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

June 1, 2006

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 March 31, 2006 and 2005

Independent Public Accountant´s Report

Macroeconomic Overview - 2006 First Quarter

International Context

The 2006 first quarter was characterized by a fast improvement in the world economy in contrast with the last months of 2005 which reflected a significant degree of deceleration in growth. The United States showed again economic expansion rates of 4.8%, with significant increases in corporate investment, private consumption and exports. Imports improved again above forecast resulting in a widened trade gap. The Federal Reserve raised again the reference interest rate twice, to 4.75%, making reference to still underlying inflationary risks. Accordingly, long-term interest rates showed a clear upward trend throughout the quarter. The dollar, in turn, fluctuated without a defined trend *vis-ā-vis* the main international currencies.

Japan continues with moderate growth rates, dynamized by investments and the external sector. China did not show any signs of deceleration and continues growing at about 10%, amidst renewed pressures to flexibilize the exchange policy and threats of commercial restrictions, mainly by the United States. The European economy, in turn, grew again at modest interest rates of about 2%.

Oil

Oil prices continued its upward trend during 2006 first quarter, the reference crude oil West Texas Intermediate (WTI) averaging US$63.20 per barrel. After beginning the year with more moderate prices, mainly as a consequence of milder winter temperatures in the North Hemisphere, energy commodity prices rose significantly in March as a consequence of two key events. Firstly, an aggressive and anticipated plant refurbishing process was in place in anticipation of the seasonal peak of the *driving season* (summer) in the United States, resulting in a strong inventory drop. Secondly, the geopolitical tensions built-up in relation to Iran s nuclear program aroused fears of an interruption in supply by the fourth oil producer in the world.

According to preliminary figures reported by the OPEC, oil demand appears to have jumped 1.4% (or 1.17 million barrels per day) during the first quarter compared to the same period of 2005. The increase was eminently explained by purchases made by China, which resumed the upward trend, and developing countries.

Supply, in turn, appears to have increased -also according to preliminary figures- 1.3% (or 1.13 million barrels per day) compared to the same period of 2005. Such rise was again attributable to West Africa and the Republics of the Caspian Sea.

Argentina

During the beginning of 2006, Argentine economy grew at a good pace, exceeding 9% during the first bimester. Both industry and construction and consumer indicators also showed significant improvement.

Oil production continued declining at an accelerated pace (-10% during the first bimester). Conversely, gas production showed a slight shrinkage (-0.6%) in the same period, while domestic demand for gas grew 3.3% mainly fuelled by industrial clients. Domestic sales of fuels increased 6% compared to 2005, with an increase of over 40% in Premium gasoline and 10% in high-grade gasoline. Regular gasoline maintains a strong downward trend (-13%). Diesel oil sales rose 3%. In April, the Congress finally passed the biofuels bill under which a biodiesel and bioethanol 5% cut should be added in the formulation of diesel oil and gasoline, respectively, by the year 2010.

The demand for electricity increased 7.2% in the first quarter while domestic generation recorded a 7.9% rise with significant increases in hydraulic and nuclear generation.

The dollar supply continued to record a surplus based on a trade surplus that remained at 2005 levels and showed again an increase of over 20% in imports and, to a lesser extent, an about 15% rise in exports with a strong impact of increased prices and a modest performance in terms of volumes. The foreign currency surplus was purchased by the Central Bank who recovered international reserves in the amount of about US$2.5 billion. The dollar kept an upward trend, averaging 3.06 P$/USD and closing the quarter at 3.08 P$/USD. The BCRA met monetary targets absorbing pesos from the market through the cancellation of rediscounts and the placement of bills and notes. In this process, it had to convalidate increased interest rates and place a greater amount of instruments at variable rate in order to increase average terms of placements and thus decompress the busy maturity schedule.

The government specially endeavored to moderate inflation which surpassed 12% in 2005. With this target in mind, it executed several agreements with the different sectors in order to avoid price increases in certain products throughout the year. In addition, the government intended to limit wage claims so as to inhibit the feedback cycle between inflation and wage increases. The accumulated rise in retail prices during the first quarter of the year was 2.9% and wage renegotiations were confirmed in amounts slightly below 20%.

The domestic public sector continues keeping fiscal accounts in balance, with increases in tax revenues exceeding 25% yoy and a primary surplus that is slightly growing in real terms. In January, the debt with the IMF was paid in advance by using free available reserves of the Central Bank. The government offered again debt at the voluntary market and obtained a 8.3% rate, which, together with the purchase of Argentine public bonds by the government of Venezuela, helped close the quarter without any difficulties as to financing needs. The country-risk showed a clear downward trend, averaging below 400 basic points.

Venezuela

During the first quarter, the Venezuelan economy continued growing at rates substantially higher than those of the other Latin American economies, in line with high crude oil prices and the good behavior of the industrial sector.

Regarding the oil sector, the price of the Venezuelan crude basket maintained its upward trend averaging US$53.20, a 9% increase compared to the last quarter of 2005. Meanwhile, production volumes computed within the OPEC quota showed a slight 4% drop yoy in average to 2.594 Mbbl/d.

The official exchange rate remained unchanged throughout the quarter at 2,150 Bs/US$, while retail inflation measured by the Consumer s Price Index in 12 mobile months was below 12% for the first time since January 2002.

Finally, S&P upgraded the sovereign long-term debt rating from B+ to BB- given the good general economic performance supported by solid external accounts and debt indicators.

Brazil

The Brazilian economy showed a good performance during the first quarter of 2006 triggered by the industrial sector and improved conditions within the agricultural sector.

