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 23, 2004

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 September 30, 2004

Independent Public Accountant´s Report

Macroeconomic Overview 2004 Third Quarter

International Scenario

The world economy is back on the growth track with economic indicators improving at a good pace during 2004 third quarter after a slight deceleration exhibited during the previous months.

The US Federal Reserve proceeded with its policy involving two gradual increases in the interest reference rate by 25 basis points each, as already anticipated by the market. Long-term interest rate, in contrast, exhibited a clear downward trend though not below 4%.

Economic growth in Europe showed again a rather erratic behavior while growth in Japan remained well above the levels recorded during recent years. Southeast Asian economies recorded high growth rates.

In China, the government continues attempting to selectively redirect investments to infrastructure sectors, such as the energy and transportation sectors, currently exhibiting an investment deficit. In addition, more significant though still manageable inflationary pressures are observed.

The dollar remained relatively stable against the Euro and exhibited a slight appreciation against the Yen. The Chinese exchange rate, in turn, remains unchanged against the dollar in spite of external pressures favoring its appreciation.

Crude Oil

Crude oil continued its upward trend also during this quarter with the WTI averaging US$44 per barrel. Despite high prices, a sustained demand continued, especially by United States, China, the rest of Asia and member countries of former USSR.

The OPEC successfully attempted to exceed 30 million barrels/day in September with an increase of approximately 2 million barrels/day compared to the second quarter while non-OPEC members, in turn, succeeded in reaching their maximum production capacity. However, the producers little remaining capacity margin to meet the heavy demand of an expanding world economy created such a price tension that any supply disruption of an operating nature was strongly magnified and resulted in a rise in prices.

Examples of supply disruptions may be the growing violence in Iraq after handover of the Iraqi government, the terrorist attacks in Saudi Arabia and in other oil-producing countries, the threat of operating discontinuance of Yukos Russian oil company and the damages to oil facilities in the Gulf of Mexico originated by successive large and intense hurricanes. Considering these supply disruptions, only the violence in Iraq and the hurricanes in the Mexican Gulf affected production. All other factors were only threats rather than effective supply disruptions.

In the USA, the assumption that the immediate heating season demand could not be met by existing oil stocks sent medium distillate spreads as well as gas prices soaring and, consequently, prices of future contracts of oil, medium distillates and gas.

Argentina

In 2004 third quarter the Argentine economy continued expanding at a very good pace, with an estimated GDP of 8% to date. Industrial production moved forward somewhat faster, with a sustained increase in the use of the installed capacity. Most consumption indicators, such as retail sales and the use of utilities, also exhibited a growth trend.

The energy crisis which partially affected economic performance during the second quarter did not worsen. The government continued implementing several measures aimed at mitigating energy shortages such as: importing gas from Bolivia, restricting gas exports to Chile, importing electricity from Brazil and importing fuel oil from Venezuela to replace the use of gas in power generation. By the end of the winter season and with the consequent reduction in the demand for gas by residential users, generation companies started to use gas again.

In addition, projects to increase gas transportation capacity were confirmed both in the north and in the south of the country in an attempt to mitigate any possible shortage next year. Regarding gas rates, the second increase in the well-head price for gas, which has been pre-established within the price recovery framework set by the Government, will be effective in October.

Oil production fell 8% YoY during the first two months of the quarter, a percentage somewhat higher than the reduction recorded so far this year. Conversely, crude oil volumes processed increased by 6%. Natural gas production increased over 5%. Official data concerning gas demand is only available for the first two months of the quarter and reflects a slightly lower domestic consumption compared to the same period of previous year. In spite of that, a strong increase in CNG consumption was recorded.

Liquid fuel prices increased early in the quarter due to the growing oil international price, while CNG prices rose early in October as a consequence of the rise in the well-head price for gas. The government provided for a change in the taxes on oil exports and set additional progressive tax rates to the extent reference crude oil price (WTI) exceeds US$32 per barrel.

Domestic electricity generation, in turn, increased 3% both YoY and compared to the second quarter of the year. Demand for electricity supply increased about 3% YoY and 1% compared to the previous quarter. Electricity imports remained at high levels though were significantly lower compared to the months mostly affected by the energy crisis. The Government has not managed to obtain the financing necessary to increase generation capacity yet.

No significant progress has been made in the renegotiation of utility concession and privatization contracts with most utility companies.

Fiscal figures for the public sector continue recording a surplus with a significant growth in tax collections and a primary surplus well exceeding the original goals agreed with the International Monetary Fund. Since the third revision of goals was not approved by the IMF, the program under way is currently at a standstill. Negotiations are estimated to be resumed once the defaulted debt has been restructured. The Argentine Government obtained the IMF s authorization to refinance maturities in the amount of US$1 billion and will have to effect payments in the amount of approximately US$1,5 billion. Significant progress has been made in the exchange of the defaulted public debt which is estimated to be launched in November. The market s reaction was optimistic by the end of the quarter, with significant increases in the government bonds and a consequent reduction in country-risk levels.

The still widely favorable balance of trade continued decreasing at an accelerated pace driven by the strong import expansion. Exports, in turn, increased mainly as a result of a rise in international prices of commodities, with higher sales volumes only in certain product lines.

Foreign exchange supply continued to record a surplus and the monetary authorities continued intervening the exchange market. The peso/US dollar exchange rate averaged P$3 per US dollar, slightly over the price recorded in the first semester of the year. Interest rates continued decreasing and the demand for CER-indexed instruments continued growing, though domestic price dynamics decelerated compared to the previous quarter.

Latin America

The Brazilian economic recovery was ratified by the 5.7% increase in the GDP in the second quarter compared to the same quarter of previous year. Therefore, the first semester closed with a 4.2% rise. Consumption and investment continued recovering and were the main drivers of the economic activity in addition to export expansion.

The accumulated balance of trade as of August increased to US$22 billion, US$7 billion higher compared to previous year, resulting in a historical record current account surplus exceeding 2% of the GDP. A significant recovery in direct foreign investment is also observed.

The accumulated fiscal primary surplus as of August totaled 5.8% of the GDP, compared to 5% in 2003 and exceeding the goal agreed upon with the International Monetary Fund. This achievement is attributable to the tax reform, the improved economic activity and an inflation exceeding expected level. The debt/GDP ratio also decreased to 54%.

The sustained Brazilian recovery and the high international liquidity level drove the country-risk decrease and the continuous exchange appreciation trend. The country-risk was approximately 500 basis points with a downward trend. Credit rating agencies, in turn, ratified this good moment and upgraded their rating on the sovereign debt.

