

segregated to pay the participation in earnings of employee profit-sharing certificates. The remainder of the retained earnings for the year may be distributed as dividends on common stock or retained as a voluntary reserve, as determined by the shareholders' meeting. Dividends must be paid within 30 days of their declaration. For information on dividend taxation, see "Item 10. Additional Information - Taxation - Argentine Taxes."

## EXCHANGE RATES

Fluctuations in the exchange rate between pesos and dollars would affect the dollar equivalent of the peso price of the Company's Class "B" Shares on the Buenos Aires Stock Exchange ("BASE") and, as a result, would likely affect the market price of the Company's American Depositary Shares ("ADSs"). In addition, such fluctuations will affect the dollar equivalent of peso amounts reported in this Annual Report. Currency fluctuations would also affect the dollar amounts received by holders of ADRs on conversion by the Depositary of cash dividends paid in pesos on the underlying Class "B" Shares.

Beginning in April 1991, under the Convertibility Law, the Central Bank was required to buy or sell US dollars to any person at a rate of one peso per US dollar. On January 11, 2002, the Central Bank ended a banking holiday that it had imposed on December 21, 2001. Subsequently, the Argentine government allowed the exchange rate to float freely for the first time since April 1991. Heightened demand for scarce US dollars caused the peso to trade well above the one-to-one parity under the Convertibility Law. As a result, the Central Bank intervened on several occasions by selling US dollars in order to lower the exchange rate. The Central Bank's ability to support the peso by selling US dollars depends, however, on its limited US dollar reserves; the value of the peso has continued to fluctuate significantly. In response to high demand for US dollars in Argentina and the scarcity of US dollars to meet that demand, the Argentine government has imposed several temporary freezes, or holidays, and has imposed other restrictions on exchange transactions since the abrogation of the Convertibility Law. For additional information regarding factors affecting the value of the peso, see "Risks Relating to Argentina" below.

On February 8, 2002, Executive Order No. 260 (Exchange regime) was issued, providing that beginning February 11, 2002 a single free exchange market would channel all foreign currency exchange transactions, to be made at the rates agreed between the parties, pursuant to Central Bank requirements.

On March 25, 2002, the Central Bank placed further restrictions on the transfer of funds abroad by requiring the approval of the Central Bank for payments outside Argentina of both principal and interest payments on financial debt. The Central Bank began to ease these restrictions in December 2002. Effective January 2, 2003, the approval by the Central Bank is no longer required for interest payments made outside Argentina. In addition, principal payments made outside Argentina are now permitted without Central Bank approval under certain circumstances, although TGS is unable to avail itself of this exemption. In order to stop the significant peso appreciation, on May 7, 2003, the Central bank continued to loosen almost all the remaining restrictions.

The following table sets forth, for the periods indicated, high, low, average and period-end exchange rates between the peso and the US dollar, as reported by *Banco de la Nación Argentina*. The Federal Reserve Bank of New York does not publish a noon buying rate for the peso. The average rate is calculated by using the average of *Banco de la Nación Argentina* reported exchange rates on each day during a monthly period and on the last day of each month during an annual period.

	Pesos per US dollar(1)			
	High	Low	Average	Period end
<b>2003</b>				
June (through 27)	2.8500	2.7700	2.8101	2.8170
May	2.9400	2.7620	2.8385	2.8500
April	2.9600	2.8200	2.8915	2.8200
March	3.2100	2.8800	3.0715	2.9800
February	3.2100	3.1100	3.1640	3.1900
January	3.3500	3.1000	3.2614	3.2100
<b>2002</b>				
December	3.5800	3.3700	3.4900	3.3700
November	3.6400	3.4800	3.5385	3.6400
October	3.7500	3.5200	3.6559	3.5200
September	3.7500	3.6200	3.6543	3.7400
August	3.6500	3.5900	3.6262	3.6300
July	3.7900	3.5500	3.6209	3.7000
June	3.9000	3.5000	3.6500	3.8000
May	3.6000	3.1000	3.3564	3.6000
April	3.1500	2.6800	2.8894	2.9800
March	3.1500	2.0500	2.4325	3.0000
February	2.1500	1.7000	2.0033	2.1500
January(2)	2.0700	1.6000	1.9080	2.0500
<b>Year ended December 31,</b>				
2002(2)	3.9000	1.6000	3.2650	3.3700
2001(2)	1.0000	1.0000	1.0000	1.0000
2000	1.0000	1.0000	1.0000	1.0000
1999	1.0000	1.0000	1.0000	1.0000
1998	1.0000	1.0000	1.0000	1.0000

(1) As reported by *Banco de la Nación Argentina*.

(2) The Argentine Central Bank imposed a banking holiday from December 21, 2001 to January 11, 2002, during which time there was no official exchange rate between the peso and US dollar.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

### Risks Relating to Argentina

Argentina continues to suffer from the effects of the severe economic crisis that began in 2001. TGS's business may be materially and adversely affected by economic, political and regulatory developments in Argentina. Therefore holders of TGS shares and ADSs currently are exposed to country-specific risks relating to developments in Argentina.

*The cumulative economic, social and political deterioration caused by last year's events remains largely unimproved.*

The economic and political landscape in Argentina changed radically in December 2001. As a result of increasing concern about the efficacy of president de la Rúa's economic plan, depositors at local financial institutions began withdrawing their deposits, putting the stability of the entire Argentine financial system at risk. In an attempt to prevent a collapse of the banking system, the Minister of Economy at that time, Domingo Cavallo, implemented broad restrictions on bank withdrawals and restrictions on currency transfers abroad known as the "*corralito*". On December 19, 2001, nationwide looting and protesting erupted, leading to the resignation of president de la Rúa's entire cabinet, including Mr. Cavallo. President de la Rúa declared a state of emergency and resigned in the midst of an escalating crisis on December 21, 2001. On that same day, the Central Bank declared a bank holiday, which was not lifted until January 11, 2002.