Regarding the external sector, exports kept the upward trend started in 2003, with a 20% yoy increase until reaching a record value slightly above US$123 billion measured in 12 mobile months. Imports, also showing a growing trend, were mainly boosted by an increased domestic demand and the appreciation of the nominal exchange rate. The balance of trade was positive at US$ 9,350 million, 13% higher compared to 2005 first quarter.

In terms of fiscal policy, the government was able to maintain the high surplus held throughout 2005, but with a slight downward trend as a consequence of the increase in public spending. Thus, the primary surplus for the quarter was 4.4% of the GDP compared to 4.8% in 2005.

In the monetary field, the Central Bank decided to keep on decreasing the Selic rate in line with the improvement in inflationary expectations.

The high international liquidity, the high balance of trade surplus and the high domestic interest rate resulted in a positive foreign exchange balance for the country, with its currency closing the quarter at R$2.17, an average appreciation of 2.7% compared to the previous quarter.

Finally, the solid position of external accounts as a consequence of the reduction of the foreign debt and the good balance of trade results derived in a strong drop in the country-risk, averaging 249 basic points throughout the quarter. Accordingly, by the end of February Standard & Poor s upgraded the sovereign risk rating to BB with stable prospects, with the country ranking two positions down from *investment grade.*

ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

Discussion and analysis of results of operations for the three-month period ended March 31, 2006 (2006 quarter) compared to the three-month period ended March 31, 2005 (2005 quarter).

In accordance with the procedure set forth in Technical Resolution No.21 of the Argentine Federation of Professional Councils in Economic Sciences, we have consolidated line by line our financial statements with the financial statements of companies over which we exercise control and joint control.

In line with our management s vision used in the analysis of our results and financial condition, the discussion below is presented on the basis of the consolidated financial data of the Company without proportionally consolidating the companies over which we exercise joint control, and therefore, is not directly comparable to the corresponding financial data set forth in our financial statements.

ANALYSIS OF CONSOLIDATED RESULTS

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.

The table below shows the Company s results of operations for the three-month periods ended March 31, 2006 and 2005 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. To this effect, the Company s equity in the earnings of companies under joint control is shown under Equity in earnings of affiliates .

(in millions of pesos)

Net income: Net income for the period under review increased P$216 million, or 145%, to P$365 million from P$149 million in the same period of previous year. Operations for the quarter developed within an international context favored by increased oil prices, the impact of which was significantly mitigated by crude oil export taxes and restrictions on the domestic refining market to pass through the price increase to consumer sales prices.

In 2006 quarter, financial income (expense) recorded an improvement mainly attributable to the expiration in December 2005 of derivative instruments that do not qualify for hedge accounting, which instruments accounted for a P$251 million loss in 2005 quarter. These positive effects were partially offset by the higher impact of income tax in 2006 quarter.

Net sales: Net sales for 2006 quarter increased P$410 million or 16.7% to P$2,862 million from P$2,452 million in the same period of previous year. Net sales for the period include P$162 million and P$187 million attributable to the share of the net sales (net of intercompany sales of P$8 million) of CIESA and Distrilec, respectively. Net sales for 2005 quarter reflect P$112 million and P$159 million attributable to the share of the net sales (net of intercompany sales of P$3 million) of CIESA and Distrilec, respectively.

Without proportional consolidation, net sales increased P$337 million or 15.4% to P$2,521 million from P$2,184 million in the same quarter of previous year boosted by the significant rise in the price of WTI, and gas, electricity and refined products not subject to the inflation control policy implemented by the Argentine government. Sales for the Oil and Gas Exploration and Production, Refining and Electricity business segments increased P$182 million, P$124 million and P$31 million, respectively. Intercompany sales totaled P$558 million and P$553 million in 2006 and 2005, respectively.

Gross profit: Gross profit for 2006 quarter increased P$163 million or 18.5% to P$1,042 million from P$879 million. Gross profit for the March 2006 period reflects P$90 million and P$42 million attributable to the share of the gross profit of CIESA and Distrilec, respectively. The March 2005 period gross profit reflects P$54 million and P$29 million attributable to the share of the gross profit of CIESA and Distrilec, respectively.

Without proportional consolidation, gross profit for the March 2006 period increased P$114 million or 14.3% to P$910 million from P$796 million. Reflecting the sales growth mainly attributable to higher prices, gross profit for the Oil and Gas Exploration and Production and Electricity business segments increased P$124 million and P$18 million, respectively. Conversely, the Refining and Distribution business segment recorded a P$41 million loss due to restrictions to pass through the significant rise in WTI to domestic sales prices.

Administrative and selling expenses: Administrative and selling expenses for the March 2006 period increased P$49 million or 24.7% to P$247 million from P$198 million. The 2006 quarter reflects P$5 million and P$19 million attributable to the share of the administrative and selling expenses of CIESA and Distrilec, respectively. The 2005 quarter reflects P$3 million and P$16 million attributable to the share of the administrative and selling expenses of CIESA and Distrilec, respectively.

Without proportional consolidation, administrative and selling expenses increased P$44 million or 24.6% to P$223 million from P$179 million in the same period of previous year, mainly as a consequence of wage increases in Argentina effective as from the second quarter of 2005.

Other operating income (expense), net: Other operating income (expense), net accounted for P$29 million and P$54 million losses, respectively. Other operating income (expense), net for 2006 quarter reflects a P$4 million loss attributable to the share of other operating income (expense), net of Distrilec. The 2005 period reflects a P$2 million loss and a P$2 million gain attributable to the share of other operating income (expense), net of CIESA and Distrilec, respectively.

