each component of such assets to be applied effective January 1, 2000, which levels are lower than the useful lives applied by TGS through December 31, 1999. The new useful lives applied by TGS do not exceed the maximum useful lives determined in such resolutions. The above-mentioned resolutions also outline specific criteria for assets retirements. During fiscal year 2000, in compliance with the ENARGAS requirements in the mentioned resolutions and in order to maintain the straight-line method of depreciation, TGS changed from using a composite depreciation rate to using individual depreciation rates for each component of the assets allocated to the gas transportation service.

Assets allocated to NGL production and commercialization: While TGS maintains the straight-line method, during fiscal year 2000, it changed from using a composite depreciation rate to using individual depreciation rates for each component of the assets allocated to the NGL production and commercialization.

For depreciation of all other property, plant and equipment, TGS uses the straight-line method of depreciation and applies the annual depreciation rates disclosed in Note 12.a). Gain or loss on retirement of these assets is recognized in income in the year in which such retirement occurs.

Capitalized exchange loss is depreciated over the remaining useful lives of the assets that led to such capitalization.

- Interest capitalization: The net cost of external financing used to fund the construction of long-lived assets is capitalized within Property, plant and equipment, net until the corresponding asset is ready for its intended use. As mentioned in Note 2.q), interest capitalized during the years ended December 31, 2003, 2002 and 2001 amounted to Ps. nil, Ps. nil and Ps. 12,486, respectively.
- Repair and maintenance costs: These costs are expensed in accordance with Resolution No. 1660 and Resolution No. 1903 issued by the ENARGAS. Accordingly, TGS expenses the repair and maintenance costs incurred in the main components of the gas transportation system based on the following criteria:
 - For transmission pipelines and high pressure branches, maintenance costs include main replacements performed in pipeline sections shorter than 100 continuous meters, recoating works in less than or equal to 2,000 continuous meters of main, smart-pig inspection works, hydrostatic tests, conditioning works in water-crossings, reinforcements and nipple installations.
 - For compressor plants, overhauls when the supplies replacement costs of the turbine compressors is less than 50% of the cost of a new similar unit and does not exceed Ps. 150. This excludes the dismantling and/or repair of the supplies restored.

- For measurement instruments, costs of repairs or replacements made on them.
- For measurement and regulation stations, TGS capitalizes costs that represent improvements in accordance with pre-defined criteria. All other costs are deemed to be maintenance costs and, accordingly, expensed as incurred.
- All expenditures related to supplies which value do not exceed 50% of the replacement cost of similar units are expensed as incurred. If such value exceeds 50% of the replacement cost of similar units but is under Ps. 10,000, the related amount is also charged to income.

Based on the projections made as discussed in Note 2.a), TGS's management believes that the recorded value of property, plant and equipment does not exceed its recoverable value.

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j) Intangible assets

Intangible assets are valued at their historical cost, restated to account for the effects of inflation as described in Note 2.c), less accumulated amortization. The amortization of pre-operating costs, organization costs, cancellation costs of commitments assumed under the Transfer Contract and other costs was calculated over a period of primarily thirty-five years through December 31, 2000. Starting January 1, 2001, the net book value of these costs as of December 31, 2000 is being amortized over a five-year period, as well as the acquisition cost of the license. The costs of hedging interest rates are deferred over the term of the related loans. Arrangement costs for the issuance of debt associated with Global Programs, as well as debt issuance costs, are deferred over the term of the related debt.

k) Derivative financial instrument

The Company and TGS use derivative financial instruments as part of its overall strategy to manage its exposure to market risks associated with fluctuations in interest rates and exchange rates. Currently, TGS has one interest rate cap agreement outstanding. In the past, the Company has entered into rate cap and collar agreements and TGS has entered into cross currency swaps, foreign currency forward-exchange contracts and interest rate lock agreements. As a matter of policy, the Company and TGS does not use derivatives for trading or speculative purposes. See Note 5 for details about the Company and TGS's derivative instrument activity.

Gains or losses from derivative financial instruments that qualify for hedge accounting are deferred and recognized together with the gains or losses associated to the hedged item and included in Net Financial Expense. In case the financial instrument has been arranged to cover the impact of a future transaction, the gains or losses are deferred and recorded together with the gains or losses of the hedged item.

Assets associated with derivative financial instruments have been valued at their fair value. Liabilities associated with derivative financial instruments have been valued at their estimated cancellation cost. Differences generated as a consequence of the application of the above-mentioned principle have been recognized in results of operations of the year.

l) Income tax provision

The Company and its subsidiaries have calculated their respective income taxes using the deferred tax method, which considers the effect of temporary differences between the financial reporting and income tax bases of accounting.

To estimate deferred tax assets and liabilities, the tax rate expected to be in effect at the time of utilization was applied to identified temporary differences and tax loss carryforwards based on the legal requirements effective at the time of preparation of these consolidated financial statements.

As of December 31, 2003 the Company has not recorded asset or liabilities temporary differences related to non-current investments, since it is unlikely that such differences are reversed in the foreseeable future, based on

projected future taxable income determined in line with what is mentioned in Note 2.b).

Income tax (benefit) expense for the years ended December 31, 2003, 2002 and 2001 consist of the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Estimated current income tax expense / (tax loss carryforward)	85	(822,378)	135,748
Deferred income tax expense (benefit)	107,591	57,859	(1,552)
Change in valuation allowance	<u>(223,840)</u>	<u>721,281</u>	<u> </u>
Income tax (benefit) expense	<u>(116,164)</u>	<u>(43,238)</u>	<u>134,196</u>
Asset tax expense	<u> </u>	<u>8</u>	<u> </u>
Total	<u>(116,164)</u>	<u>(43,230)</u>	<u>134,196</u>

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The components of the net deferred tax asset (liability) as of December 31, 2003 and 2002, are the following:

	<u>2003</u>	<u>2002</u>
<i>Deferred tax assets</i>		
Exchange difference (1)	87,003	116,860
Allowance for doubtful account	316	1,691
Investments, net	4,581	14,864
Present value other receivables	801	
Suppliers provisions	40	15
Provision for tax contingencies	121	166
Provision for contingencies	11,414	3,595
Tax loss carryforwards	603,036	830,079
Valuation allowance	(499,743)	(728,937)
	<u>207,569</u>	<u>238,333</u>
<i>Deferred tax liabilities</i>		
Deferred revenues	(744)	(786)
Property, plant and equipment, net	(87,316)	(232,190)
Intangible assets, net	(3,373)	(5,472)
	<u>(91,433)</u>	<u>(238,448)</u>
<i>Net deferred tax asset (liability)</i>	<u>116,136</u>	<u>(115)</u>

(1) Corresponds to the negative results caused by the devaluation of the Argentine Peso as of December 31, 2002 which according to Decree No. 2,568/02, will be deductible for income tax purposes in five years between 2002 and 2006.

Income tax expense computed at the statutory tax rate (35%) on pre-tax (loss) income differs from the income tax (benefit) expense for the years ended December 31, 2003, 2002 and 2001 as follows:

2003	2002	2001
------	------	------

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Pre-tax income (loss)	232,290	(906,335)	326,373
Statutory income tax rate	35%	35%	35%
Income tax expense (benefit) at statutory income tax rate	81,302	(317,219)	114,230
Permanent differences at statutory income tax rate			
- Inflation adjustment	30,129	(455,655)	3,510
- Equity in earnings of affiliates	778	1,300	465
- Change in valuation allowance	(223,840)	721,281	16,706
- Other, not individually significant	(4,533)	7,055	(715)
Total net income tax (benefit) expense	(116,164)	(43,238)	134,196

TGS's accumulated tax loss carryforwards on a consolidated basis that are available to offset future taxable income are the following:

Description	Amount	Year of expiration
Tax loss carryforward 2002	1,834,440	2007
Utilization in 2003	(584,103)	
Accumulated tax loss carryforward	1,250,337	

CIESA's accumulated tax loss carryforwards that are available to offset future taxable income are the following:

Description	Amount	2003 Utilization	Pending Amount	Year of expiration
Tax loss carryforward 2001	21,713	(21,713)		2006
Tax loss carryforward 2002	498,084	(25,458)	472,626	2007
Total	519,797	(47,171)	472,626	

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the

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generation of future taxable income during the periods in which those temporary differences become recoverable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in making these assessments. The Company and TGS are required to continuously evaluate the recoverability of their deferred tax assets. This evaluation is made based on internal projections made as discussed in Note 2.a), which are routinely updated to reflect more recent trends in the Company's results of operations. As of December 31, 2003 and 2002, based on current financial information, the Company and TGS are uncertain that they will recover their entire deferred tax assets through future taxable income. Accordingly, at December 31, 2003 and 2002, the Company has recognized a valuation allowance of Ps. 499.7 million and Ps. 728.9 million against its deferred tax assets, respectively.

m) Asset tax provision

The Company and its subsidiaries are subject to the Asset Tax Law (Impuesto a la Ganancia Mínima Presunta), which became effective for fiscal periods ending after December 30, 1998. The asset tax is calculated on an individual entity basis at the statutory tax rate of 1%, and is based upon the taxable assets of each Argentinean entity as of the end of the year. Pursuant to this law, the Company is required to pay the greater of the income tax or the asset tax. Any excess of the asset tax over the income tax may be carried forward and recognized as a payment on account of any excess of income tax over asset tax occurring within the subsequent ten years.

The asset tax provision determined by the Company, is recorded as expense because it is estimated that such tax may not be utilized against future income tax charges.

At December 31, 2003 and 2002, TGS accrued approximately Ps. 20.8 million and Ps. 10.5 million in consolidated asset tax liability, respectively, which is included in Taxes payable in the accompanying consolidated balance sheet. In the opinion of management it is more likely than not that TGS will utilize such asset against future income tax charges within the next ten years, and, as a result, TGS has recognized the accumulated asset tax charge within Other non-current receivables in the accompanying consolidated balance sheet.

n) Allowances and provision for contingencies

TGS provides for losses relating to its accounts receivable and government bonds. The allowance for losses is based on management's evaluation of various factors, including the credit risk of customers, historical trends and other information. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all events and/or transactions that are subject to reasonable and normal methods of estimation, and the consolidated financial statements reflect that consideration.

In addition, the Company and TGS have recognized a valuation allowance to adjust the remaining balance of the tax loss carryforward included in the tax return for fiscal year 2002 which, based on the most recent income projections, is expected to be utilized before its prescription.

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving legal and regulatory matters. The Company and TGS record liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, their estimates of the outcome of these matters and the experience of their legal counsel in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there will be changes in the estimates of future costs, which could have a material effect on the Company's future results of operations and financial condition or liquidity.

Contingencies and allowances are disclosed in Notes 8 and 12.e).

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o) Shareholders' equity accounts

These accounts have been restated to account for the effects of inflation as described in Note 2.c), except for Common stock nominal value which is stated at original cost. The adjustment derived from its restatements has been disclosed in the account Cumulative inflation adjustment to common stock .

p) Revenue recognition

Firm transportation revenues are recognized based on the accrued contracted capacity reserved regardless of actual usage. For interruptible transportation services and certain NGL production and commercialization contracts, revenues are recognized upon the delivery of natural gas or gas liquids to customers, respectively. For other NGL production and other services contracts, revenues are recognized when services are rendered.

q) Statement of income accounts

Accounts relating to the statement of income have been restated to reflect the effects of inflation as described in Note 2.c). The breakdown of Net financial expense line item for the years ended December 31, 2003, 2002 and 2001 is as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<i>Generated by assets</i>			
Interest income	18,209	15,456	12,872
Loss on exposure to inflation	(7,228)	(211,471)	
Foreign exchange (loss) / gain net of inflation	(33,019)	78,930	
Holding losses		(37,425)	
	<u> </u>	<u> </u>	<u> </u>
Total	<u>(22,038)</u>	<u>(154,510)</u>	<u>12,872</u>
<i>Generated by liabilities</i>			
Interest expense (i)	(266,994)	(349,293)	(232,825)
Gain from exposure to inflation	8,699	116,589	
Foreign exchange gain / (loss) net of inflation (ii)	160,727	(904,061)	(4,820)
Amortization of intangible assets	(9,610)	(16,705)	(14,439)
Other expenses and financial charges	(20,093)	(15,461)	(5,667)
	<u> </u>	<u> </u>	<u> </u>

Total	<u>(127,271)</u>	<u>(1,168,931)</u>	<u>(257,751)</u>
<i>Total net financial expense</i>	<u>(149,309)</u>	<u>(1,323,441)</u>	<u>(244,879)</u>

(i) Interest expense is disclosed net of capitalized interest. Capitalized interest amounted to Ps. nil, Ps. nil and Ps. 12,486 for the years ended December 31, 2003, 2002 and 2001, respectively.

(ii) Foreign exchange gains (losses) for fiscal years 2003 and 2002 are disclosed net of exchange losses that were capitalized in investments and property, plant and equipment as described in Notes 2.g) and 2.i).

r) Earnings per share

Earnings per share for the years ended December 31, 2003, 2002 and 2001 have been calculated based on 258,858,095 outstanding shares during each year. As the Company does not have preferred stock or convertible debt, the amount of basic earnings per share is the same as the amount of diluted earnings per share.

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3. CONSOLIDATED BUSINESS SEGMENT INFORMATION

The Company's business segments are as follows: (i) natural gas transportation services through its pipeline system; (ii) NGL production and commercialization and (iii) other services, which include midstream and telecommunication services (the latter rendered by its subsidiary, Telcosur).

Operating income consists of net revenues less operating expenses. In the calculation of operating income, the following items have not been included: other expenses, net, equity in earnings / (losses) of affiliates, net financial expense and income tax benefit (expense).

Assets and liabilities allocated to each segment are those used by TGS and TELCOSUR to develop each business. Assets and liabilities that cannot be allocated to a specific segment have been grouped under Corporate and include investments and loans, among others.

There were no revenues among the business segments during the reported years.