As a result of the expansion dynamics of the economic activity in addition to a rise in oil prices and readjustments of public utility rates, the inflationary goal (5.5%) anticipated for the whole year was reached in September. Thus, as from September, the Central Bank started to increase its Selic reference rate to 16.25% in that month and 16.75% in October.

In Venezuela, President Chavez, after the significant success obtained through the Revocatory Referendum, endeavored to consolidate its political power, especially in view of the next regional and municipal elections in October 31.

PDVSA, in turn, is preparing an investment plan in the amount of US$37 billion for the next 5 years, US$10 billion of which are expected from private contributions. On the other hand and in the light of high crude oil prices, the Ministry of Finance announced that some changes are being discussed regarding the oil industry tax structure. Along these lines, the Government has recently and unexpectedly increased royalties from 1% to 16.7% for the 4 extra-heavy crude oil projects at *Franja del Orinoco*. Such increase which, according to contractual terms and conditions, should be in force no earlier than 2009, was implemented in advance by the Government given the significant change in the market conditions which substantially improved profitability of such projects.

Economic indicators for the second quarter continued recovering but at a more decelerated pace compared to the first quarter, and recorded a 13.6% increase with a slight rise in the oil sector of only 3.5% compared to 15% in the non-oil sector. This situation was evidenced by OPEC reports according to which the Venezuelan production remained stagnated at 2.5-2.6 million barrels/day.

A favorable context with high crude oil prices, in addition to high liquidity levels in international markets, the economic rebound and a reduced level of uncertainty after the Revocatory Referendum, made rating agencies upgrade the Venezuelan sovereign debt rating to B+. The country-risk is below 500 basis points as a result of the reserve replacement derived, in turn, from increased crude oil prices and a better external debt profile after recent issuance of sovereign bonds.

The favorable situation exhibited in the international macroeconomic scenario helped decompress the pressure exerted on the parallel exchange rate which declined from 2,700-2,800 *bolivares*/US$ to the current 2,500 *bolivares*/US$. The inflation rate was favored by this decrease in the exchange rate.

Discussion and analysis of results of operations for the three-month period ended September 30, 2004 (2004 quarter) compared to the three-month period ended September 30, 2003 (2003 quarter).

Introduction

In compliance with the accounting standards applicable in Argentina, the Company has proportionately consolidated its assets, liabilities, income (loss) and cash flow with those of companies under joint control.

Distrilec Inversora S.A., Compañía de Inversiones de Energía S.A. (CIESA) and Citelec S.A. fall within the category of affiliates under joint control.

The Company did not consolidate proportionately equity interest in Citelec S.A. on account of the commitment assumed by Petrobras Energía S.A. to divest of such interest upon transfer of 58.62% of Petrobras Energía Participaciones S.A. s shares to Petrobras.

CIESA and Distrilec are essentially utility companies whose core business has been adversely affected by the provisions under the Public Emergency Law. CIESA and its subsidiary TGS are currently in default of their financial indebtedness. The Company is under no obligation to financially support CIESA, TGS, or Distrilec, and does not currently intend to do so. The Company has not received any dividends from these companies since 2001.

Accordingly, the Company s Management evaluates the business performance considering separately the results of operations and financial condition of such companies. Likewise, this analysis excludes the proportional consolidation of the results of companies in which Petrobras Energía Participaciones S.A. holds joint control. Equity in earnings of affiliates under joint control is analyzed under Equity in Earnings of Affiliates .

The table below presents the results for the three-month periods ended September 30, 2004 and 2003 of Petrobras Energía Participaciones S.A. and its subsidiaries and companies under joint control. In addition, the table below shows the same income statement excluding the effects of proportional consolidation. To such effect, the Company s equity share in earnings of affiliates under joint control is recorded under equity in earnings of affiliates . Therefore, the income statement excluding proportional consolidation is not directly comparable to that included in the financial statements as of September 30, 2004.

(in millions of pesos)

ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

Net income: net income for 2004 quarter increased Ps.42 million or 38.5% to Ps.151 million from Ps.109 million in the same period of previous year.

The operations for the period were developed within an international scenario favored by high crude oil prices, with a 45.4% average rise in the international reference price (WTI) which was passed through to oil byproduct prices.

Within this context, the improvement in operating income was attributable to the following:

(i) a 35% increase in the average crude oil price to Ps.77.5 per barrel;

(ii) increase in the Refining gross margin due to the combined effect of higher prices and increased sales volumes;

(iii) higher sales volumes of petrochemicals: styrene 2.6%, polystyrene 11.1% and fertilizers 18.3%; and

(iv) 15.3% increase in prices and 11.2% rise in sales volumes in the electricity business segment.

In addition, 2004 quarter results were positively affected by the following:

* The Ps.75 million increase in equity in earnings of affiliates. The 3.2% peso depreciation during 2003 period compared to 0.3% in 2004 quarter had a high incidence in such respect. This resulted in a significant reduction in exchange difference losses in 2004 quarter, given the dollar-denominated net borrowing position of utility companies; and

* The partial recovery of tax losses for which allowances were previously provided in Peru, in the amount of Ps.31 million, mainly as a result of the agreement for renegotiation of royalties made with Perupetro.

Conversely, the increase in losses in 2004 quarter was attributable to the valuation at fair value of derivative instruments that do no qualify for hedge accounting in the amount of Ps.322 million (Ps.270 million net of deferred tax). The increase in the WTI curve in 2004 quarter resulted in a significant accounting loss to be offset at the time of the sale of hedged production at market prices (last quarter of 2004 and year 2005).

Net sales: in 2004 quarter net sales increased Ps.476 million or 33.1% to Ps.1,916 million from Ps.1,440 million in 2003 quarter. Net sales for 2004 quarter reflect Ps.126 million and Ps.131 million attributable to our share in the net sales of CIESA and Distrilec, respectively, (net of intersegment sales in the amount of Ps.4 million). Net sales for 2003 quarter reflect Ps.111 million and Ps.112 million attributable to our share in the net sales of CIESA and Distrilec, respectively (net of intersegment sales in the amount of Ps.4 million).

Excluding net sales of Affiliates under Joint Control, 2004 quarter net sales increased Ps.442 million or 36.2% to Ps.1,663 million from Ps.1,221 million in 2003 quarter. The WTI price increase mentioned above drove strong sales increases in the Petrochemical (59.7%), Refining (49%) and Oil and Gas Exploration and Production (30%) business units. See Analysis of Operating Income .