Without proportional consolidation, other operating income (expense), net accounted for P$25 million and P$54 million losses. This drop in losses in the period under review is mainly attributable to price adjustments on sales relating to the Acema and Mata area in previous years and to an increased charge for technical assistance services provided to TGS s technical operator.

Operating income: Operating income for 2006 quarter increased P$139 million, or 22.2%, to P$766 million from P$627 million. The 2006 quarter reflects P$85 million and P$19 million gains attributable to the share of the operating income of CIESA and Distrilec, respectively. The 2005 quarter reflects P$53 million and P$11 million attributable to the share of the operating income of CIESA and Distrilec, respectively.

Without proportional consolidation, operating income moved up P$99 million, or 17.6%, to P$662 million from P$563 million in the prior-year quarter.

Equity in Earnings of Affiliates: Equity in earnings of affiliates increased P$30 million or 125% to P$54 million from P$24 million in the prior-year quarter. Without proportional consolidation, equity in earnings of affiliates increased P$16 million, or 30.2%, to P$69 million from P$53 million in 2005 quarter. See Analysis of Equity in Earnings of Affiliates .

Other(expense) income), net: Other (expense) income, net recorded a P$27 million loss in 2006 quarter and a P$9 million gain in 2005 quarter. Other expense, net for 2006 quarter reflects a P$1 million loss attributable to the share of other expense, net of CIESA. In 2005 quarter, other income, net reflects a P$8 million loss attributable to the share of other income, net of Distrilec.

Without proportional consolidation, other (expense) income, net accounted for a P$26 million loss and a P$17 million gain in 2005 quarter.

Other income (expense), net for 2006 quarter reflects mainly charges relating to tax reviews of operations in Venezuela. In 2005 first quarter, reflects a P$23 million gain attributable to a price adjustment on the sale of Conuar shares and a P$9 million loss attributable to accelerated depreciation of deferred charges relating to the issue of Series K and M of corporate notes that were repaid in 2005.

Financial income (expense) and holding gain (loss): In 2006 quarter financial income (expense) and holding gain (loss) declined P$217 million or 58.8% to P$152 million from P$369 million in 2005 quarter. The 2006 quarter reflects P$51 million and P$9 million financial expenses attributable to the share of the financial expense of CIESA and Distrilec, respectively. The 2005 period reflects financial expenses in the amount of P$2 million attributable to the share of the financial expense of Distrilec while no significant results were recorded in CIESA.

Without proportional consolidation, financial income (expense) and holding gain (loss) accounted for P$92 million and P$367 million losses in both periods, respectively. This variation is attributable to the following:

- The 2005 period reflects a P$251 million loss attributable to the valuation at market value of derivative instruments that do not qualify for hedge accounting. Such instruments expired December 2005.

- The erratic behavior of the exchange rate (1.7% peso depreciation in 2006 and 2% appreciation in 2005 quarter) resulted in a P$10 million loss in 2006 and a P$5 million gain in 2005.

- Interest expense was similar in both periods, P$105 million and P$104 million, respectively.

Income tax: Income tax accounted for P$132 million and P$69 million losses in 2006 and 2005 quarters, respectively. The income tax for 2006 quarter reflects a P$3 million gain and a P$6 million loss attributable to the share of the income tax of CIESA and Distrilec, respectively. The income tax for 2005 quarter reflects P$5 million and P$5 million losses attributable to the share of the income tax of CIESA and Distrilec, respectively.

Without proportional consolidation, income tax accounted for P$129 million and P$66 million losses in 2006 and 2005 quarters, respectively. Such increase resulted from improved operating income in Argentina, Ecuador and Peru and, to a lesser extent, the rise in the income tax rate from 34% to 50% in Venezuela.

ANALYSIS OF OPERATING INCOME

Oil and Gas Exploration and Production

Operating income: Operating income for the Oil and Gas Exploration and Production business segment rose P$127 million, or 25.6%, to P$624 million from P$497 million in the same quarter of previous year. This increase is mainly attributable to the 30.9% rise in average sales prices of oil equivalent primarily driven by the 27.4% increase in the price of WTI.

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

Net sales: Net sales for this business segment increased P$182 million, or 17.1%, to P$1,249 million in 2006 quarter from P$1,067 million in the same quarter of previous year. This increase is mainly due to the 30.9% rise in the average sales price of oil equivalent partially offset by a 9.2% drop in sales volumes of oil equivalent.

In 2006 quarter, the average sales price per barrel of oil, including the effect of export taxes, increased to P$113.0 from P$86.3 in the prior-year quarter.

In 2006 quarter, daily oil and gas sales volumes decreased to 162.3 thousand barrels of oil equivalent from 178.8 thousand barrels of oil equivalent. Oil sales volumes dropped 12.8% to 110.7 thousand barrels per day from 126.9 thousand barrels per day, while daily gas volumes slightly declined 0.5%, totaling 309.6 million cubic feet and 311.0 million cubic feet, respectively.

Argentina

Net sales in Argentina increased P$12 million, or 2.3%, to P$537 million from P$525 million in the same period of previous year, driven by the 18.8% rise in the average sales price of oil equivalent. Conversely, combined oil and gas daily sales volumes decreased 13.8% to 84.2 thousand barrels of oil equivalent in 2006 quarter from 97.7 thousand barrels of oil equivalent in the prior-year quarter.

