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.

Analysis of Operating Income

Oil and Gas Exploration and Production

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.

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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).