Gross profit: gross profit increased Ps.259 million or 47% to Ps.810 million in 2004 quarter from Ps.551 million in the same period of previous year. The 2004 quarter gross profit reflects Ps.65 million and Ps.21 million attributable to our share in the gross profit of CIESA and Distrilec, respectively, and Ps.3 million attributable to eliminations. The 2003 quarter gross profit reflects Ps.60 million and Ps.14 million attributable to our share in the gross profit of CIESA and Distrilec, respectively.

Without proportional consolidation, gross profit for 2004 quarter increased Ps.244 million or 51.5% to Ps.721 million, from Ps.477 million, mainly as a result of the increase in the Refining gross profit (95%) and in the Oil and Gas Exploration and Production gross profit (61.3%). See Analysis of Operating Income .

Administrative and selling expenses: administrative and selling expenses rose 16.9% to Ps.159 million in 2004 quarter from Ps.136 million in 2003 quarter. The 2004 quarter administrative and selling expenses reflect Ps.3 million and Ps.12 million attributable to our share in the administrative and selling expenses of CIESA and Distrilec, respectively. The 2003 quarter administrative and selling expenses reflect Ps.3 million and Ps.16 million attributable to our share in the administrative and selling expenses of CIESA and Distrilec, respectively.

Without proportional consolidation, administrative and selling expenses increased 23% to Ps.144 million from Ps.117 million in 2003 quarter. Such increase was mainly attributable to higher oil sales volumes in Ecuador, and, to a lesser extent, institutional advertising expenses and increased labor costs. See Analysis of Operating Income .

Other operating income (expense), net: other operating income (expense), net accounted for Ps.74 million and Ps.18 million losses in both quarters, respectively. Other operating income (expense), net in 2004 quarter reflects other expense, net in the amount of Ps.7 million and Ps.2 million attributable to our share in other operating income (expense), net of CIESA and Distrilec, respectively. In 2003 quarter, other operating income (expense), net reflects a Ps.1 million gain attributable to our share in other operating income (expense), net of CIESA, while no significant results were recorded in Distrilec.

Without proportional consolidation, other operating expenses, net accounted for Ps.65 million and Ps.19 million losses, respectively, mainly attributable to the incidence of costs of unused transportation capacity relating to the Ship or Pay Contract with Oleoducto de Crudos Pesados S.A. See Analysis of Operating Income .

Operating income: operating income increased Ps.170 million or 43.1% to Ps.564 million from Ps.394 million. Operating income for 2004 quarter reflects Ps.58 million and Ps.7 million attributable to our share in the operating income of CIESA and Distrilec, respectively. In 2003 quarter, operating income reflects a Ps.58 million gain and a Ps.2 million loss attributable to our share in the operating income of CIESA and Distrilec, respectively.

Without proportional consolidation, operating income rose 47.6% to Ps.499 million from Ps.338 million, mainly due to the 33.3% increase to Ps.336 million in operating income for the Oil and Gas Exploration and Production business segment, the 165% rise to Ps.61 million in operating income for the Refining business segment and the 37% increase to Ps.85 million in operating income for the Petrochemicals business segment. See Analysis of Operating Income .

Equity in earnings of affiliates: Equity in earnings of affiliates accounted for a Ps.51 million gain in 2004 quarter compared to Ps.21 million in 2003 quarter.

Without proportional consolidation, equity in earnings of affiliates and companies under joint control accounted for Ps.87 million and Ps.12 million gains, respectively. The results for both periods include gains for reversal of allowances for valuation of investments at recoverable value in the amount of Ps.69 million and Ps.91 million, respectively. See Analysis of Equity in Earnings of Affiliates .

Financial income (expense) and holding gains (losses): Financial income (expense) and holding gains (losses) reflect a Ps.542 million loss in 2004 quarter compared to a Ps.299 million loss in the same period of previous year. Financial income (expense) and holding (gains) losses in 2004 quarter reflect Ps.51 million and Ps.11 million losses attributable to our share in the financial income (expense) and holding gains (losses) of CIESA and Distrilec, respectively. Financial income (expense) and holding gains (losses) for 2003 quarter reflect Ps.105 million and Ps.14 million losses attributable to our share in the financial income (expense) and holding gains (losses) of CIESA and Distrilec, respectively.

Without proportional consolidation, financial income (expense) and holding gains (losses) increased 166.7%, accounting for Ps.480 million and Ps.180 million losses in 2004 and 2003 quarters, respectively.

This increase is mainly attributable to the 28.6% rise in the future curve of crude oil price in 2004 quarter, compared to a 2.3% rise in 2003 quarter, which resulted in a Ps.322 million increase in losses attributable to the valuation at fair value of derivative instruments which do not qualify for hedge accounting.

Conversely, and offsetting increased losses in 2004 quarter, a significant reduction in exchange difference losses was recorded with no results in 2004 quarter compared to a Ps.32 million loss in 2003 quarter. This variation resulted from the effect on the US dollar-denominated net borrowing position of the different evolution of the exchange rate which reflected a 0.3% depreciation in 2004 quarter and a 3.2% depreciation in 2003 quarter.

Other income (expense), net: other income (expense), net accounted for a Ps.26 million gain in 2004 quarter compared to a Ps.23 million loss in 2003 quarter.

Without proportional consolidation, other expenses, net accounted for Ps.12 million and Ps.51 million losses in 2004 and 2003 quarters, respectively. The 2004 quarter losses are mainly attributable to a Ps.12 million charge to income for investments made in the Acema Field, in an area of no interest beyond the contract initial area and the pertinent extensions currently requested to PDVSA. Results for 2003 quarter mainly reflect a Ps.43 million impairment charge for operations in Ecuador.

Income tax: income tax accounted for a Ps.61 million gain in 2004 quarter compared to a Ps.11 million loss in 2003 quarter. The income tax charge for 2004 quarter reflects a Ps.1 million loss attributable to our share in the income tax of Distrilec. The income tax charge for 2003 quarter reflects a Ps.3 million loss corresponding to our share in the income tax of CIESA and a Ps.1 million gain attributable to our share in the income tax of Distrilec.

Without proportional consolidation, income tax accounted for a Ps.62 million gain in 2004 quarter compared to a Ps.9 million loss in 2003 quarter. The 2004 quarter reflects recognition of deferred assets due to the effect of the valuation at fair value of derivative financial instruments in the amount of Ps.53 million and also a partial recovery of tax losses for which allowances were previously provided in Peru, in the amount of Ps.31 million, attributable to the change in business projections as a result of the agreement made with Perupetro, which involved commitments as regards investments and royalty rates reduction.

Analysis of Operating Income

Oil and Gas Exploration and Production

Operating income: in 2004 third quarter operating income for the Oil and Gas Exploration and Production business unit increased Ps.84 million or 33.3% to Ps.336 million from Ps.252 million in the same period of previous year.