Crude oil sales declined P$16 million, or 3.4%, to P$459 million from P$475 million in 2005 quarter. This decline is attributable to a 26.2% drop in sales volumes, partially offset by a 31% increase in average sales prices to P$119.5 per barrel from P$91.2 per barrel. In Argentina, the favorable international price scenario was severely impacted by the applicable crude export tax scheme. This scheme is a conditioning reference for the fixing of prices for domestic sales to the refining segment, in line with the Argentine government s intention to establish a price stability framework in the domestic market.

Crude oil daily sales volumes declined to 42.7 thousand barrels from 57.9 thousand barrels in the same period of previous year, mainly due to (i) the 12% drop in daily production volumes as a result of the natural decline of oilfields which is considerable in Argentina since they are mature fields under production through secondary recovery. In such respect, investments made basically in projects to improve the oilfields basic production curve allowed to mitigate the production curve negative trend, and (ii) the increase in crude oil stock levels due to the postponement of crude oil shipments and to the stocking of crude oil in order to supply the San Lorenzo Refinery once all capacity expansion works have been completed.

Total gas sales rose 56% to P$78 million from P$50 million in 2005 quarter, mainly as a consequence of improved sales prices which were 49.9% higher compared to the prior-year quarter. The average sales price for gas rose to P$3.46 per million cubic feet from P$2.31 per million cubic feet in the same quarter of previous year mainly due to higher export prices attributable to the rise in the price of methanol in line with the international references some gas contracts are subject to and the renegotiation of contracts, deregulation of the price of gas for industries and electricity generation companies. Gas daily sales volumes rose 4.1% to 249.1 million cubic feet mainly due to completion of the Project for the interconnection of Santa Cruz I area production poles. This allowed to transport gas and condensate reserves on an integrated basis from the Austral basin fields to the General San Martín gas pipeline as from 2006 first quarter.

Outside of Argentina

Combined oil and gas sales outside of Argentina increased P$171 million, or 31.8%, to P$709 million from P$538 million in the prior-year quarter. Total daily oil and gas sales volumes dropped 3.6% to 78.1 thousand barrels of oil equivalent from 81.0 thousand barrels of oil equivalent. The average sales price per barrel of oil equivalent increased 36.9% to P$100.9 from P$73.7 in the same quarter of previous year, mainly due to the rise in the international reference price.

Venezuela

Oil and gas sales increased P$39 million, or 14.3%, to P$312 million from P$273 million in the prior-year quarter. This increase is mainly attributable to the 25.8% rise in the sales price of oil equivalent, partially offset by a 8.5% drop in sales volumes of oil equivalent.

The average price per barrel of oil grew 24.8% to P$81.0 from P$64.9 in 2005 quarter.

The average sales price for gas declined 9.0% to P$1.31 from P$1.44 per million cubic feet as a result of a drop in the reference price in Venezuela, which is regulated by the government.

Daily sales volumes of oil equivalent dropped 8.5% to 45.5 thousand barrels of oil equivalent from 49.7 thousand barrels of oil equivalent in the prior-year quarter, as a consequence of a decline in production in all areas mainly attributable to a lower number of active wells and to difficulties in the reception of crude oil production by PDVSA.

Ecuador

In Ecuador, oil sales for the period under review increased 73.6% to P$158 million from P$91 million in the same quarter of previous year, mainly boosted by a 21.6% rise in sales volumes and a 42% increase in sales prices to P$149.0 per barrel from P$104.9 per barrel basically attributable to the increase in the price of WTI .

Daily sales volumes increased to 11.8 thousand barrels from 9.7 thousand barrels in the prior-year quarter. The 2005 quarter reflects the sale of 202.7 thousand barrels attributable to December 2004 production which was postponed to January 2005 as a result of a commercial decision. Without considering this effect, daily sales volumes increased 59.5% as a consequence of the progressive development of the block in line with the investments made.

Peru

In Peru, oil and gas sales in the period under review increased P$55 million or 38.2% to P$199 million from P$144 million in the prior-year quarter.

Crude oil price rose 32.9% to P$169.0 per barrel from P$127.2 per barrel in line with the international reference (a combination of Oriente crude oil and WTI).

The price of gas increased 69.3% to P$8.06 from P$4.76 per million cubic feet as a consequence of the increase in the adjustment factor in the price formula due to the fuel oil price behavior.

Daily sales volumes of oil equivalent increased 3.5% to 14.1 thousand barrels from 13.6 thousand barrels in 2005 quarter. This improvement was driven by a higher crude oil production resulting from an increased production contribution from the 2005 drilling campaign and a higher demand for gas from Empresa Eléctrica del Piura S.A.

Bolivia

In Bolivia, oil and gas sales increased P$10 million or 33.3% to P$40 million from P$30 million in the same period of previous year. Sales price for oil equivalent rose 61.5% and combined oil and gas daily sales dropped 17.3% to 6.7 thousand barrels of oil equivalent.

Average sales price for gas increased 97.5% to P$11.2 per million cubic feet from P$5.7 per million cubic feet in the prior-year quarter, as a result of the rise in fuel oil international prices (as published in Platt´s Oilgram) used as the basis for calculation of the price for exports to Brazil.

Gross profit: Gross profit for this business segment increased P$124 million, or 20.7%, to P$723 million from P$599 million. Margin on sales rose to 57.9% from 56.1% in 2005 quarter. This improvement is mainly attributable to the 30.9% increase in average sales prices of oil equivalent. The lifting cost rose 36.3% to P$11.63 per barrel of oil equivalent from P$8.53 per barrel of oil equivalent, primarily as a consequence of 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. As regards the remaining sales costs, royalties rose particularly in Peru due to the combined effect of an increased production associated with the higher price of the oil basket used to determine the amount payable and to the rise in the variable rate.