As of and for the year ended December 31, 2003	NGL Production and			Corporate	Total
	Gas Transportation	Commercialization	Other services		
Net revenues	422,093	428,361	42,341		892,795
Operating income (loss)	192,408	240,047	5,846	(32,046)	406,255
Depreciation of property, plant and equipment	134,904	26,371	13,397	5,887	180,559
Additions to property, plant and equipment (includes work in progress)	28,946	11,172	2,438	1,689	44,245
Identifiable assets	4,002,960	450,713	218,280	836,016	5,507,969
Identifiable liabilities	37,872	39,005	8,116	4,034,755	4,119,748

As of and for the year ended December 31, 2002	NGL Production and			Corporate	Total
	Gas Transportation	Commercialization	Other services		
Net revenues	532,051	347,398	60,008		939,457
Operating income (loss)	255,122	208,886	13,558	(42,105)	435,461
Depreciation of property, plant and equipment	147,345	28,923	15,549	9,594	201,411

Additions to property, plant and equipment (include work in progress)	97,461	2,664	3,823	1,435	105,383
Identifiable assets	4,489,658	472,652	248,474	298,058	5,508,842
Identifiable liabilities	49,604	30,264	14,649	4,375,419	4,469,936

As of and for the year ended December 31, 2001	NGL Production and				Total
	Gas Transportation	Commercializations	Other services	Corporate	
Net revenues	954,230	228,105	37,921		1,220,256
Operating income (loss)	671,039	87,242	5,552	(65,490)	698,343
Depreciation of property, plant and equipment	124,489	23,723	8,199	11,452	167,863
Additions to property, plant and equipment (include work in progress)	336,646	9,992	73,492	2,914	423,044
Identifiable assets	4,175,901	395,199	193,738	220,490	4,985,328
Identifiable liabilities	83,177	25,468	3,641	2,971,030	3,083,316

TGS provides credit in the normal course of its gas transportation business principally to gas distribution companies, Petrobras Energía, Profertil S.A. (Profertil) and Repsol-YPF S.A. (Repsol-YPF). Concentration of credit and principal customers net revenues from gas transportation for the years ended December 31, 2003, 2002 and 2001 are as follows:

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Gas Transportation:	Trade receivables		Net revenues		
	2003	2002	2003	2002	2001
MetroGas S.A.	16,411	18,192	172,205	222,765	379,266
Camuzzi Gas Pampeana S.A.	7,421	8,055	76,741	98,139	167,484
Gas Natural BAN S.A.	6,293	12,740	61,162	78,015	123,599
Petrobras Energía	2,841	6,363	25,127	30,661	46,256
Camuzzi Gas del Sur S.A.	1,622	12,444	16,855	21,397	34,418
Profertil	1,188	1,249	11,466	14,804	28,964
Repsol-YPF	1,131	1,072	10,735	14,979	18,834

The principal customers in the NGL production and commercialization segment are Polisur S.A., Petrobras International Finance Company (Petrobras) and Repsol-YPF. The amounts of trade receivables as of December 31, 2003 and 2002, and net revenues to these customers for the years ended December 31, 2003, 2002 and 2001 are as follows:

NGL Production and Commercialization:	Trade receivables		Net revenues		
	2003	2002	2003	2002	2001
Petrobras	16,222	22,832	286,105	212,603	19,659
Polisur S.A.	12,257	12,926	141,111	59,200	67,429
Repsol- YPF	3,036	3,243	17,106	26,900	17,505
RYTTSA					46,915

4. SUPPLEMENTAL CASH FLOW INFORMATION

In the preparation of the consolidated statements of cash flows, cash and cash equivalents include investments with original maturities of three months or less. The Company uses the indirect method, which requires a series of adjustments to reconcile net income (loss) for the year to net cash flows from operating activities.

Cash and cash equivalents at the end of the year are as follows:

	At December 31,		
	2003	2002	2001
Cash and deposits in banks	12,234	6,779	11,820
Current investments, net	664,149	202,703	117,215
Current investments with original maturity longer than three months	(3,615)	(4,520)	

	_____	_____	_____
Total	672,768	204,962	129,035

Non-cash transactions are as follows:

	At December 31,		
	2003	2002	2001
	_____	_____	_____
Supplier financing	7,767	24,615	14,977
Compensation of tax debt with tax credits	47	989	
Capitalization of exchange loss	(391,318)	646,842	

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5. LOANS

As a consequence of the withdrawal of the Restructuring Proposal (described below) and the postponement of interest payments, both announced by TGS on May 14, 2003, its outstanding indebtedness is no longer classified according to its original maturities. A substantial portion of TGS's indebtedness has been re-classified as current loans in its balance sheets as December 31, 2003 and 2002 since, deriving from the financial agreements entered into between TGS and its creditors, such obligations might become callable.

Detailed information of the Company's consolidated debt profile as of December 31, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
<i>Current Loans:</i>		
CIESA US\$220 million notes , Negotiable Obligations due in 2002 (interest rates 5.54 %)	722,600	793,860
Inter-American Development Bank (IDB) Loans due through 2011 (interest rates between 5.15% and 10.19%)	1,062,871	1,106,750
1999 EMTN Program: Series 1 Floating rate notes due 2003, (current interest rate of 4.4%)	468,527	509,549
1999 EMTN Program: Series 2 Floating rate notes due 2003, (current interest rate of 10.38%)	472,559	520,395
2000 EMTN Program: Series 1 Floating rate notes due 2006, (current interest rate of 3.33%)	618,837	687,098
1993 EMTN Program: Series 3 Floating rate notes due 2002,(current interest rate of 3.41%)	300,993	339,912
Leases (rates from 7.65% and 9.00%)	2,818	1,668
Other bank borrowings (average rate of 7.29%)	318,637	371,462
	<hr/>	<hr/>
Total current loans	3,967,842	4,330,694
<i>Non-current loans:</i>		
Leases (rates from 7.65% and 9.00%), due through 2008	7,548	2,445
Total non-current loans	7,548	2,445
	<hr/>	<hr/>
<i>Total loans</i>	<u>3,975,390</u>	<u>4,333,139</u>

A description of the most significant financial agreements outstanding at December 31, 2003 is included below:

Debt issuances under Global Programs:

1997 CIESA's Floating Rate Notes

At CIESA Shareholders Meeting held on December 13, 1996, the issuance of US\$ 220 million notes (under the form of Negotiable Obligations in Argentina) was approved. Notes were issued on April 22, 1997. As the debt is due, interest is calculated based on a monthly LIBOR plus an annual rate of 4.40%. The CNV and the Bolsa de Comercio de Buenos Aires (BCBA) have authorized the trading of the notes. Proceeds from this issuance were used to cancel a US\$ 220 million loan granted on May 20, 1996 by a group of banks led by Société Générale, Supervielle Société Générale and Goldman, Sachs & Co. The amortization of the notes should have been made in a single installment on April 22, 2002.

As a result of the negative impact that the recent economic events in Argentina have produced on CIESA's financial condition, discussed in Note 2.a, CIESA defaulted the payment of principal and interest due to under the above mentioned agreement, as well as the cap and collar agreements described below. CIESA's management continues with negotiations with its creditors with the purpose of obtaining an extension of the payment terms. In connection with these renegotiations, the Settlement Agreement (see Note 1) is expected to enhance corporate and operations restructuring and will provide greater flexibility for the progress of debt restructuring.

1993 EMTN Program

At TGS Shareholders Meeting held on August 27, 1993, the

establishment of a Global Program for the issuance of short and medium Term Notes (Eurocommercial Papers (ECP) and Euro Medium-Term Notes (EMTN), respectively) was approved (the 1993 EMTN Program). The 1993 EMTN Program allowed an aggregate notional outstanding amount at any given time of US\$ 350 million. At TGS 's Shareholders Meeting held on March 6, 1996, the maximum amount of the 1993 EMTN Program was increased to US\$ 500 million. The 1993 EMTN Program had been approved by the Bolsa de Comercio de Buenos Aires (BCBA) and the CNV.

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The outstanding Series 3 Notes under the 1993 EMTN Program as of December 31, 2003 consist of five-year registered notes for an aggregate amount of US\$ 100 million bearing interest at six-month LIBOR plus 0.65% through the first year, stepping up to 0.85% in the fifth year. The notes were authorized for trading in the BCBA. Net proceeds from the placement were used for debt refinancing, to finance capital expenditures and for working capital needs. The original maturity of debt principal was scheduled for December 18, 2002. As agreed between TGS and its creditors, the maturity date was extended until March 18, 2003 at a 3.41% cost per annum. At such date, TGS paid accrued interest. Since that date, no principal or interest has been paid on the Series 3 Notes, which principal due under the agreement was included in the Restructuring Proposal, as described below.

1999 EMTN Program:

TGS 's Shareholders Meeting held on February 17, 1999 ratified the authorization given at the TGS Shareholders Meeting held on February 17, 1998 for the creation of a new US\$ 500 million Global Program (the 1999 EMTN Program), to replace the 1993 EMTN Program which expired at the end of 1998. The CNV, the BCBA and the Luxembourg Stock Exchange have authorized the 1999 EMTN Program. The outstanding notes under the 1999 EMTN Program as of December 31, 2003 consist of the following:

Series 1: Medium-term (3 years) registered notes in an aggregate principal amount of US\$ 150 million that were scheduled to mature in a single payment on March 27, 2003. The notes bore interest at 30, 60, 90 or 180-day LIBOR, at TGS 's choice, plus 2.25% through the first year, stepping up to 3% in the third year. Net proceeds from this transaction were applied to refinance the issuance under the 1997 Global Program, created in February 1997 for a term of 36 months and whose last issuance was cancelled on March 27, 2000. On the maturity date of the Series 1 Notes, TGS paid accrued interest and included the principal in the Restructuring Proposal, as described below.

Series 2: Medium-term (3 years) registered notes in an aggregate principal amount of US\$ 150 million, issued at a price of 99.694%, that were scheduled to mature in a single payment on April 15, 2003. The notes bore interest at an annual fixed rate of 10.38%, payable semi-annually. The Luxembourg Stock Exchange, the BCBA and the Mercado Abierto Electrónico authorized the public trading of this issuance. Net proceeds from this transaction were exclusively used to prepay and partially refinance the second issuance under the 1996 Global Program, which matured in June 2000. On April 15, 2003, the date of the maturity of the notes, TGS paid accrued interest and the principal was included in the Restructuring Proposal, as described below.

2000 EMTN Program:

TGS Shareholders Meeting held on February 22, 2000, approved the creation of a new Global Euro Medium-Term Note Program (the 2000 EMTN Program) for the issuance of short and medium-term notes up to an aggregate outstanding amount of US\$ 300 million, in order to replace the Global Program created in 1997. The CNV, the BCBA and the Luxembourg Stock Exchange have authorized this program.

The outstanding note under the 2000 EMTN Program as of December 31, 2003, is a medium-term (5 years) registered note in an aggregate principal amount of US\$ 200 million with final maturity on April 24, 2006,

which was privately placed (the OPIC Note). Debt would be paid in five equal semi-annual installments with a 36-month grace period. The note bears interest at LIBOR, plus 1.955% annual, payable quarterly. The note was acquired by the financial trust Titan TGS 2001 and is the underlying asset of the Class A and B notes issued by such trust. The class A notes are covered by an insurance provided by the Overseas Private Investment Corporation (OPIC) that covers risk of non-convertibility of local currency, transfer restrictions imposed by the government and expropriation, in each case, if certain conditions are met. Proceeds from this transaction were applied to finance the investment plan for the period 2001-2003.

TGS paid interest accrued until April 24, 2003. Since that date, no interest has been paid on the OPIC Note. The accrued and unpaid interest and the principal of the OPIC Note have been included in the Restructuring Proposal, as described below.

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IDB loans:

In April 1999, TGS received funds from an IDB loan agreement, for a total amount of US\$ 226 million (the April IDB Loan Agreement). The April IDB Loan Agreement matures in 12 years, with a five-year grace period that results in an eight and a half-year average life. The April IDB Loan Agreement is structured through an A loan disbursement of US\$ 50 million which is funded by the IDB and a B loan disbursement totaling US\$ 176 million which was raised through a private placement to foreign investors. IDB is the lender of record and administrator for both A and B loans disbursements. The transaction was priced at 450 basis points over an average US Treasury bond interest rate settled at 5.15% (for US\$ 200 million) and at 375 basis points over LIBOR (for the remaining US\$ 26 million). Proceeds from the transaction were utilized in financing part of the capital expenditures over the period 1998-2002 associated with expansions and enhancements of the gas transportation, NGL production and commercialization and other services activities.

Additionally, in November 1999, TGS received a loan which totals US\$ 100 million pursuant to another IDB loan agreement (the November IDB Loan Agreement). The November IDB Loan Agreement matures in eleven and a half years, with a four and a half-year grace period and an eight-year average life. The November IDB Loan Agreement is structured through an A loan disbursement of US\$ 25 million which is funded directly by the IDB and a B loan disbursement of US\$ 75 million which was raised through a private placement to foreign investors. The transaction was priced at 420 basis points over an average US Treasury bond interest rate settled at 5.99%. Proceeds from the transaction were utilized in financing part of the capital expenditures over the period 1999-2002 associated with expansions and enhancements of the gas transportation, NGL production and commercialization and other services activities.

TGS did not pay accrued interest on both loan agreements due on May 15, 2003. Both accrued and unpaid interest and principal were included in the Restructuring Proposal, as described below.

Other bank borrowings:

Other bank borrowings include credit lines granted by the Export Import Bank of the USA (Eximbank) payable over five years in semi-annual installments accruing interest at 180-day LIBOR plus 0.20% or 0.40% annually depending on the credit line. As of December 31, 2003 and 2002 the current principal outstanding amounted to Ps. 23,580 and Ps. 27,880, respectively.

TGS included unpaid principal and interest payments in the Restructuring Proposal, as described below.

Covenants:

According to the conditions of the 1997 CIESA s Floating Rate Notes issuance mentioned above, the Company was obliged to comply with restrictive covenants, which include, among others , the following:

- i) Restrictions to create liens: as long as any note issued

remained outstanding, the Company was not allowed to create any lien securing debt assumed after April 22, 1997, which in the aggregate exceeded US\$ 10 million unless the lien was confined solely to finance, in full or in part, the purchase or construction of the assets so encumbered.

- ii) Restrictions on the level of indebtedness: CIESA's consolidated debt may not exceed 60% of the sum of such consolidated debt plus the difference between its consolidated assets and liabilities.
- iii) Interest coverage ratio: consolidated net income before interest expense, income tax, depreciation and amortization could not be lower than 2.5 times consolidated interest and rental expenses.
- iv) CIESA was bound to maintain the direct control of at least 51% of TGS's voting shares.

Additionally, TGS's debt agreements described above included certain covenants, which as a result of the devaluation of the Argentine peso and TGS's current financial condition, were breached and are proposed to be amended in the Restructuring Proposal described below. Such covenants included, among others, the following:

- i) restrictions to create liens: as long as any note issued remained outstanding, TGS could not encumber its assets or its present or future revenues with debt incurred which in the aggregate exceeds US\$ 10 million or US\$ 20 million

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depending of each global program, unless the TGS financed, in full or in part, the purchase or construction of the assets so encumbered.