This increase is mainly attributable to the 29.2% increase in the average sales price of oil equivalent, resulting from (i) the 45.4% rise in the international reference price (WTI) and (ii) the absence of crude oil price hedging contracts in the 2004 quarter.

However, the above effects were partially offset by a Ps.51 million loss in 2004 quarter attributable to the Ship or Pay oil transportation contract the Company entered into with OCP.

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

(in million of pesos)

Net sales: net sales for 2004 quarter rose Ps.203 million or 30% to Ps.880 million from Ps.677 million in the same period of previous year. This increase mainly derived from the 29.2% rise in average sales prices of oil equivalent.

Combined oil and gas daily sales volumes slightly rose 0.7% to 162.3 thousand barrels of oil equivalent (boe) in 2004 third quarter from 161.2 thousand boe. Oil sales volumes declined 0.5% to 115.2 thousand bbl/d in 2004 quarter from 115.7 thousand bbl/d in 2003 quarter, while gas sales volumes increased 3.7% to 282.9 million cubic feet per day from 272.7 million cubic feet per day in the same period of previous year.

Argentina

Sales attributable to operations in Argentina increased 18.5% to Ps.452 million from Ps.381 million in 2003 quarter, due to the 25.7% rise to Ps.58.1 per barrel in the average sales price of oil equivalent. Sales volumes declined to 84.6 thousand boe or 5.6%.

Oil sales increased 21.7% to Ps.415 million in 2004 quarter from Ps.341 million in the same period of previous year. This increase in attributable to the 36% rise in average sales price to Ps.91.2 per barrel from Ps.67 per barrel. The significant rise in the international reference price was mitigated by the tax on exports policy imposed by the Argentine Government to which the crude oil price is subject in the domestic market. Daily sales volumes declined 10.7% to 49.5 thousand barrels mainly due to the fact that Argentine assets are mature fields under production through secondary recovery with a considerable natural decline.

Gas sales decreased 7.5% to Ps.37 million from Ps.40 million in 2003 quarter, mainly due to the 10% reduction in the average sales price to Ps.1.88 per thousand cubic feet from Ps.2.09 per thousand cubic feet in 2003 quarter. In 2004 quarter, the restrictions imposed by the Argentine Government on gas exports in order to give priority to the supply of domestic demand, had a negative impact and resulted in a 30% reduction in export volumes which were sold in the domestic market at lower prices. Daily gas sales volumes increased 2.6%to 210.4 million cubic feet.

Outside of Argentina

Combined oil and gas sales outside of Argentine increased 44.6% to Ps.428 million from Ps.296 million in 2003 quarter. Total oil and gas sales volumes increased 8.7% to 77.7 thousand boe per day. Crude oil average sales price increased 37.9% to Ps.67.1 per barrel in 2004 quarter from Ps.48.7 in 2003 quarter.

Venezuela

Oil and gas sales increased 49.7% to Ps.217 million from Ps.145 million in 2003 quarter. Crude oil average sales price per barrel increased 36.3% to Ps.49.9 from Ps.36.6 in 2003 third quarter in line with the rise in the international reference price. Nevertheless, such increase was limited by the price fixing system of third round agreements which provide decreasing prices for increasing operating income.

Average gas price decreased 27% to Ps.1.26 from Ps.1.72 per thousand cubic feet, as a consequence of the reduction in the reference price in Venezuela, which is regulated by the State.

Daily sales volumes of oil equivalent increased 11.1% to 51.1 thousand barrels in 2004 quarter compared to 46.0 thousand barrels in 2003 quarter. Drilling of new productive wells in addition to the performance of workover activities performed by the end of 2003 and early in 2004 at Oritupano Leona and La Concepción Fields allowed to increase production levels.

Ecuador

Oil sales for 2004 third quarter rose 96.8% to Ps.63 million from Ps.32 million in 2003 quarter. The growing development of Block 18, with capital expenditures that allowed to double productive wells in 2004 quarter, resulted in a 31.3% increase in crude oil daily sales volumes to 6.3 thousand bbl/d. Average sales price increased 51.5% to Ps.110 per barrel.

Peru

Oil and gas sales for 2004 third quarter increased 33% to Ps.121 million from Ps.91 million in 2003 quarter. This increase is mainly attributable to a 46% rise in sales prices, partially offset by a 3.6% decline in oil and gas daily volumes delivered to 12.9 thousand boe/d compared to 13.4 thousand boe/d.

Bolivia

In 2004 third quarter oil and gas sales slightly declined 3.7% to Ps.26 million from Ps.27 million in 2003 quarter. Combined oil and gas daily sales volumes increased 1.3% to 7.5 thousand boe from 7.4 thousand boe in 2003 quarter. Gas sales price declined 5% to Ps.5.16 per thousand cubic feet from Ps.5.43 per thousand cubic feet in the same period of previous year.

Gross profit: gross profit for the oil and gas exploration and production business segment increased Ps.185 million 61.3% to Ps.487 million in 2004 third quarter from Ps.302 million. Gross margin on sales increased to 55.3% from 44.6% in 2003 quarter. The rise in gross profit mainly derived from the before mentioned increase in sales prices.

Administrative and selling expenses: administrative and selling expenses in 2004 third quarter increased 31.8% to Ps.58 million from Ps.44 million in the same period of previous year. This increase is mainly attributable to the impact derived from increased sales volumes in Ecuador and, to a lesser extent, the rise in labor costs.

Exploration expenses: exploration expenses totaled Ps.13 million in 2004 third quarter and Ps.3 million in 2003 third quarter. In 2004, 3D seismic works in the amount of Ps.6 million were performed in the Santa Cruz I Oeste area, Argentina and 2D seismic works in the amount of Ps.7 million were performed in Tinaco, Venezuela.

Other operating income (expense), net: other operating income (expense), net for 2004 quarter accounted for a Ps.80 million loss compared to a Ps.3 million loss in 2003 quarter. The 2004 quarter mainly reflects losses attributable to the unused transportation capacity relating to the Ship or Pay Contract entered into with OCP in Ecuador.

Hydrocarbon Marketing and Transportation

Operating income: operating income for the Hydrocarbon Marketing and Transportation business segment totaled Ps.68 million and Ps.61 million in 2004 and 2003 quarters, respectively. Operating income reflects Ps.62 million and Ps.58 million gains in 2004 and 2003 quarters, respectively, attributable to our share in the operating income of CIESA. Excluding proportional consolidation, operating income totaled Ps.10 million and Ps.3 million, respectively.

