

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

November 28, 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 Form 40-F

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

Yes No

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

N/A

PETROBRAS ENERGIA PARTICIPACIONES S.A.

Financial Statements and Summary of Events

as of September 30, 2005

Independent Public Accountant's Report

MACROECONOMIC OVERVIEW 3rd QUARTER 2005

International Scenario

The world economy continued to grow at moderate rates in the third quarter of 2005. The United States kept a good growth pace, but with a certain slowdown in investments and exports. Most production indicators remained robust even in spite of the problems caused by hurricanes in the south of the country. The rise in electric power costs impacted on the general level of prices, taking twelve-month inflation up to 4.7% (retail) and 6.7% (wholesale) towards the end of the quarter. The combination of both factors, strong growth and higher inflation, encouraged the Federal Reserve to go ahead with the policy to gradually increase the benchmark interest rate that reached 3.75% in September. Long-term interest rates fluctuated, but exhibited an upward trend compared to the previous months. The dollar continued to appreciate *vis-à-vis* –the major benchmark currencies, in line with its performance throughout the year. The European economy exhibited again a slight improvement while Japan's growth was noticeably lower compared to the previous quarters and China's growth rate reached 9.4%.

Oil

Oil prices kept going up throughout the quarter, averaging US\$63 per barrel of WTI and reaching record highs of nearly US\$70.

This quarter was adversely affected by the weather events that damaged and caused oil facilities in the Gulf of Mexico in the United States to close down. World demand for oil, according to OPEC records, continued increasing, but at decreasing rates: +0.9% year-over-year, compared to 2.3% and 1.2% increases in the first and second quarters of 2005, respectively. Production, in turn, according to OPEC's statistics, recorded an actual increase of 1.4% year-over-year, reaching 84.5 million barrels per day, with an actual increase of 1,160,000 bbl/d, exceeding demand.

Argentina

The Argentine economy witnessed a remarkable acceleration in growth in the third quarter of the year. The GDP rose over 12% year-over year compared to the previous quarter, though at rates around 8% compared to the same period of 2004. In the industrial sector, the strong growth continues, with the use of installed capacity at high levels (75%), and some sectors even above those levels, as it is the case of oil refining.

Oil production continues on a downward pace slightly below 4%. The sale of fuels to the local market increased about 10%, where the increase in premium gasoline (30%) was again noticeable. The domestic price of fuels did not change in spite of the continuous rise of the international price of oil.

Gas production remained at last year's levels during the July-August period, but recorded a 2% drop in accumulated terms for the year.

The domestic demand for electric power went up 8% year-over-year. Increased demand was met by a 7% rise in local generation, with a 15% increase in hydraulic generation and lower net exports.

The foreign sector continued to have record exports, putting a brake on the persistent decline in trade surplus. With an abundant supply of dollars, the exchange rate showed a clear trend towards appreciation in July, reaching the minimum value of P\$2.86/US\$1 in the year, subsequently reversed as from August. The peso-dollar average exchange rate was P\$2.89/US\$1. The frequency of intervention by monetary authorities in the exchange market was intense throughout the quarter and interest rates recorded moderate increases (the yield on 1-year bills increased to 9%). International reserves exceeded US\$25 billion. Due to a new acceleration of inflation, a monthly average of 1% in the quarter, both the Ministry of Economy and the Central Bank decided to suspend placement of CER-indexed instruments, partly to limit short-term hot money flows into the country.

The public sector accounts recorded sustained primary surpluses, far exceeding Government's expectations, though with expenditures growing faster than income. The Argentine Government has not agreed on a new program with the IMF yet and continues to make payments with no reimbursements to the institution. Argentina placed sovereign debt denominated both in CER-adjusted pesos (at rates somewhat above 5%) and in dollars (at rates below 8%).

Latin America

The Venezuelan economy continued to grow in the third quarter, driven by the high price of crude oil. The second quarter had already seen a y-o-y increase in the GDP of 11.1%, with a more dynamic oil sector, 2.5% versus barely 0.5% in the first quarter. In the non-oil sector, the growing government spending boosted aggregate demand. Consumption and the strong upsurge in investments have supported these growth rates. The construction, manufacturing, automotive, metal and textile sectors recorded the greatest improvements in the current year.

Oil production calculated within the OPEC quota has not increased significantly during the year. Comparing this year's production averages to those for the first nine months of 2004, a slight 4.2% increase is recorded, still far from production levels prior to the 2003 strike.

In Brazil, the level of activity recorded a good performance in the third quarter, in line with a higher growth in the whole South American region. The industrial sector showed a strong performance measured in seasonal terms, based on manufacturing of durables and semi-durables.

ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

Discussion and analysis of results of operations for the three-month period ended September 30, 2005 (2005 quarter) compared to the three-month period ended September 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 the operating and financial policies of a company.