After the succession of three interim presidents, Senator Eduardo Duhalde, a member of the opposition Peronist party, was elected by the Legislative Assembly on January 1, 2002 to serve the remaining two years of former president de la Rúa's term. The National Congress and the Duhalde administration quickly adopted a series of measures affecting Argentina's monetary and fiscal policies. On January 7, 2002, the National Congress approved the Public Emergency Law, ending nearly ten years of US dollar-peso parity under the Convertibility Law and eliminating the requirement that the peso be fully backed by gold and foreign reserves. The Public Emergency Law also, among other things, pesified all US dollar-denominated tariffs in public service contracts and granted the Executive Branch, among others, the power to issue regulations related to the foreign exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange markets.

In the months following the adoption of the Public Emergency Law and other emergency measures, the country continued to deteriorate economically, politically and socially. During the first half of 2002, the events described above caused an abrupt rise in the nominal exchange rate, reaching a high of Ps.3.90=US\$1.00 in June 2002. Inflation continued to increase, in part due to the devaluation of the peso. Prices continued to rise, with cumulative CPI rising by 42.8% from December 2001 through January 2003 and cumulative WPI rising by 119.09% over the same period. The Duhalde administration responded to the worsening crisis with a number of new measures, and amendments to existing measures, including:

- On January 23, 2002, the Argentine government amended the charter of the Central Bank to allow the Central Bank to print currency in excess of the amount of gold and foreign reserves it holds. It also enabled the Central Bank to make short term advances to the Argentine government for amounts not to exceed 10% of the federal government's cash revenues during the prior 12 months and enabled the Central Bank to act as a lender of last resort and to provide financial assistance to financial institutions experiencing economic difficulties.
- On February 1, 2002, the Argentine Supreme Court declared certain measures pursuant to the *corralito* unconstitutional. On February 3, 2002, the Duhalde administration implemented new measures under Emergency Decree 214, which suspended for 180 days all causes of actions relating to the *corralito* and amended the Public Emergency Law. Emergency Decree 214 converted virtually all foreign currency-denominated deposits to pesos at a rate of Ps. 1.40=US\$1.00. The decree also amended the *corralito* to allow withdrawals of salaries and pensions and established the compulsory restructuring of all time deposits denominated in pesos and of all peso-denominated deposits resulting from such compulsory conversion. In addition, Emergency Decree 214, among other things, mandatorily converted all foreign currency-denominated debts with Argentine financial institutions into peso-denominated debts at a rate of Ps. 1.00=US\$1.00.
- On February 3, 2002, the Duhalde administration eliminated the dual exchange rate allowing the rate to be set freely by the exchange market, with occasional intervention by the Central Bank. On the same day, another bank holiday was imposed, which ended on February 8, 2002, and a foreign exchange market holiday was imposed, which ended on February 11, 2002.
- On February 14, 2002, Law No. 25,563 was passed amending the provisions of the ABL. Under this new law, certain bankruptcies and foreclosures were stayed for a period of 180 days from the law's effective date. In addition, financial institutions were required to renegotiate each of their outstanding loans with their debtors within a period of 90 days from the effective date of the law. Renegotiations were supposed to take into account the economic conditions in Argentina and the cash flow of the debtor. In addition, the "cram down" proceeding, which enabled creditors and third parties to propose reorganization plans to gain control of bankrupt businesses, was abolished.
- On March 1, 2002, the Argentine government issued Decree No. 410, which, among other things, provided for certain exceptions to pesification and, therefore, that payment obligations denominated in foreign currencies and governed by foreign law, were exempt from "pesification".
- On March 13, 2002, the Argentine government issued Decree No. 494 pursuant to which the Argentine government offered to voluntarily exchange time deposits for both US dollar and peso-denominated bonds, depending on the original deposit currency. US dollar-denominated bonds were offered at a floating rate of LIBOR+1%, maturing in 2012, while peso-denominated bonds were offered at a fixed rate of 3%, maturing in 2007. In addition, the decree proposed to compensate financial institutions for the "pesification" of their assets, and provided for the issuance of US dollar-denominated and peso-denominated bonds under the same conditions described above. The amount of compensation to each financial institution was to be determined by the Central Bank pursuant to the formula set forth in the decree.
- On April 25, 2002, the National Congress enacted Law No. 25,587 in order to prevent bank depositors, subject to certain exceptions, from withdrawing money from frozen accounts through judicial actions until all appeals were exhausted in each individual case.
- On May 2, 2002, Decree 704/2002 was issued, which established that the foreign currency obligations of non-Argentine residents, payable with funds located outside Argentina, owed to individuals or companies residing or located in Argentina would not be pesified, even if such obligations were subject to Argentine law.
- On May 6, 2002, law No. 25,570 ratified an agreement that had been reached by several provincial governors and the Argentine government that implemented substantial changes to Argentina's tax coparticipation program. The agreement also set forth terms to reduce the fiscal deficit of Argentina's provinces. The existence and compliance with this agreement has been considered an indispensable condition to the IMF's granting of financial aid.
- On May 15, 2002, the National Congress enacted Law No. 25,589 amending the APE procedures, also amended the Association Business Law ("ABL") and the

law enacted in February 2002. The amendment had been requested by the IMF as a condition to continued financial assistance. This amendment repealed, in part, the 180 day stay for bankruptcies and foreclosures and repealed most of the amendments introduced into the ABL by Law 25,563. This amendment also re-instituted the previously abolished “cram down” procedure and amended the rules of the *Acuerdo Preventivo Extrajudicial* (“APE”) procedure.