Operating income for this business segment, excluding proportional consolidation of CIESA, is broken down as follows:

(in millions of pesos)

As from 2004 fiscal year, allocation of product sales among business units has been subject to a series of changes. As a result, the Hydrocarbon Marketing and Transportation business unit commercializes the gas produced in Argentina by the Company and the liquids obtained through gas processing, which products are transferred from the Oil and Gas Exploration and Production business segment at market value. In addition, the business segment s operations include gas and LPG brokerage services while as from the current fiscal year oil brokerage operations are marketed by the Refining business segment.

In 2004 quarter, sales revenues significantly climbed to Ps.95 million from Ps.18 million, due to the marketing changes mentioned above. This results in a Ps.10 million increase in gross profit in 2004 third quarter compared to 2003 quarter.

In 2004 quarter, revenues from the sale of gas and liquids produced by the Company totaled Ps.40 million and Ps.47 million, respectively. Sales volumes of gas produced by the Company in Argentina totaled 211.7 million cubic feet per day and liquids sales volumes totaled 47.1 thousand tons.

Gas and LPG brokerage services accounted for sales revenues of Ps.8 million and Ps.18 million in 2004 and 2003 third quarters, respectively.

Other operating income (expense), net: other operating income (expense), net totaled a Ps.1 million loss in 2004 quarter compared to a Ps.2 million gain in 2003 quarter. In 2003 quarter, income from advisory services provided to TGS s technical operator totaled Ps.2 million. As from July 2004, within the framework of the Agreement entered into with Enron, such function was assigned to the Company. Within this context, in 2004 quarter an allowance for compensation to the previous technical operator, Enron Pipeline Company Argentina S.A., was provided and absorbed total fees for the quarter. Enforcement of fees is subject to the consummation of the transactions provided in such Agreement.

Refining

(in millions of pesos)

Operating income: operating income for the Refining business segment increased Ps.38 million to Ps.61 million in 2004 quarter from Ps.23 million in 2003 quarter. During 2004 quarter, a strong price increase was recorded both in the foreign and domestic markets. Particularly in the domestic market the rise in prices was exhibited on products which allow to pass through the increase in international prices. In addition, the implementation of the new tax on crude oil exports had a positive impact since it allowed to improve the respective refining margins by mitigating the significant rise in WTI prices.

As from 2004, allocation of product sales among business units has been subject to a series of changes. As a result, the Refining business segment commercializes oil brokerage operations, which were previously commercialized by the Hydrocarbon Marketing and Transportation business unit. These operations accounted for Ps.11 million sales revenues in 2004 quarter, with a Ps.1 million contribution margin.

Gross profit: gross profit increased 95% to Ps.76 million from Ps.39 million in 2004 quarter and gross margin rose to 16.7% from 12.7% in 2003 quarter. With the purpose of optimizing marketing margins, priority was given to products and distribution channels with higher contribution, with a 15% increase in exports. This strategy allowed to absorb the 25.7% increase in the average cost of processed crude oil to Ps.97.8 per barrel from Ps.77.8 per barrel.

Net sales: net sales for refinery products increased Ps.150 million or 49% to Ps.456 million in 2004 quarter from Ps.306 million in the same period of previous year, driven by higher prices of products sold by the Company, the 10% average increase in volumes and the incorporation of oil brokerage operations in 2004 quarter. Domestic sales volumes increased 8% in 2004 quarter compared to 2003 quarter, mainly due to diesel oil and gasoline sales to other oil companies, while export volumes increased 15%, mainly due to sales of varieties of paraffin, virgin naphtha and fuel oil.

Within the context of a growing operational integration with the Oil and Gas Exploration and Production business segment, during 2004 quarter crude oil volumes processed increased 3.1% to 34,152 barrels per day. To such respect, the option to prioritize crude oil processing has allowed to capitalize on the important competitive advantages derived from complementation with the activities performed by EG3, a company controlled by Petrobras.

Total diesel oil sales volumes rose 4.7% to 221 thousand cubic meters in 2004, with a 25% increase in the domestic market, partially offset by a drop in exports, especially to Paraguay. The sales increase in Argentina is mainly boosted by higher sales to domestic oil companies, especially EG3. The new commercial mix, together with the increase in the diesel oil domestic market, resulted in a decrease in the market share to 3.2% from 4.8% in 2003 quarter.

Total gasoline sales volumes rose 37.2% to 38 thousand cubic meters in the domestic market in 2004 quarter boosted by increased sales to oil companies operating in Argentina, especially to EG3. The Company s market share was 3.1% in 2004 quarter (3.2% in 2003 quarter).

Asphalts sales volumes grew 38.1% in 2004 quarter. Domestic market sales increased 92% due to a rise in road construction which resulted in reduced exports, especially to Paraguay.

Sales for heavy distillates increased 8.2% in the domestic market as a result of cracking feedstock sales and in the export market as a result of fuel oil sales.

Sales for the reformer plant byproducts fell 16.5% in 2004 quarter, mainly due to lower LPG exports. Aromatics sales declined 45.7% while paraffins sales increased 74.8%, mainly due to exports of varieties of paraffin and paraffinic naphtha.

Sales average prices increased 29%, 10%, 60%, 12%, 44%, 14% and 19% for diesel oil, asphalts, paraffins, gasoline, aromatics, reformer plant byproducts and heavy distillates, respectively, mainly as a result of the significant rise in crude oil international prices.

Administrative and selling expenses: administrative and selling expenses remained at Ps.15 million in both periods.

Other operating income (expense), net: No other operating income (expense), net was recorded in 2004 quarter, while operating income (expense), net for 2003 quarter accounted for a Ps.1 million loss.

Petrochemicals

International Scenario

In the period under review the styrenics business was characterized by high international prices both of finished products and raw materials. Along these lines, styrene and polystyrene prices increased approximately 82% and 75% compared to the same period of previous year. Though the price of benzene increased 160% compared to the same period of previous year, the spread (i.e. the difference between sales price and raw material cost) for styrene remained unchanged while the spread for polystyrene increased 15%.

Regarding the fertilizers business, urea international prices rose 46% from an average of US$145 per ton in 2003 quarter to US$212 per ton in 2004 quarter. This was attributable to an increased demand from the southeastern region of Asia as well as to a lower global supply as a result of the high cost of natural gas in the major manufacturing centers of urea around the world.

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

(in millions of pesos)

Operating income: operating income for the Petrochemicals business segment increased Ps.23 million or 37.1% to Ps.85 million in 2004 quarter from Ps.62 million in 2003 quarter mainly due to the increase in gross profit and the recognition of tax benefits for Innova operations.