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 S.A. because Petrobras Energía S.A. has committed to sell its interest in Citelec S.A. upon transfer of 58.62% of Petrobras Energía Participaciones S.A.'s shares to Petróleo Brasileiro S.A. - Petrobras (Petrobras).

Our management analyzes our results and financial condition separately from the results and financial condition of these companies. Consequently, 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 .

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ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

The table below shows the Company's results of operations for the three-month periods ended September 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 period under review declined 21.8% to P\$118 million from P\$151 million in the same period of previous year.

Net sales: Net sales increased P\$366 million or 15.5% to P\$2,730 million from P\$2,364 million in the same quarter of previous year. Net sales for 2005 quarter reflect P\$131 million and P\$157 million attributable to our share in CIESA's and Distrilec's net sales, respectively, (net of intercompany sales of P\$10 million). Net sales for 2004 quarter reflect P\$126 million and P\$131 million attributable to our share in CIESA's and Distrilec's net sales, respectively (net of intercompany sales of P\$5 million).

Without proportional consolidation, net sales increased P\$340 million or 16.1% to P\$2,452 million from P\$2,112 million in the same quarter of previous year, driven by a significant increase in the prices of WTI and the main refined products. Net sales for the Oil and Gas Exploration and Production and Refining business segments increased P\$281 million and P\$140 million, respectively.

Gross profit: Gross profit for the period increased P\$50 million or 6.1% to P\$869 million from P\$819 million. The 2005 quarter gross profit reflects P\$61 million and P\$11 million attributable to our share in the gross profit of CIESA and Distrilec, respectively. The 2004 quarter gross profit reflects P\$65 million and P\$21 million attributable to our share in the gross profit of CIESA and Distrilec, respectively, and P\$3 million attributable to eliminations.

Without proportional consolidation, gross profit for 2005 quarter increased P\$67 million or 9.2% to P\$797 million from P\$730 million. This improvement is mainly attributable to the Oil and Gas Exploration and Production segment which exhibited a P\$186 million increase in gross profit, driven by a 35.2% rise in average sales prices. Conversely, the evolution of marketing margins for refined and petrochemical products resulted in P\$78 million and P\$24 million reductions, respectively.

Administrative and selling expenses: Administrative and selling expenses for 2005 quarter rose P\$41 million or 20.8% to P\$238 million from P\$197 million. The 2005 quarter reflects P\$4 million and P\$19 million attributable to our share in the administrative and selling expenses of CIESA and Distrilec, respectively. The 2004 quarter reflects P\$3 million and P\$12 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\$33 million or 18.1% to P\$215 million from P\$182 million in 2004 quarter.

Exploration expenses: Exploration expenses totaled P\$11 million and P\$15 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\$130 million and P\$85 million losses, 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 Distrilec. The 2004 quarter reflects P\$4 million and P\$2 million losses attributable to our share in other operating income (expense), net of CIESA and Distrilec, respectively, and P\$ 3 million attributable to eliminations.

Without proportional consolidation, other operating income (expense), net accounted for P\$126 million and P\$76 million losses. This increase mainly derives from an allowance for tax credits.

Operating income: Operating income declined P\$32 million or 6.1% to P\$490 million from P\$522 million. The 2005 quarter operating income reflects a P\$57 million gain and a P\$12 million loss attributable to our share in the operating income of CIESA and Distrilec, respectively. The 2004 quarter reflects P\$58 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 down P\$12 million or 2.6% to P\$445 million from P\$457 million in 2004 quarter. See Analysis of Operating Income .

Equity in Earnings of Affiliates: Equity in earnings of affiliates accounted for a P\$51 million gain in both quarters. Without proportional consolidation, equity in earnings of affiliates accounted for a P\$54 million gain in 2005 quarter compared to a P\$89 million gain in 2004 quarter. See Analysis of Equity in Earnings of Affiliates .

Other income (expense), net: Other income (expense), net accounted for a P\$20 million loss in 2005 quarter compared to a P\$26 million gain in 2004 quarter.

Without proportional consolidation, other income (expense), net accounted for P\$18 million and P\$14 million losses, respectively. The 2005 quarter reflects a P\$19 million loss resulting from an allowance provided for the investment in Enecor S.A. This allowance was provided for due to the fact that in July 2005, the Dirección Provincial de Energía de Corrientes (DPEC) (Provincial Energy Agency of Corrientes) resolved not to approve any payment to Enecor S.A. under the electroduct contract and demanded guarantors to render null and void the irrevocable guaranties timely granted. Therefore, not only payment of fees to Enecor S.A. but also guarantees in favor of Enecor S.A. were suspended. This issue arises doubt as to Enecor S.A.'s capacity to continue doing business. On account of this uncertainty, the Company provided for the allowance mentioned above. Expenses for 2004 quarter reflect a P\$12 million loss mainly attributable to reduced investments in the Acema area, in an area of no interest beyond the contract initial area.