- ii) restrictions on the level of indebtedness: as of the closing date of annual and/or interim financial statements, debt assumed by TGS could not exceed 60% or 65% (as applicable, according to the respective TGS's Global Program) of the sum of total debt plus shareholders' equity. Additionally, under the IDB loan agreement, debt assumed by TGS could not exceed 65% of the sum of total debt plus shareholders' equity, minus intangible assets, deferred issuance discounts and other similar to them.
- iii) restrictions on the EBITDA (defined as earnings before net financial expense, income tax, depreciation and amortization) to Net financial expense ratio: this ratio could not be less than 2.5 in any moment.

TGS's Global Debt Restructuring Proposal

On February 24, 2003, TGS initiated a restructuring proposal, which was aimed at restructuring substantially all of its outstanding indebtedness, amounting to approximately US\$ 1,027 million (the Restructuring Proposal). The Restructuring Proposal was a consequence of the negative impact on TGS's financial condition and results of operations caused by the significant changes in the Argentine economy in late 2001 and early 2002. Such changes jeopardized TGS's ability to generate cash required to service and pay its outstanding debt obligations, including US\$ 492 million due in 2003.

The primary goals of the Restructuring Proposal are to eliminate the concentration of maturities over the short term, to amend and/or renegotiate certain covenants of TGS's existing debt obligations, which were breached as discussed above, and to adjust the interest rate and amortization schedule to align TGS's debt service to its expected future operating cash flow.

The Restructuring Proposal would be implemented by means of an out-of-court renegotiation agreement, or Acuerdo Preventivo Extrajudicial (APE), a new feature introduced under the Argentine law in 2002, which permits TGS to implement a restructuring of its debt obligations with respect to all creditors included in the Restructuring Proposal if, among other requirements, creditors representing two-thirds of the agreement principal amount of such debt obligations agree to the terms of the Restructuring Proposal and such agreement is endorsed by a court.

Pursuant to the Restructuring Proposal, TGS called a note holders' meeting held (on second call) on April 11, 2003 at which TGS sought the approval of the Restructuring Proposal, which in aggregate represented approximately US\$ 600 million of TGS's debt. The Restructuring Proposal presented by TGS was consented to by holders of notes representing the following amounts: (i) US\$ 73 million at the meeting of the Series 1 Notes under the 1999 EMTN Program, the outstanding principal amount of which is US\$ 150 million, (ii) US\$ 81 million at the meeting of the Series 2 Notes under the 1999 EMTN Program, the outstanding principal amount of which is US\$ 150 million and (iii) US\$ 65 million at the meeting of the Series 3 Notes under the 1993 EMTN Program, the outstanding principal amount of which is US\$ 100 million. The meeting in respect to the OPIC Note, the outstanding principal amount of which is US\$ 200 million, was not held due to lack of quorum.

Despite the consent received at the note holders' meeting, TGS nonetheless failed to achieve the Requisite Majorities as required by Argentine Law in order to file the APE for endorsement. Therefore, on May 14, 2003 TGS decided to withdraw the Restructuring Proposal and simultaneously announced the postponement of interest payments. If TGS does not agree to a restructuring with its creditors, certain long-term debt obligations, which have not otherwise previously matured may become due upon acceleration. Such an event will further deteriorate TGS's financial condition. As a consequence of the withdrawal of the Restructuring Proposal, TGS has reclassified its outstanding long-term debt obligations as Current Loans in its consolidated balance sheet as of December 31, 2003 and 2002. In addition to this reclassification of a significant portion of its long-term debt, TGS has made an accrual of default interest on its debt obligations that require a demand for payment of such default interest, which demand has not been made, in order for such interest to be due and payable.

At the date of issuance of these consolidated financial statements, TGS is still negotiating the Restructuring Proposal with its major creditors to achieve the restructuring of its indebtedness and to align TGS' debt service to its expected operating cash flow.

Derivative financial instruments:

Interest rate caps

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As of December 31, 2003, TGS had outstanding interest rate cap agreements with major financial institutions to manage the impact of the floating interest rate changes on the US\$ 200 million OPIC Note issued under the 2000 EMTN Program.

In July 2001, TGS entered into interest rate cap with knock-out agreements associated with the OPIC Note issued under the 2000 EMTN Program, pursuant to which TGS set the 3-month LIBOR at an annual cost of 5.25%, in the event that such rate fluctuates between 5.25% and 8% annually. However, in the event LIBOR at the beginning of any interest period is equal to or greater than 8%, TGS will pay LIBOR that is in effect for such interest period. These agreements have an aggregate notional amount of US\$ 200 million and mature on April 24, 2006. Amortization of the above mentioned issuance is in five semi-annual installments starting April 24, 2004 and matches the amortization schedule of the interest rate agreements. Premiums paid by TGS amounted to US\$ 2.9 million. As of December 31, 2003 the fair value of the investments amounted to US\$ 64 thousand based on information provided by the financial institutions with which the hedging agreements were entered.

The cost of the derivative financial instruments described above was recorded as an intangible asset and until December 31, 2002 was amortized in line with the remaining term of the OPIC Note. During the year ended December 31, 2003, the mentioned agreements have not generated results due to the fact that the LIBOR remained below an annual rate of 5.25%. Based on the current and future expected level of LIBOR, TGS decided that the derivative is no longer effective to cover the risk of interest rate fluctuation and, consequently, the difference between the unamortized portion of the premium paid at inception and its fair value (included in Other Current Receivables) was charged to expense during the year ended December 31, 2003. Such difference amounted to Ps. 3.4 million and was included within the Net Financial Expense line item in the consolidated statement of income.

In August 2000, the Company entered into interest rate cap and collar agreements with major financial institutions to set the three-month LIBOR applicable to the US\$ 220 million Negotiable Obligations mentioned above. Through the cap agreement, the Company set the three-month LIBOR at an annual cost of 7% for US\$ 66 million. Therefore, if during any three-month period the level of the mentioned rate is lower than 7% per annum, the Company will pay the effective three-month LIBOR of the period. On the other hand, through the collar agreements, the Company set the three-month LIBOR at an annual cost of 7.35% for US\$ 154 million if in any three-month period the level of this rate is higher than 7.35%. However, if during any period the average level of the mentioned rate is lower than 6.64% per annum, the Company will have to pay 6.64% for such period. These agreements were effective from October 18, 2000, to April 22, 2002.

Currency and interest-rate swap to hedge foreign currency debt

On January 26, 2000, TGS entered into a currency and interest-rate swap agreement with Bank of America to effectively convert its 0.6 billion Yen-denominated six-month LIBOR plus 1.125%-interest-rate debt (included in other bank borrowings) to U.S. dollar-denominated six-month LIBOR plus 1.36%-interest-rate debt for a notional amount of US\$ 6.1 million which matured on January 28, 2002. The notional amount of this derivative instrument did not represent an asset or liability to TGS, but rather, was the basis for the settlements under the

contract terms. Although, this agreement was denominated in U.S. dollars, it was intended to protect TGS from the fluctuations in the exchange rate between the Argentine Peso and the Yen, considering the Convertibility Law in effect at the inception date.

Foreign currency forward-exchange contracts

During the year ended December 31, 2001, in order to provide a protection against the effects of foreign currency fluctuations on Yen-denominated short-term debts (included in other bank borrowings), TGS entered into two foreign currency forward-exchange contracts with Banco Bilbao Vizcaya Argentaria to buy an aggregate amount of 1.8 billion Yen maturing in June and September 2002. Although these agreements were denominated in U.S. dollars, they were intended to protect TGS from the fluctuations in the exchange rate between the Argentine Peso and the Yen, considering the Convertibility Law in effect at the inception date.

Interest rate lock agreements

In 1998, TGS entered into two treasury interest rate lock agreements with a notional amount of US\$ 200 million associated with the IDB loan, pursuant to which TGS locked in the rate on the US Treasury Bond at a cost between 5.66% and 5.89%. TGS settled one of the agreements in February 1999 for an amount of US\$ 100 million and the other for US\$ 100 million in

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two installments in March and April 1999. In settlement of these agreements, TGS made payments totaling US\$ 11 million in March and April 1999. The settlement cost of these agreements was recorded as intangible assets in the accompanying consolidated balance sheets and is being amortized over the term of the loan agreement.

In addition, TGS entered into a hedge transaction, which locked in the rate on the 5-year US Treasury Bond at 5.62%. The hedge transaction was entered into in contemplation of a US\$ 200 million debt issuance based on the 5-year US Treasury rate to refinance the first issuance of notes under the 1993 EMTN Program. Given the instability in the capital markets, TGS made the second issuance under the 1996 Global Program amounting to US\$ 200 million and with an 18-month maturity. Consequently, the approximate US\$ 8 million cost of the hedge agreement settled in January 1999 (recorded as financing cost in intangible assets) was amortized over such period.

6. REGULATORY FRAMEWORK

a) General framework and current tariff context:

TGS's natural gas transportation business is regulated by Law No. 24,076 (the Natural Gas Act), its regulatory decree No. 1738/92 and by regulations issued by ENARGAS, which is entitled, among other things, to set the basis for the calculation of, monitor and approve tariffs. According to such regulatory framework, the transportation tariffs should be calculated in US dollars and converted into Argentine pesos as of the billing date. The basic gas transportation tariffs charged by TGS were established at the privatization and could be adjusted, with prior authorization, in the following cases: (i) semi-annually to reflect changes in the US producer price index (PPI) and (ii) every five years according to efficiency and investment factors determined by ENARGAS. The efficiency factor is a reduction to the base tariff resulting from future efficiency programs while the investment factor increases the tariffs to compensate for future investments. Also, subject to ENARGAS approval, tariffs could be adjusted to reflect non-recurrent circumstances or tax changes, other than income tax.

The terms mentioned above in connection with tariff adjustments contemplated within the regulatory framework are no longer effective since the approval of the Public Emergency Law in early 2002 (the Emergency Law), which among other provisions eliminated tariff increases based on US dollar exchange rate fluctuations, foreign price indexes or any other indexing procedure and established a conversion rate of one peso to one US dollar for tariffs. The Emergency Law also granted the Executive Branch power to renegotiate contracts entered into with private utility companies, pursuant to the framework included in the Emergency Law. However, since early 2002 and so far up to the date of issuance of these consolidated financial statements no progress has been made in the renegotiation of the contracts nor have tariffs been readjusted in spite of several attempts by the Executive Branch to grant partial tariff increases. These tariff increases were suspended by Court decisions on legal actions filed by consumer organizations and the Ombudsman, on the grounds that tariff increases were illegal until the contract renegotiation process was completed.

In July 2003, the Unit for Renegotiation and Assessment of Utilities Contracts (UNIREN) was created under the joint jurisdiction of the Ministries of Economy, Production, Federal Planning, Public Investment and Utilities. This new unit will conduct the renegotiation process of the contracts related to utilities and public

works, and is entitled to reach total or partial agreements with the licensees and submit projects regulating the transitory adjustment of tariffs and prices, among other things. No progress was made in the renegotiation process until December 2003, when the UNIREN and TGS discussed preliminary documents, including (i) the renegotiation guidelines, which determined the preparation of an agenda and a schedule for its discussions, (ii) a draft agenda was outlined in order to deal with main issues such as costs, investment programs and financing, rates of return and tariffs, etc. and (iii) a schedule was settled for the renegotiation of the regulatory framework. The deadline for the adjustment of the regulatory framework with the approval of the National Congress was set for the end of 2004.

The Executive Branch , through Decree No 180/04, among other measures, established the creation of a Gas Electronic Market (MEG) with the purpose of improving the transparency of financial and operating performance, the coordination of daily transactions both of the gas spot and the transportation and distribution secondary markets along with the shaping of efficient prices through offer and demand free interaction. To that purpose, all firm transportation capacity non-allocated for the following day shall be marketed through the MEG and the proceeds from that capacity sale will be used at the Energy Bureau s criteria. Non-allocated capacity includes remaining capacity not used in any of the transportation systems or pipelines. This implies that TGS is bound to offer daily non-allocated capacity that complies with this condition in the MEG, which might have a material impact on TGS ´s interruptible transportation revenues.

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The NGL production and commercialization and other services segment are not regulated by ENARGAS, and as provided in the Transfer Contract, are organized as divisions within TGS and maintain separate accounting information.

The License stipulates, among other restrictions, that TGS may not assume debts of CIESA, or grant credit, encumber its assets or grant any other benefit to CIESA's creditors.

b) PPI adjustment suspension

As from January 1, 2000 adjustments to tariffs to reflect PPI variations were suspended, firstly through an agreement with the Federal Executive Branch and later by a Court decision arising from a lawsuit started to determine the illegality of tariff adjustment through indexes. In light of this situation, TGS continued recording the higher incomes derived from semi-annual PPI increases until December 31, 2001. However, since the approval of the Emergency Law, TGS deemed that tariff adjustment to reflect PPI which was legitimate according to the Regulatory Framework agreed upon the privatization had turned out unlikely, as the possibility of its recovery was subject to future events beyond the control of TGS. Therefore, in 2001, TGS recorded a loss of Ps. 126,705 related to the deferral of semi-annual PPI adjustments accrued during 2000 and 2001, and as from 2002 discontinued the mentioned accrual. This does not mean that TGS waives the rights and the actions it is entitled to under the regulatory framework. Such rights and actions will be maintained and exercised in every legal and administrative instance including the renegotiation process under the Law N° 25,561.

c) Essential assets:

A substantial portion of the assets transferred by GdE has been defined as essential for the performance of the gas transportation service. Therefore, TGS is required to segregate and maintain these assets, together with any future improvements, in accordance with certain standards defined in the License.

TGS may not, for any reason, dispose of, encumber, lease, sublease or loan essential assets nor use such assets for purposes other than providing the licensed service without the prior authorization of ENARGAS. Any expansion and improvement that TGS may make to the gas pipeline system after the takeover may only be encumbered to secure loans that have a term of more than one year to finance new expansions and improvements to the licensed service.

Upon expiration of the License, TGS will be required to transfer to the Argentine Federal Government or its designee, the essential assets listed in the updated inventory as of the expiration date, free of any debt, encumbrance or attachment, receiving compensation equal to the lower of the following two amounts:

- i) the net book value of the essential assets determined on the basis of the price paid by the acquiring joint venture, and the original cost of subsequent investments carried in US dollars and adjusted by the PPI, net of accumulated depreciation according to the calculation rules to be determined by ENARGAS; or

ii) the net proceeds of a new competitive bidding.

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7. COMMON STOCK AND DIVIDENDS

a) General

The Company was incorporated on December 14, 1992 with a common stock of Ps. 12, and was registered with the Public Register of Commerce on December 21, 1992.