Net sales: net sales for 2004 quarter increased Ps.209 million or 59.7% to Ps.559 million from Ps.350 million in 2003 quarter (net of eliminations in the amount of Ps.3 million and Ps.1 million).

* Styrenics - Argentina:

Styrenics sales volumes in Argentina increased 39% to Ps.168 million from Ps.121 million in 2003 quarter.

Average sales prices in pesos were 45% higher in 2004 quarter compared to 2003 quarter, with 71%, 46% and 17% increases in styrene, polystyrene and rubber, respectively.

Styrenics sales volumes totaled 46.4 thousand tons, 6% lower compared to 2003 quarter, mainly as a result of lower export volumes of styrene.

Reflecting the Argentine market recovery, changes were adopted in the sales channels prioritizing positioning in the domestic market with higher margins over exports.

Within this context, total styrene sales volumes fell 21% as a result of a sharp drop in exports compared to 2003 quarter, in which quarter a 3,100 ton transaction was effected, partially offset by a 21% increase in domestic sales. Polystyrene and bi-oriented polystyrene sales volumes grew 4% in 2004 quarter, as a result of a 16% increase in domestic sales, while exports fell 10% in 2004 quarter due to lower volumes exported to Europe, partially offset by higher sales to Brazil.

Synthetic rubber volumes increased 13% in 2004 quarter, both in the domestic and export markets. Domestic sales grew due to an increased demand for products derived from substitution of imported manufactured products while exports increased due to higher regional sales, mainly to Chile and Brazil.

* Styrenics - Brazil:

Innova sales in Brazil increased 75.8% to Ps.225 million in 2004 quarter from Ps.128 million in 2003 quarter, due to the combined effect of higher prices and sales volumes.

The price increase mainly drove the rise in sales. In such respect, styrene and polystyrene prices increased 71% and 44%, respectively, in 2004 quarter. The 8.2% appreciation of the Real against the US dollar in 2004 quarter allowed domestic prices to increase in line with international reference prices.

The increased demand in Brazil as a consequence of a recovery in the economic activity and problems in some styrene and polystyrene manufacturing plants in 2004 quarter drove a 15.7% increase in total sales volumes compared to 2003 quarter. The sales strategy in 2004 quarter was focused on the domestic market with a better margin and to such respect, styrene and polystyrene sales volumes increased 16% and 28%, respectively, while polystyrene exports declined, mainly to the USA and Canada.

* Fertilizers:

Fertilizers sales increased 65.1% to Ps.169 million in 2004 quarter from Ps.102 million, as a consequence of the combined effect of (i) a 36% increase in sales volumes as a result of the strong recovery of the farming industry and the commercial restructuring which allowed for the expansion of sales areas, and (ii) the 22% price increase in line with the international reference price.

Gross profit: gross profit rose 14% to Ps.105 million in 2004 quarter from Ps.92 million in 2003 quarter. Gross margin on sales decreased to 18.8% from 26.3% reflecting the impact of the increase in benzene international price.

* Styrenics - Argentina:

Gross profit fell 21% to Ps.26 million in 2004 quarter from Ps.33 million in 2003 quarter. Gross margin on sales decreased to 15.5% from 27.3%, mainly as a result of the impact of the increase in the price of benzene and higher fixed production costs.

* Styrenics - Brazil:

Gross profit rose 50% to Ps.36 million in 2004 quarter from Ps.24 million in 2003 quarter. Gross margin on sales fell to 16% from 18.8% as a consequence of the increase in raw materials, especially benzene.

Fertilizers:

Gross profit increased or 23% to Ps.43 million in 2004 quarter from Ps.35 million in 2003 quarter while gross margin on sales decreased to 25.4% from 34.3%. The rise in gross profit was attributable to the significant sales volumes and improved prices, while the decrease in gross margin reflects the incidence of imported products for resale with prices higher than those of the Company s own manufactured products, and the increase in the gas rate.

Administrative and selling expenses: administrative and selling expenses totaled Ps.30 million in 2004 quarter and Ps.29 million in 2003 quarter.

Other operating income (expense), net: other operating income (expense), net accounted for a Ps.10 million gain in 2004 quarter compared to a Ps.1 million loss in 2003 quarter. The 2004 quarter gain is attributable to the recognition of tax benefits granted by the Rio Grande do Sul state in Brazil to companies settled in such state.

Electricity

Operating income: Operating income for the Electricity business segment increased 43.9% to Ps.59 million from Ps.41 million. Operating income reflects a Ps.7 million gain and a Ps.2 million loss in 2004 and 2003 quarters, respectively, attributable to our share in Distrilec s operating income. Excluding proportional consolidation, operating income increased to Ps.52 million in 2004 quarter from Ps.43 million in 2003 quarter, mainly due to increased generation activity margins.

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

(in millions of pesos)

Electricity generation

Net sales: net sales from electricity generation increased 23.8% to Ps.99 million in 2004 quarter from Ps.80 million in 2003 quarter, boosted by a 15% improvement in generation prices and a 7% increase in energy sales. The energy delivered to the wholesale electricity market in 2004 quarter rose approximately 3%. The Company s competitive advantages resulting from being an integrated energy company and from the joint operation of thermal and hydroelectric generation plants allowed it to capitalize on market opportunities and record the before mentioned improvement.

Net sales attributable to Genelba Power Plant increased 19.7% to Ps.79 million in 2004 quarter from Ps.66 million, due to the combined effect of a 12.8% improvement in generation prices and a 6.3% rise in energy delivered. The integration of operations allowed to increase the Power Plant s thermal generation in 2004 quarter. The contribution of gas produced by the Company was a key factor to overcome the gas supply restrictions thermal power plants had to face. As a consequence, the plant factor increased to 99.4% from 89.6%. Energy deliveries increased 6.3% to 1,480 GWh in 2004 quarter from 1,392 GWh in 2003 quarter. In both quarters the Power Plant s availability factor was close to 100%, evidencing an excellent general performance. Average price of energy delivered increased 12.8% to Ps.53.7 per MWh in 2004 quarter from Ps.47.6 per MWh in 2003 quarter, due to the payment of additional compensation for guaranteed supply to the electricity market, (higher sales in the amount of Ps.15 million and Ps.10 million, respectively), and to energy deliveries by less efficient machines at higher market prices on account of the gas supply situation described above.