Financial income (expense) and holding gains (losses): Financial income (expense) and holding gains (losses) declined P\$287 million or 54.4% compared to 2004 quarter, accounting for a P\$241 million loss, and a P\$528 million loss in 2004 quarter, respectively. The 2005 quarter reflects P\$30 million and P\$4 million financial expenses attributable to our share in the financial expense of CIESA and Distrilec, respectively. The 2004 quarter reflects P\$51 million and P\$10 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 P\$260 million to P\$207 million from P\$467 million, 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\$68 million in 2005 quarter compared to P\$368 million in 2004 quarter as a result of (i) a lower increase in the future curve of crude oil prices, 14.4% in 2005 quarter compared to 28.6% in 2004 quarter, and (ii) lower hedged volumes.

- A 7.9% reduction in interest expense to P\$103 million in 2005 quarter from P\$112 million in 2004 quarter, as a result of a 3.5% decline in dollar-denominated average indebtedness.

- A P\$39 million loss attributable to the holding of securities and shares compared to a P\$13 million gain. The loss recorded during the period under review mainly stemmed from the performance by Petrobras Energía Venezuela S.A.(PEV) of financial operations for the transfer of foreign exchange abroad. Given the asymmetries observed in the exchange rates, a P\$45 million loss was recognized. These operations are performed for the transfer abroad of foreign exchange necessary to settle PEV's financial commitments. This effect is attributable to the change in the conditions of payment relating to the compensation under operating agreements. To such respect, and until an audit is conducted to identify the portion of Venezuelan national component in materials and resources supplied, PDVSA will pay 50% of the compensation under the contract for services in *bolivares*.

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Income tax: The income tax charge for 2005 quarter increased to P\$121 million compared to a P\$67 million gain in 2004 quarter. The 2005 quarter reflects a P\$2 million loss and a P\$1 million gain attributable to our share in the income tax of CIESA and Distrilec, respectively. The 2004 quarter reflects a P\$1 million loss attributable to the income tax of Distrilec.

Without proportional consolidation, income tax accounted for a P\$120 million loss in 2005 quarter compared to a P\$68 million gain in 2004 quarter. Income tax charge for 2005 quarter is attributable to the tax gain for the quarter. During 2004 quarter, since an allowance was provided for all Petrobras Energía's tax loss carryforwards, the tax gain for the quarter was absorbed by tax loss carryforwards for which an allowance was provided, with no impact on the results for the period.

Analysis of Operating Income

Oil and Gas Exploration and Production

Operating income: Operating income for the Oil and Gas Exploration and Production business segment increased P\$144 million or 40.1% to P\$496 million from P\$352 million in 2004 quarter, mainly due to the increase in average sales prices of oil equivalent.

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

Net sales: Net sales for 2005 quarter increased 29.6% or P\$281 million to P\$1,229 million from P\$948 million in 2004 quarter. This increase is mainly attributable to the 35.2% rise in the average sales price of crude oil equivalent, reflecting a 43.7% positive variation in the price of WTI. This impact was partially offset by a 4.6% drop 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 30.6% to P\$101.7 from P\$77.9 in 2004 quarter.

Combined oil and gas daily sales volumes in 2005 quarter decreased to 172.4 thousand barrels of oil equivalent from 180.7 thousand barrels of oil equivalent in 2004 quarter. Crude oil sales volumes decreased 1.4% to 120.6 thousand barrels per day from 122.3 thousand barrels per day, while gas daily sales volumes dropped 11.2% to 310.8 million cubic feet in 2005 quarter from 350 million cubic feet, respectively.

Argentina

In Argentina, sales rose P\$17 million or 3.3% to P\$537 million from P\$520 million in 2004 quarter, boosted by a 19.8% increase in the average sales price of oil equivalent. Combined oil and gas daily sales volumes declined 13.8% to 88.8 thousand barrels of oil equivalent in 2005 quarter from 103 thousand barrels of oil equivalent in 2004 quarter.

Crude oil sales increased 0.8% or P\$4 million to P\$475 million from P\$471 million in 2004 quarter. This increase was attributable to the 17.3% rise in the average sales price to P\$105.9 per barrel from P\$90.3 per barrel. In Argentina, this favorable international price scenario was severely impacted by higher taxes on crude oil exports in the third quarter of 2004. Such taxes moved from a single 25% rate to a cap set at 45% rate under an incremental tax scheme. 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 in the domestic market.

Daily crude oil sales volumes declined 13.9% to 48.8 thousand barrels in 2005 quarter from 56.7 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.