Capital contributions made by the owners to acquire 70% of TGS common stock, was initially recorded as an irrevocable capital contribution against future share subscriptions. As disposed by an Extraordinary Shareholders Meeting held on December 20, 1993, such contribution was thereafter capitalized as ordinary and preferred shares for 286,511 and 204,846 shares, respectively. The capital increase and the amendments to TGS's by-laws were registered with the Public Register of Commerce on May 2, 1994. On February 24, 1994, the Extraordinary Shareholders Meeting approved the capitalization into ordinary shares of an irrevocable capital contribution against future share subscription amounting to Ps. 21,900 (face value) and the partial conversion into ordinary shares of Ps. 1 nominal value and right to one vote per share of 65,700 preferred shares, effective January 24, 1994. The capitalization was registered with the Public Register of Commerce on October 26, 1994.

The Company's Extraordinary Shareholders Meeting held on November 16, 1994 approved the redemption of the remaining 139,146 outstanding preferred shares. Such redemption was registered with the Public Register of Commerce on May 10, 1995.

The Company's Extraordinary Shareholders Meeting held on November 26, 1999 approved a voluntary common stock reduction up to a nominal value of Ps. 75,203, in proportion to each shareholder's interest in TGS, representing 75,203,177 shares of Ps. 1 nominal value each (38,353,619 class A common shares and 36,849,558 class B common shares). In such meeting a reimbursement amount of Ps. 101,066 was settled based on book value (equity method) as of September 30, 1999 payable through the 100% transfer of TGS's shareholdings in CIESA Inversora S.A. and Enron de Inversiones de Energía S.A. and the remainder, through a partial transfer of TGS Class B shares. In addition, TGS shareholders authorized the Board of Directors to decrease the amount of such common stock reduction.

On December 28, 1999, considering the decision adopted in such Extraordinary Shareholders Meeting, CIESA's Board of Directors decreased the amount of the common stock reduction to a nominal value of Ps. 61,954 representing 61,954,364 shares of Ps. 1 nominal value each (31,596,726 class A common shares and 30,357,638 class B common shares) effective October 1, 1999. A reimbursement amount of Ps. 83,261 was settled based on book value (equity method) as of September 30, 1999, payable through the 100% transfer of TGS's shareholdings in CIESA Inversora S.A. and Enron de Inversiones de Energía S.A. and the remainder, through a transfer of 34,750,616 TGS class B common shares, in proportion to each shareholder's interest in TGS. The mentioned common stock reduction and the amendments to TGS's by-laws were registered with the Public Registry of Commerce on March 2, 2000. After this TGS shares transfer, CIESA held a shareholding interest in TGS of approximately 62.35%.

In addition, the Extraordinary Shareholders Meeting held on January 12, 2000, approved a new voluntary common stock reduction amounting to a nominal value of Ps. 86,193, representing 86,193,406 shares of Ps. 1 nominal value each, in proportion to each shareholder's interest in TGS. A reimbursement amount of Ps. 115,836 was settled based on book value (equity method) as of September 30, 1999. In such meeting, the shareholders resolved to perform the reduction in various stages: the first one up to a nominal value of Ps. 79,088, in proportion to each shareholder's interest in TGS, representing 79,087,983 shares of Ps. 1 nominal value each. A reimbursement amount of Ps. 106,287 was settled based on book value (equity method) as of September 30, 1999, payable through the transfer of up to 82,767,490 TGS class B common shares. Also, in such Shareholders Meeting the Board of Directors was authorized to: (i) reduce the nominal value of the first stage of the common stock reduction, (ii) define the amount and time of future stages, in proportion to each shareholder's interest in TGS, provided that the total amount of the common stock reduction do not exceed the Ps. 86,193 face value, as approved by TGS's shareholders.

On February 7, 2000, considering the decision adopted by the Extraordinary Shareholders Meeting held on January 12, 2000, CIESA's Board of Directors approved, effective January 1, 2000, the first stage of the second voluntary common stock reduction for a nominal amount of Ps. 53,310, representing 53,310,421 shares of Ps. 1 nominal value each (27,188,315 class A common shares and 26,122,106 class B common shares) in proportion to each shareholder's interest in TGS, a reimbursement amount of Ps. 74,629 was settled based on book value (equity method) as of December

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31, 1999, payable through the transfer of 56,070,288 TGS class B common shares. The common stock reduction represented an approximately 17% decrease thus reducing in equal proportion the rest of the accounts of TGS's shareholders equity. The mentioned common stock reduction and the amendments to TGS's by-laws were registered with the Public Registry of Commerce on March 23, 2000. After the latter TGS shares transfer, CIESA reduced its shareholding interest in its controlled company to approximately 55.30%.

On May 26, 2003, CIESA's Board of Directors approved an irrevocable capital contribution in cash against future shares subscriptions, amounting to Ps. 861 in proportion to the stock owned by each shareholder, which was totally paid in. This contribution was ratified by CIESA's Shareholders Meeting held on April 2, 2004.

Furthermore, CIESA's Shareholders Meeting held on April 2, 2004 also approved an irrevocable capital contribution in cash against future shares subscriptions amounting to Ps. 1,170 in proportion to the stock owned by each shareholder, which was totally paid in March 2004.

As of December 31, 2003, CIESA's common stock subscribed, paid in and issued is composed of:

Classes of stock

Common stock, nominal value Ps. 1 per share, one vote per share

Class A common shares	132,017,627
Class B common shares	126,840,468
	<hr style="width: 100%;"/>
Total common shares	258,858,095
	<hr style="width: 100%;"/>

b) Limitation on the transfer of CIESA's shares

The Bid Package for the privatization of GdE (the Bid Package)

stipulates that prior authorization of ENARGAS shall be required in the following instances:

Transfer of class A common shares representing 51% of the common stock unless such transfer is made within companies belonging to the same economic group.

When any shareholder of TGS has qualified due to the shareholders' equity, guarantee and/or technical background of its parent company and the latter sells its shares to other shareholders, or the current management is discontinued.

Any other corporate action implying a reduction in ownership interest.

c) Limitation on the transfer of TGS shares

In case TGS wishes to reduce its common stock, redeem its shares or distribute any part of its equity, except for the dividends payment in accordance with the provisions of the Argentine Business Associations Law, it should require prior authorization from ENARGAS.

Prior approval of ENARGAS and the unanimous approval of CIESA's shareholders under subscribed agreements among them must be obtained for the transfer of TGS common shares if such sale reduces CIESA's shareholding below 51% of TGS capital stock (Class A shares). The Bid Package states that ENARGAS's approval will be granted, provided that:

The sale covers 51% of TGS common stock or, if the proposed transaction is not a sale, the act of reducing the shareholding will result in the acquisition of a shareholding of not less than 51% by another investor company (the applicant).

The applicant provides evidence to the effect that the transaction will not impair the operating quality of the licensed service.

The breach of any of the restrictions mentioned above shall result in the termination of the License.

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TGS is obligated to maintain the authorization to offer its common stock to the public and the corresponding authorization for the shares to be listed on the Argentine Republic's authorized securities markets for a minimum period of fifteen years from the respective dates on which such authorizations were granted.

The Argentine Government initially held a 27% shareholding in TGS represented solely by Class B shares. A substantial part of such shares was sold in 1994 through a local and international public offering. Outside Argentina, the shares were offered under the form of American Depositary Shares (ADSs) representing five shares each. The ADSs issued in the United States of America are SEC registered and traded on the New York Stock Exchange. The Government's remaining TGS shares, representing approximately a 2% shareholding in TGS, was sold to local and foreign investors during 1996.

d) Dividend distribution

The Company's Annual Ordinary Shareholders' Meeting, held on March 2, 2001 constituted a Voluntary Reserve of Ps. 31,216 for future dividends—the distribution, timing and amount of which was entrusted to the Board of Directors. Thus, on April 3, 2001 the Board of Directors approved a dividend distribution amounting to Ps. 31,216, which was paid in April 2001.

For the fiscal year ended December 31, 2001, the Board of Directors meeting held on December 27, 2001, approved a cash dividend amounting to Ps. 24,841, which was paid in advance in October 2001, based mainly on 2001 first half earnings. The Annual Ordinary Shareholders' Meeting held on May 14, 2002 approved the distribution mentioned above.

e) Restrictions on retained earnings

Under current Argentine legal requirements and CNV standards, 5% of each fiscal year's net income must be appropriated into a legal reserve, provided that there is no unappropriated retained deficit. In such case, the 5% should be calculated on any excess of the net income over the unappropriated retained deficit. This appropriation is legally binding until such reserve equals 20% of the amount which results from the sum of the Common stock nominal value and the balance of Cumulative inflation adjustment to common stock.

TGS by-laws provide for the issuance of Profit Sharing Vouchers, as defined in Article 230 of the Argentine Business Associations Law, payable to all regular employees so as to distribute 0.25% of the net income of each year among them. An accrual for this expense has been recorded in the account Payroll and social security taxes payable.

8. LEGAL AND REGULATORY MATTERS

- a) In April 1996, GdE filed a legal action against TGS for Ps. 23 million, which is the amount GdE claims as a reimbursement for the cost of construction of two compressor plants currently in operation on TGS's pipeline. TGS had denied such claim on the grounds that it owes no money to GdE as it acquired rights to these compressor plants as a part of its overall purchase of the pipeline assets in the 1992 privatization. At the end of February 2000, a first judgment was pronounced upholding GdE's claim for Ps. 23 million plus interest

(calculated at the passive rate set by the Argentine Central Bank Circular 14,290 from the date GdE paid the above-mentioned purchase orders) and litigation expenses. In August 2001, the Chamber of Appeals partially confirmed the first judgment and ordered TGS to pay the fair value of such plants based on an expert assessment to be performed. TGS has recorded such plants as Property plant and equipment, net, valued at Ps. 4.3 million based on the replacement cost of similar compressor equipment. The Chamber of Appeals has decided to defer the payment of the litigation expenses until the compressor plants' fair value resulting from the expert assessment is determined. In October 2001, TGS filed an ordinary and extraordinary appeal before the Supreme Court of Justice (SCJ) against such judgment. In August 2003, the SCJ sustained GdE's claim and ordered TGS to pay the market price of the compressor plants at the date in which they were added to TGS assets (amount to be determined by a court appointed expert) plus interest and litigation expenses. At the date of issuance of these consolidated financial statements, TGS has recorded an accrual based on its own best estimates until the final assessment is prepared.

On January 14, 2004, TGS signed an agreement with ENARGAS, the Energy Bureau and UNIREN through which TGS will carry out the expansion of the Cordillerano Pipeline. The cost of the expansion will be recorded on account of the final amount to be paid as determined by the expert's assessment. The Argentine Government will own such assets, and an

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agreement will be entered into to grant the right of use of the assets to TGS, that will have to operate and maintain such assets until expiration of the License.

- b) As of the date of issuance of these consolidated financial statements, GdE directly or through ENARGAS, has not fulfilled the obligations set forth in the Transfer Agreement and in the License in accordance to which it is responsible, during the five-year period ending on December 31, 1997, for the registering of the easements relating to the transferred pipeline system which have not yet been properly registered, and for related payments to property owners of any required easements. In order to fulfill its capital expenditures program related to the system integrity and public safety required by the License, TGS has entered into easement agreements with certain landowners and paid related amounts. Consequently, TGS filed a claim against GdE to recover the amounts paid.

On October 7, 1996, the Executive Branch, through Decree No. 1,136/96, created a contribution fund, as specified in the License, to assume GdE's obligations for paying easements and any other compensation to land owners for an initial five-year period, beginning with the privatization and ending on December 28, 1997. ENARGAS manages the above-mentioned fund, which is financed by a special charge included in the transportation rates and reimbursed to ENARGAS. TGS has filed against GdE-ENARGAS an administrative claim requesting reimbursement for the amounts paid in connection with easements related to facilities existing prior to December 28, 1992. In December 1997, ENARGAS declared that it would allow the reimbursement of the useful expenses, as determined by the Government, derived from easements. As of December 31, 2003 the amount of such reimbursement (approximately Ps. 4.2 million) was recorded within Other non-current receivables. TGS expects to fully recover the amounts paid, based on its rights derived from the License.

In connection with the easements payable starting January 1, 1998, TGS is negotiating with ENARGAS for the recovery of amounts paid through increases in the transportation rates. TGS expects, based on its rights, to fully recover the amounts recorded in this connection.

- c) TGS received claims from the Tax Bureau of the Neuquén, Río Negro, La Pampa, Chubut and Santa Cruz Provinces, for the collection of stamp tax, according to the interpretation of such Provinces, on gas transportation contracts and services offer letters between TGS and its shippers and other contracts subscribed during the privatization of GdE.

Regarding the claim received from the Río Negro Province, in September 1999, the Tax Bureau of such Province formalized the claim through a liability assessment. TGS notified the Argentine Government of its position and filed an appeal before such Tax Bureau, which was overruled in January 2001. Against such action, on February 1, 2001, TGS filed an appeal before the Minister of Economy of the Río Negro Province, which was rejected in early April 2001. Such Province urged TGS to pay the assessment, which amounted to approximately Ps. 438 million (including interest and penalties as of April 30, 2001). On March 21, 2001, TGS filed a declaratory action of certainty before the SCJ, requesting the court to issue a judgement regarding the legitimacy of the Tax Bureau claim. TGS also asked the SCJ to enjoin the Río Negro Province from attempting to collect the aforementioned tax, until the SCJ granted the injunction. In April 2001, SCJ granted the requested injunction.

Regarding the claim received from the Neuquén Province in December 1999, the Tax Bureau of such Province formalized the claim through a liability assessment for approximately Ps. 97 million (which includes its related interest as of December 31, 1999). Such assessment was appealed before such Tax Bureau. In April 2001, TGS received a re-assessment, which amounted to approximately Ps. 210 million including interest and penalties. On April 17, 2001, TGS filed an administrative motion before such Tax Bureau, on the grounds of the inadmissibility of such re-assessment while the resolution of the appeal previously filed against the assessment received in December 1999, was still pending. Also, TGS appealed against the application of penalties, which were determined disregarding the right of due process. In addition, in September 2001, the Tax Bureau of the Neuquén Province notified TGS about liability assessments related to the stamp tax arising from the Transfer Agreement subscribed by TGS in the privatization of GdE and from the Technical Assistance Agreement for amounts of Ps. 44 million and Ps. 6 million, respectively (including accrued interest as of August 31, 2001). Against such resolutions, TGS has filed appeals before such Tax Bureau, who rejected the appeal for the Transfer Agreement. Consequently, TGS has filed an appeal before the Minister of Economy of the Province. At the end of December 2001, TGS filed a declaratory action of certainty before the SCJ for all Neuquén Province's claims, with the same purposes and effects of that presented for the Rio Negro Province's claim. In April 2002, the SCJ granted the injunction requested and enjoined the Neuquén Province from attempting to collect the aforementioned tax, until that court arrives at a final decision on the matter.

