PETROBRAS ENERGIA PARTICIPACIONES SA
Form 6-K
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

September 02, 2005

PETROBRAS ENERGIA PARTICIPACIONES S.A.

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

(Exact Name of Registrant as Specified in its Charter)

Maipú 1, Piso 22

(1084) Buenos Aires, Argentina

(Address of Principal Executive Offices)

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

Form 20-F X Form 40-F __

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

Yes __ No X

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

N/A.

PETROBRAS ENERGIA PARTICIPACIONES S.A.

Financial Statements and Summary of Events

as of June 30, 2005

Independent Public Accountant´s Report

MACROECONOMIC OVERVIEW 2ND QUARTER 2005

International Scenario

The world economy showed a slight slowdown in the second quarter of 2005, without affecting the overall trend of a steady, moderate growth. In the USA, the temporary feebleness of certain indicators, such as consumers trust, employment, corporate expenditure and speed-up of inflation, melted gradually away to finally reach acceptable levels at the end of the quarter. The Federal Reserve, in turn, continued with its policy of gradually increasing the benchmark interest rate, started by mid 2004, until it reached 3.25%. During these three months, however, the long-term interest rate again showed a downward trend, only partially reversed in July. As to the external gap, trade deficit levels were huge, though somewhat lower than those of the first quarter. The dollar significantly appreciated *vis-à-vis* –the major international currencies, above all the Euro. In July, China s exchange rate regime was finally modified to initially increase the Yuan by 2%. Both Europe and Japan grew in this quarter at lower rates, while China s economic growth surprised again with a rate exceeding 9%.

Oil

Oil prices kept going up, setting up records that exceeded US$60 per barrel and reaching an average of US$53 per barrel in the quarter.

During this period, demand increased 1.1% year-over-year (to 81.9 MMbbl/d), far below the pace exceeding 2% that had been registered in previous quarters. The increase in prices was encouraged by rises of the forecasted demand of refined products by the OPEC, which served as a trigger for a speculative upward trend, all the more because it took place during the US driving season. Likewise, the real purchase volume kept at a strong level, mainly by the USA and China, where growth slowdown did not reach the expected levels.

On the other hand, supply showed a remarkable rise of 3.2% year-over-year (to 84.7 MMbbl/d; almost 60% of this increase was contributed by OPEC). Although periodic news on stocks in the USA were encouraging, reports from refineries, which indicated that the current production would be reaching top capacities, kept the increase in prices.

This added to news on specific interruptions in some US refineries and political changes in Iran.

Within this context, the increase in the quota by 500,000 bbl/d announced by the OPEC in June, was not enough to quiet the scenario described above, where the WTI broke through the US$60 barrier for the first time in history.

Argentina

The Argentine economy kept a high growth pace during the second quarter of the year. The GDP rose 10% year-over-year, although at more moderate annualized rates, around 7% compared to the first quarter.

Oil production dropped by 4% while processed oil went down by 3% (data from April-May two-month period). In the second quarter, the sale of fuels to the local market increased both for diesel oil (+4.1%) and gasoline (+5,7%), where the increase in premium gasoline (+28.3%) was noticeable. The Secretary of Energy increased the tax-exempted diesel oil import quota from 500,000 to 600,000 m3 so as to avoid a shortage in fuels during summer crop months. Prices at gas pumps did not change in spite of the increase in crude oil acquisition costs on the part of refineries, within a context of a big boost of the international price of oil.

The demand for natural gas surpassed 6% year-over-year (data from April-May two-month period), mainly driven by power plants and, to a lesser extent, by the industry. The use of vehicular CNG also rose, but at a remarkably lower rate compared to previous quarters. Although gas production went down by almost 4%, exports diminished again and at the same time imports from Bolivia rose compared to the same quarter of previous year. Bolivia s political and social crisis caused a standstill in negotiations on the construction of a new gas import pipeline.

Electric power demand went up by 4.8%. Generation at national level exceeded those values (+6.3%), while electric power imports went significantly down and exports increased. There were increases in thermal (+3%), hydraulic (+10%) and nuclear (+16%) generation.

Inflation sped up again by the end of the quarter, thus accumulating in the first six months of the year the same increase in prices of the whole year 2004 (+6.1%). The government is still trying to keep a tight rein on inflation through agreements on prices with the different sectors and a more restrictive monetary policy, with increases in interest rates and ongoing sterilization operations.

Exports hit record highs, with a significant increase in volumes; nevertheless, the trade surplus level could not be maintained because of a strong growth of imports. There still was an oversupply of dollars with a slight increase in the exchange rate as a result of considerable purchases of foreign currency by the Central Bank and the Treasury.

Finally, the government was able to complete debt exchange, effecting delivery of the new bonds, having postponed it for some months on account of judicial matters. The country risk level remains low, around 400 basic points. The Argentinean authorities are still negotiating a new agreement with the IMF that allows the country to refinance the huge maturities of its debt with multinational financial agencies. At fiscal level, the public sector still shows favorable numbers, accumulating as of June 80% of the primary result target budgeted for the whole year.

Latin America

After a 7.9% growth in the first quarter of the year, mainly driven by the non-oil sector (9.3%) and a meager performance of the oil sector (1%), the Venezuelan economy continued to show signs of robustness at aggregate level in the second quarter, supported by a higher public expenditure, and the textile, construction, mining and automotive sectors.

Production calculated within the OPEC quota dropped in this second quarter by 2.3% compared to the previous quarter; additionally, a qualitative change in the basket of crude oils manufactured towards heavier oils was forecasted, which did not allow it to capture the whole increase in prices.

The above oil sector scenario coupled with higher economy dynamism in the non-oil sector helped the government maintain a balanced budget in primary terms.

The trade surplus remained at a high level, mainly as a result of crude oil prices. This has been translated into a permanent increase in international reserves, which reached around 29 billion dollars by the end of June. However, the standstill in oil production and the high rate of elasticity of imports to GDP may generate a slight decline in surplus levels in the next quarters.

In Brazil, the smooth slowdown cycle of economy begun in the fourth quarter of 2004 continued during the second quarter of 2005. In this sense, the industry started to give some signs of stabilization in production, although good exports performance throughout the quarter showed a rise of 14% year-over-year, leading the trade surplus to exceed 11 billion dollars.

The strict monetary policy applied by the Central Bank remained unchanged during this second quarter, where SELIC rate rose twice, thus reaching 19.75%. As a result of the high real interest rate generated by the above, the exchange rate increased by 7% compared to the previous quarter, reaching 2.34 *reales* per dollar at the end of June. Inflation measured in 12 consecutive months has stabilized after the upward trend observed until April. The average rate for the quarter exceeded 7%, with a downward trend.

As to tax matters, the government maintained the primary surplus in line with market expectations. This surplus contributes to the promotion in the short term of certain projects at Congress basically related to investments in key sectors in order to overcome current economy bottlenecks and to continue lowering the unemployment rate, which at the end of the quarter was below 10%.

ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

Discussion and analysis of results of operations for the six-month period ended June 30, 2005 (2005 quarter) compared to the six-month period ended June 30, 2004 (2004 quarter).

Some amounts and percentages in this analysis are rounded and the totals in some tables may therefore not precisely equal the sums of the numbers presented.

In accordance with the procedure set forth in Technical Resolution 19 of the Argentine Federation of Professional Councils in Economic Sciences, or FACPCE, we have consolidated line by line on a proportional basis our financial statements with the financial statements of companies over which we exercise joint control. Joint control exists where all the shareholders, or shareholders representing a voting majority, 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 companies over which we exercise joint control, the amount of the investment in the subsidiary under joint control and the interest in its income (loss) and cash flows are replaced by our proportional interest in the subsidiary s assets, liabilities, income (loss) and cash flows. 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.

Distrilec Inversora S.A. (Distrilec), Compañía de Inversiones de Energía S.A. (CIESA) and Citelec S.A. fall within the category of companies under joint control. We did not consolidate proportionally line by line our financial statements with the financial statements of Citelec because Petrobras Energía S.A. has committed to sell its interest in Citelec upon transfer of 58.62% of Petrobras Energía Participaciones S.A. s shares to Petróleo Brasileiro S.A. Petrobras (Petrobras).

Accordingly, our management analyzes our results and financial condition separately from the results and financial condition of these companies. The discussion below is presented on the basis of the consolidated financial data of Petrobras Energía Participaciones S.A. without proportional consolidation and therefore is not directly comparable to the corresponding financial data set forth in our financial statements. The results of CIESA and Distrilec, proportionally consolidated in the financial statements and the results of Citelec, are discussed under Analysis of Equity in Earnings of Affiliates .

ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

The table below shows the Company s results of operations for the six-month periods ended June 30, 2005 and 2004 under the professional accounting standards and, for comparative purposes, the pro forma results that exclude the effects of proportional consolidation of affiliates under joint control.

For comparative purposes, information for 2004 quarter includes the results of EG3 S.A., Petrobras Argentina S.A. and Petrolera Santa Fe SRL, as if the merger had been effected on January 1, 2004. Considering that the effective date of the merger is January 1, 2005, net income for the previous year shown on a comparative basis does not change as a result of the merger. For such reason, the balancing item of the net effect of added results is recorded under Minority Interest in subsidiaries , as indicated in Note 1.c to the consolidated financial statements.

(in millions of pesos)

Net income: Net income for the 2005 second quarter totaled P$264 million compared to a P$77 million loss in the same period of previous year. The 2005 second quarter results were favorably impacted by the following:

- High WTI prices and, to a lesser extent, the recovery of gas and electricity prices in Argentina as a result of the path of prices agreed upon with the Argentine Government.

- The reduction in losses attributable to the valuation at market value of derivative instruments that do not qualify for hedge accounting.

- The favorable effect of the exchange rate behavior on the borrowing position of the Company and its main affiliates.

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Recording of allowances in 2004 second quarter to adjust the book value of investments in CIESA/TGS and Citelec to their recoverable value.

Net sales: Net sales increased P$428 million or 20.4% to P$2,535 million from P$2,107 million in the same quarter of previous year. Net sales for 2005 quarter reflect P$116 million and P$156 million attributable to our share in CIESA`s and Distrilec s net sales, respectively, (net of intercompany sales of P$9 million). Net sales for 2004 quarter reflect P$114 million and P$132 million attributable to our share in CIESA s and Distrilec s net sales, respectively (net of intercompany sales of P$2 million).

Without proportional consolidation, net sales increased P$409 million or 22% to P$2,272 million from P$1.863 million in the same quarter of previous year. Sales for the Oil and Gas Exploration and Production, Petrochemicals, Refining and Electricity business segments increased P$211 million, P$96 million, P$79 million and P$12 million, respectively, driven by a significant increase in the price of WTI and the main petrochemical and refined byproducts. Reflecting the growing integration of operations, intercompany sales increased to P$484 million from P$467 million in the same period of previous year.

Gross profit: Gross profit increased P$177 million or 25.5% to P$871 million from P$694 million. The 2005 quarter gross profit reflects P$53 million and P$16 million attributable to our share in the gross profit of CIESA and Distrilec, respectively. The 2004 quarter gross profit reflects P$55 million and P$24 million attributable to our share in the gross profit of CIESA and Distrilec, respectively.

Without proportional consolidation, gross profit for 2005 quarter increased P$187 million or 30.4% to P$802 million from P$615 million. Reflecting the sales growth mainly attributable to higher prices, gross profit for the Oil and Gas Exploration and Production, Petrochemicals and Electricity business segments increased P$153 million, P$14 million and P$5 million, respectively. Conversely, the reduction in marketing margins of refined products resulted in a P$37 million decrease in the Refining business segment.

Administrative and selling expenses: Administrative and selling expenses for 2005 quarter rose P$26 million or 14% to P$212 million from P$186 million in 2004 quarter. The 2005 quarter reflects P$5 million and P$18 million attributable to our share in the administrative and selling expenses of CIESA and Distrilec, respectively. The 2004 quarter reflects P$2 million and P$17 million attributable to our share in the administrative and selling expenses of CIESA and Distrilec, respectively.

Without proportional consolidation, administrative and selling expenses increased P$22 million or 13.2% to P$189 million in 2005 quarter from P$167 million in 2004 quarter

Exploration expenses: Exploration expenses totaled P$17 million and P$20 million, respectively. See Analysis of Operating Income Oil and Gas Exploration and Production .

Other Operating Income (Expense), net: Other operating income (expense), net accounted for P$83 million and P$74 million losses in 2005 and 2004 quarters, respectively. Other operating income (expense), net for 2005 quarter reflects a P$4 million loss, attributable to our share in other operating income (expense), net of CIESA. The 2004 quarter does not reflect other operating income (expense), net attributable to our share in other operating income (expense), net of CIESA and Distrilec.

Without proportional consolidation, other operating income (expense), net accounted for P$79 million and P$74 million losses for 2005 and 2004 quarters.

Operating income: Operating income increased P$145 million or 35% to P$559 million from P$414 million. The 2005 quarter operating income reflects a P$44 million gain and a P$2 million loss attributable to our share in the operating income of CIESA and Distrilec, respectively. The 2004 quarter reflects P$53 million and P$7 million gains attributable to our share in the operating income of CIESA and Distrilec, respectively.

Without proportional consolidation, operating income moved up P$163 million or 46% to P$517 million in 2005 quarter from P$354 million in 2004 quarter. See Analysis of Operating Income .

Equity in Earnings of Affiliates: Equity in earnings of affiliates accounted for a P$69 million gain in 2005 quarter compared to a P$15 million loss in 2004 quarter. Without proportional consolidation, equity in earnings of affiliates accounted for a P$79 million gain in 2005 quarter compared to a P$99 million loss in 2004 quarter. See Analysis of Equity in Earnings of Affiliates .

Other income (expense), net: Other income (expense), net accounted for a P$4 million gain in 2005 quarter compared to a P$45 million loss in 2004 quarter.

Without proportional consolidation, other income (expense), net did not account for significant results in 2005 quarter compared to a P$3 million gain in 2004 quarter.

Financial income (expense) and holding gains (losses): Financial income (expense) and holding gains (losses) accounted for a P$121 million loss, reflecting a 71.2% or P$300 million decline compared to P$ 421 million in 2004 quarter. The 2005 quarter reflects P$16 million and P$7 million financial expenses attributable to our share in the financial expense of CIESA and Distrilec, respectively. The 2004 quarter reflects P$91 million and P$12 million financial expenses attributable to our share in the financial expense of CIESA and Distrilec, respectively.

Without proportional consolidation, financial income (expense) and holding gains (losses) fell approximately 69.2% to P$98 million in 2005 quarter from P$318 million in 2004 quarter, mainly due to:

- A reduction in losses attributable to the valuation at market value of derivative instruments which do not qualify for hedge accounting, which totaled P$5 million in 2005 quarter compared to P$187 million in 2004 quarter as a result of (i) a lower increase in the future curve of crude oil prices (3.74% in 2005 quarter compared to 11.6% in 2004 quarter), and (ii) lower hedged volumes.

- A 7.9% reduction in interest expense to P$93 million in 2005 quarter from P$101 million in 2004 quarter, as a result of a 1.2% decline in dollar-denominated average indebtedness.