- On June 1, 2002, the Argentine government issued Decree No. 905, which provided the owners of rescheduled foreign currency and peso-denominated bank deposits the option to exchange such deposits for compensatory bonds issued by the Argentine government due 2012, in an attempt to resolve the problems arising with respect to the *corralito*.
- On September 6, 2002, the Central Bank issued Communication A 3722, which requires individuals and legal entities to procure the Central Bank’s prior approval for transactions regarding the acquisition of foreign currency for the following purposes: individuals’ foreign portfolio investments, other foreign investments of residents, legal entities’ foreign investments and purchases of foreign currency to be kept in custody within Argentina. However, the Central Bank’s authorization is not necessary for monthly purchases of foreign currency if the exchange transactions do not exceed in the aggregate, per individual/per month, the equivalent of US\$100,000. The entity carrying out the exchange transaction must be provided with the individual’s sworn statement of compliance with the limits set forth in the decree.
- On November 25, 2002, Resolution 668/2002 of the Ministry of Economy was published in the Official Gazette. The resolution stated that as of the first week of December 2002 the restrictions on the withdrawal of deposits from accounts, the *corralito*, would be eliminated.
- Since the beginning of February 2003, many banks have started to return to holders, prior to maturity, certain time deposits that have been rescheduled by the Argentine government (the “*corralón*”).
- On December 26, 2002, the Central Bank issued Communication A 3845, which increased the US\$100,000 per individual/per month limit established by Communication A 3722 to US\$150,000 per month.
- Since the beginning of February 2003, many banks have started to return to holders, prior to maturity, certain time deposits that have been rescheduled by the Argentine government (the “*corralón*”).
- On March 5, 2003, the CSJN declared Section 2 of Decree 214/02, which implemented the Pesification Rule, unconstitutional, ruling in favor of the Province of San Luis, which had brought the suit against *Banco de la Nación*, the Central Bank and the Argentine government. One of the main grounds for the CSJN judgment was the determination that the Pesification Rule constituted an invalid exercise of a delegated power. The CSJN also stated that the Pesification Rule altered the essence of the depositor’s property rights, thus exceeding the limits imposed by CSJN precedents regarding the restrictions under emergency legislation. It is expected that the decision will be respected and followed in all future cases brought by depositors. However, depositors who accepted voluntarily and without express reservation the alternatives offered by the different rules issued by the Argentine government after the pesification of deposits have lost their rights to file further claims. This judgment applies only to bank deposits and not to other legal transactions compulsorily converted into pesos.
- On March 13, 2003, the Central Bank issued Communication A 3894, which increased the amount of purchases of foreign currency allowed on a monthly basis without the authorization of the Central Bank from US\$150,000 per individual/per month to US\$200,000 per individual/per month.
- On March 25, 2003, the Executive Branch issued Decree 664/2003, which suspends inflation accounting, superseding Decree 1,269/2002, which reintroduced inflation accounting in Argentina effective January 1, 2002. After Decree 664/2003 was implemented, the CNV issued Resolution No. 441, which suspended the recognition of the effect of inflation, which became effective on March 1, 2003 for all public companies. However, the CPCECABA has expressly opposed the discontinuation of the inflation accounting procedures. Consequently, in the event that a new inflationary process is resumed in Argentina, the Company will not be able to consider the effects of inflation on the Company’s financial statements, which will be a departure from Argentine GAAP, as approved by the CPCECABA.
- On March 28, 2003, the Executive Branch issued Decree 739/2003 which partially lifted the restrictions on the withdrawal of rescheduled foreign currency deposits, allowing depositors to withdraw, between April 8 and April 23, 2003, up to approximately US\$42,000 in a combination of Pesos at a fixed exchange rate of Ps.1.40 = US\$1.00 and government Bonds due 2013, and greater amounts subject to a fixed term deposit of 90 or 120 days, depending on the sum to be withdrawn. Most of the rescheduled depositors did not accept this option and have opted not to withdraw their rescheduled dollar deposits.

Despite these numerous measures, the absence of legal protections and of a sustainable economic and fiscal plan, coupled with a general distrust of the Argentine government and Argentine financial institutions, has impaired Argentina’s recovery. Although the country is not now suffering from the rapid economic, social and political deterioration it experienced during 2002, the cumulative effect of the deterioration caused by last year’s events remains largely unremedied. It is uncertain whether the new administration of President Nestor Kirchner will be more successful in dealing with these issues than was the Duhalde administration.

**Negative economic, political and regulatory developments in Argentina have materially adversely affected, and may continue to materially adversely affect, the Company’s financial condition, revenues and operations.**

Substantially all of TGS’s operations and assets are located in Argentina. In addition, the majority of its revenues are earned in Argentina and are peso-denominated. As a result, the devaluation of the peso, the pesification of all US dollar-denominated tariffs in gas transportation contracts, the prohibition on tariff adjustments, the adverse economic circumstances facing its customers and other developments relating to the Argentine economic crisis have negatively affected TGS’s business. The Company has been and will continue to be materially adversely affected by these negative economic, political and regulatory developments.