Net sales attributable to Pichi Picún Leufú Hydroelectric Complex rose 38.5% to Ps.18 million in 2004 quarter from Ps.13 million, due to improved sales prices and increased generation volumes. During 2004 quarter, energy delivered increased 8.1% to 439 GWh from 406 GWh in 2003 quarter as a consequence of the increased mean flows of the Limay and Collón Curá rivers resulting from the effects of the water storage policy implemented in the reservoirs of the Comahue Basin s power plants which derived in increased generation in upper reservoirs to rise the water level of lower dams, with the consequent increased hydroelectric generation which allowed to replace high-cost thermal generation. The average sales price increased 29.1% to Ps.39.9 per MWh in 2004 quarter from Ps.30.9 per MWh in 2003 quarter due to the implementation of a dynamic and flexible policy as to the mix of spot and futures sales.

Gross profit: gross profit for the generation business increased 30.7% to Ps.51 million in 2004 quarter from Ps.39 million in 2003 quarter, mainly driven by higher sales volumes and improved prices in the wholesale electricity market.

Administrative and selling expenses: administrative and selling expenses for the generation activity totaled Ps.3 million and Ps.2 million in 2004 and 2003 quarters, respectively.

Other operating income (expense), net: other operating income (expense), net are mainly attributable to income from advisory services we provide to Edesur S.A. s technical operator which totaled Ps.5 million in 2004 quarter and Ps.4 million in 2003 quarter.

Analysis of Equity in Earnings of Affiliates

Equity in earnings of affiliates increased to Ps.51 million in 2004 quarter compared to Ps.21 million in 2003 quarter.

Excluding the effects of proportional consolidation, equity in earnings of Affiliates Under Joint Control totaled Ps.87 million and Ps.12 million, respectively. Both quarters were favorably affected by positive variations in the recoverable value of utilities. In such respect, the rise in the listed price of the shares of TGS and Transener resulted in the reversal of allowances for valuation of these investments at recoverable value, accounting for Ps.69 million and Ps.91 million gains in 2004 and 2003 quarters, respectively. Estimate of the respective recoverable value is subject to the significant uncertainties described above which limit the quality of the assumptions, estimates and evaluations inherent to such determination. Consequently, within the current context the listed price of shares is the most objective indicator to determine the respective net recoverable value.

The table below presents equity in earnings of affiliates of Petrobras Energía Participaciones S.A., subsidiaries and companies under joint control for 2004 and 2003 quarters. In addition, the table presents equity in earnings of affiliates excluding the effects of proportional consolidation.

TGS: in 2004 quarter, equity in earnings of TGS increased to Ps.8 million from Ps.5 million in 2003 quarter. In both quarters, the effect of the positive variation in the recoverable value of TGS resulted in the reversal of allowances, accounting for Ps.5 million and Ps.12 million gains, respectively. Excluding the effect of the reversal of allowances, equity in earnings of TGS accounted for a Ps.3 million gain in 2004 quarter compared to a Ps.7 million loss in 2003 quarter.

The improvement in equity in earnings of TGS was mainly attributable to lower financial expenses due to the different behavior of the exchange rate and to an increase in operating income driven by a 27% rise in gross profit to Ps.141 million.

TGS s total sales revenues increased 14.2% to Ps.257 million in 2004 quarter. Sales revenues for the regulated segment increased 4.7% to Ps.111 million, mainly due to higher sales of firm transportation and interruptible transportation services and the execution of new contracts effective May 2004. Sales revenues for the unregulated segment increased 24.6%, with a 21% rise in revenues from the NGL production and marketing segment, mainly due to increased international prices.

As regards the US dollar-denominated net borrowing position, the behavior of the exchange rate resulted in a reduction in financial expenses to Ps.86 million in 2004 quarter from Ps.175 million in 2003 quarter.

CIESA: in 2004 quarter, equity in earnings of CIESA increased to Ps.41 million from Ps.2 million in 2003 quarter. In both quarters, the effect of the positive variation in the recoverable value of CIESA resulted in the reversal of allowances, accounting for Ps.45 million and Ps.48 million gains, respectively. Excluding the effect of the reversal of allowances, equity in earnings of CIESA accounted for a Ps.4 million loss in 2004 quarter and a Ps.46 million loss in 2003 quarter.

CIESA s equity in earnings of TGS accounted for a Ps.12 million gain in 2004 quarter compared to a Ps.58 million loss in 2003 quarter. (See *TGS*). In addition, considering the US dollar-denominated net borrowing position, the behavior of the exchange rate resulted in a reduction in financial expenses to Ps.15 million from Ps.37 million in the same period of previous year.

Citelec/Transener: In 2004 quarter, equity in earnings of Citelec increased to Ps.8 million from Ps.5 million in 2003 quarter. In both quarters, the effect of the positive variation in the recoverable value of Citelec resulted in the reversal of allowances, accounting for Ps.19 million and Ps.31 million gains in 2004 and 2003 quarters, respectively. Excluding the effect of the reversal of allowances, equity in earnings of Citelec accounted for Ps.11 million and Ps.26 million losses in both quarters, respectively.

This reduction in losses is attributable to the different behavior of the exchange rate on the US dollar-denominated net borrowing position which resulted in a reduction in financial expenses to Ps.40 million in 2004 quarter from Ps.87 million in 2003 quarter.

Operating income remained unchanged in both quarters (Ps.10 million).

Empresa Boliviana de Refinación (EBR): in 2004 quarter, equity in earnings of EBR accounted for a Ps.10 million gain compared to a Ps.2 million loss in 2003 quarter.

The increase in refining margins, with higher prices attributable to increased margins for export products and with stable raw material prices since the same are regulated, in addition to a rise in sales volumes, resulted in an improvement in the company s results.

Refinor S.A.: In 2004 quarter, equity in earnings of Refinor rose to Ps.12 million from Ps.8 million in 2003 quarter, mainly due to the appreciation of inventory as a consequence of the increase in WTI prices, and a 2% increase in contribution margins.

Refinor s total sales for 2004 quarter increased 20% to Ps.282 million from Ps.235 million in 2003 quarter. Gas volumes processed averaged 19.5 million cubic meters per day, 2.1% higher compared to 2003 quarter. Volumes of oil processed averaged 17.4 thousand barrels per day in 2004 quarter, accounting for a 2.5 % decline compared to 2003 quarter, due to reduced crude oil availability at the Northwestern Basin in Argentina.

SUMMARIZED BALANCE SHEET AND INCOME STATEMENT STRUCTURE

The information below for the nine-month periods ended September 30, 2002, 2001 and 2000 does not have retroactive effect under the new professional accounting standards.

LISTED PRICE OF THE COMPANY S SHARE

STATISTICAL DATA OF PETROBRAS ENERGIA S.A.

JOSE EDUARDO de BARROS DUTRA

PRESIDENT

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of

Petrobras Energía Participaciones S.A.:

1.