- Exchange difference gains in the amount of P$7 million in 2005 quarter compared to a P$36 million loss in 2004 quarter, in line with the fluctuating behavior of the exchange rate, and the consequent effect on the Company s dollar-denominated net borrowing position (0.1% appreciation in 2005 quarter compared to a 3.8% depreciation in 2004 quarter).

Income tax: The income tax charge for 2005 quarter increased to P$153 million from P$34 million in 2004 quarter. The 2005 quarter reflects a P$3 million gain and a P$3 million loss attributable to our share in the income tax of CIESA and Distrilec, respectively. The 2004 quarter reflects P$4 million and P$4 million losses attributable to our share in the income tax of CIESA and Distrilec, respectively.

Without proportional consolidation, income tax accounted for a P$153 million loss in 2005 quarter compared to P$26 million in 2004 quarter. As of December 31, 2004, after taking into consideration profitability expectations in connection with Petrobras Energía s business plan, the Company partially reversed the allowance provided for tax loss carry forwards, recording a P$268 million gain. Consequently, the increase in 2005 quarter income tax charge is mainly attributable to the decrease in partially reversed tax loss carry forwards as a consequence of the tax gain for the period.

<u>Analysis of Operating Income</u>

<u>Oil and Gas Exploration and Production</u>

Operating income: Operating income for the Oil and Gas Exploration and Production busines segment increased P$134 million or 39.6% to P$472 million from P$338 million in 2004 period. This variation is mainly attributable to the 33.5% increase in average sales prices of oil equivalent attributable to (i) the 38.4% rise in WTI price and (ii) the recognition of the additional compensation in the Oritupano Leona agreement, in Venezuela

The table below shows the Company s operating income for this business segment:

Net sales: Net sales for 2005 quarter increased P$211 million or 23.6% to P$1,105 million from P$894 million in 2004 quarter. This improvement is mainly attributable to the 35.7% increase in the average sales price of oil equivalent, partially offset by a 9.2% reduction in sales volumes of oil equivalent.

In 2005 quarter, the average sales price per barrel of crude oil, including the effects of taxes on exports, increased 34.8% to P$93.8 from P$69.6 in 2004 quarter.

Combined oil and gas daily sales volumes in 2005 quarter decreased to 169.5 thousand barrels of oil equivalent from 186.7 thousand barrels of oil equivalent in 2004 quarter. Crude oil sales volumes decreased 7.3% to 118.7 thousand barrels per day from 128.1 thousand barrels per day, while gas daily sales volumes dropped 13.4% to 304.7 million cubic feet and 351.8 million cubic feet, respectively.

Argentina

In Argentina, sales rose 5.0% or P$26 million to P$547 million in 2005 quarter from P$521 million in 2004 quarter, boosted by a 17.4% increase in average sales prices limited by a 10.6% reduction in combined oil and gas daily sales volumes to 95.6 thousand barrels of oil equivalent in 2005 quarter from 106.9 thousand barrels of oil equivalent in 2004 quarter.

Crude oil sales increased P$24 million or 5.1% to P$490 million in 2005 quarter from P$466 million in 2004 quarter. This increase was attributable to the 15.6% rise in the average sales price to P$96.4 per barrel from P$83.4 per barrel. In Argentina, the benefits derived from a favorable price context were severely limited due to the strong increase in crude oil exports taxes recorded during 2004. Such taxes moved from a single nominal 20% rate in 2004 first quarter to 25% as from mid 2004 second quarter, with a rate set at 45% within the framework of an incremental tax scheme implemented in August 2004. This scheme was a conditioning reference for the fixing of domestic sales prices to the refining segment in line with the Argentine Government s intention to establish a price stability framework.

Crude oil daily sales volumes declined 9% to 55.9 thousand barrels in 2005 quarter from 61.4 thousand barrels in 2004 quarter, mainly due to the fact that Argentine assets are mature fields under production through secondary recovery with a considerable natural decline. The investments made, basically in projects aimed at improving the fields production basic curve, allowed to mitigate the negative trend of the production curve.

Total gas sales increased 3.6% to P$57 million in 2005 quarter from P$55 million in 2004 quarter, mainly due to a 19.7% increase in prices, partially offset by a 12.6% reduction in sales volumes. Gas average sales prices increased to P$2.63 per million cubic feet in 2005 quarter from P$2.20 per million cubic feet in 2004 quarter mainly due to the renegotiation of export contracts and the implementation of a price recovery path for Distribution Companies (in proportion to industrial consumption) and for Power Plants, as provided for by the Secretary of Energy. Conversely, due to the restrictions imposed by the Argentine Government within the context of the energy emergency, gas export volumes fell and were sold in the domestic market at lower prices. Gas daily sales volumes dropped to 238.6 million cubic feet in 2005 quarter mainly due to the considerable decline in the fields production curve mentioned before.

Outside of Argentina

Combined oil and gas sales outside of Argentina increased P$180 million or 48.4% to P$552 million in 2005 quarter from P$372 million in 2004 quarter. Total oil and gas sales volumes fell 7.4% to 73.9 thousand barrels of oil equivalent per day in 2005 quarter from 79.8 thousand barrels. The average sales price per barrel of oil equivalent increased 60.4% to P$82.1 in 2005 quarter from P$51.2 in 2004 quarter, mainly due to the increase in the international reference price and the recognition of an additional compensation in Venezuela.

Venezuela

In Venezuela, oil and gas sales in 2005 quarter grew P$101 million or 54.9% to P$285 million in 2005 quarter from P$184 million in 2004 quarter. In 2005 quarter, the average price per barrel of oil totaled P$73.4, 75.2% higher compared to P$41.9 in 2004 quarter. This variation is mainly attributable to the WTI behavior mentioned above and to the recognition of an additional compensation provided for under the second round contracts, which include, among others, the Oritupano Leona area. Along these lines, the operating agreement of the oilfield provides that once an accumulated production volume of 155 million barrels has been reached, an additional compensation will be recognized based on a rate per barrel adjusted on the basis of changes in prices of a crude basket. During 2005 first quarter, the Consortium reached the accumulated production required under the Agreement and consequently started to recognize such incentive on production, accounting for an additional income of P$90 million.

Daily sales volumes of oil equivalent decreased 12.2% to 45.6 thousand barrels of oil equivalent in 2005 quarter from 52 thousand barrels of oil equivalent in 2004 quarter, mainly as a consequence of the results obtained from the drilling and workover campaigns in connection with third round contracts during 2004 and the investment cut provided by PDVSA.

Ecuador

In Ecuador, oil sales for 2005 quarter increased 39.6% to P$74 million from P$53 million in 2004 quarter mainly boosted by a 35.5% increase in sales prices to P$120.9 per barrel from P$89.2 per barrel, mainly due to the 36.1% increase in the price of Oriente crude oil, the applicable international reference. Though production volumes for 2005 quarter recorded a 47.6% growth in line with the gradual development of Block 18, operating problems at Petroecuador facilities delayed crude oil shipments limiting a potential growth in deliveries, which reflected a 2.6% slight increase to 6.7 thousand barrels per day in 2005 quarter, with the consequent increase in stocks.

Peru

In Peru, oil and gas sales increased P$57 million or 53.7% to P$163 million in 2005 quarter from P$106 million in 2004.

The crude oil price rose 38.1% to P$138.5 per barrel from P$100.3 per barrel. The international reference (a combination of Oriente crude oil and the WTI), recorded a positive variation of 38.4%. The price of gas decreased 6.0% to P$5.19 per million cubic feet from P$5.51 per million cubic feet, as a consequence of the increase in gas supply, boosted by the entry to the local market of gas from the Camisea formation which is the most important gas reserve in Peru and one of the most important gas reserves in Latin America.

Daily sales volumes of oil equivalent increased 13.4% to 14.2 thousand barrels per day in 2005 quarter from 12.6 thousand barrels per day in 2004 quarter, mainly as a consequence of the good results obtained from drilling campaigns during 2005 and of increased drilling and workover activities performed in 2004.

Bolivia

In Bolivia, oil and gas sales in 2005 quarter increased P$2 million or 7.1% to P$30 million from P$28 million in 2004 quarter, boosted by a 39.6% increase in the gas price. Combined oil and gas daily sales volumes decreased 16.7% to 7.3 thousand Boe as a consequence of a drop in the domestic market.

The average sales price of gas recorded a 39.5% increase to P$6.7 per million cubic feet from P$4.8 per million cubic feet in the prior-year quarter as a consequence of the increase in fuel oil international prices as per Platt s Oilgram, used as reference for the calculation of the price of export to Brazil.

Gross profit: Gross profit for 2005 quarter rose P$153 million or 32.9% to P$618 million from P$465 million. The margin on sales increased to 55.9% in 2005 quarter from 52% in 2004 quarter. This rise in margins is mainly attributable to a 35.7% increase in average sales prices of oil equivalent. The lifting cost rose to P$9.7 per barrel of oil equivalent from P$7.9 per barrel of oil equivalent, mainly due to the rise in oil service rates and, to a lesser extent, increases in electric power costs and incremental costs associated with the implementation of new safety and environmental standards. Increased costs are mainly recorded in Argentina. The drop in production volumes also had an impact, though to a lesser extent.

Administrative and selling expenses: Administrative and selling expenses in 2005 quarter increased 32.6% or P$14 million to P$57 million in 2005 quarter from P$43 million in 2004 quarter.

Exploration expenses: Exploration expenses totaled P$17 million in 2005 quarter and P$20 million in 2004 quarter. Expenses for 2005 quarter are mainly attributable to 3D seismic works in exploratory areas in Argentina. In 2004 quarter, in accordance with the SFAS 19 guidelines, exploration investments in Puesto Zuñiga areas and expenses related to unsuccessful wells in the Aguaragüe area were charged to income.

Other operating income: Other operating income (expense) accounted for P$72 million and P$64 million losses in 2005 and 2004 quarters, respectively. Losses for both quarters are mainly attributable to costs associated with the Ship or Pay contract.

Hydrocarbon Marketing and Transportation

Operating income: In 2005 and 2004 quarters, operating income for the Hydrocarbon Marketing and Transportation business segment was P$58 million and P$63 million, respectively. Operating results reflect P$44 million and P$53 million gains in 2005 and 2004 quarters, respectively, attributable to the proportional consolidation of CIESA. Excluding such effects, operating income totaled P$14 million and P$10 million in 2005 and 2004 quarters, respectively.

The table below shows the Company s operating income for this business segment, excluding the effects of the proportional consolidation of CIESA:

(in millions of pesos)

Net sales: Sales revenues increased to P$153 million or 26.4% from P$121 million mainly due to increases in the price of both gas and liquids. Gas prices increase was attributable to the application of the price recovery path fixed by the Secretary of Energy as from May 2004 as well as to the rise in international reference prices applicable to certain export contracts and contracts with industrial clients. As regards liquids, the improvement in prices derived from an increase in the price of their international references.

Sales revenues from gas and liquids produced by the Company and imported gas and liquids totaled P$77 million and P$57 million in 2005 quarter and P$40 million and P$72 million in 2004 quarter, respectively. Sales volumes in Argentina for gas produced by the Company and imported gas dropped to 267.2 million cubic feet per day in 2005 from 271.2 million cubic feet per day in 2004 as a consequence of the decline in the Company s own gas production due to the natural decline of fields located in Argentina, partially offset by gas volumes imported from Bolivia as from June 2004. Liquids sales volumes dropped to 61.1 thousand tons in 2005 from 83.3 thousand tons in 2004 as a consequence of reduced gas volumes processed and lower yields obtained from processing gas with lower richness and heavier crude oils.

Gas and LPG brokerage services accounted for sales revenues in the amount of P$19 million and P$9 million in 2005 and 2004 second quarters, respectively. This improvement in 2005 was attributable to increased gas brokerage operations performed with the purpose of offsetting the decline in the Company s own production mentioned above. Within this context, sales volumes increased to 23 million cubic feet per day in 2005 from 6 million cubic feet per day in 2004.

Gross profit: Gross profit for the quarter under review increased 14.3% to P$8 million from P$7 million in 2004 quarter.

Other operating income (expense), net: Other operating income (expense), net reflected P$6 million and P$4 million gains in 2005 and 2004 quarters, respectively, mainly derived from advisory services provided to TGS s technical operator. As from July 2004, such function was assigned to the Company.

Refining

The table below shows the Company s operating income for this business segment:

(in millions of pesos)

Operating income: In 2005 quarter operating income for the Refining business segment declined P$37 million, reflecting a P$31 million loss compared to a P$6 million gain in 2004 quarter. During 2005 quarter, the resale of imported diesel oil had a negative impact on the segment s profitability. In such respect, the Company prioritized the supply to the domestic market, even within a context that limited the possibility of passing through the increase in international prices to final prices. In addition, the rise in the price of WTI had a negative effect which was only mitigated by the implementation of the crude oil export tax regime. These effects were partially offset by the significant increase in export prices and in the prices of domestic market products not subject to the Price Stability

Agreement.

Gross profit: Gross profit for 2005 quarter significantly declined to P$28 million from P$65 million in 2004 quarter. Gross margin declined to 3% in 2005 quarter from 7.7% in 2004 quarter, mainly due to the adverse impact attributable to the resale of diesel oil and the 14.4% increase in the cost of crude oil to P$107.4 per barrel in 2005 quarter from P$93.9 per barrel in 2004 quarter. Within this context, priority was given to domestic supply seeking to mitigate the negative margins with an efficient commercial management on products and distribution channels with higher contribution (not subject to the Price Stability Agreement), in addition to export opportunities.

Net sales: Net sales for refinery products increased P$79 million or 9% to P$924 million in 2005 quarter from P$845 million, boosted by higher sales prices of products. Total sales volumes remained at similar levels in both quarters, with a change in the market mix. Domestic sales increased 10% compared to 2004 quarter while export sales fell 32%.

In line with the significant rise in the price of WTI, sales average prices of heavy distillates, benzene, asphalts, paraffins, diesel oil, reformer plant byproducts, aromatics and gasoline increased 37%, 36%, 27%, 21%, 15%, 9%, 8% and 5%, respectively.

In 2005 quarter crude oil volumes processed at the refineries declined 1% to 58.8 thousand barrels per day as a result of the shutdown for scheduled maintenance works at the Bahía Blanca refinery that covered almost all the last month of 2005 quarter.

Total diesel oil sales volumes moved down 5.5% to 464 thousand cubic meters in 2005 quarter, mainly due to the decline in export volumes on account of the operating merger of the Company and EG3 operations. In 2004 quarter, in a prior stage to full integration and complementation of operations, surplus production from the San Lorenzo refinery was sold in the export market while EG3 s network shortfall, in connection with its own production from the Bahía Blanca Refinery, was made up by purchases from third parties. Domestic sales for 2005 quarter grew 4.3% compared to 2004 quarter and this resulted in an increase in the market share to 14.9% in 2005 quarter from 14.6% in 2004 quarter.

Total gasoline sales volumes dropped 4.3% to 156 thousand cubic meters mainly due to an 18.7% decline in exports. Domestic sales exhibited a 3% increase in 2005 quarter, mainly attributable to the 5.7% increase in the gasoline market. Within this context, the Company s market share fell to 14.8% from 15.2%. Yet, in the premium gasoline market, the Company s market share grew from 6.7% in 2004 quarter to 10% in 2005 quarter, mainly due to the launching of Podium gasoline.