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Regarding the claim received from the La Pampa Province in July 2002, the Tax Bureau of such Province formalized the claim through a liability assessment, for approximately Ps. 68 million (including penalties and interest as of July 31, 2002). Such determination was appealed before such Bureau at the beginning of August 2002. At the date of issuance of these consolidated financial statements no answer has been received in response to this appeal. In late August 2002, TGS filed a declaratory action of certainty before the SCJ. In November 2002, the SCJ granted the injunction requested and enjoined the La Pampa Province from attempting to collect the aforementioned tax, until that court arrives at a final decision on the matter.

In May 2002, the Tax Bureau of the Province of Chubut filed administrative actions in order to determine a stamp tax debt for contracts and gas transportation offers amounting to Ps. 5.4 million (together with its respective fines and interest calculated at April 30, 2002). TGS made the respective discharge in July 2002 refuting the basis of such proceedings, and has not received at the date of issuance of these consolidated financial statements any reply from such Bureau. At the end of October 2002, TGS filed before the SCJ a declarative action of certainty, so that it can be expedited on the legitimacy of the claim for such tax. In April 2003, the SCJ did not grant the injunction requested and consequently TGS asked the Supreme Court for the revocation of such petition through the filing of a reposition action. In June 2003, the Supreme Court modified its first judgement, granting the injunction.

Regarding the claim received from the Santa Cruz Province, the Tax Bureau of such Province notified TGS about a preliminary assessment, amounting to approximately Ps. 41 million (which includes its related interest as of December 31, 2000). In respect of this assessment, TGS presented a discharge and filed its appeal before such Tax Bureau, which resolution is pending as of the date of issuance of these consolidated financial statements. In addition, TGS filed a declaratory action of certainty before the SCJ with the same purposes and effects of that presented in respect of the Río Negro Province's claim. In March 2001, the SCJ granted the requested injunction and enjoined the Santa Cruz Province from attempting to collect the aforementioned tax, until that court arrives at a final decision on the matter. In April 2004, the SCJ declared inadmissible the Province of Santa Cruz's tax claims. This decision by the Supreme Court sets a material judicial precedent for the resolution of the rest of the claims filed by the Neuquén, Río Negro, La Pampa and Chubut Provinces, which are similar to the one filed by the Santa Cruz Province.

TGS's management believes that contracts entered into before its take-over were not subject to provincial stamp taxes because the parties to the contracts at the time they were signed were governmental entities that were exempt from the tax. Moreover, even if the contracts were subject to provincial stamp taxes, management believes that GdE would bear responsibility for this tax under the Transfer Agreement. However, if TGS were forced to pay any amount, it would have the right to be reimbursed from GdE or the Argentine Government. Accordingly, TGS has not recorded any liabilities in this connection. In the case of the Technical Assistance Agreement, TGS has alleged the irrelevance of the tax mainly due to the fact that this agreement was entered into the jurisdiction of the city of Buenos Aires and took effect there instead of the Neuquén Province or any other province.

With respect to the other assessments, TGS's management believes that gas transportation service offer letters are not subject to the tax mentioned above. Should they be taxable, TGS believes that such event must be

considered a change in the interpretation of the tax law, and its impact should be reflected in the tariff according to the relevant regulations. ENARGAS believes that the claims for stamp tax lack merit because it considers the tax to be unlawful.

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- d) In addition to the matters discussed above, TGS is a party to certain lawsuits and administrative proceedings arising in the ordinary course of business.

Although no assurances can be given, TGS believes there are meritorious defenses, which will be asserted vigorously to challenge all claims and that possible liabilities from these claims will not have a material adverse effect on TGS's consolidated financial position or results of operations.

9. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

In late 1992, TGS entered the Technical Assistance Agreement with Enron Pipeline Company Argentina S.A. (EPCA), in compliance with the provisions of the Bid Package and the Transfer Contract, whereby EPCA is to provide technical advisory services. The Technical Assistance Agreement establishes that the technical operator will provide services related to, among others, the operation and maintenance of the gas transportation system and related facilities and equipment, to ensure that the performance of the system is in conformity with international standards and in compliance with certain environmental standards. For these services, TGS pays a monthly fee based on the higher of: a percentage of certain defined income of TGS or a specified fixed annual amount. The term of the current contract with EPCA is for eight years from December 28, 1992, renewable automatically upon expiration for additional eight-year periods. The Settlement Agreement mentioned in Note 1 includes a term which provides for the assignment of the Technical Assistance Agreement to Petrobras Energía.

The detail of significant outstanding balances for transactions entered into by TGS and its related parties as of December 31, 2003 and 2002 is as follows:

Company	2003		2002	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
EPCA		2,650		4,023
Petrobras Energía	4,707	7,414	8,066	10,469
Petrobras	16,222		22,832	
LINK	167		264	4
TGU	77			
EGS		297		
Enron América del Sur S.A.			32	
Area Santa Cruz II UTE (1)	127		366	
Total	21,300	10,361	31,560	14,496

(1) As of December 31, 2003, Petrobras Energía had 100% of this joint venture. The detail of significant transactions with related parties for the years ended December 31, 2003, 2002 and 2001 is as follows:

Company	Revenues				
	Gas Transportation	NGL production and commercialization and other services	Salaries and wages	Compensation for technical assistance	Revenue for administrative Services
EPCA			554	29,043	84
Petrobras Energía	25,127	45,367			
Petrobras		286,105			
LINK		818			
TGU		1,379			
Enron América del Sur SA. Area Santa Cruz II UTE(1)	24	1,402			
Total 2003	25,151	335,071	554	29,043	84
Total 2002	32,825	294,908	1,378	31,274	101
Total 2001	60,971	50,817	1,835	42,475	154

(1) As of December 31, 2003, Petrobras Energía had 100% of this joint venture.

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10. SUBSIDIARIES AND AFFILIATES

TELCOSUR:

In September 1998, TGS's Board of Directors approved the creation of TELCOSUR, whose purpose is the rendering of telecommunication services, assuring the optimal utilization of TGS's telecommunication system. TGS's equity interest in such company is 99.98% and the remaining 0.02% is held by EPCA. On October 22, 1998, the Governmental Regulatory Agency of Corporations approved the incorporation of this company.

On February 16, 1999, the regulatory agency (The Federal Communication Bureau), through Resolution No. 3,468, granted a license to TELCOSUR to provide data transmission and value added telecommunication services in Argentina. By the end of 1999, TELCOSUR obtained from the National Communication Commission the rights for most of the frequencies necessary for its operations. On July 1, 2000, TELCOSUR began operations.

LINK:

LINK was created in February 2001, with the purpose of the ownership, construction, and operation of a natural gas transportation system, which will link TGS's gas transportation system with Cruz del Sur S.A.'s pipeline.

The connection pipeline will be extended from Buchanan, located in the high-pressure ring that surrounds the city of Buenos Aires, which is part of TGS's pipeline system, to Punta Lara.

TGS's ownership interest in such company is 49% and DINAREL S.A. holds the remaining 51%. Total common stock amounts to Ps. 12.

TGU (formerly Isonil):

In September 2002, TGS invested Ps. 5 in the acquisition of a 49% equity interest in TGU, a company incorporated in Uruguay. The company's corporate purpose is the rendering of services of operation, inspection and assistance in case of emergencies in gas transportation or distribution systems, as well as the construction of pipelines and other services related to natural gas and its associated products. This company renders operation and maintenance services to Cruz del Sur Pipeline S.A in the Uruguayan pipeline tranche.

On October 3, 2003 the corporate name of the subsidiary company was changed from Isonil to Transportes y Servicios de Gas en Uruguay S.A, which was registered with the Uruguayan National Board of Trade.

EGS

In September 2003, EGS, a company registered in Argentina, was incorporated. The common stock of EGS amounts to Ps. 12, and the ownership is distributed between TGS (49%) and TGU (51%). The main business of EGS is the construction, ownership and operation of the pipeline which will connect TGS's main pipeline system in the Province of Santa Cruz with a delivery point on the border with Chile.

11. DIFFERENCES BETWEEN ARGENTINE GAAP AND US GAAP

The accompanying consolidated financial statements have been prepared in accordance with Argentine GAAP, which differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the SEC.

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I. Differences in measurement methods

The following reconciliation to US GAAP does not include an elimination of the adjustments to the consolidated financial statements to account for the effects of inflation required under Argentine TR No. 6, (as amended by TR No. 19), as permitted by Item 18 to Form 20-F.

The principal differences, other than inflation accounting, between Argentine GAAP and US GAAP as they relate to the Company are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

	Year ended December 31,		
	2003	2002	2001
Reconciliation of net income (loss):			
Net income (loss) under Argentine GAAP	220,523	(591,126)	84,921
US GAAP adjustments:			
Capitalization of interest cost (Note 11.a)	3,632	7,677	
Intangible assets (Note 11.b)	(10,606)		
Accrual for vacation (Note 11.c)	2,539	1,979	(93)
Hedge of anticipated transactions (Note 11.d)	596	1,783	1,783
Accounting for derivative instruments and hedging activities (Note 11.e)	3,657	4,796	(8,453)
Exchange difference (Note 11.f)		1,625,102	(1,625,102)
Non-current investment in unconsolidated affiliated companies (Note 11.g)	5,695	(2,954)	(3,968)
Capitalized exchange difference (Note 11.h)	406,191	(621,397)	
Discounted value of certain receivables (Note 11.i)	2,180		
Deferred income tax under Argentine GAAP (Note 11.j)	(116,251)	(43,238)	(1,552)
Deferred income tax under US GAAP (Note 11.j)	(44,832)	(629,934)	(4,902)
Valuation of property plant and equipment (Note 11.k)	11,327	12,077	12,075
Minority interest (Note 11.l)	(138,412)	(119,965)	594,322
	<hr/>	<hr/>	<hr/>
Net income (loss) under US GAAP	346,239	(355,200)	(950,969)

	As of December 31,	
	2003	2002
Reconciliation of shareholders' equity:		
Shareholders' equity under Argentine GAAP	467,916	246,532
US GAAP adjustments:		
Capitalization of interest cost (Note 11.a)	11,309	7,677
Intangible assets (Note 11.b)	(10,606)	
Accrual for vacation (Note 11.c)		(2,539)
Hedge of anticipated transactions (Note 11.d)	(11,031)	(14,486)
Accounting for derivative instruments and hedging activities (Note 11.e)		(3,657)
Non-current investment in unconsolidated affiliated companies (Note 11.g)	(1,227)	(6,922)
Capitalized exchange difference (Note 11.h)	(215,206)	(621,397)
Discounted value of certain receivables (Note 11.i)	2,180	
Deferred income tax under Argentine GAAP (Note 11.j)	(116,136)	115
Deferred income tax under US GAAP (Note 11.j)	(891,952)	(846,119)
Valuation of property plant and equipment (Note 11.k)	(46,278)	(57,605)
Minority interest (Note 11.l)	405,650	544,893
	<hr/>	<hr/>
Shareholders' deficit under US GAAP	(405,381)	(753,508)
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Description of changes in shareholders deficit under US GAAP:

	For the years ended December 31,	
	2003	2002
Shareholders deficit under US GAAP as of the beginning of the year	(753,508)	(399,916)
Owners contributions	861	
Other comprehensive income	1,027	1,608
Net income (loss) under US GAAP	346,239	(355,200)
	<hr/>	<hr/>
Shareholders deficit under US GAAP as of the end of the year	(405,381)	(753,508)
	<hr/>	<hr/>

a) Capitalization of interest cost

During the years ended December 31, 2003 and 2002, and as allowed by Argentine GAAP, TGS decided not to capitalize interest cost over the value of its fixed assets. Under US GAAP the Company applied the provisions contained in Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost, which requires interest capitalization on assets which have a period of time to get them ready for their intended use.

b) Intangible assets

As described in Note 2.j), under Argentine GAAP, TGS capitalized costs incurred during the year ended December 31, 2003 associated with the Restructuring Proposal. Under US GAAP, the Company applied the provisions contained in Statement of Financial Accounting Standards No. 15 Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS No. 15), which states that legal fees and other direct costs that a debtor incurs to effect a troubled debt restructuring shall be deducted in measuring gain on restructuring of payables or shall be included in expense for the period if no gain on restructuring is recognized. Accordingly, these costs were expensed as incurred.

c) Accrual for vacation

During the years ended December 31, 2002 and 2001, under Argentine GAAP, there were no specific requirements governing the recognition of the accrual for vacation. The acceptable practice in Argentina was to charge vacations to

expense when taken and to accrue only the amount of vacation in excess of the normal remuneration. Under new accounting standards in force in Argentina (Note 2.b) and under US GAAP, vacation expense is fully accrued in the period the employee renders service to earn such vacation.

d) Hedge of anticipated transactions

As discussed in Note 2.k), in the past TGS entered into interest rate lock agreements for the purpose of hedging the interest rates of fixed interest rate indebtedness to be subsequently incurred.

Under Argentine GAAP, gains and losses related to interest rate lock agreements were deferred and are being amortized as an adjustment to interest expense over the same period in which the related interest costs of the debt are being recognized in earnings.

Under US GAAP, TGS accounted for these agreements under Statement of Financial Accounting Standards No. 80, Accounting for Futures Contracts (SFAS No. 80) through December 31, 2000, and Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities and its corresponding amendments (SFAS No. 133), subsequent to that date. According to SFAS No. 80, results generated by the hedges of anticipated transactions can be deferred over the term of such transactions provided that all of the following conditions are met: (i) the item to be hedged exposes the company to interest rate risk, (ii) the derivative reduces that risk and is designated as a hedge at the inception, (iii) the significant characteristics and expected terms of the anticipated transaction are identified, including the expected date of the transaction, and (iv) it is probable that the anticipated transaction will occur.

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As described in Note 5, TGS entered into a hedge transaction, which locked in the rate of an anticipated 5-year maturity debt incurred to refinance the first issuance of US\$ 200 million under the 1993 EMTN Program. TGS failed to make the 5-year debt issuance at the expected date. Accordingly, under the restrictive criteria of SFAS No. 80, hedge accounting was terminated and mark-to-market accounting was applied at December 31, 1998. Therefore, the US GAAP adjustments reflect the reversal of (i) the unamortized deferred costs recognized as intangible assets in the accompanying consolidated balance sheets under Argentine GAAP, and (ii) amortization cost recorded under Argentine GAAP. Unamortized deferred costs amounted to Ps. nil and Ps. 0.6 million as of December 31, 2003 and 2002, respectively. Amortization costs recorded under Argentine GAAP for the years ended December 31, 2003, 2002 and 2001 amounted to Ps. 0.6 million, Ps. 1.8 million and Ps. 1.8 million, respectively.