We have audited the accompanying consolidated balance sheet of Petrobras Energía Participaciones S.A. (an Argentine Corporation) and its subsidiaries as of September 30, 2004, and the related consolidated statements of income, changes in shareholder s equity and cash flows for the nine-month period then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the above-mentioned financial statements based on our audit.

2.

We conducted our audit in accordance with generally accepted auditing standards in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Company s management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors mentioned in paragraph 5, provide us with a reasonable basis for our opinion 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 to be incorporated by the proportional consolidation method with the scope stated in note 2 to the consolidated financial statements, were audited by other auditors, whose reports have been furnished to us, and our opinion set forth in paragraph 8, insofar as it relates to the amounts included for such companies, 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 10% and 8% (in the case of Distrilec Inversora S.A.) and 17% and 8% (in the case of Compañía de Inversiones de Energía S.A.) of the respective consolidated totals as of September 30, 2004 and for the nine-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 300,000,000 as of September 30, 2004, and losses for about Argentine pesos 24,000,000, included in Equity in earnings of affiliates for the nine-month period then ended.

1.

The reports of the other auditors mentioned in paragraph 5 on the financial statements of Compañía de Inversiones de Energía S.A, Compañía Inversora en Transmisión Eléctrica Citelec S.A. and Transportadora de Gas del Sur S.A. as of September 30, 2004, include qualifications for unresolved uncertainties as to such companies ability to continue as going concerns. As described in note 9 to the consolidated financial statements, such companies have been negatively impacted by the Argentine Government s adoption of various economic measures, including the de-dollarization of revenue rates, the renegotiation of License and Concession contracts and the devaluation of the Argentine peso. In addition, such companies have suspended the payment of their financial debt. These circumstances raise substantial doubt about the companies ability to continue as going concerns. The companies 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.

2.

As described in note 3 to the consolidated financial statements, in accordance with the regulations of the CNV, 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, and has not discounted the nominal values of its deferred tax assets and liabilities, as required by generally accepted accounting principles in Buenos Aires City, Argentina. The effects of such matters on the financial position as of September 30, 2004 and on the results of operations for the nine-month period then ended have not been quantified by the Company.

3.

In our opinion, based on our audit and on the reports of the other auditors mentioned in paragraph 5, subject to the adjustments, if any, that might arise from the resolution of the situation mentioned in paragraph 6, the consolidated financial statements referred to in paragraph 1 present fairly, in all material respects, the consolidated financial position of Petrobras Energía Participaciones S.A. and its subsidiaries as of September 30, 2004 and the respective results of their operations and their cash flows for the nine-month period then ended in conformity with the pertinent regulations of the Business Association Law and the CNV and, except for the effect of the matters discussed in paragraph 7, with generally accepted accounting principles applicable to consolidated financial statements in Buenos Aires City, Argentina.

4.

Regarding the consolidated balance sheet of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2003, and its consolidated statements of income, changes in shareholders equity, and cash flows for the nine-month period ended September 30, 2003, presented for comparative purposes, we further report that:

a)

On February 6, 2004, we issued an audit report on the consolidated financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2003, which included a scope limitation for not having audited the financial statements as of such date of the related companies Distrilec Inversora S.A., Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A. and Transportadora de Gas del Sur S.A. The assets of Distrilec Inversora S.A. and Compañía de Inversiones de Energía S.A, incorporated by the proportional consolidation method, and the interests in Compañía Inversora en Transmisión Eléctrica Citelec S.A. and Transportadora de Gas del Sur S.A. incorporated by the equity method, represent about 29% of the Company s total consolidated assets as of December 31, 2003. Afterwards, we obtained the reports of the other auditors on such financial statements and concluded the auditing procedures, and consequently the above mentioned scope limitation was resolved. Based on the reports of the other auditors and in the additional procedures mentioned above, we did not identify problems that might modify the book values of the interests in these companies, but we identified situations of unresolved uncertainties as to the ability of Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A. and Transportadora de Gas del Sur S.A. to continue as going concerns. The consolidated financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2003, included as comparative information in the accompanying consolidated financial statements, do not include any adjustments that might arise from the resolution of these 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. These matters are required by generally accepted accounting principles in Buenos Aires City, Argentina, but not allowed by pertinent regulations of the CNV.

b)

On November 10, 2003, we issued a limited review report on the consolidated financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries for the nine-month period ended September 30, 2003. This limited review report included: (i) qualifications for unresolved uncertainties as to the ability of Compañía Inversora en Transmisión Eléctrica Citelec S.A., Compañía de Inversiones de Energía S.A. and Transportadora de Gas del Sur S.A. to continue as going concerns, (ii) a qualification for unresolved uncertainties, which were subsequently resolved, as to the effects that certain pending Federal Government measures could have had on the related company Distrilec Inversora S.A., (iii) a qualification for not having recorded in the consolidated financial statements as of September 30, 2003, the investment in the related company Compañía de Inversiones de Energía S.A. by the proportional consolidation method and, (iv) 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, matters 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 and cash flows for the nine-month period ended September 30, 2003 of Petrobras Energía Participaciones S.A. and its subsidiaries, were modified to solve the diversion to the accounting principles mentioned in (iii) and incorporate the statements of income and cash flows of the investment in the related company Compañía de Inversiones de Energía S.A by the proportional consolidation method.

Buenos Aires, Argentina,

November 10, 2004

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

C.P.C.E.C.A.B.A. Vol.1 - F°13

ENRIQUE C. GROTZ

Partner

C.P.A. Buenos Aires University

C.P.C.E.C.A.B.A. Vol.136 - F°149

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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, 2004 AND 2003

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

1.

Business of the Company and change of corporate name

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

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

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

The CNDC approved the transaction on May 13, 2003. Pursuant to this resolution, Petrobras Energía undertook to divest of all of its equity interest in Transener S.A., in accordance with Law No. 24,065 that provides the Electric Power Regulatory Framework; such process is subject to supervision by the ENRE and the approval of the Federal Department of Energy. There is not period established to disinvest.

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

2.

Basis of presentation

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

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, since they are not required for SEC reporting purposes.

The preparation of financial statements in conformity with Argentine GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting 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 Energía Participaciones S.A. (hereinafter Petrobras Participaciones or the Company) has consolidated line by line its financial statements with the financial statements of the companies over which Petrobras Participaciones exercises exclusive and 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 23.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 the interest in Citelec S.A. under the disinvestment commitment of such interest assumed by Petrobras Energia S.A. upon the transfer of 58.62% of the shares of Petrobras Energía Participaciones S.A. to Petrobras.

b) Foreing Currency translation

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

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