Asphalt sales volumes grew 34.7% in 2005 quarter, mainly boosted by a program of infrastructure works performed by the Government, particularly in the southern region of the country. Within this context, domestic market sales increased 45.2% in 2005 quarter while exports declined 6.9%.

As regards heavy distillates, sales volumes declined 13%, mainly VGO volumes, as a result of reduced exports in the period under review.

As regards the remaining products, sales of reformer plant byproducts rose 18.9%, basically as a consequence of increased sales of aromatics (74.8%), paraffins (21.2%) - mainly as a result of exports of varieties of paraffins - and increased LPG sales (18%).

Administrative and selling expenses: Administrative and selling expenses grew P$2 million to P$60 million from P$58 million in the prior-year quarter, mainly as a result of an increase in labor costs.

Other operating income (expense), net: Other operating income (expense), net accounted for a P$1 million gain in 2005 quarter and a P$1 million loss in 2004 quarter.

Petrochemicals

In 2005 quarter, styrenics business operations exhibited a significant increase in international marketing spreads. This also applied to styrene and polystyrene, which recorded 93% and 33% increases, respectively, mainly due to the combined effect of: (i) a drop in the price of benzene as a result of increased supply during 2005 quarter derived from the construction of new plants which increased production capacity, and (ii) improved sales prices in line with the rise in oil prices.

Regarding the fertilizers business, urea international prices rose 68.5%, from an average of U$S143 per ton in 2004 quarter to U$S241 per ton in 2005 quarter, mainly as a result of an increased demand.

The table below shows the Company s operating income for this business segment:

(in millions of pesos)

Operating income: Operating income for 2005 quarter rose P$16 million or 34.8% to P$62 million from P$ 46 million in 2004 quarter due to increased sales prices.

Net sales: net sales rose P$96 million or 24.2% to P$493 million in 2005 quarter from P$397 million in 2004 quarter (net of eliminations in the amount of P$37 million and P$1 million) mainly boosted by increased sales prices.

- Styrenics - Argentina:

In Argentina, styrenics sales increased to P$211 million or 46.5% in 2005 quarter from P$144 million in 2004 quarter, due to the combined effect of higher sales prices, in line with the performance of international reference prices and ethylbenzene sales to Innova. To such respect, the start-up of the ethylene plant in October 2004 allowed to increase the supply of ethylbenzene which is primarily exported to Innova. This new operation represents a new step in the Company s strategy to strengthen integration of operations, thus allowing for full use of production installed capacity at the Puerto General San Martín Complex and for an increase in the supply of products in the plastics market.

Sales volumes increased 11% to 53 thousand tons in 2005 quarter. This increase is mainly attributable to new ethylbenzene exports to Innova, which totaled 10.5 thousand tons. In 2005 quarter, the styrene and ethylene facilities at the General San Martín Plant recorded a lower availability factor as a result of the technical shutdowns in April and May 2005, respectively.

Average sales prices of styrenics in 2005 quarter were 32% higher compared to 2004 quarter, with increases of 43%, 32% and 39% for styrene, polystyrene and rubber, respectively, as a result of the rise in international reference prices.

Styrenics performed as follows:

a) Styrenics sales volumes dropped 16% in 2005 quarter compared to 2004 quarter, with a 42% decline in exports as a result of lower availability derived from the styrene plant shutdown during 2005 quarter. Domestic sales decreased 5% due to the substitution of byproducts by competing companies (EPS and emulsions).

b) Polystyrene and Bops sales volumes were 12% lower compared to 2004 quarter, with a 2% drop in domestic sales and a 22% decline in exports, mainly to Chile and Europe.

c) Considering production from the ethylene plant, ethylbenzene sales volumes totaled 10.5 thousand tons, while no sales of this product were recorded in 2004 quarter.

d) Synthetic rubber sales volumes declined 11% in 2005 quarter, mainly due to rebuilding of inventory levels on account of the plant shutdown scheduled for the third quarter of 2005. This directly affected export markets, with a 25% drop in volumes dispatched. Sales volumes in the domestic market increased 8% compared to 2004 quarter.

- Styrenics Brazil - Innova:

Innova sales increased 33.3% to P$208 million in 2005 quarter from P$156 million mainly due to the increase in sales prices, in line with international reference prices.

Styrene and polystyrene prices increased 44% and 47%, respectively, compared to 2004 quarter.

In 2005 quarter, total styrene and polystyrene volumes fell 9% and 22% to 23.5 thousand tons and 20 thousand tons, respectively, as a result of a lower demand from the Brazilian market derived from consumption of customers stocks in 2005 quarter. In spite of the decline in sales, the Company maintains a leading position in the Brazilian market.

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Fertilizers:

Fertilizers sales rose 13.3% to P$111 million in 2005 quarter from P$98 million, due to the 17.5% increase in sales prices, partially offset by a 2.8% decline in sales volumes as a result of a lower demand derived from the effect of weather conditions on the agricultural sector. The Company s stocks policy allowed to offset the effects of the plant s lower operating availability factor, as a result of the technical shutdown scheduled for maintenance works during almost the whole month of May 2005.

Gross profit: Gross profit rose P$14 million or 19.4% to P$86 million in 2005 quarter from P$72 million in 2004 quarter. Gross margin on sales slightly decreased to 17.4% from 18.1%, reflecting the effect of lower styrenics margins in Brazil and reduced fertilizers margins.

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Styrenics - Argentina:

Gross profit rose 69% to P$49 million in 2005 quarter from P$29 million in 2004 quarter, mainly as a result of increased prices and sales volumes. Gross margin on sales increased to 23.2% from 20.1% as a result of improved sales prices.

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Styrenics - Brazil:

Gross profit dropped 19% to P$17 million in 2005 quarter from P$21 million in 2004 quarter. Gross margin on sales moved down to 8.2% in 2005 quarter from 13.5% in 2004 quarter, as a result of the market limitations to pass through to prices the higher cost of raw materials and the effect of freight costs.

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Fertilizers:

Gross profit dropped 9.1% to P$20 million in 2005 quarter from P$22 million in 2004 quarter, mainly due to increased costs of gas and ammonium nitrate that could not be fully passed through to sales prices, and the effect of the plant shutdown in May 2005.

Administrative and selling expenses: Administrative and selling expenses totaled P$32 million and P$28 million in 2005 and 2004 quarters, respectively. This increase is mainly attributable to: (1) increased labor costs in Innova and (2) the rise in selling expenses in Argentina due to higher freight costs in line with ethylbenzene exports to Innova.

Electricity

Operating income: In 2005 quarter, operating income for the Electricity segment declined P$10 million to P$33 million from P$43 million. Operating results reflect a P$2 million loss and a P$7 million gain in 2005 and 2004 quarters, respectively, attributable to the proportional consolidation of Distrilec. Excluding such effects, operating income slightly declined P$1 million to P$35 million in 2005 quarter from P$36 million in 2004 quarter. In 2005 quarter, generation margins increased as a result of improved prices and higher sales volumes. This allowed to offset higher costs attributable to fuel gas and energy purchases and lower income from technical assistance services.

The table below shows the Company s operating income for this business segment, excluding the effects of the proportional consolidation of Distrilec:

(in millions of pesos)

Electricity generation

Net sales: Net sales of electricity generation increased P$13 million or 19.7% to P$79 million in 2005 quarter from P$66 million in 2004 quarter as a consequence of the combined effect of an 18.2% improvement in generation prices and a 1.5% increase in energy sales as a result of the 4.8% rise in the demand for energy in Argentina.

The increase in energy sales prices mainly derived from a higher demand for electric power within a framework of reduced water flows contributed by the different basins and restricted gas supply. Such facts resulted in energy deliveries by less efficient thermal machines. In addition, in the case of Genelba Power Plant, the increase mentioned above is also attributable to the passing through to sales prices of the increase in gas costs as a result of the path of prices implemented since 2004 fourth quarter.

In 2005 quarter, net sales attributable to Genelba Power Plant increased 22.6% to P$65 million from P$53 million due to the combined effect of improved prices and increased sales volumes. The average sales price of energy increased 16.9% to P$51.8 per MWh in 2005 quarter from P$44.3 per Mwh in 2004 quarter due to the market reasons mentioned above. Energy sales increased 5.4% to 1,258 GWh from 1,193 GWh due to the higher demand recorded in 2005 quarter. Therefore, the plant factor as well as the power plant s availability factor rose to 80.4% in 2005 quarter from 77.8% in 2004 quarter and to 82.1% in 2005 quarter from 78.5% in 2004 quarter, respectively.

Net sales attributable to Pichi Picún Leufú Hydroelectric Complex increased 8.3% to P$13 million in 2005 quarter from P$12 million in 2004 quarter. The average sales price increased 29.7% to P$53.7 per MWh in 2005 quarter from P$41.4 per MWh in 2004 quarter. During 2005 quarter, energy delivered decreased 14.9% to 246 GWh from 289 GWh, due to lower water levels in the Comahue Basin.

Gross profit: Gross profit for the generation business increased P$6 million to P$37 million in 2005 quarter from P$31 million in 2004 quarter, mainly driven by improved prices in the wholesale electricity market in 2005 quarter. This allowed to absorb higher costs attributable to fuel gas and energy purchases. The Company s condition as an integrated energy company and the complementation of thermal and hydroelectric generation allowed to take advantage of higher margin opportunities in the market.

Administrative and selling expenses: Administrative and selling expenses for the generation business totaled P$3 million and P$1 million in 2005 and 2004 quarters, respectively.

Other operating income (expense), net: Other operating income (expense), net is mainly attributable to income from advisory services provided to Chilectra S.A. as Edesur S.A. s technical operator. In November 2004, Chilectra S.A. and Edesur S.A. renegotiated the terms and conditions of the technical assistance agreement with a substantial reduction in the economic terms of the agreement. Within this context, during the period under review no significant results were recorded in such respect compared to a P$4 million income in 2004 quarter.

Analysis of Equity in Earnings of Affiliates

The table below presents equity in earnings of affiliates of Petrobras Energía Participaciones S.A., its subsidiaries and companies under joint control for 2005 and 2004 quarters. In addition, the table presents equity in earnings of affiliates excluding the effects of proportional consolidation.

TGS/CIESA: In 2005 quarter, equity in earnings of CIESA/TGS accounted for a P$20 million gain compared to a P$85 million loss in 2004 quarter. The 2004 quarter equity in earnings reflects a charge corresponding to the recording of allowances to value these investments at fair market value in the amount of P$45 million and P$5 million, respectively. Excluding these charges, equity in earnings for 2004 quarter accounted for a P$35 million loss.

This variation in equity in earnings is mainly attributable to the impact of the different behavior of the exchange rate in both quarters on the dollar-denominated net borrowing position. In this respect, in 2005 quarter, CIESA s financial income (expense) accounted for a P$32 million loss, significantly lower than P$182 million in 2004 quarter.

CIESA s total sales revenues in 2005 quarter slightly declined compared to 2004 quarter. Sales revenues for the gas transportation segment increased P$5 million in 2005 quarter, mainly as a result of increased provision of gas transportation services in the amount of P$3 million. Income from the NGL production and marketing segment declined P$4 million in 2005 quarter, accounting for a 16% drop in sales volumes, partially offset by an increase in international reference prices. The drop in sales volumes was attributable to a lower gas supply.

Distrilec (Edesur): Equity in earnings of Distrilec accounted for P$5 million and P$8 million losses in 2005 and 2004 quarters, respectively.

Distrilec s operating income accounted for a P$4 million loss in 2005 quarter compared to a P$14 million gain in 2004 quarter. This drop is mainly attributable to the impact of the penalties imposed by the regulatory authorities and higher labor costs. Financial income (expense) and holding gains (losses) accounted for P$14 million and P$24 million losses in 2005 and 2004 quarters, respectively. This drop is attributable to the effect of the different behavior of the exchange rate in both quarters on the Company s dollar-denominated financial indebtedness.

Citelec/Transener: In 2005 quarter, equity in earnings of Citelec accounted for a P$19 million gain compared to a P$38 million loss in 2004 quarter. Both quarters reflect charges in connection with the recording of an allowance to adjust the book value to the market value, in the amount of P$140 million and P$19 million, respectively.

On June 30, 2005, Transener completed restructuring of its financial indebtedness. According to the exchange offer terms and the tenders submitted, Transener recognized a P$609 million gain. The impact of this gain, however, was significantly absorbed by the recording of the allowance mentioned above.

Citelec s sales revenues for 2005 quarter grew 12.2% or P$9 million to P$83 million, 12.2% higher compared to P$74 million in 2004 quarter, mainly due to the P$9 million increase in revenues from unregulated services.

Operating income increased P$2 million to P$9 million in 2005 quarter from P$7 million in 2004 quarter derived from higher revenues from unregulated services.

Refinor S.A. (Refinor): Equity in earnings of Refinor increased to P$10 million in 2005 quarter from P$8 million in 2004 quarter, mainly due to the increase in fuel marketing margins resulting from export operations and, to a lesser extent, the revaluation of inventories due to the WTI rise.

Petroquímica Cuyo S.A.(Cuyo): Equity in earnings of Cuyo accounted for a P$1 million loss in 2005 and a P$2 million gain in 2004 quarter. This drop derives from a decline in margins as a result of the increase in the price of petrochemical supplies in line with the WTI behavior.

Empresa Boliviana de Refinación (EBR): Equity in earnings of EBR accounted for P$25 million and P$12 million gains in 2005 and 2004 quarters, respectively. The improvement in results for 2005 quarter is attributable to the reversal of allowances for bad debts, especially receivables from the Bolivian government, and the positive effects of the regulatory changes in 2005 second quarter.

SUMMARIZED BALANCE SHEET AND INCOME STATEMENT STRUCTURE

The information below for the six-month periods ended June 30, 2002 and 2001 does not have retroactive effect under the new professional accounting standards. The information below for the six-month periods ended June 30, 2004, 2003, 2002 and 2001 does not reflect the effects of the merger of Petrobras Argentina S.A., Petrolera Santa Fe S.R.L. and EG3 S.A. into Petrobras Energía S.A..

LISTED PRICE OF THE COMPANY S SHARE

STATISTICAL DATA

The information below for the six-month periods ended June 30, 2004, 2003, 2002 and 2001 does not reflect the effects of the merger of Petrobras Argentina S.A., Petrolera Santa Fe S.R.L. and EG3 S.A. into Petrobras Energía S.A..

JOSE SERGIO GRABRIELLI de AZEVEDO

PRESIDENTE

INDEPENDENT ACCOUNTANT´S REVIEW REPORT

To the Board of Directors of

Petrobras Energía Participaciones S.A.:

1.

We have reviewed the accompanying consolidated balance sheet of Petrobras Energía Participaciones S.A. (an Argentine Corporation) and its subsidiaries as of June 30, 2005, and the related consolidated statements of income, changes in shareholders´ equity and cash flows for the six-month period then ended. These financial statements are the responsibility of the Company s management.

2.

We conducted our review in accordance with the standards of Technical Resolution No. 7 of the Argentine Federation of Professional Councils in Economic Science applicable to the limited review of interim-period financial statements. Under such standards, a limited review mainly consists in applying analytical procedures to accounting information and in making inquiries of the persons responsible for accounting and financial matters. The scope of a limited review is substantially less than that of a financial statements audit, the purpose of which is to express an opinion on the financial statements taken as a whole. Accordingly, we do not express such opinion. We believe that our review and the reports of other auditors mentioned in paragraph 5, provide us with a reasonable basis for our negative assurance in paragraph 8 below.