**Argentina and Argentine companies may not have access to financing in the international and domestic markets. This lack of access to financing may prolong the economic crisis, make economic recovery more difficult and adversely affect investor confidence in Argentina.**

As a result of the Argentine economic crisis, there has been a significant shortage of capital and available credit for both individuals and companies. As a result of defaults on loans and other financial obligations in Argentina by the government and private entities, and massive withdrawals of cash from accounts in Argentine financial institutions and from the Argentine financial market generally, there is very little available credit within Argentina. This run on deposits has had and continues to have a material adverse effect on the Argentine financial system as a whole. For the most part, Argentine banks have suspended the disbursement of new loans and focused on collection activities in order to be able to pay their depositors. Non-Argentine financial markets and institutions have been unwilling to extend additional capital and credit to already defaulting institutions and companies in Argentina. Until the economic situation improves and the financial markets stabilize, there may be very little capital and available credit for Argentine companies to draw upon to help speed recovery.

The economic crisis, and its political repercussions have adversely affected investor confidence in Argentina. These events coincided with a significant downturn in global investor sentiment generally, marked by significant declines in international equity markets, pronounced investor risk aversion and a decrease in investor confidence in emerging markets. In addition, the principal international rating agencies have repeatedly downgraded the rating of Argentina's sovereign debt, which currently reflects a default status. Consequently, Argentina is not expected to have significant access to the international credit markets on economically feasible terms, if at all, for the foreseeable future.

**Continued political instability has hampered commercial and financial activities in Argentina and increases the level of uncertainty as to Argentina's future.**

Nestor Kirchner was declared president of Argentina after his challenger, former President Carlos Menem, abruptly withdrew from a run-off election between the two. At this time the degree of internal and external support for the new Argentine government remains unclear, due in part to the fact that President Kirchner was not given an opportunity to obtain what likely would have been an overwhelming electoral mandate. The rapid and radical nature of the recent changes in the Argentine social, political, economic and legal environment, and the absence of a clear political consensus in favor of the new Argentine government or any particular set of economic policies, have created an atmosphere of great uncertainty. As a result, virtually all commercial and financial activities have been hampered, further aggravating the economic recession which precipitated the current crisis and loss of investor confidence has continued to weaken.

**The recent devaluation and potential future devaluation of the peso create greater uncertainty as to Argentina's economic future.**

The Public Emergency Law ended more than a decade of uninterrupted US dollar-peso parity under the Convertibility Law and eliminated the requirement that the Central Bank back the peso with reserves in gold and foreign currency at least equal to Argentina's outstanding peso monetary base. See "Exchange Rates" above.

As an initial response to the Argentine crisis, the Argentine government established a dual exchange rate whereby export and certain import transactions would be governed by a fixed exchange rate of Ps. 1.40=US\$1.00, while other transactions would be governed by a floating rate. On January 11, 2002, the Central Bank ended a banking holiday that it had imposed on December 21, 2001, and thereafter the fixed exchange rate was eliminated and the Argentine government established that all foreign exchange transactions would be set by a free-floating rate. Heightened demand for scarce US dollars caused the peso to trade well above the one-to-one parity that existed under the Convertibility Law. As a result, the Central Bank intervened on several occasions by selling US dollars in order to lower the peso-dollar exchange rate. The Central Bank's ability to support the peso by selling US dollars depends, however, on its limited US dollar reserves. The value of the peso has continued to fluctuate significantly. In response to high demand for US dollars in Argentina and the scarcity of US dollars to meet that demand, the Argentine government has imposed several temporary freezes (or "holidays") on exchange transactions since the abrogation of the Convertibility Law.

During the first half of 2002, the severe crisis of the Argentine financial system, capital flight and the deferral of public debt payment caused an abrupt rise in the nominal exchange rate between the US dollar and the peso. At the same time, the amount of US dollar reserves held by the Central Bank continued decreasing, reaching its lowest level of approximately US\$9 billion in July 2002, compared to an average of US\$24.1 billion during the three-year period from 1998 through 2000, resulting in an official exchange rate of Ps.\$3.65=US\$1.00. At that time, the Argentine government adopted another set of measures designed to slow the decline in US dollar reserves. As a result, the export sector was required to settle on a daily basis its non-Argentine currencies through the Central Bank, restrictions on the external money transfers were increased, currency purchases by companies were limited to up to US\$100,000 (subsequently increased to US\$200,000) on a monthly basis, and the requirements associated with buying currencies from banks and exchange agents were tightened. The Central Bank gradually started accumulating US dollar reserves, which reached approximately US\$11.6 billion on June 19, 2003.

The devaluation of the peso and the uncertainty surrounding its future value relative to the US dollar and other currencies places the Argentine economy at risk for further deterioration, which, in turn, may have a significant impact on the Company's business, results of operations and financial condition.

**There is a risk that the Argentine financial system will collapse.**

Although deposits in the Argentine banking system have been declining for a number of years, in the last quarter of 2001 a significant amount of deposits were withdrawn from Argentine financial institutions as a result of increasing political instability and economic uncertainty. This run on deposits has had and continues to have a material adverse effect on the Argentine financial system as a whole. For the most part, Argentine banks suspended the disbursement of new loans and focused on collection activities in order to be able to pay their depositors. The general unavailability of external or local credit created a liquidity crisis that triggered numerous payment defaults, which in turn have undermined the ability of many Argentine banks to pay their depositors.

For much of 2002, the Argentine government restricted the amount of cash that depositors could withdraw from financial institutions; the restrictions are commonly referred to collectively as the "*corralito*". In addition, on February 3, 2002, pursuant to an emergency decree, the Argentine government announced the mandatory conversion of virtually all non-Argentine currency-denominated deposits into peso-denominated deposits ("**pesification**") and set the exchange rate for this conversion at Ps. 1.40=US\$1.00. On December 2, 2002, the government began relaxing the *corralito*, lifting restrictions on withdrawals from deposit and savings accounts.

On March 5, 2003, the Argentine Supreme Court ("**CSJN**") declared unconstitutional Section 2 of Decree 214/02, which required pesification. This ruling will help depositors that otherwise did not waive their right to challenge the Pesification Rule to reconvert their deposits back into US dollars.