Administrative and selling expenses: In the quarter under review administrative and selling expenses rose P$23 million, or 46.9%, to P$72 million from P$49 million in the same quarter of previous year, mainly due to the increase in labor costs.

Other operating income (expense), net: Other operating income (expense), net accounted for P$27 million and P$53 million losses, respectively. Losses for the quarter under review are mainly attributable to costs associated with the unused transportation capacity under the Ship or Pay contract with OCP (P$42 million). In addition, the 2006 quarter reflects an P$8 million allowance for tax credits relating to VAT in Ecuador. Conversely, the quarter reflects P$23 million for price adjustments on sales relating to the Acema and Mata areas attributable to previous fiscal years. Operating expense for 2005 quarter is mainly attributable to costs associated with the Ship or Pay agreement in the amount of P$42 million and to losses in the amount of P$6 million for the renegotiation of service agreements in Venezuela.

Gas and Energy

Hydrocarbon Marketing and Transportation

Operating income: In 2006 and 2005 quarters, operating income for the Hydrocarbon Transportation and Marketing business segment totaled P$99 million and P$60 million, respectively. Operating income reflects P$85 million and P$53 million gains in 2006 and 2005 quarters, respectively, attributable to the proportional consolidation of CIESA. Excluding proportional consolidation, operating income for the business segment totaled P$14 million in 2006 quarter and P$7 million in 2005 quarter.

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

(in millions of pesos)

Net sales: Sales revenues in the period under review increased P$35 million, or 24.5%, to P$178 million from P$143 million, mainly due to the rise in prices of both gas and liquids.

Revenues from the sale of gas produced by the Company and imported gas in Argentina increased P$29 million, or 42.6%, to P$97 million from P$68 million, mainly as a result of the 45% rise in sales prices derived from the implementation of the price recovery mechanism established by the Secretary of Energy and deregulation as from September 2005. In addition, the renegotiation of certain export agreements and the rise in international references applicable to contracts with industrial clients had a positive impact. Sales volumes declined 1.7% to 268.3 million cubic feet per day in 2006 quarter from 273.0 million cubic feet per day in 2005 quarter, due to a lower volume imported from Bolivia, partially offset by an increase in the Company s own production from the Austral basin.

Revenues from the sale of liquids increased P$7 million, or 10.4%, to P$74 million from P$67 million, due to a 26% rise in sales prices mainly derived from an increase in the price of their international references, partially offset by a 12.6% drop in sales volumes to 66.0 thousand tons in 2006 from 75.5 thousand tons in 2005, attributable to the combined effect of a change in the refinery operating methodology, the sale of stock in 2005 and a reduction in gas volumes processed.

Gas and LPG brokerage services accounted for P$7 million and P$8 million sales revenues in 2006 and 2005 first quarters, respectively.

Gross profit: Gross profit in the period under review improved to P$2 million, while no significant results were recorded in terms of gross profits in the prior-year quarter.

Other operating income (expense), net: Other operating income (expense), net accounted for P$13 million and P$9 million gains in 2006 and 2005 quarters, respectively, basically due to technical assistance services provided to TGS s technical operator.

Electricity

Operating income: Operating income for the Electricity business segment increased P$26 million to P$71 million in 2006 quarter from P$45 million. Operating income reflects gains of P$19 million and P$11 million in 2006 and 2005 quarters, respectively, attributable to the share of the operating income of Distrilec. Excluding proportional consolidation, operating income rose to P$52 million in 2006 quarter from P$34 million in 2005 quarter, primarily due to increased margins in the generation activity as a result of improved prices in 2006 quarter, partially offset by higher fuel gas costs in the thermal power plant.

The table below shows 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 of electricity generation increased P$31 million, or 38.3%, to P$112 million in 2006 quarter from P$81 million in 2005 quarter, due to the combined effect of a 34.3% improvement in generation prices and a 2.9% rise in energy sales volumes, as a result of the 5.2% increase in the demand for energy in Argentina.

The increase in energy sales prices is primarily attributable to a higher demand for electric power within a context of reduced gas supply availability that derives in increased costs which are partially passed through to sales prices as a result of the gradual application of the path of prices implemented as from 2004 fourth quarter. 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.

Net sales attributable to the Genelba Power Plant increased 32.9% to P$93 million in 2006 quarter from P$70 million, primarily due to improved average sales prices that rose 35.7% to P$66.1 per MWh in 2006 quarter from P$48.7 per MWh in the prior-year quarter. Energy sales were at similar levels in both periods, 1,416 GWh and 1,440 GWh in 2006 and 2005, respectively. It should be pointed out that both the plant factor and the availability factor of the Power Plant were close to 100% in both periods.

Net sales attributable to the Pichi Picún Leufú Hydroelectric Complex increased 72.7% to P$19 million in 2006 quarter from P$11 million, due to the combined effect of an increase in sales volumes and an improvement in sales prices. During the 2006 quarter, energy delivered increased 36% to 272 GWh from 200 GWh, due to a higher water supply at the Comahue basin. Average sales prices increased 27.3% to P$68 per MWh from P$53.4 per MWh in the same period of previous year.

Gross profit: Gross profit for the generation business grew P$18 million to P$53 million in 2006 quarter from P$35 million in 2005 quarter, mainly driven by improved prices in the wholesale electricity market in 2006 quarter, partially offset by higher generation costs derived from the increase in fuel gas in the thermal power plant.

Administrative and selling expenses: Administrative and selling expenses for the generation activity increased P$3 million in both periods.