3.

The accompanying financial statements have been translated into the English language from those issued in Spanish in accordance with the National Securities Commission (CNV) regulations. They have also been reformatted in a manner different from that presented in Spanish, but in all other respects follow accounting principles and reporting practices that conform with CNV regulations.

4.

As further explained in Note 2 to the consolidated financial statements, certain accounting practices applied by the Company conform with the accounting standards set forth by the CNV, but do not conform with U.S. generally accepted accounting principles. The effects of these differences have not been quantified by the Company.

5.

The financial statements of some related companies, used to value the interest in such companies by the equity method or incorporated by the proportional consolidation method as of June 30, 2005, were reviewed by other auditors, whose reports have been furnished to us. Our negative assurance set forth in paragraph 8, insofar as it relates to the amounts included for such companies, before considering the adjustments mentioned in note 9 to the consolidated financial statements, is based on the reports of the other auditors. These companies are:

a)

Distrilec Inversora S.A. and Compañía de Inversiones de Energía S.A.: the assets and net sales of such companies, incorporated by the proportional consolidation method, represent about 8% and 6% in the case of Distrilec Inversora S.A., and 14% and 5% in the case of Compañía de Inversiones de Energía S.A., of the respective consolidated totals as of June 30, 2005 and for the six-month period then ended.

b)

Compañía Inversora en Transmisión Eléctrica Citelec S.A. and Transportadora de Gas del Sur S.A.: the interests in these companies represent non-current investments for about Argentine pesos 455,000,000 as of June 30, 2005 and gains for Argentine pesos 176,000,000 included in Equity in earnings of affiliates for the six-month period then ended.

6. The reports of the other auditors mentioned in paragraph 5 related to the financial statements of Compañía de Inversiones de Energía S.A. as of June 30, 2005 include, among others, qualifications for unresolved uncertainties as to such company s ability to continue as going concern. As described in note 9 to the consolidated financial statements, such related company and its subsidiary Transportadora de Gas del Sur S.A. have been negatively impacted by the Argentine Government s adoption of various economic measures, including the de-dollarization of revenue rates, the renegotiation of the License (still in progress) and the devaluation of the Argentine peso. In addition, such related company have suspended the payment of its financial debt. These circumstances raise substantial doubt about the ability of Compañía de Inversiones de Energía S.A. to continue as going concern. In the case of Transportadora de Gas del Sur S.A., the report of the other auditors as of June 30, 2005 includes, among others, qualifications for unresolved uncertainties referred to the future development of the company s regulated businesses and the recoverable value of its non-current assets corresponding to the regulated business. The company managements plans in regard of these matters are also described in note 9 to the consolidated financial statements. The accompanying financial statements do not include any adjustment that might result from the outcome of these uncertainties

7. As described in note 3 to the consolidated financial statements, the Company prepares its financial statements in accordance with the CNV regulations, which differ from generally accepted accounting principles in Buenos Aires City, Argentina, as follows:

a)

The Company has not recognized the effects of the variations in the purchasing power of the Argentine peso from March 1 to September 30, 2003, affecting the financial position as of June 30, 2005 and the result of the operations for the six-month period then ended.

b)

The Company has not discounted the nominal values of the deferred tax assets and liabilities, affecting the financial position as of June 30, 2005 and the result of the operations for the six-month period then ended.

The effects of the matters mentioned above have not been quantified by the Company

8. Based on our review and on the other auditors´ reports mentioned in paragraph 5, we are not aware

of any material modification that should be made to the financial statements mentioned in paragraph 1 for them to be in conformity with the Argentine Business Association Law and the pertinent regulations of the CNV applicable to consolidated financial statements and, except for the matters mentioned in paragraph 7, with generally accepted accounting principles applicable to consolidated financial statements in Buenos Aires City, Argentina. This statement must be read considering the uncertainties described in paragraph 6, the outcome of which cannot be determined as of the date of this report.

9. Regarding the consolidated balance sheet of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2004 and the consolidated statements of income, changes in shareholders´ equity and cash flows for the six-month period ended June 30, 2004, presented for comparative purposes, we further report that:

a)

On February 18, 2005, we issued an audit report on the consolidated financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2004, based on our audit and on the other auditors report for the related companies mentioned in paragraph 5. Such report included qualifications for unresolved uncertainties mentioned by the other auditors referred to: i) the ability to continue as going concern of the related companies Compañia Inversora en Transmisión Eléctrica Citelec S.A. and Compañía de Inversiones de Energía S.A. and, ii) the future development of the regulated businesses of Transportadora de Gas del Sur S.A. and the recoverable value of its non-current assets corresponding to the regulated business.The report of the other auditors of Compañía Inversora en

Transmisión Eléctrica Citelec S.A. with respect to the financial statements as of December 31, 2004 states that their previous report included a qualification for an uncertainty related to the capacity of its subsidiary Compañía de Transporte de Energía Eléctrica en Alta Tensión Transener S.A. (Transener S.A.) to continue operating as a going concern and that, on June 30, 2005, Transener S.A. concluded its financial debt restructuring and, in addition, that the negotiation of the concession contracts of Transener S.A. and Transba S.A. (a subsidiary of Transener S.A.) is in an advance stage, staying only pending the approval of the Bicameral Commission and the Executive Branch s subsequent confirmation of the terms and conditions on which such contracts are based. Moreover, our report contained qualifications for the lack of recognition of the effects of the variations in the purchasing power of the Argentine peso from March 1 to September 30, 2003 and for not having discounted the nominal values of its deferred tax assets and liabilities as required by generally accepted accounting principles in Buenos Aires City, Argentina, but not allowed by pertinent regulations of the CNV. The consolidated balance sheet of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2004 includes the effects of the corporate reorganization mentioned in note 2 to the consolidated financial statements. We have not audited any financial statement as of any date or for any period subsequent to December 31, 2004.

b)

On August 6, 2004, we issued a limited review report on the financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries for the six-month period ended June 30, 2004, based on our review and on the other auditors reports for the related companies mentioned in paragraph 5. Such report included qualifications for unresolved uncertainties mentioned by the other auditors referred to the ability to continue as going concern of the related companies Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A. and Transportadora de Gas del Sur S.A.. The reports of the other auditors on the financial statement of Transportadora de Gas del Sur S.A. and Compañía Inversora en Transmisión Eléctrica Citelec S.A. for the six-month period ended June 30, 2004 differ from the ones previously presented. The limited review report of the other auditors on the financial statements of Transportadora de Gas del Sur S.A. for the six-month period ended June 30, 2004 includes qualifications for unresolved uncertainties referred to the future development of the company s regulated businesses and the recoverable value of its non-current assets corresponding to the regulated business. The limited review report of the other auditors on the financial statements of Compañía Inversora en Transmisión Eléctrica Citelec S.A. for the six-month period ended June 30, 2004 does not include any qualification for uncertainties. In addition, our report contained qualifications for the lack of recognition of the effects of the variations in the purchasing power of the Argentine peso from March 1 to September 30, 2003 and for not having discounted the nominal value of its deferred tax assets and liabilities as required by generally accepted accounting principles in Buenos Aires City, Argentina, but not allowed by pertinent regulations of the CNV. The accompanying consolidated statements of income, changes in shareholders´ equity and cash flows for the six-month period ended June 30, 2004 include the effects of the corporate reorganization mentioned in note 2 to the consolidated financial statements.

Buenos Aires, Argentina,

August 5, 2005

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

ENRIQUE C. GROTZ

Partner

PETROBRAS ENERGÍA PARTICIPACIONES S.A.

AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2005 AND 2004

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

1.

Business of the Company, change of corporate name and business reorganization

Petrobras Energía Participaciones S.A. (Petrobras Participaciones as the Company) holds 75.8% of Petrobras Energía S.A. (Petrobras Energía), an integrated energy company, focused in oil and gas exploration and production, refining, petrochemical activities, generation, transmission and distribution of electricity and sale and transmission of hydrocarbons. It has business in Argentina, Bolivia, Brazil, Ecuador, Peru and Venezuela. Petrobras Energía has a significant share of the regional energy market.

The Company s Special and Regular Shareholders Meeting held on April 4, 2003, approved the change of corporate name from Pecom Energía S.A. to Petrobras Energía 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 Participacoes SL purchased stock representing a majority interest in the Company.

In addition, the Regular and Special Shareholders Meeting of Petrobras Energía Participaciones S.A. held on April 4, 2003, approved the change of corporate name from Perez Companc S.A. to Petrobras Energía Participaciones 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 Argentine Regulatory Entity of Electricity (Ente Nacional Regulador de la Electricidad or ENRE) and the approval of the Argentine Secretary of Energy. There is no period establish to divest (see note 9).

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 Argentine Security Commission (Comisión Nacional de Valores or CNV) on June 9, 2003.

On November 12, 2004, the Boards of Directors of Petrobras Energía, Eg3 S.A. ("Eg3") and Petrobras Argentina S.A. ("PAR") and the Management of Petrolera Santa Fe S.R.L. ("PSF"), in their respective meetings, approved the preliminary agreement for the merger of Eg3, PAR, and PSF with and into Petrobras Energía, with the former companies being dissolved without liquidation.

As the result of the merger, Petróleo Brasileiro S.A. Petrobras (Petrobras), owner of a 99.6% equity interest in EG3 and 100% equity interest in PAR and PSF through its subsidiary Petrobras Participaciones SL, will receive, through such subsidiary, 230,194,137 new shares of class B stock in Petrobras Energía, with a nominal value of Argentine Pesos 1 each and entitled to one vote per share, representing 22.8% of capital stock. Accordingly, the new capital stock of Petrobras Energía will be set at Argentine pesos 1,009,618,410.

As a result of the merger, Petrobras Energía Participaciones S.A. s ownership interest in Petrobras Energía decreased from 98.21% to 75.8%.

The abovementioned merger was approved by the Special Shareholders Meetings of PESA, Eg3, PAR and by the Special Partners´ Meeting of PSF held on January 21, 2005. The effective merger date was set on January 1, 2005.

On March 3, 2005, the final merger agreement was subscribed and subsequently, on June 28, 2005, the CNV approved the merger and authorized the public offering of the Petrobras Energía shares. As of the date of issuance of these financial statements, the registration of the merger in the Public Registry of Commerce is still pending.

2.

Basis of presentation

Petrobras Energía Participaciones S.A. consolidated financial statements have been prepared in accordance with the regulations of the CNV and except for the matters described in Note 3, with Generally Accepted Accounting Principles in Argentina, as approved by the CPCECABA (Professional Council in Economic Sciences, of the City of Buenos Aires) applicable to consolidated financial statements (Argentine GAAP).

The accompanying financial statements have been translated into the English language from those issued in Spanish in accordance with the CNV regulations. They have also been reformatted in a manner different from that presented in Spanish, but in all other respects follow accounting principles that conform with the CNV regulations.

Certain accounting principles applied by the Company do not conform with U.S. generrally accepted accounting principles ("U.S. GAAP"). The difference between the accounting practices applied by the Company and U.S. GAAP have not been quantified. Accordingly, these financial statements are not intended to present financial position, results of operations and cash flows in accordance with U.S. GAAP.

Certain disclosures related to formal legal requirements for reporting in Argentina have been omitted for purposes of these consolidated financial statements.

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

a) Basis of consolidation

In accordance with the procedure set forth in Technical Resolution No. 21 of the FACPCE (Argentine Federation of Professional Councils in Economic Sciences), Petrobras Participaciones has consolidated line by line its financial statements with the financial statements of the companies over which Petrobras Participaciones exercises control or joint control. Joint control exists where all the shareholders, or only the shareholders owning a majority of votes, have resolved, on the basis of written agreements, to share the power to define and establish a company s operating and financial policies.

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

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

The data about the companies over which the Company exercises control, joint control and significant influence are disclosed in Note 20.f).

The companies under joint control are Distrilec Inversora S.A., Compañía de Inversiones de Energía S.A., and Citelec S.A. The Company has not consolidated proportionately on a line-by-line basis the assets, liabilities, income (loss) and cash flows of the interest in Citelec S.A. since Petrobras Energía agreed to divest such interest in connection with the transfer of 58.62% of the shares of Petrobras Energía Participaciones S.A. to Petrobras (see Note 9.III).

18.00%

(1) The Starting Value and Threshold Value will be set to 100.00 on the pricing date.

(2) The Redemption Amount per unit cannot exceed the **hypothetical** Capped Value.

Redemption Amount Calculation Examples

Example 1

The Ending Value is 80.00, or 80.00% of the Starting Value:

Starting Value: 100.00
Ending Value: 80.00

= $8.00 Redemption Amount per unit

Example 2

The Ending Value is 103.00, or 103.00% of the Starting Value:

Starting Value: 100.00
Ending Value: 103.00

= $10.90 Redemption Amount per unit

Example 3

The Ending Value is 130.00, or 130.00% of the Starting Value:

Starting Value: 100.00
Ending Value: 130.00

= $19.00, however, because the Redemption Amount for the notes cannot exceed the Capped Value, the Redemption Amount will be $11.80 per unit

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Risk Factors

There are important differences between the notes and a conventional debt security. An investment in the notes involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the notes in the Risk Factors sections beginning on page PS-6 of product supplement EQUITY INDICES ARN-1, page S-4 of the Series A MTN prospectus supplement, and page 7 of the prospectus identified above. We also urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.

Depending on the performance of the Basket as measured shortly before the maturity date, your investment may result in a loss; there is no guaranteed return of principal.

Your return on the notes may be less than the yield you could earn by owning a conventional fixed or floating rate debt security of comparable maturity.

Payments on the notes are subject to our credit risk, and the credit risk of BAC, and actual or perceived changes in our or BAC's creditworthiness are expected to affect the value of the notes. If we and BAC become insolvent or are unable to pay our respective obligations, you may lose your entire investment.

Your investment return is limited to the return represented by the Capped Value and may be less than a comparable investment directly in the stocks included in the Basket Components.

We are a finance subsidiary and, as such, will have limited assets and operations.

BAC's obligations under its guarantee of the notes will be structurally subordinated to liabilities of its subsidiaries.

The notes issued by us will not have the benefit of any cross-default or cross-acceleration with other indebtedness of BofA Finance or BAC; events of bankruptcy or insolvency or resolution proceedings relating to BAC and covenant breach by BAC will not constitute an event of default with respect to the notes.

The initial estimated value of the notes considers certain assumptions and variables and relies in part on certain forecasts about future events, which may prove to be incorrect. The initial estimated value of the notes is an estimate only, determined as of a particular point in time by reference to our and our affiliates' pricing models. These pricing models consider certain assumptions and variables, including our credit spreads and those of BAC, BAC's internal funding rate on the pricing date, mid-market terms on hedging transactions, expectations on interest rates and volatility, price-sensitivity analysis, and the expected term of the notes. These pricing models rely in part on certain forecasts about future events, which may prove to be incorrect.

The public offering price you pay for the notes will exceed the initial estimated value. If you attempt to sell the notes prior to maturity, their market value may be lower than the price you paid for them and lower than the initial estimated value. This is due to, among other things, changes in the value of the Basket, BAC's internal funding rate, and the inclusion in the public offering price of the underwriting discount and the hedging related charge, all as further described in Structuring the Notes on page TS-30. These factors, together with various credit, market and economic factors over the term of the notes, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways.