While the *corralito* and the mandatory conversion of US dollar deposits into pesos shielded banks from a further massive withdrawal of deposits, at least initially, they have led to a severe curtailment of commercial and financial activities in Argentina, diminished spending and increased social unrest. This has resulted in widespread public repudiation of and protests directed against financial institutions, which has had a material adverse effect on the Argentine financial system.

In order to compensate the banks for the negative effect caused by the devaluation of the peso and pesification of dollars, the government issued compensation bonds. These bonds constitute almost 50% of banks' assets based on their face value, but significantly less based on their market value. It is unclear, however, how the international market will value these bonds or whether the Argentine government will remain current in the payments required thereunder.

The Argentine financial system continues to be extremely fragile. The system's failure would have a material adverse effect on the Company's prospects for economic recovery and stability. Even short of failure, the crisis in Argentina and its financial sector has adversely affected and will likely continue to adversely affect TGS's ability to borrow funds (including the establishment of lines of credit), requiring the Company to continue to rely on internally generated funds to sustain its operations. TGS would be materially and adversely affected if the troubled Argentine financial system were to collapse.

**Substantial inflation has occurred following the repeal of the Convertibility Law and in the future it may worsen.**

Argentina experienced significant inflation from December 2001 through May 31, 2003, with cumulative changes in the CPI of 44.01% and in the WPI of 112.7%. This level of inflation reflected both the effect of the peso devaluation on production costs as well as a substantial modification of relative prices, partially offset by the elimination of tariff adjustments and the large drop in demand resulting from the

severe recession.

Argentina's history of hyperinflation prior to the adoption in 1991 of the Convertibility Law raises serious doubts as to the ability of the Argentine government to maintain a strict monetary and fiscal policy to control inflation. In the past, inflation materially undermined the Argentine economy and the ability of the Argentine government to create conditions that permitted growth for companies operating in Argentina. The unpredictability of Argentina's inflation rate makes it impossible for the Company to foresee how its business and results of operations may be affected in the future by inflation. Continued inflation in Argentina without significant increase in the Company's tariffs would have a material adverse effect on its business, results of operations and financial condition.

***The economic crisis and government regulation have affected the ability of the holders of TGS's shares and ADSs to receive payments of dividends or other amounts. The market price of TGS shares and ADSs have been and may continue to be adversely affected.***

Several of the steps taken by the Argentine government since the inception of the crisis have adversely effected the ability of TGS to make payments of dividends or other amounts to holders of TGS shares and ADSs. Pursuant to recent decrees and implementing regulations of the Central Bank, Argentine individuals and companies, including TGS, are subject to approval by the Central Bank for the making of certain transfers of funds abroad. For example, transfers by TGS of US dollars destined to the payment of dividends outside of Argentina are currently subject to the prior approval of the Central Bank.

The Company's ability to distribute dividends also will depend on the effect of the devaluation of the peso on TGS's retained earnings accounts and also on the availability of funds after a restructuring of its debts, if any, and the payment of capital expenditures. The effect of the devaluation of the peso on the Company's shareholders' equity, after considering the currency exchange loss booked under Argentine GAAP as part of the cost of the Company's fixed assets at the end of its fiscal year, could significantly reduce unappropriated retained earnings and the reserve for future dividends out of which dividends are distributed. In addition, as long as the Company is in default under the provisions of its debt agreements, it is prohibited under those agreements from paying a dividend. The inability to pay dividends has adversely affected, and may continue to affect, the US dollar value of an investor's return on an investment in TGS's shares and ADSs, including dividend income measured in US dollars, and TGS's ability to undertake investments and other activities that require payments in US dollars.

***The Argentine economy may be further affected by deterioration in the economies of other emerging markets.***

The economic and market conditions of other emerging countries may have an impact on the financial and securities markets. While the economic situation differs by country, investors' reactions to events in an emerging country may have a significant impact on the securities markets of other countries, including Argentina. The crisis which occurred in certain Asian countries in mid-1997, the debt moratorium in Russia in 1998, and the Real devaluation at the beginning of 1999 had a negative impact on the securities markets worldwide, particularly in emerging countries. No assurance can be given that the Argentine financial and securities markets will not be further harmed by the developments taking place in other parts of the world, particularly in emerging markets.

***Because the Argentine standards for corporate disclosure and accounting differ from those of the United States, information on the Company may not be as detailed or comprehensive as that of non-Argentine issuers, including that of US Companies.***

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"). However, the periodic disclosure required of foreign issuers under the Exchange Act is more limited than the periodic disclosure required of US issuers. Furthermore, there is a lower level of regulation of the Argentine securities markets and of the activities of investors in such markets as compared with the securities markets in the United States and certain other developed countries. In addition, regulations governing the Argentine securities market are not as extensive as those in effect in the United States and some other major world markets. The Company prepares its financial statements in accordance with Argentine GAAP, which differs in certain respects from US GAAP. See Note 14 to the consolidated financial statements for a description of the material differences between Argentine GAAP and US GAAP as they relate to the Company and for an estimate of the impact of those differences on net (loss) income and total shareholder's equity of the Company.

***Future Argentine policies will likely significantly affect Argentina's economy and, as a result, TGS's business, financial condition and results of operations.***

Since December 2001 the Argentine government has promulgated numerous, far-reaching and sometimes inconsistent laws and regulations affecting the economy. A number of these steps have had or likely will have an adverse effect on TGS's business, financial condition and results of operations. For example, the Argentine government has prohibited the adjustment of gas transportation tariffs to reflect changes in the US producer price index, as TGS was permitted to do under the prior regulatory regime. In addition, the government has required the conversion of gas transportation tariffs, which previously were dollar-denominated, into pesos. Because certain of TGS's costs, most notably interest costs are dollar-denominated, the substantial devaluation of the peso has materially and adversely affected TGS's ability to make the payments of principal and interest due at maturity.