Refining and Distribution

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

(in millions of pesos)

Operating income: Operating income for the Refining and Distribution business segment reflected a loss of P$99 million in 2006 quarter compared to a P$23 million gain in the prior-year quarter, primarily attributable to the deterioration of business profit margins as a result of the impossibility of passing through to the Argentine domestic market the 30.1% increase in crude oil costs.

Gross profit: Gross profit for 2006 quarter was negative P$41 million, compared to a P$85 million gain in the prior-year quarter, with gross margins of 3.9% in the quarter under review and 9.1% in the same quarter of previous year.

Net sales: Net sales for refined products increased P$124 million, or 13.3%, in 2006 quarter to P$1,056 million from P$932 million in 2005 quarter, boosted by higher sales prices of products not subject to the inflation control policy implemented by the Argentine government. Total sales volumes dropped 12%, with a 15% decline in domestic sales and a 7% drop in exports.

In line with the significant rise in the price of WTI, average sales prices of aromatics, asphalts, heavy distillates, paraffins, VGO, reformer plant by-products, medium distillates and gasoline, increased 62%,50%, 47%, 33%, 28%, 18%, 17% and 12%, respectively, while diesel oil dropped 2%. In spite of the rise in crude oil prices, retail sales prices in the domestic market remained at previous levels.

Crude oil volumes processed during 2006 first quarter were at levels similar to those recorded in the prior-year quarter, totaling 64,602 barrels per day.

Total diesel oil sales volumes moved down 2.5% to 416.4 thousand cubic meters, mainly due to the 1.3% decline in wholesale domestic sales. The 3.4% growth in the diesel oil market derived in a decline in the market share to 13.7% from 14.4%.

Total gasoline sales volumes increased 1.8% to 184.9 thousand cubic meters. Sales to the domestic market, including wholesalers, grew about 10%, and this derived in a lower availability of export surpluses and a 22.5% reduction in exports. The Company s market share grew to 14.6% from 14.4%. In the premium gasoline market, the Company s share grew from 9.6% to 10% due to an increased penetration of Podium gasoline.

Asphalts sales volumes grew 12.0% mainly due to the 37% increase in the domestic market, driven by infrastructure works boosted by the government, mainly in the south of the country. Within this context, both sales to the domestic market and exports increased 12%.

As regards heavy distillates, sales volumes rose 12.2% as a result of increased fuel oil exports, offset by lower sales volumes of VGO and IFO Bunker.

Administrative and selling expenses: Administrative and selling expenses increased to P$65 million from P$59 million in the same quarter of previous year, primarily due to increased staff costs attributable to higher compensations.

Other operating income (expense), net: Other operating income (expense), net accounted for a P$7 million gain in the period under review and a P$3 million loss in 2005 quarter.

Petrochemicals

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

(in millions of pesos)

Operating income: Operating income for the Petrochemicals business segment dropped P$7 million or 11.3% in 2006 quarter to P$55 million from P$62 million in the same quarter of previous year.

Net sales: In 2006 quarter, net sales dropped P$27 million, or 5.3%, to P$481 million from P$508 million in the prior-year quarter (net of eliminations of P$56 million and P$42 million), due to lower sales volumes attributable to Innova and Fertilizers.

* Styrenics - Argentina:

In Argentina, styrenics sales increased 1.8% to P$231 million from P$227 million in 2005 quarter, basically due to a 2% rise in average sales prices as a result of fluctuations in international reference prices, with increases of 6% and 8% in styrene and rubber and drops of 9% and 8% in PS and BOPS, respectively.

Styrene sales volumes remained at levels similar to those recorded in 2005 quarter, totaling 59 thousand tons.

* Styrenics - Brazil - Innova:

Innova sales dropped 4.3% to P$269 million in 2006 quarter from P$281 million in the prior-year quarter, mainly due to lower sales volumes, particularly styrene that declined 6% as a consequence of the postponement of exports for logistic reasons.

* Fertilizers:

Fertilizers sales volumes declined 11.9% to P$37 million in 2006 quarter from P$42 million, as a result of a 22% drop in sales volumes, partially offset by a 12% rise in average sales prices. The decline in fertilizers sales volumes in 2006 first quarter is due to operations made in advance in 2005 fourth quarter and delayed purchases by producers as a result of the increase in sales prices attributable to the rise in urea international prices.

Gross profit: Gross profit increased P$7 million, or 8%, to P$94 million from P$87 million in 2005 quarter and gross margin rose to 19.5% from 17.1%, primarily as a result of improved margins attributable to Innova.

* Styrenics - Argentina:

Gross profit declined 5.9% to P$48 million from P$51 million in the period under review and gross margin on sales slightly dropped to 20.8% from 22.5%, basically as a result of increased fixed production costs derived from higher compensations and the increase in raw material costs which was higher than the slight improvement in sales prices.

* Styrenics - Brazil - Innova:

Gross profit rose 57.7% to P$41 million from P$26 million in 2005 quarter and gross margin on sales grew 15.2% from 9.3%, primarily as a result of reduced raw material costs attributable to a decline in the international price for benzene, partially offset by an increase in the price for ethylene.

* Fertilizers:

Gross profit dropped 60% to P$4 million from P$10 million in 2005 quarter, and gross margin on sales declined to 10.8% from 23.8%, due to the combined effect of lower sales volumes and increased production costs, mainly gas rates, and the increase in urea and ammonium nitrate costs which was higher than the 12% rise in sales prices.

Administrative and selling expenses: Administrative and selling expenses totaled P$40 million and P$35 million in 2006 and 2005 quarters, respectively. The rise is mainly attributable to increased fixed staff costs derived from higher compensations.