The initial estimated value does not represent a minimum or maximum price at which we, BAC, MLPF&S or any of our other affiliates would be willing to purchase your notes in any secondary market (if any exists) at any time. The value of your notes at any time after issuance will vary based on many factors that cannot be predicted with accuracy, including the performance of the Basket, our and BAC's creditworthiness and changes in market conditions.

A trading market is not expected to develop for the notes. None of us, BAC or MLPF&S is obligated to make a market for, or to repurchase, the notes. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market.

BAC and its affiliates' hedging and trading activities (including trades in shares of companies included in the Basket Components) and any hedging and trading activities BAC or its affiliates engage in that are not for your account or on your behalf, may affect the market value and return of the notes and may create conflicts of interest with you.

Changes in the level of one of the Basket Components may be offset by changes in the level of the other Basket

Components. Due to the different Initial Component Weights, changes in the level of some Basket Components will have a more substantial impact on the value of the Basket than similar changes in the levels of the other Basket Components.

The index sponsors may adjust each Basket Component in a way that affects its level, and the index sponsors have no obligation to consider your interests.

You will have no rights of a holder of the securities included in the Basket Components, and you will not be entitled to receive securities or dividends or other distributions by the issuers of those securities.

While BAC and our other affiliates may from time to time own securities of companies included in the Basket Components, we, BAC and our other affiliates do not control any company included in any Basket Component, and have not verified any disclosure made by any other company.

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- Your return on the notes and the value of the notes may be affected by exchange rate movements and factors affecting the international securities markets, specifically changes in the countries represented by the Basket Components. In addition, you will not obtain the benefit of any increase in the value of the currencies in which the securities included in the Basket Components trade against the U.S. dollar, which you would have received if you had owned the securities represented by the Basket Components during the term of your notes, although the levels of the Basket Components may be adversely affected by general exchange rate movements in the market.
- There may be potential conflicts of interest involving the calculation agent, which is an affiliate of ours. We have the right to appoint and remove the calculation agent.
- The U.S. federal income tax consequences of the notes are uncertain, and may be adverse to a holder of the notes. See Summary Tax Consequences below and U.S. Federal Income Tax Summary beginning on page PS-26 of product supplement EQUITY INDICES ARN-1.

Other Terms of the Notes

Market Measure Business Day

The following definition shall supersede and replace the definition of a Market Measure Business Day set forth in product supplement EQUITY INDICES ARN-1.

A Market Measure Business Day means a day on which:

(A) each of the Eurex (as to the EURO STOXX 50® Index), the London Stock Exchange (as to the FTSE® 100 Index), the Tokyo Stock Exchange (as to the Nikkei Stock Average Index), the SIX Swiss Exchange (as to the Swiss Market Index), the Australian Stock Exchange (as to the S&P/ASX 200 Index), and the Hong Kong Stock Exchange (as to the Hang Seng® Index) (or any successor to the foregoing exchanges) are open for trading; and

(B) the Basket Components or any successors thereto are calculated and published.

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The Basket

The Basket is designed to allow investors to participate in the percentage changes in the levels of the Basket Components from the Starting Value to the Ending Value of the Basket. The Basket Components are described in the section The Basket Components below. Each Basket Component will be assigned an initial weight on the pricing date, as set forth in the table below.

For more information on the calculation of the value of the Basket, please see the section entitled Description of ARNs-Basket Market Measures" beginning on page PS-21 of product supplement EQUITY INDICES ARN-1.

If September 27, 2018 were the pricing date, for each Basket Component, the Initial Component Weight, the closing level, the hypothetical Component Ratio and the initial contribution to the Basket value would be as follows:

Basket Component	**Bloomberg Symbol**	**Initial Component Weight**	**Closing Level(1)(2)**	**Hypothetical Component Ratio(1)(3)**	**Initial Basket Value Contribution**
EURO STOXX 50® Index	SX5E	40.00%	3,449.79	0.01159491	40.00
FTSE® 100 Index	UKX	20.00%	7,545.44	0.00265061	20.00
Nikkei Stock Average Index	NKY	20.00%	23,796.74	0.00084045	20.00
Swiss Market Index	SMI	7.50%	9,112.22	0.00082307	7.50
S&P/ASX 200 Index	AS51	7.50%	6,181.215	0.00121335	7.50
Hang Seng® Index	HSI	5.00%	27,715.67	0.00018040	5.00
				Starting Value	100.00

(1) The actual closing level of each Basket Component and the resulting actual Component Ratios will be determined on the pricing date, subject to adjustment as more fully described in the section entitled Description of ARNs-Basket Market Measures-Determination of the Component Ratio for Each Basket Component" beginning on page PS-21 of product supplement EQUITY INDICES ARN-1 if a Market Disruption Event occurs on the pricing date as to any Basket Component.

(2) These were the closing levels of the Basket Components on September 27, 2018.

(3) Each hypothetical Component Ratio equals the Initial Component Weight of the relevant Basket Component (as a percentage) multiplied by 100, and then divided by the closing level of that Basket Component on September 27, 2018 and rounded to eight decimal places.

The calculation agent will calculate the value of the Basket by summing the products of the closing level for each Basket Component on each calculation day during the Maturity Valuation Period and the Component Ratio applicable to such Basket Component. If a Market Disruption Event occurs as to any Basket Component on any scheduled calculation day, the closing level of that Basket Component will be determined as more fully described beginning on page PS-18 of product supplement EQUITY INDICES ARN-1 in the section Description of ARNs The Starting Value and the Ending Value—Ending Value."

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While actual historical information on the Basket will not exist before the pricing date, the following graph sets forth the hypothetical historical daily performance of the Basket from January 1, 2008 through September 27, 2018. The graph is based upon actual daily historical levels of the Basket Components, hypothetical Component Ratios based on the closing levels of the Basket Components as of December 31, 2007, and a Basket value of 100.00 as of that date. This hypothetical historical data on the Basket is not necessarily indicative of the future performance of the Basket or what the value of the notes may be. Any hypothetical historical upward or downward trend in the value of the Basket during any period set forth below is not an indication that the value of the Basket is more or less likely to increase or decrease at any time over the term of the notes.

Hypothetical Historical Performance of the Basket

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The Basket Components
All disclosures contained in this term sheet regarding the Basket Components, including, without limitation, their make-up, method of calculation, and changes in their components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by each of STOXX Limited (STOXX) with respect to the EURO STOXX 50® Index (the SX5E), FTSE International Limited (FTSE) with respect to the FTSE® 100 Index (the UKX), Nikkei Inc. (Nikkei) with respect to the Nikkei Stock Average Index (the NKY), the Geneva, Zurich, SIX Group Ltd., certain of its subsidiaries, and the Management Committee of the SIX Swiss Exchange (the SIX Exchange), with respect to the Swiss Market Index (the SMI), S&P with respect to the S&P/ASX 200 Index (the AS51), and HSI Services Limited (HSIL) with respect to the Hang Seng® Index (the HSI) (STOXX, FTSE, Nikkei, S&P, Six Exchange and HSIL together, the index sponsors). The index sponsors have no obligation to continue to publish, and may discontinue or suspend the publication of any Basket Component at any time. The consequences of any index sponsor discontinuing publication of a Basket Component are discussed in the section entitled Description of the Notes—Discontinuance of an Index beginning on page PS-21 of product supplement EQUITY INDICES ARN-1 on page PS-19 entitled Description of ARNs - Discontinuance of an Index . None of us, BAC, the calculation agent, or MLPF&S accepts any responsibility for the calculation, maintenance, or publication of any Basket Component or any successor index.

The EURO STOXX 50® Index

The SX5E was created by STOXX, which is part of the Deutsche Börse Group. Publication of the SX5E began in February 1998, based on an initial SX5E level of 1,000 at December 31, 1991. On March 1, 2010, STOXX announced the removal of the Dow Jones prefix from all of its indices, including the SX5E.

SX5E Composition and Maintenance

For each of the 19 EURO STOXX regional supersector indices, the stocks are ranked in terms of free-float market capitalization. The largest stocks are added to the selection list until the coverage is close to, but still less than, 60% of the free-float market capitalization of the corresponding supersector index. If the next highest-ranked stock brings the coverage closer to 60% in absolute terms, then it is also added to the selection list. All current stocks in the SX5E are then added to the selection list. All of the stocks on the selection list are then ranked in terms of free-float market capitalization to produce the final index selection list. The largest 40 stocks on the selection list are selected; the remaining 10 stocks are selected from the largest remaining current stocks ranked between 41 and 60; if the number of stocks selected is still below 50, then the largest remaining stocks are selected until there are 50 stocks. In exceptional cases, STOXX’s management board can add stocks to and remove them from the selection list.
The SX5E components are subject to a capped maximum index weight of 10%, which is applied on a quarterly basis.
The composition of the SX5E is reviewed annually, based on the closing stock data on the last trading day in August. Changes in the composition of the SX5E are made to ensure that the SX5E includes the 50 market sector leaders from within the SX5E.
The free float factors for each component stock used to calculate the SX5E, as described below, are reviewed, calculated, and implemented on a quarterly basis and are fixed until the next quarterly review.
The SX5E is subject to a fast exit rule. The SX5E components are monitored for any changes based on the monthly selection list ranking. A stock is deleted from the SX5E if: (a) it ranks 75 or below on the monthly selection list and (b) it has been ranked 75 or below for a consecutive period of two months in the monthly selection list. The highest-ranked stock that is not an index component will replace it. Changes will be implemented on the close of the fifth trading day of the month, and are effective the next trading day.
The SX5E is also subject to a fast entry rule. All stocks on the latest selection lists and initial public offering (IPO) stocks are reviewed for a fast-track addition on a quarterly basis. A stock is added, if (a) it qualifies for the latest STOXX blue-chip selection list generated end of February, May, August or November and (b) it ranks within the lower buffer on this selection list.
The SX5E is also reviewed on an ongoing monthly basis. Corporate actions (including initial public offerings, mergers and takeovers, spin-offs, delistings, and bankruptcy) that affect the SX5E composition are announced

immediately, implemented two trading days later and become effective on the next trading day after implementation.

SX5E Calculation

The SX5E is calculated with the Laspeyres formula, which measures the aggregate price changes in the component stocks against a fixed base quantity weight. The formula for calculating the SX5E value can be expressed as follows:

The free float market capitalization of the SX5E is equal to the sum of the product of the price, the number of shares and the free float factor and the weighting cap factor for each component stock as of the time the SX5E is being calculated.

The SX5E is also subject to a divisor, which is adjusted to maintain the continuity of the SX5E values across changes due to corporate actions, such as the deletion and addition of stocks, the substitution of stocks, stock dividends, and stock splits.

Neither we nor any of our affiliates, including the selling agent, accepts any responsibility for the calculation, maintenance, or publication of, or for any error, omission, or disruption in, the SX5E or any successor to the SX5E. STOXX does not guarantee the accuracy or the completeness of the SX5E or any data included in the SX5E. STOXX assumes no liability for any errors, omissions, or disruption in the calculation and dissemination of the SX5E. STOXX disclaims all responsibility for any errors or omissions in the calculation and dissemination of the SX5E or the manner in which the SX5E is applied in determining the amount payable on the notes at maturity.

The following graph shows the daily historical performance of the SX5E in the period from January 1, 2008 through September 27, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On September 27, 2018, the closing level of the SX5E was 3,449.79.

Historical Performance of the EURO STOXX 50® Index

This historical data on the SX5E is not necessarily indicative of the future performance of the SX5E or what the value of the notes may be. Any historical upward or downward trend in the level of the SX5E during any period set forth above is not an indication that the level of the SX5E is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the SX5E.

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License Agreement

One of our affiliates has entered into a non-exclusive license agreement with STOXX providing for the license to it and certain of its affiliated companies, including us, in exchange for a fee, of the right to use indices owned and published by STOXX (including the SX5E) in connection with certain securities, including the notes offered hereby. The license agreement requires that the following language be stated in this document:

STOXX and its licensors (the Licensors) have no relationship to us, other than the licensing of the SX5E and the related trademarks for use in connection with the notes. STOXX and its Licensors do not:

- sponsor, endorse, sell, or promote the notes;
- recommend that any person invest in the notes offered hereby or any other securities;
- have any responsibility or liability for or make any decisions about the timing, amount, or pricing of the notes;
- have any responsibility or liability for the administration, management, or marketing of the notes; or
- consider the needs of the notes or the holders of the notes in determining, composing, or calculating the SX5E, or have any obligation to do so.

STOXX and its Licensors will not have any liability in connection with the notes. Specifically:

- **STOXX and its Licensors do not make any warranty, express or implied, and disclaims any and all warranty concerning:**
- **the results to be obtained by the notes, the holders of the notes or any other person in connection with the use of the SX5E and the data included in the SX5E;**
- **the accuracy or completeness of the SX5E and its data;**
- **the merchantability and the fitness for a particular purpose or use of the SX5E and its data;**
- **STOXX and its Licensors will have no liability for any errors, omissions, or interruptions in the SX5E or its data; and**
- **Under no circumstances will STOXX be liable for any lost profits or indirect, punitive, special, or consequential damages or losses, even if STOXX or its Licensors know that they might occur.**

The licensing agreement discussed above is solely for our benefit and that of STOXX, and not for the benefit of the holders of the notes or any other third parties.

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The FTSE® 100 Index

The FTSE® 100 Index (the UKXis)a market capitalization-weighted index of the 100 most highly capitalized U.K.-listed blue chip companies traded on the London Stock Exchange. The UKX was developed with a base level of 1,000 as of December 30, 1983. It is calculated, published and disseminated by FTSE Russell (FTSE), a company owned by the London Stock Exchange Plc (the Exchange).

Additional information on the FTSE® 100 Index is available from the following website: ftse.com/uk. We are not incorporating by reference that website or any material it includes in this document.

Index Composition and Selection Criteria

The UKX consists of the 100 largest U.K.-listed blue chip companies, based on full market capitalization, that pass screening tests for price and liquidity. The UKX is reviewed on a quarterly basis in March, June, September and December based on data from the close of business on the Tuesday before the first Friday of the review month. The FTSE Europe, Middle East & Africa Regional Advisory Committee (the Committee), meets quarterly to approve the constituents of the UKX. These meetings are held on the Wednesday before the first Friday in March, June, September and December. Any constituent changes are implemented after the close of business on the third Friday of the review month (i.e., effective Monday), following the expiration of the London International Financial Futures and Options Exchange futures and options contracts.

Eligibility Standards

Only premium listed equity shares, as defined by the Financial Conduct Authority in its Listing Rules Sourcebook, are eligible for inclusion in the UKX. Eligible stocks must pass price and liquidity screens before being included in the UKX. Additionally, a stock must have a free float (as described below) of greater than 5%.

Price Screen — With regard to the price screen, the Committee must be satisfied that an accurate and reliable price exists for purposes of determining the market value of a company. To be eligible for inclusion in the UKX, a stock must have a full listing on the London Stock Exchange with a Sterling-denominated price on SETS (the London Stock Exchange’s trading service for UK blue chip securities).