Total gas sales increased 26.5% to P\$62 million from P\$49 million, mainly due to a 47.8% improvement in prices compared to 2004 quarter. Gas average sales price increased to P\$2.81 per million cubic feet in 2005 quarter from P\$1.90 per million cubic feet in 2004 quarter, mainly due to the renegotiation of export contracts and the implementation of a path for the recovery of distribution companies (in proportion to industrial consumption) and power plant prices provided for by the Secretary of Energy. Conversely, and due to 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. Daily sales volumes dropped 13.8% to 240.2 million cubic feet in 2005 quarter from 277.8 million cubic feet in 2004 quarter mainly due to the considerable decline in the above mentioned fields production curve.

Outside of Argentina

Combined oil and gas sales outside of Argentina increased P\$260 million or 60.7% to P\$688 million in 2005 quarter from P\$428 million in 2004 quarter. Total oil and gas sales volumes rose 7.7% to 83.6 thousand barrels of oil equivalent per day from 77.6 thousand barrels of oil equivalent. The average sales price per barrel of oil equivalent increased 48.9% to P\$89.5 from P\$60.1.

Venezuela

In Venezuela, oil and gas sales in 2005 quarter grew P\$56 million or 25.8% to P\$273 million from P\$217 million in 2004 quarter. This increase is mainly attributable to the 31.3% rise in the sales price of oil equivalent partially offset by a 4.2% drop in sales volumes of oil equivalent.

The operating agreement of the Oritupano Leona area 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. In the period under review, P\$102 million was recognized in this respect.

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In September 2005, the Company, through Petrobras Energía Venezuela S.A., executed provisional agreements with PDVSA as a prior step to the conversion of operating agreements governing the development of the Oritupano Leona, La Concepción, Acema and Mata areas into a partially state-owned company modality under which the Venezuelan State, through PDVSA, will hold a majority interest. Under the above mentioned agreements, the parties agree, among other commitments, that total amounts payable during the year 2005 under the Operating Agreement in force shall not exceed 66.67% of the total value of the crude oil delivered under the agreement in United States dollars. This limit resulted in reduced accumulated sales of P\$110 million, of which P\$68 million was attributable to the first half of 2005.

Considering the behavior of WTI prices, in addition to the recognition of the above mentioned additional compensation and the impact of the limit imposed under the provisional agreement, the average price per barrel of oil grew 30.1% to P\$64.9 in 2005 quarter from P\$49.9 in 2004 quarter.

Daily sales volumes of oil equivalent dropped to 48.9 thousand barrels in 2005 quarter from 51.1 thousand barrels in 2004 quarter, mainly as a consequence of the results obtained from drilling and workover campaigns in connection with third round contracts during 2004 and the cuts established by PDVSA under the Oritupano Leona area development program.

Ecuador

In Ecuador, oil sales for 2005 quarter increased 174% to P\$174 million from P\$63 million, mainly boosted by the 97.2% rise in sales volumes and a 39.4% increase in sales prices to P\$153.3 per barrel in 2005 quarter from P\$110 per barrel in 2004 quarter, basically attributable to the 61.8% increase in Oriente crude oil, the applicable international reference.

Daily sales volumes increased to 12.6 thousand barrels in 2005 quarter from 6.3 thousand barrels in 2004 quarter. The 2005 quarter reflects total sales of 2.3 thousand barrels of oil per day attributable to a shipment postponed from the previous quarter due to operating delays at Petroecuador facilities.

Peru

In Peru, oil and gas sales increased P\$86 million or 70.9% to P\$207 million in 2005 quarter from P\$121 million in 2004 quarter.

The crude oil price rose 48.6% to P\$169.6 per barrel from P\$114.1 per barrel. The international reference (a combination of Oriente crude oil and WTI) recorded a positive variation of 51.41%. The price of gas decreased 2.6% to P\$4.45 in 2005 quarter from P\$4.57 per million cubic feet in 2004 quarter as a consequence of the increase in gas supply, boosted by the entry to the local market of gas from the Camisea formation.

Daily sales volumes of oil equivalent increased 16.9% to 15 thousand barrels in 2005 quarter from 12.8 thousand barrels in 2004 quarter, mainly as a result of the increased level of activities and a higher production contribution from drilling activities performed under the agreement made in 2004 with the Peruvian Government for the development of Block X, whereby the Company committed itself to make investments of about US\$97 million in the 2004-2011 period. The Peruvian Government, in turn, set a variable scheme of royalties subject to the WTI price.

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Bolivia

In Bolivia, oil and gas sales in 2005 quarter increased P\$8 million or 30.1% to P\$34 million from P\$26 million in 2004 quarter, boosted by an increase in the gas price. Combined oil and gas daily sales volumes decreased 2.2% to 7.3 thousand boe as a consequence of a drop in the domestic market.

The average sales price of gas recorded a 50% increase to P\$7.8 per million cubic feet from P\$5.2 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 exports to Brazil.