TGS cannot assure that laws and regulations currently governing the economy will not continue to change in the future, particularly in light of the continuing economic crisis, or that any changes will not adversely affect TGS's business, financial condition or results of operations. Due to the current social and political crisis, investing in companies with Argentine operations entails risks of loss resulting from:

- (i) civil unrest, rioting, looting, nation-wide protests, road blockades, widespread social unrest and strikes;
- (ii) expropriation, nationalization and forced renegotiation or modification of existing contracts;
- (iii) restrictions on repatriation of investments and transfer of funds abroad;
- (iv) taxation policies, including royalty and tax increases and retroactive tax claims; and
- (v) changes in laws and policies of Argentina affecting foreign trade, taxation and investment.

#### **Risks Related to TGS**

***The effects of the current macroeconomic crisis in Argentina and of recent changes in regulations on TGS have given rise to conditions that raise substantial doubt as to the Company's ability to continue as a going concern.***

The consolidated financial statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002 and 2001, have been prepared on the assumption that TGS will continue as a going concern. The Company's independent auditors, PricewaterhouseCoopers Buenos Aires, Argentina have issued a report stating that TGS was negatively impacted by the deterioration of the Argentine economy, the Argentine government's adoption of various economic measures, including the violation of the terms contained in the License and the devaluation of the Argentine peso. In view of these circumstances, the Company has not been able to maintain the financial ratios required by its outstanding debt agreements and in May 2003 had announced the suspension of payments on its financial debt. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The Company's consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty. See "Item 3. Key Information—Risk Factors—Risks Related to TGS Business".

***The recent devaluation of the peso relative to the US dollar and the economic conditions currently prevailing in Argentina have had, and may continue to have, a material adverse effect on TGS's results of operations and financial condition.***

TGS realizes substantially all of its revenues in pesos and, as a result, the devaluation of the peso relative to the US dollar, has had a material adverse effect on its results of operations. Specifically, because a significant amount of the Company's indebtedness is US dollar-denominated, the devaluation of the peso has prevented the Company from meeting its debt obligations as they become due. Any further devaluation of the peso will correspondingly increase the amount of revenues, in pesos, the Company will need to generate in order to meet its obligations, thereby further adversely affecting its liquidity and financial condition.

The recession that is currently prevailing in Argentina could adversely affect TGS's ability to collect account receivables due from non-governmental entities. In 2002, TGS received approximately 43% of its revenues from service contracts that are not otherwise subject to government regulation, which represents an increase from previous years due to the elimination of tariff adjustments. The Company expects that, in the future, revenues from its non-regulated business will continue to represent a similar percentage of its revenues. Because TGS anticipates relying primarily on its revenues from such operations to generate cash in the future, a reduction in cash flow would adversely

affect its liquidity and its ability to service its debt. The Company may experience significant difficulty in this regard if the economic situation in Argentina continues to deteriorate and the peso suffers further devaluation.

***A significant amount of the Company's indebtedness currently is due and payable or capable of being declared currently due and payable and, as a result, the Company's creditors could force it into bankruptcy or similar proceedings.***

Due to the rapid deterioration of TGS's financial condition resulting from the Argentine crisis and related events, the Company has failed to make principal payments at maturity on its indebtedness totaling \$486.6 million, meaning that such amount currently is due and payable to the Company's creditors. The Company currently does not have the funds to pay such amounts. In addition, the Company has failed to make, or has declared its intention to halt, payments of interest, including default interest in certain cases, on all of its outstanding indebtedness. Also, several events of default exist under the agreements relating to the Company's other indebtedness. The existence of these events of default permits the Company's creditors to declare that indebtedness to be immediately due and payable. In each case, TGS's creditors could file an involuntary bankruptcy petition forcing the Company to file for voluntary reorganization ("*concurso preventivo*") or other bankruptcy procedures which could ultimately result in the revocation of the License and the Company's liquidation. In addition it came to the Company's attention a request from the BASE that in one Argentine newspaper has published an article claiming that one of the Company's creditors has filed an involuntary bankruptcy petition in an Argentine court against TGS (though as of the date of this Annual Report, the Company has not confirmed such news nor received any official notice to such filing).

***The Company may be forced into bankruptcy, or similar proceedings if it cannot restructure its indebtedness.***

Due to its critical financial condition, it is important that TGS is able to obtain a substantial restructuring of all its indebtedness by modifying the maturities, interest rates, payment schedules and other significant terms and conditions of such indebtedness. The Company has previously attempted a restructuring by means of an out-of-court reorganization agreement *Acuerdo Preventivo Extrajudicial* ("APE"), in accordance with the provisions of Argentine Bankruptcy Law 24.522 (as amended by Argentine Bankruptcy Law 25.589, the "ABL"). Under the APE procedure, the consent to a new restructuring plan by holders of at least two thirds (66 2/3%) of the aggregate principal amount of unsecured creditors is required in order to obtain court approval and to impose the plan on non-consenting creditors that were a part of the restructuring. In this regard, TGS's initial restructuring proposal failed. TGS currently is negotiating a restructuring plan with its creditors and is likely, if possible, to invoke the APE procedure in any subsequent attempts at a restructuring. TGS's ability to restructure its debt is uncertain due to a number of factors, including creditor action or inaction, prevailing economic and market conditions and uncertainties in Argentine and US law. Unless the Company is successful in restructuring its debt, TGS's creditors could file an involuntary bankruptcy petition forcing the Company to file for voluntary reorganization ("*concurso preventivo*") or other bankruptcy procedures, which ultimately could result in the Company's liquidation. In addition it came to the Company's attention a request from the BASE that in one Argentine newspaper has published an article claiming that one of the Company's creditors has filed an involuntary bankruptcy petition in an Argentine court against TGS (though as of the date of this Annual Report, the Company has not confirmed such news nor received any official notice to such filing).