Minimum Voting Rights Screen — Companies are required to have greater than 5% of the company’s voting rights (aggregated across all of its equity securities, including, where identifiable, those that are not listed or trading) in the hands of unrestricted shareholders in order to be eligible for index inclusion. Current constituents who do not meet this requirement will have until the September 2022 review to meet the requirement or they will be removed from the index.

Liquidity Screen — With regard to liquidity, each eligible stock is tested for liquidity annually in June by calculating its median daily trading per month. When calculating the median of daily trades per month of any security, a minimum of five trading days in each month must exist, otherwise the month is excluded from the test. Liquidity is tested from the first business day in May of the previous year to the last business day of April. The median trade is calculated by ranking each daily trade total and selecting the middle-ranking day. Any period of suspension is not included in the test. The liquidity test is applied on a pro-rata basis where the testing period is less than 12 months. A stock not presently included in the UKX that does not turnover at least 0.025% of its shares in issue (after application of any investability weightings) based on its median daily trade per month in at least ten of the 12 months prior to the annual index review in June will not be eligible for inclusion until the next annual review. An existing constituent failing to trade at least 0.015% of its shares in issue (after the application of any investability weightings) based on its median daily trade per month for at least eight of the 12 months prior to the annual index review will be removed from the UKX and will not be eligible for inclusion until the next annual review. New issues will become eligible for inclusion in the UKX at the quarterly review following their issuance provided that they have a minimum trading record of at least 20 trading days prior to the review date and that they have turned over at least 0.025% of their shares in issue (after the application of any investability weightings) based on their median daily trade per month since listing.

Market Capitalization Ranking — Eligible stocks that pass the price and liquidity screens are ranked by the Committee according to their market capitalization before the application of any adjustments based on the extent to which the shares are publicly traded. Only the quoted equity capital of a constituent company will be included in the calculation of its market capitalization. Where a company has two or more classes of equity, secondary lines will be included in the calculation of the market capitalization of the company only if those lines are significant and liquid. The Committee will add a stock to the UKX at the quarterly review if it has risen to 90th place or above on the full market capitalization rankings and will delete a stock at the quarterly review if it has fallen to 111th place or below on these rankings. Market capitalization rankings are calculated using data as of the close of business on the day before the review.

100 Constituent Limitation — The UKX always contains 100 constituents. If a greater number of companies qualify to be inserted in the UKX than qualify to be removed, the lowest ranking constituents of the UKX will be removed so that the total number of stocks remains at 100 following inclusion of those that qualify to be inserted. Likewise, if a greater number of companies qualify to be removed than to be inserted at the quarterly review, securities of the highest ranking companies that are then not included in the UKX will be inserted to match the number of companies being removed, in order to maintain the total at 100.

Index Calculation

The UKX is a market capitalization weighted index. This means that the price movement of a larger company (that is, one representing larger percentage of the UKX) will have a greater effect on the level of the UKX than will the price movement of a smaller company (that is, one representing a smaller percentage of the UKX).

The value of the UKX is represented by a fraction, (a) the numerator of which is the *sum* of the *product* of (i) the price of each component stock, (ii) the number of shares issued for each such component and (iii) a free float factor for each such component (described more fully below), and (b) the denominator of which is a divisor. The divisor represents the total issued share capital of the UKX on the base date; the divisor may be adjusted as necessary to allow for changes in issued share capital of individual securities without distorting the UKX.

As noted above, a free float factor is applied to each index component. By employing this approach, FTSE uses the investable market capitalization, not the total market capitalization, of each constituent to determine the value of the UKX. Investable market capitalization depends on free float. The following are excluded from free float: shares directly owned by state, regional, municipal and local governments (excluding shares held by independently managed pension schemes for governments); shares held by sovereign wealth funds where each holding is 10% or greater of the total number of shares in issue (if the holding subsequently decreases below 10%, the shares will be excluded from free float until the holding falls below 7%); shares held by directors, senior executives and managers of the company, and by their family and direct relations, and by companies with which they are affiliated; shares held within employee share plans; shares held by public companies or by non-listed subsidiaries of public companies; shares held by founders, promoters, former directors, founding venture capital and private equity firms, private companies and individuals (including employees) where the holding is 10% or greater of the total number of shares in issue (if the holding subsequently decreases below 10%, the shares will be excluded from free float until the holding falls below 7%); all shares where the holder is subject to a lock-in clause (for the duration of that clause, after which free float changes resulting from the expiration of a lock-in clause will be implemented at the next quarterly review subsequent to there being a minimum of 20 business days between the expiration date of such lock-in clause and the index review date); shares held for publicly announced strategic reasons, including shares held by several holders acting in concert; and shares that are subject to ongoing contractual agreements (such as swaps) where they would ordinarily be treated as restricted.

The UKX is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the UKX are notified through appropriate media.

Index Maintenance

The UKX is reviewed quarterly for changes in free float. A stock's free float is also reviewed and adjusted if necessary following certain corporate events. Following a takeover or merger involving one or more index constituents, the free float restrictions will be based on restricted holdings in the successor company and will be implemented when the offer has completed (or lapsed) unless it directly reflects a corporate action independent of and not conditional on the takeover or merger completing or lapsing. If the corporate event includes another corporate action that affects the UKX, a change in free float is implemented at the same time as the corporate action. If there is no corporate action, the change in free float will be applied at the next quarterly review. Following the application of an initial free float restriction, a stock's free float will only be changed if its rounded free float moves more than three percentage points above or below the existing rounded free float. Companies with a free float of above 99% and of 15% or below will not be subject to the three percentage points threshold.

At each quarterly review, the Committee publishes a Reserve List containing the six highest ranking non-constituents of the UKX. The Reserve List will be used in the event that one or more constituents are deleted from the UKX during the period up to the next quarterly review. If a merger or takeover results in one index constituent being absorbed by another constituent, the resulting company will remain a constituent and a vacancy will be created. This vacancy will be filled by selecting the highest ranking security in the Reserve List as at the close of the index calculation two days prior to the deletion and related index adjustment. If an index constituent is taken over by a non-constituent company, the original constituent will be removed and replaced by the highest ranking non-constituent on the Reserve List. Any eligible company resulting from the takeover will be eligible to become the replacement company if it is ranked higher than any other company on the Reserve List. If a constituent company is split to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents, based on their respective full market capitalizations (before the application of any investability weightings), provided that they qualify in all other respects.

Any eligible company resulting from a split that has no available market price after 20 business days will be removed. If a split results in the inclusion of an ineligible non-equity security, such security will remain in the UKX for two trading days and then be removed. If a constituent is delisted or ceases to have a firm quotation, it will be removed from the list of constituents and be replaced by the highest ranking eligible company from the Reserve List as at the close of the index calculation two days prior to the deletion.

Capitalization Adjustments

A premium listed secondary line of a company will be considered for index inclusion if its total market capitalization before the application of any adjustments based on the extent to which the shares are publicly traded, is greater than 25% of the total market capitalization of the company's principal line and the secondary line is eligible, in its own right. Should the total market capitalization of a secondary line fall below 20% of the total market capitalization of the company's principal line at an annual review, the secondary line will be deleted from the UKX unless its total market capitalization remains above the qualification level for continued inclusion as a constituent of the UKX at that review. Where a company has partly paid shares, these shares, together with the outstanding call(s), are both included in the UKX. Warrants to purchase ordinary shares and convertible securities are not included in the UKX until they are exercised or converted.

Share Weighting Changes — For the purposes of computing the UKX, the number of shares in issue for each constituent security is expressed to the nearest share and, to prevent a large number of insignificant weighting changes, the number of shares in issue for each constituent security is amended only when the total shares in issue held within the index system changes by more than 1% on a cumulative basis. Changes will be made quarterly after the close of business on the third Friday of March, June, September and

December. The data for these changes will be taken from the close of business on the third Wednesday of the month prior to the review month.

If a corporate action is applied to a constituent, which involves a change in the number of shares in issue, the change in shares will be applied simultaneously with the corporate action. If accumulated changes in the number of shares in issue add up to 10% or more or when an accumulated share change represents $2 billion of a company's total market capitalization, they are implemented between quarters. If an adjustment is made, it will be applied for the first time at the next review in March of the following year. All adjustments are made before the start of the index calculation on the day concerned, unless market conditions prevent this.

Shares in Issue Increase — When a company increases the number of shares it has in issue, the market capitalization of that company increases and the total market capitalization will rise accordingly. The index divisor is adjusted to maintain a constant index value.

Weighting Amendments — The market capitalization of a company is adjusted to take account of various corporate actions, in accordance with the rules of the UKX. To prevent the value of the UKX from changing due to such an event, all corporate actions which affect the market capitalization of the UKX require an offsetting divisor adjustment. By adjusting the divisor, the value of the UKX remains constant before and after the event. Below is a summary of the more frequent corporate actions and their resulting adjustment.

Market Disruption

If there is a system problem or situation in the market that is judged by FTSE to affect the quality of the constituent prices at any time when the UKX is being calculated, the UKX will be declared indicative (e.g., normally where a fast market exists in the equity market). The message IND will be displayed against the index value calculated by FTSE. The Committee must be satisfied that an accurate and reliable price for the purposes of determining the market value of a company exists. The Committee may exclude a security from the UKX should it consider that an accurate and reliable price is not available.

If any event leads to an error in the value of the UKX that is greater than three basis points at the local country index level, then the UKX will generally be recalculated, subject to discovery, within one month of the event. Where an alternative approach is available, FTSE may, at its sole discretion, choose not to recalculate.

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The following graph shows the daily historical performance of the UKX in the period from January 1, 2008 through September 27, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On September 27, 2018, the closing level of the UKX was 7,545.44.

Historical Performance of the FTSE® 100 Index

This historical data on the UKX is not necessarily indicative of the future performance of the UKX or what the value of the notes may be. Any historical upward or downward trend in the level of the UKX during any period set forth above is not an indication that the level of the UKX is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the UKX.

License Agreement

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The Nikkei Stock Average Index

The Index, also known as the Nikki 225 Index, is an equity index calculated, published, and disseminated by Nikkei Inc. The Index measures the composite price performance of selected Japanese stocks. The Index is currently based on 225 stocks (each, an Index Stock) trading on the Tokyo Stock Exchange (TSE) and represents a broad cross-section of Japanese industry. All 225 of the Index Stocks are listed in the First Section of the TSE. Index Stocks listed in the First Section are among the most actively traded stocks on the TSE. The Index started on September 7, 1950. However, it was retroactively calculated back to May 16, 1949, when the TSE reopened for the first time after World War II.

Calculation of the Index

The Index is a modified, price-weighted index. Each Index Stock's weight is based on its price per share rather than the total market capitalization of the issuer. Nikkei Inc. calculates the Index by multiplying the per share price of each Index Stock by the corresponding weighting factor for that Index Stock (a Weight Factor), calculating the sum of all these products and dividing that sum by a divisor. The divisor is subject to periodic adjustments as set forth below. Each Weight Factor is computed by dividing 50 by the presumed par value of the relevant Index Stock, so that the share price of each Index Stock when multiplied by its Weight Factor corresponds to a share price based on a uniform par value of 50. Each Weight Factor represents the number of shares of the related Index Stock which are included in one trading unit of the Index. The stock prices used in the calculation of the Index are those reported by a primary market for the Index Stocks, currently the TSE. The level of the Index is currently calculated once per 15 seconds during TSE trading hours.

In order to maintain continuity in the level of the Index in the event of certain changes due to non-market factors affecting the Index Stocks, such as the addition or deletion of stocks, stock splits, or increase in paid-in capital, the divisor used in calculating the Index is adjusted in a manner designed to prevent any instantaneous change or discontinuity in the level of the Index. The divisor remains at the new value until a further adjustment is necessary as the result of another change. In the event of a change affecting any Index Stock, the divisor is adjusted in such a way that the sum of all share prices immediately after the change multiplied by the applicable Weight Factor and divided by the new divisor, i.e., the level of the Index immediately after the change, will equal the level of the Index immediately prior to the change.

Index Maintenance

The Index is reviewed annually at the beginning of October. The purpose of the review is to maintain the representative nature of the Index Stocks. Stocks with high market liquidity are added and those with low liquidity are deleted. At the same time, to take changes in industry structure into account, the balance of the sectors, in terms of the number of constituents, is considered. Liquidity of a stock is assessed by the two measures: trading value and magnitude of price fluctuation by volume, which is calculated as (high price/low price) / volume. Among stocks on the TSE First Section, the top 450 stocks in terms of liquidity are selected to form the high liquidity group . Those constituents that are not in the high liquidity group are deleted. Those non-constituent stocks which are in the top 75 of the high liquidity group are added.

After the liquidity deletions and additions, constituents are deleted and added to balance the number of constituents among sectors, and to make the total number of the constituents equal 225. Among the 450 high liquidity stocks, half of those that belong to a sector are designated as the appropriate number of stocks for that sector. The actual number of constituents in a sector is then compared with its appropriate number, and if the actual number is larger or smaller than the appropriate number, then components are deleted or added, as necessary. Stocks to be deleted are selected from stocks with lower liquidity and stocks to be added are selected from stocks with higher liquidity. Stocks selected according to the foregoing procedures are candidates for addition or deletion, as applicable, and the final determinations will be made by Nikkei Inc.

The Index is also reviewed on an ongoing basis in response to extraordinary developments, such as bankruptcies or mergers. Any stock becoming ineligible for listing in the TSE First Section due to any of the following reasons will be removed from the Index: (i) bankruptcy and liquidation events; (ii) corporate restructurings, such as mergers, share exchanges or share transfers; (iii) excess debt or other reasons; or (iv) transfer to the TSE Second Section. In addition, a component stock designated as security under supervision becomes a deletion candidate. However, the decision to delete such a candidate will be made by examining the sustainability and the probability of delisting for each individual case. Upon deletion of a stock from the Index, Nikkei Inc. will generally select as a replacement the most liquid stock that is both in the high liquidity group and in the same sector as the deleted stock. When deletions are known in advance, replacements may be selected as part of the periodic review process or by using similar procedures.

The Tokyo Stock Exchange

The TSE is one of the world's largest securities exchanges in terms of market capitalization. Trading hours for most products listed on the TSE are currently from 9:00 A.M. to 11:00 A.M. and from 12:30 P.M. to 3:00 P.M., Tokyo time, Monday through Friday.

Due to the time zone difference, on any normal trading day, the TSE will close prior to the opening of business in New York City on the same calendar day. Therefore, the closing level of the Index on a trading day will generally be available in the U.S. by the opening of business on the same calendar day.

The TSE has adopted certain measures, including daily price floors and ceilings on individual stocks, intended to prevent any extreme short-term price fluctuations resulting from order imbalances. In general, any stock listed on the TSE cannot be traded at a price lower than the applicable price floor or higher than the applicable price ceiling. These price floors and ceilings are expressed in absolute Japanese yen, rather than percentage limits based on the closing price of the stock on the previous trading day. In addition, when there is a major order imbalance in a listed stock, the TSE posts a special bid quote or a special asked quote for that stock at a specified higher or lower price level than the stock's last sale price in order to solicit counter-orders and balance supply and demand for the stock. The TSE may also suspend the trading of individual stocks in certain limited and extraordinary circumstances, including, for example, unusual trading activity in that stock. As a result, changes in the Index may be limited by price limitations or special quotes, or by suspension of trading, on individual stocks that make up the Index, and these limitations, in turn, may adversely affect the market value of the notes.