Gross profit: Gross profit for 2005 quarter rose P\$186 million or 36.5% to P\$695 million from P\$509 million in 2004 quarter. The margin on sales increased to 56.5% from 53.7% in 2004 quarter. This rise in margins is mainly attributable to a 35.2% increase in average sales prices of oil equivalent. The lifting cost rose to P\$9.6 per barrel of oil equivalent in 2005 quarter from P\$8.1 per barrel of oil equivalent in 2004 quarter, 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. To a lesser extent, the drop in production volumes also had an impact. In addition, royalties increased P\$36 million or 35.6% to P\$137 million in 2005 quarter from P\$101 million due to the higher price of the crude oil basket used to determine the amount payable.

Administrative and selling expenses: Administrative and selling expenses in 2005 quarter increased P\$9 million or 16% to P\$65 million from P\$56 million in 2004 quarter. This rise mainly results from increased crude oil volumes transported in Ecuador.

Exploration expenses: Exploration expenses totaled P\$11 million in 2005 quarter and P\$15 million in 2004 quarter. Expenses for both quarters are mainly attributable to 3D seismic works in exploratory areas in Argentina.

Other operating income: Other operating income (expense), net accounted for P\$123 million and P\$86 million losses in 2005 and 2004 quarters, respectively, mainly attributable to charges under the Ship or Pay transportation contract in Ecuador, and a P\$47 million allowance for tax credits during the period under review.

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Hydrocarbon Marketing and Transportation

Operating income: In 2005 and 2004 quarters, operating income totaled P\$61 million and P\$68 million, respectively. Operating results reflect P\$57 million and P\$58 million gains in 2005 and 2004 quarters, respectively, attributable to the proportional consolidation of CIESA. Excluding such effects, operating income totaled P\$4 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 9.1% to P\$156 million from P\$143 million mainly due to higher prices of both gas and liquids. The increase in the price of gas resulted from the application of the price recovery path fixed by the

Secretary of Energy as from May 2004 and the rise in international reference prices applicable to certain export contracts and contracts with industrial customers. The increase in the prices of liquids derived from a rise in their international references.

Sales revenues from gas and liquids produced by the Company and imported gas and liquids totaled P\$84 million and P\$64 million in 2005 quarter and P\$73 million and P\$62 million in 2004 quarter, respectively. Sales volumes in Argentina for imported gas and gas produced by the Company fell to 274.3 million cubic feet per day in 2005 quarter from 289.2 million cubic feet per day in 2004 quarter as a consequence of a drop in the Company's own production derived from the decline of fields located in Argentina. Liquids sales volumes dropped to 65.5 thousand tons in 2005 quarter from 67 thousand tons in 2004 quarter 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\$8 million in both quarters.

Gross profit: Gross profit for the quarter under review posted a P\$4 million loss compared to a P\$12 million gain in 2004 quarter. The loss recorded in the period under review derived from the impact of the strong increase in international reference prices applicable to the import of gas from Bolivia which could not be passed through to sales contracts.

Other operating income (expense), net: Other operating income (expense), net reflected a P\$9 million gain in the period under review compared to a P\$1 million loss in 2004 quarter, mainly derived from technical assistance 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 reflected a P\$76 million loss compared to a P\$1 million gain in 2004 quarter. Two facts had a significant impact on the downstream business performance during 2005 quarter: the impossibility to pass through to domestic prices the 18.6% increase in crude oil prices and the resale of imported diesel oil. In such respect, the Company prioritized supply to the domestic market, even within a context that limited the possibility of passing through the rise in international prices to final prices. The Company's Board of Directors is evaluating whether to continue diesel oil import operations.

Gross profit: Gross profit for 2005 quarter significantly declined, accounting for a P\$15 million loss compared to a P\$63 million gain in 2004 quarter. Gross margin was adversely affected by the resale of diesel oil and the increase in crude oil prices to P\$117 per barrel in 2005 quarter from P\$98.6 per barrel in 2004 quarter.

Net sales: Net sales for refinery products increased P\$140 million or 16.8% to P\$975 million in 2005 quarter from P\$835 million in 2004 quarter, boosted by higher sales prices of products. Total sales volumes increased 3% in 2005 quarter. Domestic sales volumes increased 12% compared to the same period in 2004 while export sales fell 18%.

In line with the significant rise in the price of WTI, sales average prices of heavy distillates, asphalts, paraffins, diesel oil, reformer plant byproducts, aromatics and gasoline increased 65%, 31%, 40%, 9%, 8%, 2% and 3%, respectively.

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In 2005 quarter crude oil volumes processed at the refineries declined 6.1% to 59.4 thousand barrels per day as a result of the shutdown for scheduled maintenance works at the Bahía Blanca refinery which lasted 38 days.

Total diesel oil sales volumes moved up 6.2% to 417 thousand cubic meters in 2005 quarter mainly due to the increase in the domestic market. Domestic sales increased 12.9% in 2005 quarter. This allowed for a market share increase from 13.8% in 2004 quarter to 14.1% in 2005 quarter. Export volumes declined approximately 59% mainly due to changes in the trade policy implemented as from merger of the Company's operations with EG3. In 2004 quarter, in a stage prior 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.