***TGS's financial statements may not properly reflect its actual financial condition.***

On June 10, 2003, the Company's independent auditors issued a report with an explanatory paragraph indicating the existence of substantial doubt about the Company's ability to continue as a going concern as a result of its financial condition. This qualification about the Company's ability to remain a going concern results primarily from the fact that a substantial portion of its indebtedness is currently due and payable or capable of being declared immediately due and payable. In particular, the Company has been and continues to be in payment default under a number of its debt obligations, and in violation of financial and other covenants in most of its debt obligations. TGS cannot assure that it will be able to continue as a going concern. Moreover, TGS's consolidated financial statements do not include any adjustments to reflect the possible negative effect that the current uncertainties discussed in this section may have on the Company.

Moreover, as a consequence of the defaults under the Company's debt obligations, which are currently the subject of negotiations with the Company's creditors and were expected to be waived pursuant to a restructuring proposal initiated on February 24, 2003, the failure of that restructuring proposal, the failure to pay principal upon maturity and interest of some debt obligations, the cessation of interest payments on the Company's debt obligations as of May 15, 2003 and TGS' current financial condition, the Company has reclassified its outstanding long-term debt obligations as Current Loans in its Balance Sheet as of December 31, 2002. In addition to this reclassification of a significant portion of its long-term debt, the Company has made an accrual of default interest on its debt obligations. These obligations require a demand for payment in order for such default interest to be due and payable, which demand has not been made. As a result, the consolidated financial statements for the year ended December 31, 2002, which are included in this Annual Report, have been restated and supersede any previously disclosed consolidated financial statements relating to such period in the form of the 6-K dated March 24, 2003. Given the rapidly-changing economic, social and political environment in Argentina, the Company cannot give any assurance that it will not be required to restate its financials again in the future.

***TGS's financial situation may be affected if certain legal actions and claims filed against it are adversely resolved.***

There are significant legal actions and claims currently filed against the Company in the amount of approximately Ps. 676 million. Most of this amount relates to the Company's ongoing stamp-tax dispute with several Argentine provinces. If such actions and claims were to be resolved against the Company and it was required to pay such claimed amount, its financial condition could be adversely affected. This could have an adverse effect on TGS's business, and on its ability to meet its current and future financial obligations. In addition, TGS is involved in litigation with Gas del Estado, TGS's predecessor company, regarding the cost of construction of two compressor plants. This dispute with GdE is currently before the Argentine Supreme Court. A ruling adverse to TGS may result in GdE becoming a creditor and may complicate the Company's restructuring. For more information about these legal actions and claims, see "Item 8. Financial Information—Legal and Regulatory Proceedings."

***The Central Bank has previously imposed restrictions, which it may do once again, on the transfer of funds outside of Argentina, which restrictions could complicate the restructuring of TGS's debt and prevent TGS from paying principal on some of its non-Argentine obligations as they come due in the future.***

Since December 2001, the Central Bank has imposed a number of significant monetary and currency exchange restrictions that limit the free disposition of funds deposited in Argentine banks and transfers of funds abroad.

On March 25, 2002, the Central Bank placed further restrictions on the transfer of funds abroad by requiring the approval of the Central Bank for payments outside Argentina of both principal and interest payments on financial debt. The Central Bank began to ease these restrictions as of December 2002. Effective January 2, 2003, the approval by the Central Bank is no longer required for interest payments made outside Argentina. In addition, principal payments made outside Argentina are now permitted without Central Bank approval under certain circumstances, although the Company is unable to avail itself of this exemption. In order to stop the significant peso appreciation, on May 7, 2003, the Central bank continued to ease almost all the remaining restrictions.

There can be no assurance that the Central Bank will not reverse its position, in the future, and once again restrict payments of principal and interest on non-Argentine debt obligations. If more stringent restrictions were imposed by the Central Bank, TGS may not be permitted to make payments of principal and interest on the Company's debt obligations. If that were to occur, the Company would suffer additional defaults on its non-Argentine debt obligations, thereby permitting additional grounds for the immediate acceleration of those debt obligations. In addition, negotiations with non-Argentine creditors regarding a restructuring of TGS's debt would be more complicated in an environment where payments to such creditors may be limited by law.

As of December 31, 2002, substantially all of the Company's financial indebtedness was subject to the Central Bank's restrictions.

***Because the Company receives a significant portion of its net revenues from public service contracts that are no longer subject to indexing, its net revenues, and liquidity, have been harmed as a result of inflation and the devaluation of the peso.***

All of the Company's net revenues from its gas transportation segment is attributable to public service contracts, which are subject

to government regulation. Public service contracts are contracts that the Company has with natural gas distribution companies, which were entered into as part of the privatization of GdE. Prior to the passage of the Public Emergency Law, the tariff, or rate charged, in these public service contracts permitted indexation, based on variations in the US Producer Price Index (the “US PPI”), and adjustment, based on the efficiency of and investments in its gas transportation operations. The Public Emergency Law, however, eliminated tariff indexation.