The following graph shows the daily historical performance of the NKY in the period from January 1, 2008 through September 27, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On September 27, 2018, the closing level of the NKY was 23,796.74.

Historical Performance of the Nikkei Stock Average Index

This historical data on the NKY is not necessarily indicative of the future performance of the NKY or what the value of the notes may be. Any historical upward or downward trend in the level of the NKY during any period set forth above is not an indication that the level of the NKY is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the NKY.

License Agreement

We have entered into an agreement with Nikkei Inc. providing us with a non-exclusive license with the right to use the Index in exchange for a fee. The Index is the intellectual property of Nikkei Inc. (the index sponsor), formerly known as Nihon Keizai Shimbum, Inc. Nikkei , Nikkei Stock Average , and Nikkei 225 are the service marks of Nikkei Inc. Nikkei Inc. reserves all the rights, including copyright, to the Index.

The notes are not in any way sponsored, endorsed or promoted by the index sponsor. The index sponsor does not make any warranty or representation whatsoever, express or implied, either as to the results to be obtained as to the use of the Index or the figure as which the NKY stands at any particular day or otherwise. The NKY is compiled and calculated solely by the index sponsor. However, the index sponsor shall not be liable to any person for any error in the NKY and the index sponsor shall not be under any obligation to advise any person, including a purchaser or seller of the notes, of any error therein.

In addition, the index sponsor gives no assurance regarding any modification or change in any methodology used in calculating the Index and is under no obligation to continue the calculation, publication and dissemination of the NKY.

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The Swiss Market Index

The Swiss Market Index (the SMI):

- was first launched with a base level of 1,500 as of June 30, 1988; and
- is sponsored, calculated, published and disseminated by SIX Group Ltd., certain of its subsidiaries, and the Management Committee of SIX Swiss Exchange.

The SMI is a price return float-adjusted market capitalization-weighted index of the 20 largest stocks traded on the SIX Swiss Exchange. The Management Committee of SIX Swiss Exchange is supported by an Index Commission (advisory board) in all index-related matters, notably in connection with changes to the index rules and adjustments, additions and exclusions outside of the established review and acceptance period. The Index Commission meets at least twice annually.

Information regarding the SMI may be found on SIX Exchange's website. Please note that information included in that website is not included or incorporated by reference in this document.

Index Composition and Selection Criteria

The SMI is comprised of the 20 highest ranked stocks traded on the SIX Swiss Exchange that have a free float of 20% or more and that are not investment companies. The equity universe is largely Swiss domestic companies; however, in some cases, foreign issuers with a primary listing on the SIX Swiss Exchange or investment companies that do not hold any shares of any other eligible company and that have a primary listing on the SIX Swiss Exchange may be included.

The ranking of each security is determined by a combination of the following criteria:

- average free-float market capitalization (compared to the capitalization of the entire SIX Swiss Exchange index family), and
- cumulative on order book turnover (compared to the total turnover of the SIX Swiss Exchange index family).

Each of these two factors is assigned a 50% weighting in ranking the stocks eligible for the SMI.

The SMI is reconstituted annually after prior notice of at least two months on the third Friday in September after the close of trading.

The reconstitution is based on data from the previous July 1 through June 30. Provisional interim selection (ranking) lists are also published following the end of the third, fourth and first financial quarters.

In order to reduce turnover, an index constituent will not be replaced unless it is ranked below 23 or, if it is ranked 21 or 22, if another share ranks 18 or higher. If a company has primary listings on several exchanges and less than 50% of that company's total turnover is generated on the SIX Swiss Exchange, it will not be included in the SMI unless it ranks at least 18 or better on the selection list on the basis of its turnover alone (i.e., without considering its free float).

Maintenance of the Index

Constituent Changes. In the case of major market changes as a result of capital events such as mergers or new listings, the Management Committee of SIX Swiss Exchange can decide at the request of the Index Commission that a security should be admitted to the SMI outside the annual review period as long as it clearly fulfills the criteria for inclusion. For the same reasons, a security can also be excluded if the requirements for admission to the SMI are no longer fulfilled. As a general rule, extraordinary acceptances into the SMI take place after a three-month period on a quarterly basis after the close of trading on the third Friday of March, June, September and December (for example, a security listed on or before the fifth trading day prior to the end of November cannot be included until the following March). An announced insolvency is deemed to be an extraordinary event and the security will be removed from the SMI with five trading days' prior notice if the circumstances permit such notice.

Capped Weightings and Intra-Quarter Breaches. The weight of any index constituent that exceeds a weight of 18% within the index is reduced to that value at each quarterly index review by applying a capping factor to the calculation of such constituent's free float market capitalization. A constituent's number of shares and free float market capitalization are used to determine its capping factor. The excess weight (the difference of the original weight minus the capped weight) is distributed proportionally across the other index constituents. The constituents are also capped to 18% as soon as two index constituents exceed a weight of 20% (an intra-quarter breach). If an intra-quarter breach is observed after the close of the markets, a new calculation of the capping factors is executed immediately and communicated to the market in order to ensure that the maximum weight per constituent is capped at 18% for the opening on the next day. In order to achieve a capped weighting of the index without causing market distortion, a stepwise reduction is conducted based on the quarterly index reviews to ensure that no change in the weight (as a result of capping) from one review to the next exceeds 3%. The transition period is in effect until no component has a weight larger than 18%. In the case of an intra-quarter breach, the weights are limited to the last defined weights as of the prior review.

Number of Shares and Free Float. The securities included in the SMI are weighted according to their free float. This means that shares deemed to be in firm hands are subtracted from the total market capitalization of that company. The free float is calculated on the basis of outstanding shares. Issued and outstanding equity capital is, as a rule, the total amount of equity capital that has been fully subscribed and wholly or partially paid in and documented in the Commercial Register. Not counting as issued and outstanding equity

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capital are the approved capital and the conditional capital of a company. The free float is calculated on the basis of listed shares only. If a company offers several different categories of listed participation rights, each is treated separately for purposes of index calculation.

Shares held deemed to be in firm hands are shareholdings that have been acquired by one person or a group of persons in companies domiciled in Switzerland and which, upon exceeding 5%, have been reported to SIX Swiss Exchange. Shares of persons and groups of persons who are subject to a shareholder agreement which is binding for more than 5% of the listed shares or who, according to publicly known facts, have a long-term interest in a company, are also deemed to be in firm hands.

For the calculation of the number of shares in firm hands, SIX Swiss Exchange may also use other sources than the reports submitted to it. In particular, SIX Swiss Exchange may use data gained from issuer surveys that it conducts itself.

In general, shares held by custodian nominees, trustee companies, investment funds, pension funds and investment companies are deemed free-floating regardless whether a report has been made to SIX Swiss Exchange. SIX Swiss Exchange classifies at its own discretion persons and groups of persons who, because of their area of activity or the absence of important information, cannot be clearly assigned.

The free-float rule applies only to bearer shares and registered shares. Capital issued in the form of participation certificates and bonus certificates is taken into full account in calculating the SMI because it does not confer voting rights.

The number of securities in the SMI and the free-float factors are adjusted after the close of trading on four adjustment dates per year, the third Friday of March, June, September and December. Such changes are pre-announced at least one month before the adjustment date, although the index sponsor reserves the right to take account of recent changes before the adjustment date in the actual adjustment, so the definite new securities are announced five trading days before the adjustment date.

In order to avoid frequent slight changes to the weighting and to maintain the stability of the SMI, any extraordinary change of the total number of outstanding securities or the free float will only result in an extraordinary adjustment if it exceeds 10% and 5% respectively and is in conjunction with a corporate action.

After a takeover, SIX Swiss Exchange may, in exceptional cases, adjust the free float of a company upon publication of the end results after a five-day notification period or may exclude the security from the relevant index family. When an insolvency has been announced, an extraordinary adjustment will be made and the affected security will be removed from the SMI after five trading days' notice.

The index sponsor reserves the right to make an extraordinary adjustment, in exceptional cases, without observing the notification period.

Calculation of the Index

The index sponsor calculates the SMI using the Laspeyres formula, with a weighted arithmetic mean of a defined number of securities issues. The formula for calculating the index value can be expressed as follows:

$$\text{Index} = \frac{\text{Free Float Market Capitalization of the index}}{\text{Divisor}}$$

The free float market capitalization of the index is equal to the sum of the product of the last-paid price, the number of shares, the free-float factor, the capping factor and, if a foreign stock is included, the current CHF exchange rate as of the time the index value is being calculated. The index value is calculated in real time and is updated whenever a trade is made in a component stock. Where any index component stock price is unavailable on any trading day, SIX Swiss Exchange will use the last reported price for such component stock. Only prices from the SIX Swiss Exchange's electronic order book are used in calculating the SMI.

Divisor Value and Adjustments

The divisor is a technical number used to calculate the SMI and is adjusted to reflect changes in market capitalization due to corporate events, and is adjusted by SIX Swiss Exchange to reflect corporate events, as described in the index rules.

The following graph shows the daily historical performance of the SMI in the period from January 1, 2008 through September 27, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On September 27, 2018, the closing level of the SMI was 9,112.22.

Historical Performance of the Swiss Market Index

This historical data on the SMI is not necessarily indicative of the future performance of the SMI or what the value of the notes may be. Any historical upward or downward trend in the level of the SMI during any period set forth above is not an indication that the level of the SMI is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the SMI.

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SIX®, SIX Swiss Exchange®, SPI®, Swiss Performance Index (SPI)®, SPI EXTRA®, SMI®, Swiss Market Index® (SMI)®, SMIM®, SMI MID (SMIM)®, SMI Expanded®, SXI®, SXI LIFE SCIENCES®, SXI Bio+Medtech®, SBI®, SBI Swiss Bond Index®, VSMI®, SIX Immobilienfonds Index® and SIX Quotematch® are trademarks that have been registered in Switzerland and/or abroad by the SIX Swiss Exchange. Their use is subject to a license.

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The S&P/ASX 200 Index

The S&P/ASX 200 Index (the AS51):

was first launched in 1979 by the Australian Securities Exchange and was acquired and re-launched by its current index sponsor on April 3, 2000; and

is sponsored, calculated, published and disseminated by S&P Dow Jones Indices LLC, a part of McGraw Hill Financial (S&P).

The AS51 includes 200 companies and covers approximately 80% of the Australian equity market by market capitalization. As discussed below, the AS51 is not limited solely to companies having their primary operations or headquarters in Australia or to companies having their primary listing on the Australian Securities Exchange (the ASX). All ordinary and preferred shares (if such preferred shares are not of a fixed income nature) listed on the ASX, including secondary listings, are eligible for the AS51. Hybrid stocks, bonds, warrants, preferred stock that provides a guaranteed fixed return and listed investment companies are not eligible for inclusion.

The AS51 is intended to provide exposure to the largest 200 eligible securities that are listed on the ASX by float-adjusted market capitalization. Constituent companies for the AS51 are chosen based on market capitalization, public float and liquidity. All index-eligible securities that have their primary or secondary listing on the ASX are included in the initial selection of stocks from which the 200 index stocks may be selected.

The float-adjusted market capitalization of companies is determined based on the daily average market capitalization over the last six months. The security's price history over the last six months, the latest available shares on issue and the investable weight factor (the IWF), are the factors relevant to the calculation of daily average market capitalization. The IWF is a variable that is primarily used to determine the available float of a security for ASX listed securities.

Information regarding the S&P®/ASX 200 Index may be found on S&P's website. That information is updated from time to time on that website. Please note that information included in that website is not included or incorporated by reference in this document.

Number of Shares

When considering the index eligibility of securities for inclusion or promotion into S&P/ASX indices, the number of index securities under consideration is based upon the latest available ASX quoted securities. For domestic securities (companies incorporated in Australia and traded on the ASX, companies incorporated overseas but exclusively listed on the ASX and companies incorporated overseas and traded on other markets but most of its trading activity is on the ASX), this figure is purely based upon the latest available data from the ASX.

Foreign-domiciled securities may quote the total number of securities on the ASX that is representative of their global equity capital; whereas other foreign-domiciled securities may quote securities on the ASX on a partial basis that represents their Australian equity capital. In order to overcome this inconsistency, S&P will quote the number of index securities that are represented by CHESS Depositary Interests (CDIs) for a foreign entity. When CDIs are not issued, S&P will use the total securities held on the Australian register (CHESS and, where supplied, the issuer sponsored register). This quoted number for a foreign entity is representative of the Australian equity capital, thereby allowing the AS51 to be increasingly reflective of the Australian market.

The number of CDIs or shares of a foreign entity quoted on the ASX can experience more volatility than is typically the case for ordinary shares on issue. Therefore, an average number on issue will be applied over a six-month period. Where CDI information is not supplied to the ASX by the company or the company's share register, estimates for Australian equity capital will be drawn from CHESS data and, ultimately, registry-sourced data.

IWF

The IWF represents the float-adjusted portion of a stock's equity capital. Therefore any strategic holdings that are classified as either corporate, private or government holdings reduce the IWF which, in turn, results in a reduction in the float-adjusted market capital.

The IWF ranges between 0 and 1, is calculated as 1 Sum of the % held by strategic shareholders who possess 5% or more of issued shares, and is an adjustment factor that accounts for the publicly available shares of a company. A

company must have a minimum IWF of 0.3 to be eligible for index inclusion.
S&P Dow Jones Indices identifies the following shareholders whose holdings are considered to be control blocks and are subject to float adjustment:

1. Government and government agencies;
2. Controlling and strategic shareholders/partners;
3. Any other entities or individuals which hold more than 5%, excluding insurance companies, securities companies and investment funds; and
4. Other restricted portions such as treasury stocks.

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Liquidity Test

Only stocks that are regularly traded are eligible for inclusion. Eligible stocks are considered for index inclusion based on their stock median liquidity (median daily value traded divided by its average float-adjusted market capitalization for the last six months relative to the market capitalization weighted average of the stock median liquidities of the 500 constituents of the All Ordinaries index, another member of the S&P/ASX index family).

Index Maintenance

S&P rebalances constituents quarterly to ensure adequate market capitalization and liquidity using the previous six months' data to determine index eligibility. Quarterly review changes take effect the third Friday of March, June, September and December. Eligible stocks are considered for index inclusion based on their float-adjusted market capitalization rank relative to the stated quota of 200 securities. For example, a stock that is currently in the S&P/ASX 300 and is ranked at 175, based on float-adjusted market capitalization, within the universe of eligible securities may be considered for inclusion into the AS51, provided that liquidity hurdles are met.

In order to limit the level of index turnover, eligible securities will only be considered for index inclusion once another stock is excluded due to a sufficiently low rank and/or liquidity, based on the float-adjusted market capitalization. Potential index inclusions and exclusions need to satisfy buffer requirements in terms of the rank of the stock relative to a given index. The buffers are established to limit the level of index turnover that may take place at each quarterly rebalancing.

Between rebalancing dates, an index addition is generally made only if a vacancy is created by an index deletion. Index additions are made according to float-adjusted market capitalization and liquidity. An initial public offering is added to the AS51 only when an appropriate vacancy occurs and is subject to proven liquidity for at least two months. An exception may be made for extraordinary large offerings where sizeable trading volumes justify index inclusion.