Total gasoline sales volumes dropped 8.0% to 164 thousand cubic meters in 2005 quarter mainly due to lower availability of export surpluses on account of the complete shutdown scheduled for maintenance works at the Bahía Blanca refinery which resulted in a 48% drop in exports. Domestic sales exhibited a 12.4% increase in 2005 quarter, mainly attributable to the 10.9% growth in the gasoline market. Within this context, the Company's market share increased to 14.3% in 2005 quarter from 14.2% in 2004 quarter. In the premium gasoline market, the market share grew from 8.8% in 2004 quarter to 9.8% in 2005 quarter, mainly due to the consolidation of Podium gasoline.

Asphalt sales volumes grew 50.8% in 2005 quarter, mainly boosted by a program of infrastructure works performed by the Government, basically in the south of the country. Within this context, domestic market sales increased 62% in 2005 quarter while exports declined 19%.

As regards heavy distillates, in 2005 quarter sales volumes declined 4%, mainly due to lower VGO sales volumes in the domestic market. Regarding the remaining products, sales of reformer plant byproducts dropped 4%, basically as a consequence of lower sales of reforming feedstock and LPG recorded an 100% increase in the domestic market.

Administrative and selling expenses: Administrative and selling expenses slightly dropped to P\$60 million from P\$61 million in the prior-year quarter.

Other operating income (expense), net: Other operating income (expense), net accounted for a P\$1 million loss in both periods.

Petrochemicals

Operating income: Operating income for 2005 quarter declined P\$35 million or 41.2% to P\$50 million from P\$85 million in 2004 quarter due to lower sales margins.

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

(millions of pesos)

Net Sales: Net sales for the Petrochemicals business segment decreased P\$23 million or 4.1% to P\$536 million in 2005 quarter from P\$559 million in 2004 quarter (net of eliminations in the amount of P\$39 million and P\$3 million), mainly due to reduced fertilizers sales volumes.

- Styrenics Argentina:

In Argentina, styrenics sales increased to P\$215 million or 28% in 2005 quarter from P\$168 million in 2004 quarter, mainly due to a 25% increase in sales volumes and, to a lesser extent, a 2% increase in average sales prices. As a result of the start-up of the ethylene plant, in October 2004, the ethylbenzene plant production increased, thus generating surplus production that allowed for full use of Innova's installed production capacity, and consolidating, in turn, the business value chain.

In 2005 quarter, rubber prices increased 29% in 2005 quarter as a result of a higher international price of butadiene. Monomer styrene and polystyrene prices declined approximately 10% and 5%, respectively.

Styrenics performed as follows:

a)

Styrene sales volumes in 2005 quarter were 95% higher compared to 2004 quarter. This increase was mainly attributable to the start-up of the ethylene plant, the availability of which resulted in exports of 8.5 thousand tons of ethylbenzene to Innova. In addition, and due to discontinuance of the polystyrene plant production, a styrene surplus was recorded and geared towards export markets. Consequently, styrene sales volumes rose approximately to 14 thousand tons or 40%.

b)

Polystyrene and bops sales volumes in 2005 quarter were 1% lower compared to 2004 quarter, with domestic sales in line with 2004 quarter sales and a 1% decline in exports. Production shortfalls derived from a lower plant availability were made up by products for resale.

c)

Rubber sales volumes decreased 13% in 2005 quarter, mainly due to a 25% drop in export volumes. Sales volumes in the domestic market remained at similar levels in both quarters.

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- Styrenics - Brazil - Innova:

Innova sales totaled P\$224 million in 2005 quarter and P\$225 million in 2004 quarter, respectively.

Styrene and polystyrene prices declined 11% and 4%, respectively, compared to 2004 quarter.

Styrene sales volumes rose 14% due to a greater ethylbenzene availability and the reactivation of the Brazilian market. Polystyrene sales volumes, in turn, dropped 10% as a result of a lower demand from the Brazilian market derived from consumption of customers' stocks.

- Fertilizers

Fertilizers sales decreased 26.6% to P\$124 million in 2005 quarter from P\$169 million in 2004 quarter. Sales volumes dropped 34% in 2005 quarter as a consequence of the decline in the demand from the agricultural sector due to adverse weather conditions. Sales prices increased 12% during 2005 quarter.

Gross profit: Gross profit for 2005 quarter decreased P\$24 million or 22.9% to P\$81 million from P\$105 million in 2004 quarter. Gross margin on sales decreased to 15.1% in 2005 quarter from 18.8% in 2004 quarter, reflecting the effect of lower margins from Innova and fertilizers.

- Styrenics - Argentina:

Gross profit rose 55% to P\$41 million in 2005 quarter from P\$26 million in 2004 quarter, boosted by the increased volume and variable margin on sales. Gross margin on sales increased to 19% in 2005 quarter from 15.5% in 2004 quarter.