Other operating income (expense), net: Other operating income (expense), net accounted for P$1 million and P$10 million gains in 2006 and 2005 quarters, respectively.

ANALYSIS OF EQUITY IN EARNINGS OF AFFILIATES

Equity in earnings of affiliates: Equity in earnings of affiliates increased P$30 million to P$54 million from P$24 million in the prior-year quarter. Without proportional consolidation, equity in earnings of affiliates rose P$16 million to P$69 million from P$53 million in 2005 quarter.

This increase was primarily due to the rise in equity in earnings of Petrobras Bolivia Refinación, Distrilec and Petrolera Entre Lomas, partially offset by a decline in equity in earnings of CIESA and Citelec, which, by virtue of the divestment plan, was valued at its recoverable value determined on the basis of the probable net realizable value.

The table below presents the Company s results of equity in earning of affiliates and companies under joint control for 2006 and 2005 quarters. In addition, the table presents the equity in earnings of affiliates excluding the effects of proportional consolidation.

Compañía de Inversiones de Energía S.A (CIESA): In 2006 quarter, our equity in the earnings of CIESA declined P$25 million or 65.8% to P$13 million from P$38 million in the prior-year quarter, primarily due to the negative variation resulting from financial income (expense), partially offset by an increased operating income derived from an improved performance of the unregulated segment.

Financial expense, net of CIESA totaled P$121 million in the period under review compared to a financial income of P$8 million in 2005 quarter, mainly attributable to the impact of the exchange rate evolution on the net borrowing position, which showed a 1.7% depreciation in the period under review compared to a 2% appreciation in the prior-year quarter, resulting in a P$53 million loss in 2006 quarter and a P$71 million gain in 2005 quarter.

Total sales revenues grew 46.6% or P$108 million to P$340 million from P$232 million in 2005 quarter.

Sales revenues from the gas transportation segment increased P$12 million, or 10.9%, to P$122 million, due to the execution of new firm transportation agreements in connection with the expansion of the San Martín pipeline completed in August 2005, which allowed to increase the transportation capacity by 2.9 MMm^3/d.

Revenues from the NGL production and marketing segment increased 85.2% or P$92 million to P$200 million, mainly as a result of the combined effect of a rise in the average sales price of NGL derived from higher international prices and a 36% increase in sales volumes.

In 2006, operating income of CIESA rose P$68 million, or 68%, to P$168 million, mainly as a result of the abovementioned improved performance of the unregulated segment.

Distrilec Inversora S.A. (Distrilec): Our equity in the earnings of Distrilec accounted for a P$2 million gain in 2006 quarter compared to a P$1 million loss in 2005 quarter.

Income from services increased 17.3% to P$386 million in 2006 quarter from P$329 million in the prior-year quarter, due to the combined effect of a 13.3% rise in sales prices and a 3.3% growth in the demand for energy.

Operating income rose P$38 million from P$9 million in 2005 quarter, driven by a growth in demand, an increase in sales prices higher than the rise in costs for the purchase of energy and lower provision for fines imposed by the regulatory entity, partially offset by an increase in administrative and selling expenses derived from higher expenses for services under contract and compensations.

This improvement in operating income for the period under review was significantly absorbed by P$11 million and P$ 10 million increases in income tax charge and financial income (expense), respectively. The higher financial expense mainly derives from the erratic behavior of the exchange rate.

Petrobras Bolivia Refinación (PBR): Our equity in the earnings of PBR accounted for a P$25 million gain in 2006 quarter compared to a P$11 million loss in 2005 quarter, mainly because its operations were favorably impacted by an international context with high reference prices. In this respect, the 2006 quarter reflects improved contribution margins as a result of an 11% rise in average sales prices. In addition, the 2005 quarter was negatively impacted by the adverse effects resulting from regulatory changes and the recognition of allowances for bad debts, particularly receivables from the Bolivian Government, and tax claims.

Petrolera Entre Lomas S.A (PELSA): Equity in earnings of PELSA increased P$3 million to P$8 million from P$5 million, mainly due to improved sales margins as a result of higher prices in the quarter under review and, to a lesser extent, increased sales volumes of both oil and natural gas.

Petroquímica Cuyo S.A. (Cuyo): Equity in earnings of Cuyo accounted for P$3 million gains in both quarters.

Cuyo s sales increased 49.3% to P$112 million from P$75 million, mainly due to a 48.4% rise in sales volumes, totaling 28.7 thousand tons in the quarter under review. This positive effect was offset by a 12% increase in the cost of propylene, main input used by Cuyo.

Refinor: our equity in the earnings of Refinor increased to P$11 million in both periods.

Refinor s net sales increased 44.1% to P$405 million from P$281 million in the prior-year quarter, mainly as a result of the combined effect of a 25% improvement in the average sales price of fuels and LPG, and a 16% rise in fuel sales volumes, especially to the foreign market, to 200 thousand m3. This positive effect was offset by a 57% increase in raw material costs and higher transportation expenses and increased compensations.

SUMMARIZED BALANCE SHEET AND INCOME STATEMENT STRUCTURE

The information below for the three-month periods ended March 31, 2005, 2004, 2003 and 2002 does not have retroactive effect under the new professional accounting standards. The information below for the three-month periods ended March 31, 2004, 2003 and 2002 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 three-month periods ended March 31, 2004, 2003 and 2002 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.

DECIO FABRICIO ODDONE DA COSTA

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 March 31, 2006, and the related consolidated statements of income, changes in shareholders´ equity and cash flows for the three-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 7 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, incorporated by the proportional consolidation method as of March 31, 2006, were reviewed by other auditors, whose reports have been furnished to us. Our negative assurance set forth in paragraph 7, 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:

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 7% in the case of Distrilec Inversora S.A., and 14% and 6% in the case of Compañía de Inversiones de Energía S.A., of the respective consolidated totals as of March 31, 2006 and for the three-month period then ended.