Deletions can occur between index rebalancing dates due to acquisitions, mergers and spin-offs or due to suspension or bankruptcies. The decision to remove a stock from the AS51 will be made once there is sufficient evidence that the transaction will be completed. Stocks that are removed due to mergers and acquisitions are removed from the AS51 at the cash offer price for cash-only offers. Otherwise, the best available price in the market is used.

Share numbers for all index constituents are updated quarterly and are rounded to the nearest thousand. The update to the number of issued shares will be considered if the change is at least 5% of the float adjusted shares or $100 million in value.

Share updates for foreign-domiciled securities will take place annually at the March rebalancing. The update to the number of index shares will only take place when the six-month average of CDIs or the Total Securities held in the Australian branch of issuer sponsored register (where supplied) and in CHESS, as of the March rebalancing, differs from the current index shares by either 5% or a market-cap dollar amount greater than A$100 million. Where CDI information is not supplied to the ASX by the company or the company's share register, estimates for Australian equity capital will be drawn from CHESS data and, ultimately, registry-sourced data.

Intra-quarter share changes are implemented at the effective date or as soon as reliable information is available; however, they will only take place in the following circumstances:

- changes in a company's float-adjusted shares of 5% or more due to market-wide shares issuance;
- rights issues, bonus issues and other major corporate actions; and
- share issues resulting from index companies merging and major off-market buy-backs.

Share changes due to mergers or acquisitions are implemented when the transaction occurs, even if both of the companies are not in the same index and regardless of the size of the change.

IWFs are reviewed annually as part of the September quarterly review. However, any event that alters the float of a security in excess of 5% will be implemented as soon as practicable by an adjustment to the IWF.

The function of the IWF is also to manage the index weight of foreign-domiciled securities that quote shares on the basis of CDIs. Due to the volatility that is displayed by CDIs, unusually large changes in the number of CDIs on issue could result. Where this is the case, the IWF may be used to limit the effect of unusually large changes in the average number of CDIs (and, thereby, limit the potential to manipulate this figure). Where the Australian Index Committee sees fit to apply the IWF in this manner, the rationale for the decision will be announced to the market. This will be reviewed annually at the March-quarter index rebalancing date.

Calculation of the AS51

The AS51 is calculated using a base-weighted aggregate methodology. The value of the AS51 on any day for which an index value is published is determined by a fraction, the numerator of which is the aggregate of the price of each stock in the AS51 times the number of shares of such stock included in the AS51 times that stock's IWF, and the denominator of which is the divisor, which is described more fully below.

In order to prevent the value of the AS51 from changing due to corporate actions, all corporate actions may require S&P to make an index or divisor adjustment, as described in S&P's rules. This helps maintain the value of the AS51 and ensures that the movement of the AS51 does not reflect the corporate actions of the individual companies that comprise the AS51.

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In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, S&P will calculate the closing price of the indices based on (1) the closing prices published by the exchange or (2) if no closing price is available, the last regular trade reported for each security before the exchange closed. If the exchange fails to open due to unforeseen circumstances, S&P treats this closure as a standard market holiday. The AS51 will use the prior day's closing prices and shifts any corporate actions to the following business day. If all exchanges fail to open or in other extreme circumstances, S&P may determine not to publish the AS51 for that day.

S&P reserves the right to recalculate the AS51 under certain limited circumstances.

The following graph shows the daily historical performance of the AS51 in the period from January 1, 2008 through September 27, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On September 27, 2018, the closing level of the AS51 was 6,181.215.

Historical Performance of the S&P/ASX 200 Index

This historical data on the AS51 is not necessarily indicative of the future performance of the AS51 or what the value of the notes may be. Any historical upward or downward trend in the level of the AS51 during any period set forth above is not an indication that the level of the AS51 is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the AS51.

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The Hang Seng® Index

The HSI is calculated, maintained and published by HSIL, a wholly owned subsidiary of Hang Seng Bank, in concert with the HSI Advisory Committee and was first developed, calculated and published on November 24, 1969. The HSI is a free float-adjusted market capitalization weighted stock market index that is designed to reflect the performance of the Hong Kong stock market.

Only companies with a primary listing on the main board of the Stock Exchange of Hong Kong (SEHK) are eligible as constituents of the HSI. Mainland China enterprises that have an H-share listing in Hong Kong will not be eligible for inclusion in the HSI unless the company has no unlisted share capital. In addition, to be eligible for selection, a company: (1) must be among those that constitute the top 90% of the total market value of all primary listed shares on the SEHK (the market value of a company refers to the average of its month-end market capitalizations for the past 12 months); (2) must be among those that constitute the top 90% of the total turnover of all primary listed shares on the SEHK in a sufficient number of measurement sub-periods (turnover is assessed over the last eight quarterly sub-periods: if a company was in the top 90% in any of the most recent four sub-periods, it receives two points; if it was in the top 90% in any of the latter four sub-periods, it receives one point. A company must attain a score of eight points to meet the turnover requirement); and (3) should normally have a listing history of 24 months (there are exceptions for companies that have shorter listing histories but large market values and/or high turnover scores). From the many eligible candidates, final selections are based on the following: (1) the market value and turnover rankings of the companies; (2) the representation of the sub sectors within the HSI directly reflecting that of the market; and (3) the financial performance of the companies.

Calculation of the HSI

The calculation methodology of the HSI is a free float-adjusted market capitalization weighting with a 10% cap on individual stocks. Under this calculation methodology, shares held by any entities (excluding custodians, trustees, mutual funds and investment companies) which control more than 5% of shares are excluded for index calculation:

- *Strategic holdings* (governments and affiliated entities or any other entities which hold substantial shares in the company would be considered as non-freefloat unless otherwise proved);
- *Directors' and management holdings* (directors, members of the board committee, principal officers or founding members);
- *Corporate cross holdings* (publicly traded companies or private firms / institutions); and
- *Lock-up shares* (shareholdings with a publicly disclosed lock-up arrangement).

A free float-adjusted factor representing the proportion of shares that is free floated as a percentage of the issued shares, is rounded up to the nearest multiple of 5% for the calculation of the HSI and is updated quarterly.

A cap of 10% on individual stock weightings is applied. A cap factor is calculated quarterly to coincide with the regular update of the free float-adjusted factor. Additional re-capping is performed upon constituent changes.

The formula for the index calculation is as follows:

Current Index =

where:

P_t : *current price at day t;*
P_{t-1}: *closing price at day t-1;*
IS: *number of issued shares;*
FAF: *free float-adjusted factor, which is between 0 and 1; and*
CF: *capping factor, which is between 0 and 1.*

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The following graph shows the daily historical performance of the HSI in the period from January 1, 2008 through September 27, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On September 27, 2018, the closing level of the HSI was 27,715.67.

Historical Performance of the Hang Seng® Index

This historical data on the HSI is not necessarily indicative of the future performance of the HSI or what the value of the notes may be. Any historical upward or downward trend in the level of the HSI during any period set forth above is not an indication that the level of the HSI is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the HSI.

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Supplement to the Plan of Distribution; Conflicts of Interest

Under our distribution agreement with MLPF&S, MLPF&S will purchase the notes from us as principal at the public offering price indicated on the cover of this term sheet, less the indicated underwriting discount.

The current business of MLPF&S is being reorganized into two affiliated broker-dealers: MLPF&S and a new broker-dealer, BofAML Securities, Inc. (BofAMLS). BofAMLS will be the new legal entity for the institutional services that are now provided by MLPF&S. MLPF&S will be assigning its rights and obligations as selling agent for the notes under our distribution agreement to BofAMLS effective on the Transfer Date . Accordingly, if the pricing date of the notes occurs on or after the Transfer Date, BofAMLS will be responsible for the pricing of the notes. If the settlement date of the notes occurs on or after the Transfer Date, BofAMLS will, subject to the terms and conditions of the distribution agreement, purchase the notes from us as principal on the settlement date. MLPF&S will in turn purchase the notes from BofAMLS for resale, and it will receive a selling concession in connection with the sale of the notes in an amount up to the full amount of underwriting discount set forth on the cover of this term sheet.

MLPF&S, a broker-dealer subsidiary of BAC, is a member of the Financial Industry Regulatory Authority, Inc. (FINRA) and will participate as selling agent in the distribution of the notes. Accordingly, offerings of the notes will conform to the requirements of Rule 5121 applicable to FINRA members. MLPF&S may not make sales in this offering to any of its discretionary accounts without the prior written approval of the account holder.

We may deliver the notes against payment therefor in New York, New York on a date that is greater than two business days following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, if the initial settlement of the notes occurs more than two business days from the pricing date, purchasers who wish to trade the notes more than two business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes will not be listed on any securities exchange. In the original offering of the notes, the notes will be sold in minimum investment amounts of 100 units. If you place an order to purchase the notes, you are consenting to MLPF&S acting as a principal in effecting the transaction for your account.

MLPF&S may repurchase and resell the notes, with repurchases and resales being made at prices related to then-prevailing market prices or at negotiated prices, and these will include MLPF&S's trading commissions and mark-ups. MLPF&S may act as principal or agent in these market-making transactions; however, it is not obligated to engage in any such transactions. At MLPF&S's discretion, for a short, undetermined initial period after the issuance of the notes, MLPF&S may offer to buy the notes in the secondary market at a price that may exceed the initial estimated value of the notes. Any price offered by MLPF&S for the notes will be based on then-prevailing market conditions and other considerations, including the performance of the Basket and the remaining term of the notes. However, neither we nor any of our affiliates is obligated to purchase your notes at any price, or at any time, and we cannot assure you that we or any of our affiliates will purchase your notes at a price that equals or exceeds the initial estimated value of the notes.

The value of the notes shown on your account statement will be based on MLPF&S's estimate of the value of the notes if MLPF&S or another of our affiliates were to make a market in the notes, which it is not obligated to do. That estimate will be based upon the price that MLPF&S may pay for the notes in light of then-prevailing market conditions and other considerations, as mentioned above, and will include transaction costs. At certain times, this price may be higher than or lower than the initial estimated value of the notes.

An investor's household, as referenced on the cover of this term sheet, will generally include accounts held by any of the following, as determined by MLPF&S in its discretion and acting in good faith based upon information then available to MLPF&S:

- the investor's spouse (including a domestic partner), siblings, parents, grandparents, spouse's parents, children and grandchildren, but excluding accounts held by aunts, uncles, cousins, nieces, nephews or any other family relationship not directly above or below the individual investor;
- a family investment vehicle, including foundations, limited partnerships and personal holding companies, but only

if the beneficial owners of the vehicle consist solely of the investor or members of the investor's household as described above; and

a trust where the grantors and/or beneficiaries of the trust consist solely of the investor or members of the investor's household as described above; provided that, purchases of the notes by a trust generally cannot be aggregated together with any purchases made by a trustee's personal account.

Purchases in retirement accounts will not be considered part of the same household as an individual investor's personal or other non-retirement account, except for individual retirement accounts (IRAs), simplified employee pension plans (SEPs), savings incentive match plan for employees (SIMPLEs), and single-participant or owners only accounts (i.e., retirement accounts held by self-employed individuals, business owners or partners with no employees other than their spouses).

Please contact your Merrill Lynch financial advisor if you have any questions about the application of these provisions to your specific circumstances or think you are eligible.

Structuring the Notes

The notes are our debt securities, the return on which is linked to the performance of the Basket. The related guarantees are BAC's obligations. As is the case for all of our and BAC's respective debt securities, including our market-linked notes, the economic terms of the notes reflect our and BAC's actual or perceived creditworthiness at the time of pricing. In addition, because market-linked notes result in increased operational, funding and liability management costs to us and BAC, BAC typically borrows the funds under these types of notes at a rate that is more favorable to BAC than the rate that it might pay for a conventional fixed or floating rate debt security. This rate, which we refer to in this term sheet as BAC's internal funding rate, is typically lower than the rate BAC would pay when it issues conventional fixed or floating rate debt securities. This generally relatively lower internal funding rate, which is reflected in the economic terms of the notes, along with the fees and charges associated with market-linked notes, typically results in the initial estimated value of the notes on the pricing date being less than their public offering price.

At maturity, we are required to pay the Redemption Amount to holders of the notes, which will be calculated based on the performance of the Basket and the $10 per unit principal amount. In order to meet these payment obligations, at the time we issue the notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of our other affiliates. The terms of these hedging arrangements are determined by seeking bids from market participants, including MLPF&S and its affiliates, and take into account a number of factors, including our and BAC's creditworthiness, interest rate movements, the volatility of the Basket Components, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements.

MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately $0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging arrangements may be realized by MLPF&S or any third party hedge providers.

For further information, see Risk Factors—General Risks Relating to ARNs beginning on page PS-6 and Use of Proceeds on page PS-16 of product supplement EQUITY INDICES ARN-1.

MLPF&S Reorganization

As discussed above under Supplement to the Plan of Distribution; Conflicts of Interest , the current business of MLPF&S is being reorganized into two affiliated broker-dealers. Effective on the Transfer Date, BofAMLS will be the new legal entity for the institutional services that are now provided by MLPF&S. As such, beginning on the Transfer Date, the institutional services currently being provided by MLPF&S, including acting as selling agent for the notes, acting as calculation agent for the notes, acting as principal or agent in secondary market-making transactions for the notes, estimating the value of the notes using pricing models, and entering into hedging arrangements with respect to the notes, are expected to be provided by BofAMLS. Accordingly, references to MLPF&S in this term sheet as such references relate to MLPF&S's institutional services, such as those described above, should be read as references to BofAMLS to the extent these services are to be performed on or after the Transfer Date.

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Summary Tax Consequences

You should consider the U.S. federal income tax consequences of an investment in the notes, including the following:

- There is no statutory, judicial, or administrative authority directly addressing the characterization of the notes.
- You agree with us (in the absence of an administrative determination, or judicial ruling to the contrary) to characterize and treat the notes for all tax purposes as a single financial contract with respect to the Basket.
- Under this characterization and tax treatment of the notes, a U.S. Holder (as defined beginning on page 50 of the prospectus) generally will recognize capital gain or loss upon maturity or upon a sale or exchange of the notes prior to maturity. This capital gain or loss generally will be long-term capital gain or loss if you held the notes for more than one year.
- No assurance can be given that the IRS or any court will agree with this characterization and tax treatment.
- Under current Internal Revenue Service guidance, withholding on dividend equivalent payments (as discussed in the product supplement), if any, will not apply to notes that are issued as of the date of this pricing supplement unless such notes are delta-one instruments.

You should consult your own tax advisor concerning the U.S. federal income tax consequences to you of acquiring, owning, and disposing of the notes, as well as any tax consequences arising under the laws of any state, local, foreign, or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws. You should review carefully the discussion under the section entitled U.S. Federal Income Tax Summary beginning on page PS-26 of product supplement EQUITY INDICES ARN-1. In addition, any reference to Morrison & Foerster LLP in the aforementioned tax discussions in product supplement EQUITY INDICES ARN-1 should be read as a reference to Sidley Austin LLP.

Where You Can Find More Information

We and BAC have filed a registration statement (including a product supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents relating to this offering that we and BAC have filed with the SEC, for more complete information about us, BAC and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

MLPF&S classifies certain market-linked investments (the Market-Linked Investments) into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance.

Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.

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