- Styrenics - Brazil:

Gross profit dropped 89% to P\$4 million in 2005 quarter from P\$36 million in 2004 quarter. Gross margin on sales moved down to 2% in 2005 quarter from 16% in 2004 quarter due to the impossibility of passing through higher costs of raw materials to market prices.

- Fertilizers:

Gross profit dropped 16% to P\$36 million in 2005 quarter from P\$43 million in 2004 quarter, mainly due to lower sales volumes and the increase in the cost of gas and ammonium nitrate that could not be fully passed through to sales prices.

Administrative and selling expenses: Administrative and selling expenses totaled P\$34 million and P\$30 million in 2005 and 2004 quarters, respectively. This increase is mainly attributable to: 1) increased labor costs and (2) the rise in selling expenses due to higher freight costs.

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Electricity

Operating income: In 2005 quarter, operating income for the Electricity segment declined P\$31 million to P\$28 million from P\$59 million in 2004 quarter. Operating results reflect a P\$12 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 declined P\$12 million to P\$40 million in 2005 quarter from P\$52 million in 2004 quarter. In 2005 quarter, generation margins decreased mainly as a result of higher costs of fuel gas and energy purchases and lower income from technical assistance services, partially offset by improved prices recorded in 2005 quarter.

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\$2 million or 2% to P\$101 million in 2005 quarter from P\$99 million in 2004 quarter as a consequence of a 5.5% improvement in generation prices, partially offset by a 1.2% decrease in energy sales.

The increase in energy sales prices mainly derived from a higher demand for electric power and a lower availability of gas supply. Such facts resulted in energy deliveries by less efficient thermal machines. In addition, in the case of Genelba Power Plant, 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 had a significant impact.

Net sales attributable to Genelba Power Plant increased 1.3% to P\$80 million in 2005 quarter from P\$79 million in 2004 quarter, due to the effect of improved prices and reduced sales volumes. The average sales price of energy increased to P\$54.7 per MWh or 1.9% in 2005 quarter from P\$53.7 per MWh in 2004 quarter, due to the market reasons mentioned above. Energy sales decreased 1.4% to 1,459 GWh in 2005 quarter from 1,480 GWh in 2004 quarter. The plant factor as well as the power plant's availability factor reached approximately 100% in both quarters.

Net sales attributable to Pichi Picún Leufú Hydroelectric Complex increased 16.7% to P\$21 million in 2005 quarter from P\$18 million due to improved prices that rose 21.8% to P\$48.6 per MWh from P\$39.9 per MWh in 2004 quarter. Energy delivered was at similar levels in both quarters: 436 GWh in 2005 quarter and 439 GWh in 2004 quarter.

Gross profit: Gross profit for the generation business decreased P\$8 million to P\$43 million in 2005 quarter from P\$51 million in 2004 quarter, mainly driven by higher costs of fuel gas and energy purchases. This was partially offset by improved prices in the wholesale electricity market in 2005 quarter.

Administrative and selling expenses: Administrative and selling expenses for the generation business totaled P\$2 million and P\$3 million in 2005 and 2004 quarters, respectively.

Other operating income (expense), net: In 2004 quarter, Other operating income (expense), net reflected a P\$5 million gain mainly attributable to income from technical assistance 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, no significant results were recorded in such respect as from such date.

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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: Equity in earnings of *CIESA/TGS* accounted for P\$17 million and P\$50 million gains in 2005 and 2004 quarters, respectively. The 2004 quarter equity in earnings reflects a reversal of charges 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 gains, no significant results were recorded in 2004 quarter.

This variation in equity in earnings is mainly attributable to reduced financial expense in the period under review, derived from: (i) lower interest due to a reduced indebtedness on account of *TGS*'s debt restructuring, (ii) the recognition of punitive interest in 2004 quarter on the restructured debt and (iii) the discount and release of interest of *CIESA*'s restructured debt in 2005 quarter.

CIESA's total sales revenues in 2005 quarter increased 3.4% compared to 2004 quarter. Sales revenues for the gas transportation segment increased P\$5 million in 2005 quarter, mainly as a result of the execution of new firm transportation agreements for the extension of the San Martin gas pipeline ended in August 2005. Income from the NGL processing and marketing segment increased P\$2 million in 2005 third quarter, as a consequence of increased international reference prices, partially offset by changes in the sales mix, with a 25% drop in export volumes in order to increase domestic market supply.

The effect of increased sales revenues was offset by the rise in the natural gas price as a cost factor in NGL production and increased maintenance costs of the gas pipeline system.

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Distrilec/Edesur: Equity in earnings of Distrilec accounted for P\$10 million and P\$4 million losses in 2005 and 2004 quarters, respectively.