In addition, upon adoption of SFAS No. 133 in January 2001, the Company recorded a net transition loss of Ps. 19.6 million (Ps. 7.0 million net of income taxes and minority interest) in accumulated other comprehensive loss related to the unamortized deferred costs recognized as intangible assets under Argentine GAAP with respect to the interest rate lock agreements associated with the IDB loan. These costs are being amortized under both Argentine GAAP and US GAAP as an adjustment to interest expense over the same period in which the related costs of the new debt issuance are recognized in earnings. Amortization costs during the years ended December 31, 2003, 2002 and 2001 amounted to Ps. 2.9 million, Ps. 2.9 million and Ps. 2.9 million, respectively.

e) Accounting for derivative instruments and hedging activities

As discussed in Note 2.k), the Company and TGS use derivative instruments as part of their overall strategy to manage their exposure to market risks associated with fluctuations in interest rates and exchange rates. As of December 31, 2003, these instruments include interest rate cap agreements. At December 31, 2001, TGS also had outstanding a cross currency swap and foreign currency forward-exchange contracts. See Note 5 for details of the Company and TGS's derivative instrument activity.

During the years ended December 31, 2002 and 2001, under Argentine GAAP, premiums on foreign currency forward-exchange contracts were amortized over the life of the respective contracts. Interest rate swap and cap agreements were accounted for on an accrual basis, with the net receivable or payable recognized as an adjustment to interest expense. The related accrued receivable or payable was included as an adjustment to interest payable. The fair value of the derivative instruments was not recognized in the consolidated financial statements. As mentioned in Note 2.b, effective January 1, 2003, TGS adopted TR No. 20 Valuation of Derivative Financial Instruments and Hedging Operations. Until the adoption of this new accounting standard, there were no specific rules under Argentine GAAP dealing with the accounting for derivative financial instruments. Accordingly, upon the adoption of TR No. 20, and based on the current and future expected level of the variables affecting the interest rate swap and cap agreements entered into by TGS, the Company's management decided that these derivatives are not effective to cover the associated risk and consequently the difference between the unamortized portion of the premium paid at inception and its fair value (included in Other Current Receivables) was charged to expense in the year ended December 31, 2003 under Argentine GAAP. Such difference amounted to Ps. 3.4 million and was included in net financial expense.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded

in other contracts) must be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of income, and requires that a company must formally document, designate, and assess the effectiveness of transactions that qualify for hedge accounting.

Under US GAAP, the Company adopted these standards effective January 1, 2001. SFAS No. 133 cannot be applied retroactively. In accordance with the transition provisions of SFAS No. 133, the Company recorded a net of tax cumulative effect type adjustment of Ps. (3.1) million loss in earnings to reflect the impact of the adoption of this standard.

Under US GAAP, the Company has determined that certain interest rate caps held at December 31, 2001 were effective cash flow hedges under SFAS No. 133. In order to qualify for hedge accounting, certain criteria must be met including a requirement that both at inception of the hedge, and on an ongoing basis, the hedging relationship is expected to be highly effective in offsetting cash flows attributable to the hedged risk during the term of the hedge. Hedge accounting treatment permits certain changes in the fair value of the Company's qualifying derivatives to be deferred in other comprehensive income and subsequently reclassified to earnings to offset the impact of the related hedged interest rate. Changes in the fair value of non-qualifying derivatives and the ineffective portion of changes in fair value of qualifying derivatives must be recorded immediately through earnings. TGS measures effectiveness of its stand alone caps by comparing the changes in fair value of its stand-alone caps to a hypothetical

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derivative that would be perfectly effective in offsetting changes in fair value of the hedged cash flows. Due to the change in certain market conditions, TGS expects ineffectiveness relative to its stand-alone caps at December 31, 2002 and as such, changes in the fair value of the stand-alone caps have been recorded in earnings during 2002. An after tax loss amounting to Ps. 1.6 million was reclassified from Other comprehensive loss to the consolidated statement of income during 2002 in connection with these derivative instruments.

The Company and TGS's policy require that contracts used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedging effectiveness is assessed periodically. Any contract that is either not designated as a hedge, or is so designated but is ineffective, is marked-to-market and recognized in earnings immediately. Both companies will discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) when the derivative expires or is sold, terminated, or exercised; (iii) when the derivative is designated as a hedge instrument, because it is probable that the forecasted transaction will not occur; or (iv) when management determines that designation of the derivative as a hedge instrument is no longer appropriate.

The Company and TGS formally document all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. In this documentation, both companies specifically identify the asset, liability, firm commitment, or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company and TGS formally measure effectiveness of their hedging relationships both at the hedge inception and on an ongoing basis in accordance with their risk management policy.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. When the hedged forecasted transaction is no longer probable, but is reasonably possible, the accumulated gain or loss remains in other comprehensive income and will be recognized when the transaction affects earnings; however, prospective hedge accounting for this transaction is terminated. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current-period earnings.

f) Exchange differences

Due to the economic crisis affecting Argentina, all working days between December 21, 2001 and December 31, 2001 were declared exchange holidays by the Argentine Government. On January 11, 2002, when the exchange market first opened, the exchange rate was Ps. 1.4 per US\$ 1 (buying rate) and Ps. 1.6 per US\$ 1 (selling rate). Under Argentine GAAP, the Company accounted for its foreign currency assets and liabilities using the exchange rate at December 21, 2001 (Ps. 1 per US\$ 1). Under US GAAP, the Company applied the guidance set forth in EITF D-12 "Foreign Currency Translation-Selection of Exchange Rate When Trading is Temporarily Suspended", that states that when exchangeability between two currencies is temporarily lacking at the balance sheet date, the first subsequent rate at which exchanges could be made shall be used. Accordingly, the Company and TGS recorded a Ps. 1,625.1 million loss for the year ended December 31, 2001.

g) Non-current investment in unconsolidated affiliated companies

The Company has assessed the impact of US GAAP adjustments for its equity investees. As a consequence of this assessment, the Company recognized a net gain (loss) of Ps. 5.7 million, Ps. (3.0) million and Ps. (4.0) million for the years ended December 31, 2003, 2002 and 2001, respectively. This adjustment relates to the reversal, under US GAAP, of capitalized exchange differences, as well as the application of SFAS No. 109 for the recognition of income taxes.

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h) Capitalized exchange difference

As discussed in Notes 2.g) and 2.i), under Argentine GAAP, the Company and its subsidiary capitalized exchange losses derived from the devaluation of the peso as from January 6, 2002 to July 28, 2003, amounting to Ps. 215.2 million as of December 31, 2003 and Ps. 621.4 million. Under US GAAP, such exchange loss was charged to income.

i) Discounted value of certain receivables

As further described in Note 2.b, effective January 1, 2003, the Company and its subsidiaries applied the provisions contained in Argentine new accounting standards, which require that long term receivables and liabilities (except for deferred tax assets and liabilities) be valued based on the best estimate of the discounted value of amounts expected to be collected or paid, as applicable. Accordingly, TGS recorded a Ps. 2.2 million adjustment over the nominal value of long term tax credits which was included in net financial expense. Such adjustment was reversed for US GAAP purposes.

j) Deferred income tax

During the years ended December 31, 2002 and 2001, under Argentine GAAP, income taxes were recognized on the basis of amounts currently due in accordance with Argentine tax regulations. Temporary differences between the financial reporting and income tax bases of accounting were therefore not considered in recognizing income taxes. During the year ended December 31, 2003, under Argentine new accounting standards (Note 2.b), the Company has calculated income taxes using the deferred tax method, which requires the recognition of the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. As per the transition rules established by Argentine new accounting standards, the application of the deferred tax method shall be made on a retroactive basis. Accordingly, the Company recorded an adjustment to prior years' shareholders' equity amounting to Ps. 2.4 million at December 31, 2002 and Ps. (24.0) million at December 31, 2001.

Under US GAAP, the Company applies the principles of Statement of Financial Accounting Standards No. 109 (SFAS No. 109), Accounting for Income Taxes , which requires a comprehensive liability method of accounting for income taxes. Under the comprehensive liability method, deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Under current Argentine tax regulations, the effects of inflation are not included in the determination of taxable income nor in the tax basis of assets or liabilities. Accordingly, the net deferred tax liability included in the US GAAP reconciliation includes the effects of inflation on non-monetary assets.

Deferred tax assets are also recognized for tax loss carryforwards. Under SFAS No. 109, the effect on deferred tax assets or liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent

upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in making these assessments. In accordance with SFAS No. 109, the Company is required to continuously evaluate the recoverability of deferred tax assets. This evaluation is made based on internal projections, which are routinely updated to reflect more recent operating trends. As of December 31, 2003, based on current financial information, the Company is uncertain that it will recover its entire deferred tax asset through future taxable income. Accordingly, at December 31, 2003, the Company and TGS have recognized a valuation allowance of Ps. 499.7 million against its deferred tax assets.

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k) Valuation of property, plant and equipment

TGS (the Operating Company) was privatized when the Company purchased 70 percent of its stock (the Shares) from the Argentine government. Part of the consideration paid by the Company for the Shares was in the form of Argentine government bonds (the Bonds). Under both Argentine GAAP and US GAAP, the initial carrying value of the Operating Company s assets and liabilities were based on the purchase price paid for the Shares.

Under Argentine GAAP, the Company based its computation of the purchase price of the Shares on the value set by the Argentine government for the Bonds. Under US GAAP, the Company based its computation of the purchase price of the Shares on the price paid for the Bonds by the Company, which was substantially less than the value set by the Argentine government. Accordingly, the initial carrying value of the Company s net assets determined under US GAAP was less than that determined under Argentine GAAP. This difference gives rise to differences in depreciation expense.

In addition, under Argentine GAAP, TGS capitalized cancellation costs of assumed commitments, organization and pre-operating costs incurred in its start-up. These costs had been amortized under the straight-line basis over 35 years until December 31, 2000. As from January 1, 2001, the unamortized deferred costs are being amortized under the straight-line basis over a 5-year period. Under US GAAP, these costs were considered as an adjustment to the purchase price paid for the Shares and, accordingly, the initial carrying value of the property, plant and equipment determined under US GAAP was higher than that determined under Argentine GAAP. This balance sheet classification difference gives rise to differences in depreciation and amortization expense.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company periodically evaluates the carrying value of its long-lived assets for impairment. The carrying value of a long-lived asset is considered impaired by the Company when the expected undiscounted cash flows from such asset is separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved or based on independent appraisals. No impairment losses have been recognized for any of the periods presented.

l) Minority interest

This adjustment represents the effect on minority interest of certain of the foregoing reconciling items.

m) Severance indemnities

As prescribed by Argentine law, the Company is required to pay a minimum severance indemnity based on the employee s years of service when an employee is dismissed involuntarily without proper cause. Under US GAAP, SFAS No. 112, Employers Accounting for Postemployment Benefits , and SFAS No. 43, Accounting for Compensated Absences , requires the accrual of severance costs if they relate to services already rendered, are related to rights that accumulate or vest, are probable of payment and reasonably estimable. While the Company expects to make severance payments in the future, it is impossible to estimate the number of employees, if any, that will be dismissed without

proper cause in the future, and accordingly the Company has not recorded such liability. Accordingly, no adjustment has been made in the US GAAP reconciliation. Under Argentine GAAP, the Company expenses severance indemnities incurred in the normal course of business when paid.

II. Additional disclosure requirements

a) Balance sheet classification differences:

As described in Note 2.b, upon the adoption of the Argentine new accounting standards, the Company began applying the deferred tax method to account for income taxes. In accordance with the provisions contained in TR No. 9, net deferred tax assets (liabilities) are to be classified as non-current assets (liabilities). Under US GAAP, the Company applied the provisions contained in SFAS No. 109, which states that in a classified statement of financial position, an enterprise shall separate deferred tax liabilities and assets into a current amount and a non-current amount. Deferred tax liabilities and assets shall be classified as current or non-current based on the classification of the related asset or liability for financial reporting.

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b) Statement of income classification differences:

1. Gross revenue tax

As indicated in Note 2.b), the Company adopted the provisions of TR No. 19 effective January 1, 2003. TR No. 19 provides that only returns and other allowances should be deducted from net revenues, while direct taxes and other costs directly associated with revenues should now be presented as operating costs, i.e. gross revenue taxes. Under US GAAP, direct taxes and other costs directly associated with revenues should be deducted from revenues.

2. Operating income

The PPI adjustment recorded in TGS during the year ended December 31, 2001 was included in other expenses, net in the Argentine GAAP financial statements, whereas under US GAAP, such item would be included in the determination of operating income. The amount of this reclassification totals Ps. (126.6) million.

c) Comprehensive loss:

On July 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS No. 130),

Reporting Comprehensive Income . SFAS No. 130 establishes guidelines for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income represents the change in shareholder s equity of the Company during the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The adoption of SFAS No. 130 had no impact on total shareholders equity. The following table summarizes the components of comprehensive income (loss) for the years ended December 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Net income (loss) under US GAAP	346,239	(355,200)
Other comprehensive income:		
Amortization of costs on interest rate lock agreements accounted for as cash flow hedges (net of income taxes of Ps. 1,001 and Ps1,001, and minority interest of Ps. 831 and Ps. 831 at December 31, 2003 and 2002, respectively)	1,027	1,027
Net change in fair values of interest rate cap agreements accounted for as cash flow hedges (net of income taxes of Ps. 565 and minority interest Ps. 470 at December 31, 2002)		581

	_____	_____
Comprehensive income (loss)	347,266	(353,592)
	_____	_____

Accumulated non-owner changes in equity (accumulated other comprehensive loss) at December 31, 2003 and 2002 were as follows:

	2003	2002
	_____	_____
Deferred costs on interest rate lock agreements accounted for as cash flow hedges.	(3,965)	(4,992)
	_____	_____
Accumulated other comprehensive loss	(3,965)	(4,992)
	_____	_____

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d) Deferred income taxes:

The components of the net deferred tax liability under US GAAP as of December 31, 2003 and 2002, are the following:

	2003	2002
	<hr/>	<hr/>
Deferred tax assets		
Exchange differences (i)	87,003	116,860
Debt restructuring cost	3,712	
Accrual for vacation		889
Derivative instruments and hedging activities		1,280
Allowance for doubtful accounts	316	1,691
Current investments	4,581	5,768
Non current investments		3,689
Provisions for contingencies	11,414	3,526
Others	199	249
Hedge of anticipated transactions	3,861	5,070
Tax loss carryforwards (ii)	603,036	830,171
Valuation allowance	(499,743)	(729,027)
	<hr/>	<hr/>
	214,379	240,166
	<hr/>	<hr/>
Deferred tax liabilities		
Investment in TGS	244,681	188,154
Property, plant and equipment, net	856,909	890,386
Debt issuance costs	3,997	6,959
Deferred revenues	744	786
	<hr/>	<hr/>
	1,106,331	1,086,285
	<hr/>	<hr/>
Net deferred tax liability	(891,952)	(846,119)
	<hr/>	<hr/>

(i) The Company recognized a deferred tax asset for the net negative results caused by the devaluation of the Argentine peso that will be deductible for income tax purposes between 2003 and 2006.