As a result, TGS’s net revenues from public service contracts are highly sensitive to inflation rates and changes in the value of the peso. In this regard, total net revenues, which have been the Company’s primary source of liquidity, have been, and may continue to be, materially adversely affected as a result of the continuing financial crisis in Argentina. See “Item 4. Information on the Company.” As a result of the decrease in its net revenue, TGS may be unable to fully recover the value of its fixed assets, which could result in asset write-downs, thereby further adversely affecting its results of operations and financial conditions.

***The Company’s business and results of operations may be harmed because its public service contracts with the Argentine government are subject to renegotiation.***

The Public Emergency Law authorizes the Argentine government to renegotiate public service contracts, tariffs and licenses with public utility companies on its own initiative, using the following criteria:

- The impact of the rates on the competitiveness of the economy and on income distribution;
- The quality of the services and the investment programs contractually provided for in the service contract;
- The interests of users, as well as service access conditions;
- The operational safety of the systems concerned; and
- The profitability of a company.

On February 12, 2002, the Executive Branch assigned the Argentine Ministry of Economy the task of renegotiating the government’s public service contracts and licenses, and soon thereafter, the Commission for the Renegotiation of Utility Services and Works Contracts (the “**Renegotiation Commission**”) was established. The Renegotiation Commission is currently working to identify those contracts and licenses that should be renegotiated and to assist the Ministry of Economy in preparing a proposal for such renegotiation that will be presented to the Executive Branch and National Congress.

On March 21, 2002, the Renegotiation Commission issued guidelines for the renegotiation process, which required that all public service companies provide the Renegotiation Commission with certain information to assist it in the review process. In April 2002, TGS provided the requested information to the Renegotiation Commission. It is unclear whether or not the Renegotiation Commission will determine that its public service contracts should be subject to renegotiation. If the public service contracts are renegotiated, the new terms of such public service contracts may be less favorable than the current terms of such public service contracts. If the public service contracts are renegotiated on less favorable terms, its results of operations and financial condition may be materially adversely affected. Even if TGS’s public service contracts are renegotiated on more favorable terms, those terms nonetheless may be insufficient to avoid a material adverse affect on its results of operations and financial condition.

***The Company’s business and results of operations may be harmed if the Argentine courts prevent the implementation of tariff adjustments.***

As described above, the Public Emergency Law eliminated tariff indexation and adjustments. In August 2002, however, the Renegotiation Commission requested that public service companies provide it with any requested tariff increases. The Company made such a request, but the Natural Gas Act (as defined below) requires that a public hearing be held with respect to such an increase. The Ombudsman filed an injunction against holding the public hearing on the grounds that the Renegotiation Commission was not authorized to implement or approve partial tariff adjustments, without prior contract renegotiations.

The Company then sought relief from such action by requesting that ENARGAS, pursuant to its authority under Article 46 of Law 24,076 (the “**Natural Gas Act**”), approve an equitable tariff increase in recognition of the deterioration of TGS’s financial condition. The Argentine Ministry of Economy authorized ENARGAS to review and implement tariff adjustments for public service companies pursuant to the Natural Gas Act. Again, however, an Argentine court suspended this action by ENARGAS at the request of the Ombudsman on the grounds that it was contradictory to the Public Emergency Law as such law does not contemplate “emergency” or other types of tariff adjustments.

Thereafter, the Executive Branch issued a decree in order to implement the tariff adjustment. The decree, however, was also suspended by the Argentine courts at the request of the Ombudsman on the same grounds. The Company’s results of operations will be harmed if the Argentine courts continue to suspend proceedings initiated to permit tariff adjustments in its favor.

On January 23, 2003, the Executive Branch issued Decree 120/2003, discussed above, providing that it may temporarily make tariff adjustments and, pursuant to Decree 146/2003, declared a 10% increase in tariffs. These decrees have been challenged in the Argentine courts by the National Ombudsman, the Ombudsman of the City of Buenos Aires and certain other organizations. On February 25, 2003, an Argentine court suspended the 10% tariff increase. The Company can provide no assurance that it will be able to obtain another adjustment in the future.

***Certain recent accounting developments may have a material adverse effect on TGS’s business and financial condition.***

On March 25, 2003, the Executive Branch issued Decree 664/2003, superseding Decree 1,269/2002 which reintroduced inflation accounting in Argentina effective January 1, 2002. After Decree 664/2003 was implemented, the CNV issued Resolution No. 441, which suspended the recognition of the effect of inflation in financial statements. The Resolution became effective on March 1, 2003 for all public companies for financial statements issued subsequent to such date.

However, the CPCECABA has expressly opposed the suspension of inflation accounting. Consequently, in the event that Argentina experiences a new inflationary period, the Company will not be able to consider the effects of inflation on its financial statements, which will constitute a departure from Argentine GAAP, as established and approved by the CPCECABA. It is unclear how such an occurrence may affect the Company’s business or financial condition.

***TGS’s business is dependent on its being able to maintain its License, which is subject to revocation under some circumstances.***

The Company is licensed to provide gas transportation services through the exclusive use of the southern gas transportation system in Argentina. The Argentine Executive Branch may revoke the License in certain circumstances based on the recommendation of ENARGAS, the governmental body charged with the regulation of the transportation, distribution, marketing and storage of natural gas. Reasons for which the License may be revoked include:

- repeated failure to comply with the obligations of the License and failure to remedy a significant breach of an obligation in accordance with specified procedures;
- total or partial interruption of the service for reasons attributable to the Company, affecting completely or partially transportation capacity during the periods stipulated in the License;
- sale, assignment or transfer of the Company’s essential assets or the placing of encumbrances thereon without ENARGAS’s prior authorization, unless such encumbrances serve to finance extensions and improvements to the gas pipeline system;
- the Company’s bankruptcy, dissolution or liquidation; and