The drop was mainly attributable to the impact of a 35% rise in costs for energy purchases, the impact of the penalties imposed by the regulatory authority and higher labor costs, partially offset by an 11% rise in average sales prices and an 8% increase in the demand for energy. Financial income (expense) and holding gains (losses), in turn, reflected P\$6 million and P\$12 million losses in 2005 and 2004 quarters, respectively.

Citelec/Transener: In 2005 quarter, equity in earnings of Citelec accounted for a P\$3 million loss compared to a P\$8 million gain in 2004 quarter. As from September 30, 2005, under the proposed divestment plan, equity interest in Citelec was valued at the recoverable value determined on the basis of the probable net realization value.

Empresa Boliviana de Refinación (EBR): Equity in earnings of EBR accounted for P\$25 million and P\$10 million gains in 2005 and 2004 quarters, respectively. The improvement in 2005 quarter is attributable to: (i) increased margin from unregulated market export operations, favorably affected by a rise in the international reference prices, and (ii) the positive effects of the regulatory changes as from 2005 second quarter.

Petrolera Entre Lomas S.A. (PELSA): Equity in earnings of PELSAs accounted for P\$7 million and P\$3 million gains in 2005 and 2004 quarters, respectively. This increase derives from the combined effect of improved sales prices in line with the international reference prices and a 10% increase in sales volumes.

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SUMMARIZED BALANCE SHEET AND INCOME STATEMENT STRUCTURE

The information below for the nine-month periods ended September 30, 2002 and 2001 does not have retroactive effect under the new professional accounting standards. The information below for the nine-month periods ended September 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..

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LISTED PRICE OF THE COMPANY S SHARE

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STATISTICAL DATA

The information below for the nine-month periods ended September 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..

NESTOR CUÑAT CERVERO

Vicepresidente en Ejercicio de la Presidencia

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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 September 30, 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine-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 September 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 September 30, 2005 and for the nine-month period then ended.

b)

Compañía Inversora en Transmisión Eléctrica Citelec S.A.: the interests in such company represent non-current investments for about Argentine pesos 293,000,000 as of September 30, 2005 and gains for Argentine pesos 177,000,000 included in Equity in earnings of affiliates for the nine-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 September 30, 2005 include, among others, qualifications for unresolved uncertainties as to such company's ability to continue as going concern and the recoverable value of its non-current assets. 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, Compañía de Inversiones de Energía S.A. has suspended the payment of its financial debt, although on September 2005 it celebrated a debt restructuring agreement, which, is pending of regulatory approval as of the date of this report. These circumstances raise substantial doubt about the ability of Compañía de Inversiones de Energía S.A. to continue as going concern. 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 September 30, 2005 and the result of the operations for the nine-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 September 30, 2005 and the result of the operations for the nine-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 nine-month period ended September 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 and the related company Transportadora de Gas del Sur S.A. 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 Compañía 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 differs from the one previously presented. The report of other auditors on the financial statements as of December 31, 2004 of Citelec mentions that (i) their report dated February 14, 2005 included a qualification for unresolved uncertainties related to the ability 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 due to the process of Transener S.A. financial debt restructuring and, the negotiation of the concession contracts of Transener S.A. and Transba S.A. (a subsidiary of Transener S.A.) and, consequently, over the future results and cash flows of Citelec S.A., and (ii) on June 30, 2005, Transener S.A. concluded its financial debt restructuring and, in addition, the negotiation of the concession contracts mentioned above is in an advance stage, staying only pending Executive Branch's 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 November 10, 2004, we issued a limited review report on the financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries for the nine-month period ended September 30, 2004, based on our review and the other auditors' report for the related companies mentioned in paragraph 5 and the related company Transportadora de Gas del Sur S.A. Such report included qualifications for unresolved uncertainties mentioned by the other auditors, as 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 nine-month period ended September 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 nine-month period ended September 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 other auditors on the financial statements of Compañía Inversora en Transmisión Eléctrica Citelec S.A. for the nine-month period ended September 30, 2004 includes the same comments as described in paragraph a). 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 nine-month period ended September 30, 2004 include the effects of the corporate reorganization mentioned in note 2 to the consolidated financial statements.

Buenos Aires, Argentina,

November 4, 2005

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

ENRIQUE C. GROTZ

Partner

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PETROBRAS ENERGÍA PARTICIPACIONES S.A.

AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 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 Participaciones 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 75.82%. 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. On June 28, 2005, the CNV (Argentine Securities Commission) approved the merger and authorized the public offering of the Petrobras Energía shares. On September 16, 2005, the merger was registered in the Public Registry of Commerce.

2.

Basis of presentation

Petrobras Energía Participaciones S.A. consolidated financial statements have been prepared in accordance with the regulations of the Argentine Securities Commission (Comisión Nacional de Valores or CNV) and except for the matters described in Note 3, with Generally Accepted Accounting Principles in Argentina, as approved by the CPCECABA 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. generally 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