(ii) Tax loss carryforwards, are available to offset future taxable income and expire between 2005 and 2007. As of December 31, 2003 and 2002, Ps. 103,513 and Ps. 125,391, respectively, have been classified as current assets, and Ps. 995,465 and Ps. 971,510, respectively, have been classified as non-current liabilities.

Income tax expense for the years ended December 31, 2003, 2002 and 2001 consist of the following:

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Current income tax expense	85		135,748
Deferred income tax expense.	44,832	629,934	4,902
	<u> </u>	<u> </u>	<u> </u>
Total income tax expense	44,917	629,934	140,650
	<u> </u>	<u> </u>	<u> </u>
Asset tax expense		8	
	<u> </u>	<u> </u>	<u> </u>
Total	44,917	629,942	140,650
	<u> </u>	<u> </u>	<u> </u>

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Income tax expense computed at the statutory tax rate (35%) on pre-tax (loss) income differs from the income tax expense for the years ended December 31, 2003, 2002 and 2001 computed in accordance with US GAAP as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Income tax expense (benefit) at statutory tax rate on pre-tax income (loss) in accordance with US GAAP	230,125	42,955	(454,085)
Permanent differences:			
Change in valuation allowance	(229,284)	143,538	585,489
Inflation adjustment	(4,589)	278,749	
Book vs tax basis difference of the Company's investment in TGS	56,527	121,021	7,668
Others, not individually significant	(7,862)	43,671	1,578
	<u>44,917</u>	<u>629,934</u>	<u>140,650</u>

e) Summarized financial information under US GAAP:

Presented below is the summarized consolidated balance sheet and consolidated statement of income information of the Company as of and for the year ended December 31, 2003 and 2002 prepared in accordance with U.S. GAAP, giving effect to differences in measurement methods and disclosures as previously discussed.

	<u>As of December 31, 2003</u>	<u>As of December 31, 2002</u>
Current assets	914,821	481,026
Non-current assets	4,309,666	4,451,365
Total assets	<u>5,224,487</u>	<u>4,932,391</u>
Current liabilities	4,106,346	4,451,053
Non-current liabilities	1,008,867	987,365

	<u> </u>	<u> </u>
Total liabilities	5,115,213	5,438,418
	<u> </u>	<u> </u>
Minority interest	514,655	247,481
	<u> </u>	<u> </u>
Shareholders deficit under US GAAP	(405,381)	(753,508)
	<u> </u>	<u> </u>
	For the year ended December 31, 2003	For the year ended December 31, 2002
	<u> </u>	<u> </u>
Net revenues	873,186	913,289
Gross profit	465,321	513,257
Operating income	428,180	473,131
Other expenses, net	(26,438)	(11,493)
Equity in earnings (losses) of affiliate company	9,725	(7,551)
Net Financial results	246,032	(331,359)
	<u> </u>	<u> </u>
Net Income before income tax and minority interest	657,499	122,728
	<u> </u>	<u> </u>
Income tax	(44,917)	(629,942)
Minority interest	(266,343)	152,014
	<u> </u>	<u> </u>
Net income (loss) under US GAAP	346,239	(355,200)
	<u> </u>	<u> </u>

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f) Disclosure about fair value of financial instruments

Statement of Financial Accounting Standards No. 107 (SFAS No. 107), Disclosures About Fair Value of Financial Instruments , requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Financial instruments include such items as cash and cash equivalents and accounts receivable and other instruments. SFAS No. 107 excludes from its disclosure requirements certain significant assets and liabilities that are not considered to be financial instruments. SFAS No. 133, which is effective January 1, 2001, amends SFAS No. 107 to include within the scope of such statement certain disclosure requirements regarding credit risk concentrations.

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using other valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgements made regarding risk characteristics of various financial instruments, prepayments, discount rates, estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company's fair values should not be compared to those of other companies.

Under SFAS No. 107, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amount presented does not represent the underlying value of the Company. For certain assets and liabilities, the information required under the SFAS No. 107 is supplemental with additional information relevant to an understanding of the fair value.

As of December 31, 2003 and 2002, the carrying amounts of certain financial instruments used by the Company including cash, cash equivalents, receivables, payables and short term loans are representative of fair value because of the short-term nature of these instruments. The estimated fair value of other non-current assets does not differ significantly from the carrying amount. The fair value of the derivative financial instruments is the estimated amount at which management believes they could be liquidated based on current market conditions or other estimates as quoted market prices obtained from third-party dealers.

Credit risk relates to the risk of loss that the Company would incur as a result of non-performance by counterparties. Parties associated with the Company's derivative instruments are investment grade financial institutions. Accordingly, the Company does not anticipate non-performance by such third parties.

g) Disclosure of capital lease information

TGS leases telecommunication equipment, valves and hardware under capital lease agreements with lease terms of 60, 48 and 18 months, respectively. Following is a summary of the assets under capital leases:

	As of December 31, 2003
Original cost	25,068
Less:	
Accumulated depreciation	(7,525)
	<hr/>
Net leased property	17,543
	<hr/>

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Future minimum lease payments for the above assets under capital leases as of December 31, 2003 are as follows:

	As of December 31, 2003
2004	2,935
2005	2,991
2006	2,772
2007	2,747
2008	687
Total minimum obligations	12,132
Interest	(1,766)
Present value of minimum obligations	10,366
Current portion	(2,818)
Non-current portions as of December 31, 2003	7,548

h) Statement of cash flows presentation

The Company has presented the statements of cash flows in the primary financial statements using the guidance set forth in the Argentine new accounting standards, which are consistent with that established by Statement of Financial Accounting Standards No. 95 Statement of Cash Flows (SFAS No. 95). Nevertheless, this presentation has been made using Argentine GAAP numbers. As further described in Note 4, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Under US GAAP, the total amounts of cash and cash equivalents at the beginning and end of the periods shown in the statements of cash flows are required to be the same amounts as similarly titled line items shown in the balance sheets, as of those dates. Note 4 includes a reconciliation of the balances included as cash and deposits in banks and current investments in the consolidated balance sheet to the total amounts of cash and cash equivalents at the beginning and end of the periods shown in the statements of cash flows:

Under Argentine GAAP, the effect of inflation on cash and cash equivalents and the effect of exchange rate changes on cash and cash equivalents were not disclosed by presenting additional cash flow statement categories as required

by US GAAP. The following table presents the cash flows from operating, investing and financing activities and the effect of inflation accounting and of exchange rates changes on cash and cash equivalents that would be reported in the statement of cash flows, which contemplate classification differences under US GAAP.

	For the year ended December 31,		
	2003	2002	2001
Net cash provided by operating activities	550,173	224,963	416,318
Net cash used in investing activities	(61,465)	(96,697)	(467,472)
Net cash provided by (used in) financing activities	2,820	(62,649)	134,413
Effect of exchange rate changes on cash and cash equivalents	(21,443)	72,162	
Effect of inflation accounting on cash and cash equivalents	(2,279)	(61,852)	
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	467,806	75,927	83,259
	<hr/>	<hr/>	<hr/>

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i) Recent accounting pronouncements:

1. Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period for which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS No. 143, which became effective for fiscal years beginning after June 15, 2002 did not have a material impact on the Company's consolidated financial statements.

2. Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. SFAS No. 146 did not impact the Company's consolidated financial statements.

3. Accounting for Stock -Based Compensation

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure - An Amendment of SFAS No. 123*. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002, except for certain provisions that are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. SFAS No. 148 did not impact the Company's consolidated financial statements.

4. Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities (FIN 46)*. Interpretation No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. Interpretation No. 46 also requires disclosures about variable interest entities that the

company is not required to consolidate but in which it has a significant variable interest. Furthermore, in December 2003, the FASB released a revised version of FIN 46 (hereafter referred to as FIN 46R) clarifying certain aspects of FIN 46 and providing certain entities with exemptions from the requirements of FIN 46. FIN 46R requires the application of either FIN 46 or FIN 46R by Public Entities (as defined in paragraph 395 of FASB Statement No. 123, Accounting for Stock-Based Compensation) to all Special Purpose Entities (SPEs) created prior to February 1, 2003 at the end of the first interim or annual reporting period ending after December 15, 2003. All entities created after January 31, 2003 by Public Entities were already required to be analyzed under FIN 46, and they must continue to do so, unless FIN 46R is adopted early. The adoption of FIN 46 and FIN 46R did not have a significant impact on the Company s consolidated financial statements.

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**COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

(Amounts stated in thousands of constant Argentine pesos as described in Note 2.c.,
except for per share amounts in constant Argentine pesos or where otherwise indicated)

5. Derivative Instruments

In May 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 149 did not impact the Company's consolidated financial statements.

6. Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. SFAS No. 150 did not impact the Company's consolidated financial statements.

7. Employers' Disclosures about Pensions and Other Postretirement Benefits

In December 2003 the Financial Accounting Standards Board released revised FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits (Revised)* (SFAS No. 132 (Revised)). The revised standard provides required disclosures for pensions and other postretirement benefit plans and is designed to improve disclosure transparency in financial statements. The revised standard replaces existing pension disclosure requirements. The requirements of the standard are effective for public entities for fiscal years ending after December 15, 2003. The adoption of SFAS No. 132 (Revised) did not have a material impact on the Company's consolidated financial statements.

8. Revenue recognition

On December 17, 2003, the SEC issued Staff Accounting Bulletin No. 104 (SAB No. 104), which revises or rescinds portions of the interpretative guidance included in Staff Accounting Bulletin No. 101, *Revenue Recognition* (SAB No. 101). The main modifications introduced by SAB No. 104 are aimed at making this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The principal revisions relate to the rescission of material no longer necessary because of private sector developments in the US GAAP. The adoption of SAB No. 104 did not have a material impact on the Company's consolidated financial statements.

12. OTHER CONSOLIDATED FINANCIAL STATEMENTS INFORMATION

The following tables present additional consolidated financial statement disclosures required by Argentine GAAP:

- a) Property, plant and equipment, net
- b) Intangible assets, net
- c) Non-current investments
- d) Current investments
- e) Allowances and provisions
- f) Cost of sales
- g) Foreign currency assets and liabilities
- h) Expense incurred
- i) Detail of maturities of investments, receivables and liabilities.

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES

Note 12. OTHER CONSOLIDATED FINANCIAL INFORMATION

a) Property, Plant and equipment, net.

(Stated in thousands of constant Argentine pesos as described in Note 2.c)

Main Account	2003				End of the year
	Original Cost				
		Additions	Retirements	Transfers	
Pipelines	3,179,319			747	3,180,066
Compressor plants	1,006,327			9,009	1,015,336
Other industrial plants	85				85
Stations of regulations and/or measurement of pressure	107,397			69	107,466
Other technical installations	16,324			(5)	16,319
Subtotal assets related to the gas transportation service	4,309,452			9,820	4,319,272
Assets related to gas upstream service	115,260			18	115,278
Assets related to NGL production and commercialization service	442,813			1,735	444,548
Lands	5,642				5,642
Buildings and civil constructions	130,062			94	130,156
Installations in buildings	4,645				4,645
Machinery, equipment and tools	28,722	50		45	28,817
Computers and Telecommunication systems	214,819	520		831	216,170
Vehicles	12,704	185			12,889
Furniture	12,520			21	12,541
Capitalizations of exchange loss (1)	588,389		411,117(2)		177,272
Materials	113,533	9,055	15,821	(3,595)	103,172
Line pack	13,679				13,679
Works in progress	28,116	34,435	4,267	(8,969)	49,315
Advances to suppliers of property, plant and equipment	4,940		241(4)		4,699
Total 2003	6,025,296	44,245	431,446		5,638,095

	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total 2002	5,406,512	693,773	74,989		6,025,296
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total 2001	4,992,991	423,044	9,523		5,406,512
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2003				
	Depreciation				
Main Account	Accumulated at the beginning of the year	Retirements	Expense for the year		Accumulated at the beginning of the year
			Amount	Rate %	
Pipelines	413,734		76,612	2,2 (1)	490,346
Compressor plants	238,769		37,282	3,3 a 25 (1)	276,051
Other industrial plants	10		3	3,3 (1)	13
Stations of regulations and/or measurement of pressure	25,517		4,224	4 (1)	29,741
Other technical installations	5,453		1,477	6,7 (1)	6,930
Subtotal assets related to the gas transportation service	683,483		119,598		803,081
Assets related to gas upstream service	32,662		7,791	2,2 a 25	40,453
Assets related to NGL production and commercialization service	162,778		22,054	5,9 (1)	184,832
Lands					
Buildings and civil constructions	29,305		3,385	2.0	32,690
Installations in buildings	1,000		216	4.0	1,216
Machinery, equipment and tools	17,643		2,023	6,7 a 20	19,666
Computers and Telecommunication systems	92,242		16,259	6,7 y 20	108,501
Vehicles	9,678		1,001	10 y 20	10,679
Furniture	10,441		172	10	10,613
Capitalizations of exchange loss (1)	23,612	15,649(3)	8,060	4,6 (1)	16,023
Materials	259				259

Line pack	1,614			1,614
Works in progress				
Advances to suppliers of property, plant and equipment				
	<hr/>	<hr/>	<hr/>	<hr/>
Total 2003	1,064,717	15,649	180,559	1,229,627
	<hr/>	<hr/>	<hr/>	<hr/>
Total 2002	895,935	32,629	201,411	1,064,717
	<hr/>	<hr/>	<hr/>	<hr/>
Total 2001	733,704	5,632	167,863	895,935
	<hr/>	<hr/>	<hr/>	<hr/>

[Additional columns below]

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	2003	2002	2001
	<hr/>	<hr/>	<hr/>
Main Account	Net book value	Net book value	Net book value
	<hr/>	<hr/>	<hr/>
Pipelines	2,689,720	2,765,585	2,789,224
Compressor plants	739,285	767,558	782,670
Other industrial plants	72	75	71
Stations of regulations and/or measurement of pressure	77,725	81,880	77,661
Other technical installations	9,389	10,871	13,471
	<hr/>	<hr/>	<hr/>
Subtotal assets related to the gas transportation service	3,516,191	3,625,969	3,663,097
Assets related to gas upstream service	74,825	82,598	102,263
Assets related to NGL production and commercialization service	259,716	280,035	325,419
Lands	5,642	5,642	6,316
Buildings and civil constructions	97,466	100,757	94,608
Installations in buildings	3,429	3,645	3,713
Machinery, equipment and tools	9,151	11,079	12,610
Computers and Telecommunication systems	107,669	122,577	138,251
Vehicles	2,210	3,026	3,759

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Furniture	1,928	2,079	684
Capitalizations of exchange loss (1)	161,249	564,776	
Materials	102,913	113,275	66,678
Line pack	12,065	12,065	12,067
Works in progress	49,315	28,116	64,582
Advances to suppliers of property, plant and equipment	4,699	4,940	16,530
	<u> </u>	<u> </u>	<u> </u>
Total 2003	<u>4,408,468</u>		
Total 2002		<u>4,960,579</u>	
Total 2001			<u>4,510,577</u>

(1) See Note 2.1).