6. The report of the other auditors mentioned in paragraph 5 related to the financial statements of Compañía de Inversiones de Energía S.A. as of March 31, 2006 include, among others, qualifications for unresolved uncertainties as to such company s ability to continue as going concern and the recoverable value of its non-current assets in case that the assumptions used by management to make its projections would not materialize in the future. As described in note 9 to the consolidated financial statements, such related company and its subsidiary Transportadora de Gas del Sur S.A. have been negatively impacted by the Argentine Government s adoption of various economic measures, including the de-dollarization of revenue rates, the renegotiation of the License (still in progress) and the devaluation of the Argentine peso. In addition, Compañía de Inversiones de Energía S.A. has suspended the payment of its financial debt, although on September 2005 it celebrated a debt restructuring agreement, which, is pending of regulatory approval as of the date of this report. The companies managements plans in regard of these matters are also described in note 9 to the consolidated financial statements. The report of the other auditors mentioned in paragraph 5 related to the financial statements of Distrilec Inversora S.A. includes, among others, qualifications for: i) having recognized the effects of the Memorandum of Understanding that its subsidiary signed with the UNIREN (public service agreement renegotiation and analysis unit) within the process of renegotiating its concession contract, while ratification of such Memorandum by the Federal Executive remains pending, and (ii) unresolved uncertainty with respect to the recoverable value of its subsidiary s property, plant and equipment given that the materialization of certain estimations used to determine the recoverable value of such assets is contingent on future events and actions not entirely under the power of the subsidiary's board of directors and because the final outcome cannot be reasonably predicted as of the date of issuance of their report. The accompanying financial statements do not include any adjustment that might result from the outcome of these uncertainties.

The assets and net sales of Compañía de Inversiones de Energía S.A., incorporated by the proportional consolidation method, represent about 14% of the assets, and 6% of the net sales, of the respective consolidated totals as of March 31, 2006 and for the three-month period then ended.

7. 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, the pertinent regulations of the CNV applicable to consolidated financial statements and 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.

8. Regarding the consolidated balance sheet of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2005 and the consolidated statements of income, changes in shareholders´ equity and cash flows for the three-month period ended March 31, 2005, presented for comparative purposes, we further report that:

a) On February 15, 2006, we issued an audit report on the consolidated financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2005, based on our audit and on the other auditors report for the related companies Compañía de Invesiones de Energía S.A. and Compañía Inversora en Transmisión Eléctrica Citelec S.A.. Such report included qualifications for unresolved uncertainties mentioned by the other auditors referred to the ability to continue as going concern of the related company Compañía de Inversiones de Energía S.A. and the recoverable value of its non-current assets. Our report also contained a qualification for not having discounted the nominal values of deferred tax assets and liabilities as required by generally accepted accounting principles in Buenos Aires City, Argentina, for the fiscal year ended on such date. The consolidated balance sheet of Petrobras Energía Participaciones S.A. and its subsidiaries as of December 31, 2005 includes the effects of the accounting changes 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, 2005.

b) On May 6, 2005, we issued a limited review report on the financial statements of Petrobras Energía Participaciones S.A. and its subsidiaries for the three-month period ended March 31, 2005, based on our review and the other auditors report for the related companies mentioned in paragraph 5 and the related companies Compañía Inversora en Transmisión Eléctrica Citelec S.A. (Citelec S.A.) and Transportadora de Gas del Sur S.A. (TGS S.A.). Such report included qualifications for unresolved uncertainties mentioned by the other auditors, with respect to: a) the ability to continue as going concern of the related companies Citelec S.A. and Compañía de Inversiones de Energía S.A. and; b) the recoverable value of non-current assets corresponding to the regulated business of TGS S.A.. The current report of the other auditors on the financial statements of Citelec S.A. for the three-month period ended March 31, 2005, presented for comparative purpose with March 31, 2006, differs from the one previously presented, and it is unqualified. In addition, our report contained qualifications for: a) 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 as required by generally accepted accounting principles in Buenos Aires City, Argentina, but not allowed by pertinent regulations of the CNV and; b) 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, for interim-periods financial statements as of such date. The accompanying consolidated statements of income, changes in shareholders´ equity and cash flows for the three-month period ended March 31, 2005 include the effects of the accounting changes mentioned in note 2 to the consolidated financial statements.

Buenos Aires, Argentina,

May 5, 2006

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

ENRIQUE C. GROTZ

Partner

PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

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

PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2006 AND DECEMBER 31, 2005

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

PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL

STATEMENTS OF CHANGES IN SHAREHOLDERS´EQUITY

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

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

PETROBRAS ENERGÍA PARTICIPACIONES AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005 (a)

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

PETROBRAS ENERGÍA PARTICIPACIONES S.A.

AND SUBSIDIARIES AND COMPANIES UNDER JOINT CONTROL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

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

1. Business operations

Petrobras Energía Participaciones S.A. (Petrobras Participaciones or 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. Petrobras Energía has business in Argentina, Bolivia, Brazil, Ecuador, Peru, Venezuela, México and Colombia. Petrobras Energía has a significant share of the regional energy market. The Company fiscal year ends on December 31 of each year.

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 Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (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 group 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 company.

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.II).

The data about the companies over which the Company exercises control, joint control and significant influence are disclosed in Note 22.f).

b) Foreing Currency translation