(2) Ps. 4,322 corresponds to the elimination of the inflation adjustment applied to balance at the beginning of the fiscal year and Ps. 406,795 corresponds to the decrease in the exchange rate from Ps. 3.37 at the beginning of the year to Ps. 2.835 at July 28, 2003 (Note 2.1).

(3) Ps. 173 corresponds to the elimination of the inflation adjustment applied to balance at the beginning of the fiscal year and Ps. 15,477 corresponds to the decrease in the exchange rate from Ps. 3.37 at the beginning of the year to Ps. 2.835 at July 28, 2003 (Note 2.1).

(4) Ps. 36 corresponds to the elimination of the inflation adjustment applied to balance at the beginning of the fiscal year.

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Note 12. OTHER CONSOLIDATED FINANCIAL INFORMATION

b) Intangible assets, net.

(stated in thousands of constant Argentine pesos as described in Note 2.c)

Deferred charges	2003			
	Original cost			
	Beginning of the year	Additions	Decreases	End of the year
Organization, pre-operating costs, cancellation costs of commitments assumed under the Transfer Contract and other costs	(1) 70,540		3,566	66,974
Settlement costs of hedges of anticipated transactions	(2) 50,101		25,726	24,375
Global Programs and notes issuances costs	55,517	9,151	31,719	32,949
License acquisition costs		1,173		1,173
Total 2003	176,158	10,324	61,011	125,471
Total 2002	172,336	3,822		176,158
Total 2001	156,855	15,481		172,336

[Additional columns below]

[Continued from above table, first column(s) repeated]

2003		
A m o r t i z a t i o n		
Accumulated	Expense for the year	Accumulated at

Deferred charges	at		Rate		the end	Net
	beginning	Decreases	Amount	%		
	of the year				of the year	book
						value
Organization, pre-operating costs, cancellation costs of commitments assumed under the Transfer Contract and other costs (1)	39,564	3,566	10,285(3)	(4)	46,283	20,691
Settlement costs of hedges of anticipated transactions (2)	31,461	22,241	4,114(5)	(4)	13,334	11,041
Global Programs and notes issuances costs	39,511	31,719	5,496(5)	(4)	13,288	19,661
License acquisition costs				(4)		1,173
Total 2003	110,536	57,526	19,895		72,905	52,566
Total 2002	82,793		27,743		110,536	
Total 2001	57,315		25,478		82,793	

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2002	2001
Deferred charges	Net	Net
	book value	book value
Organization, pre-operating costs, cancellation costs of commitments assumed under the Transfer Contract and other costs (1)	30,976	42,016
Settlement costs of hedges of anticipated transactions (2)	18,640	25,925
Global Programs and notes issuances costs	16,006	21,602
License acquisition costs		
Total 2003		

Total 2002	<u>65,622</u>
Total 2001	<u>89,543</u>

-
- (1) Includes the cost of the Voluntary Retirement Program of 1993, accepted by 463 employees, for approximately Ps. 26,647.
- (2) See Note 5.
- (3) Included in Operating costs . See Note 12.h).
- (4) See Note 2.j).
- (5) Included in Financial expenses . See Note 12.h).

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(unaudited)

COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBDIARIES

Note 12. OTHER CONSOLIDATED FINANCIAL INFORMATION

c) Non-current investments

(Stated in thousands of constant Argentine pesos, as described in Note 2.c)

											2003	2002
											Issuer information	
Description of securities					Last financial statements issued							
Name and issuer	Face value	Amount	Cost	Book value	Main business	Date	Common stock	Net income (loss) for the year	Shareholders' equity	% of Common Stock	Book value	
Government bonds	\$1	5,880	3,315	767	Pipeline construction and operation services	09/30/2003	6,683(2)	5,166	13,984	49.00	2,640 (3,696)(3)	
Gas Link S.A.												
Transporte y Servicios de Gas en Uruguay S.A. (formerly Isonil S.A.)	Ps Uru. 1	196,000	5	179	Maintenance	12/31/2003	28	174	312	49.00	102	
Emprendimientos de Gas del Sur S.A.	1	5,880	6	(3)(3)	Pipeline construction and operation services	12/31/2003	12	(19)	(7)	49.00		
TGS Goodwill (4)				58,453							58,886	
Goodwill amortization				(4,496)							(2,265)	

54,900

55,667

-
- (1) Corresponds to Argentine Government Foreign Notes Survey Rates Serie 74. Includes an allowance for write down amounting to Ps. 10,536.
 - (2) Organized with a common stock amounting to Ps. 26. It includes irrevocable capital contributions of Ps. 6,657 against future shares issuance.
 - (3) Disclosed in Other Liabilities .
 - (4) Corresponds to exchange rate loss capitalization. For further information see Note 2.g).

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBDIARIES

Note 12. OTHER CONSOLIDATED FINANCIAL INFORMATION

d) Current investments

(Stated in thousands of constant Argentine pesos as described in Note 2.c)

	<u>2003</u>	<u>2002</u>
CURRENT INVESTMENTS		
Government bonds in local currency	96	95
Government bonds in foreign currency (1)	3,519	4,425
Mutual funds in local currency	46,765	9
Bank account paid in foreign currency	6,566	6,588
Mutual funds in foreign currency	607,203	191,586
	<u> </u>	<u> </u>
Total current investments	<u>664,149</u>	<u>202,703</u>

(1) Corresponds to Argentine Government Foreign Notes Survey Rate Series 74 for US\$ 4 and US\$ 6 million plus accrued interests, net of valuation allowance amounting to 8,294 and 16,483, as of December 31, 2003 and 2002.

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES

Note 12. OTHER CONSOLIDATED FINANCIAL INFORMATION

e) Allowances and provisions

(Stated in thousands of constant Argentine pesos as described in Note 2.c)

Main account		Beginning	Effect of inflation adjustment on initial balances	Additions	Decreases	End of the year
		of the year				
Deducted from assets						
Allowance for write-down of government bonds	2003	27,019	(198)		(18,527)	8,294
	2002			27,019		27,019
	2001					
Allowance for doubtful account	2003	5,477	(40)	1,081	(4,976)	1,542
	2002	3,159	(1,731)	4,049		5,477
	2001	703		2,810	(354)	3,159
Allowance for deferred tax assets	2003	728,937	(5,354)		(223,840)	499,743
	2002	16,706	(9,050)	721,281		728,937
	2001			16,706		16,706

Included in liabilities

Provision for contingencies

(1)	2003	10,074	(74)		(1,489)	8,511
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2002	745	(408)	9,772	(35)	10,074
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2001			770	(25)	745
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(1) Such allowance is included under Other liabilities .

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES

Note 12. OTHER CONSOLIDATED FINANCIAL INFORMATION

f) Cost of sales

(Stated in thousands of constant Argentine pesos as described in Note 2.c.)

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Inventories at the beginning of the year	6,771	6,366	2,477
Inflation adjustment	(50)	(3,448)	
Natural gas purchases (1)	117,460	94,376	81,428
Operating costs (Note 12.h.)	308,524	345,199	349,308
Inventories at the end of the year (1)	(5,454)	(6,771)	(6,366)
	<u> </u>	<u> </u>	<u> </u>
 Cost of sales	 <u>427,251</u>	 <u>435,722</u>	 <u>426,847</u>

(1) Includes natural gas used in the NGL production.

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A. AND ITS SUBSIDIARIES

g) Foreign currency assets and liabilities

(Stated in thousands of constant Argentine pesos as described in Note 2.c)

	2003			2002			
	Foreign currency and amount (in thousands)	Exchange rate	Amount in local currency	Foreign currency and amount (in thousands)	Exchange rate	Amount in local currency	
CURRENT ASSETS							
Cash and deposits in banks	US\$	512	2.88(1)	1,475	US\$	411	1,354
Investments, net	US\$	214,336	2.88(1)	617,288	US\$	61,502	202,599
Trade receivables, net	US\$	12,855	2.88(1)	37,022	US\$	11,802	38,879
Other receivables	US\$	7,376	2.88(1)	21,243	US\$	67	221
	XEU	8	3.6204(1)	29			
	XEU	8	3.6204(1)	29			
				677,057			243,053
NON CURRENT ASSETS							
Trade receivables	US\$	9,565	2.88(1)	27,547	US\$	13,301	43,817
Other receivables	US\$	64	2.88(1)	184			
Investments, net					US\$	801	2,640
Property, Plant and Equipment, net	US\$	947	2.88(1)	2,727			
Advance to suppliers				30,458			46,457
				707,515			289,510
CURRENT LIABILITIES							
Accounts payable	US\$	4,540	2.93(2)	13,302	US\$	6,253	21,229
	XEU	18	3.6836(2)	66	XEU	1	4
Loans	US\$	1,343,370	2.93(2)	3,936,074	US\$	1,266,990	4,301,352

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Other liabilities	US\$	238	2.93(2)	<u>697</u>	US\$	225	<u>764</u>
				3,950,139			4,323,349
NON CURRENT LIABILITIES							
Accounts payable	US\$	1,200	2.93(2)	3,516	US\$	2,107	7,155
Loans	US\$	2,490	2.93(2)	<u>7,296</u>			<u>7,155</u>
				<u>10,812</u>			<u>7,155</u>
				<u>10,812</u>			<u>7,155</u>
				<u>3,960,951</u>			<u>4,330,504</u>

(1) Buying exchange rate as of December 31, 2003.

(2) Selling exchange rate as of December 31, 2003.

US\$: United States of America dollars

XEU: Euros

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COMPAÑÍA DE INVERSIONES DE ENERGÍA S.A.
AND ITS SUBSIDIARIES

(Stated in thousands of constant Argentine pesos as described in Note 2.c.)

Note 12. OTHER CONSOLIDATED INFORMATION

h) Expenses incurred

Accounts	2003				2002	2001
	Total	Operating costs	Administrative expenses	Selling expenses	Financial expenses	Total
Salaries, wages and other contributions	39,495	27,483	9,238	2,774	41,015	70,507
Social security taxes	7,453	4,996	1,969	488	7,693	10,466
Compensation to Directors and Statutory Audit Committee	190		190		244	396
Professional services fees	4,320	349	3,574	397	4,595	14,076
Technical operator assistance fees	29,043	29,043			31,274	42,475
Materials	4,004	4,004			7,263	3,825
Third parties services	2,890	2,291	599		3,053	5,667
Telecommunications and post expenses	1,510	476	971	63	2,012	3,355
Rents	528	385	139	4	922	1,407
Transports and Freight	1,474	1,371	100	3	1,183	2,111
Easements	6,598	6,598			4,787	25,280
Offices supplies	435	117	281	37	534	1,082
Travels	844	452	196	196	738	1,404
Insurance	12,181	10,287	1,892	2	10,724	4,670
Property, plant and equipment maintenance	23,258	22,904	289	65	19,097	26,494
Depreciation of property, plant and equipment	180,559	174,672	5,887		201,411	167,863
Amortization of intangible assets	19,895	10,285			9,610	27,743
Taxes and contributions	31,143	3,846	54	27,243	31,378	40,135
Advertising	87			87	93	233
Allowance for doubtful account	1,081			1,081	4,013	2,810
Banks expenses	208		185	23	185	307
Interests expense	266,994				266,994	349,293
Foreign exchange loss, net of inflation	(160,727)				(160,727)	904,061
Other financial expenses	20,093				20,093	15,461

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Gain on exposure to inflation	(8,699)				(8,699)	(116,589)	
Other expenses	10,227	8,965	1,030	232		30,221	8,772
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total 2003	495,084	308,524	26,594	32,695	127,271		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>		
Total 2002		345,199	34,030	34,244	1,168,931	1,582,404	
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
Total 2001		349,308	54,943	40,123	257,751		702,125
		<u> </u>	<u> </u>	<u> </u>	<u> </u>		<u> </u>

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(Stated in thousands of constant Argentine pesos as described in Note 2.c.)

	Investments (1)	Receivables (2)	Debt (3)	Other liabilities (4)
Without specified maturity		152,994		38,052
With specified maturity				
* Past due:				
Until 12-31-02		1,461	657,457	
From 01-1-03 to 03-31-03		6		
From 04-1-03 to 06-30-03		17	3,242,424	
From 07-1-03 to 09-30-03				
From 10-1-03 to 12-31-03		6,954	65,143	
Total past due		8,438	3,965,024	
* Non-due:				
From 01-1-04 to 03-31-04	666,683	113,167	563	90,760
From 04-1-04 to 06-30-04	5,760	4,697	777	1,054
From 07-1-04 to 09-30-04		1,114	763	63
From 10-1-04 to 12-31-04		3,515	715	64
During 2005		8,930	2,657	536
During 2006		6,690	2,292	585
During 2007		2,245	2,098	639
During 2008		2,016	501	698
From 2009 onwards		7,931		3,396
Total non-due				
Total with specific maturity	672,443	150,305	10,366	97,795
Total	672,443	158,743	3,975,390	97,795
	672,443	311,737	3,975,390	135,847

(1)

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Includes mutual funds, government bonds and bank accounts, without the allowance for write down of government bonds. Such investments bear floating interest rates.

- (2) Includes trade receivables and other receivables, without the allowance for doubtful accounts. Said credits do not bear interests, except for Ps. 21,143 which bear interests at 5.52% semi annually rate. From the total credits without specific maturity, Ps. 82 correspond to current assets and Ps. 152,912 to non current assets.
- (3) Corresponds to financial loans subject to the global restructuring process. The resulting interest rates will be defined from that process. Non-due loans bear annual interests between 7.65% and 9.00%.
- (4) Corresponds to the total non financial liabilities, except for provisions for contingencies. Other liabilities without specified maturity correspond to current liabilities.

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