

amounts or could be or have been converted into U.S. dollars at the rates indicated or at any other rates. On June 15, 2011, the reported exchange rate was Ps. 4.094=US\$1.00.

Our results of operations and financial condition are highly susceptible to changes in the peso-U.S. dollar exchange rate because more than Ps. 500 million of our annual revenues are peso-denominated and our primary assets are based in Argentina while substantially all of our liabilities and capital expenditures are U.S. dollar-denominated.

## **B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

## **D. Risk Factors**

*You should carefully consider the following risks and uncertainties, and any other information appearing elsewhere in this Annual Report. The risks and uncertainties described below are intended to highlight risks and uncertainties that are specific to us. Additional risks and uncertainties, including those generally affecting Argentina and the industry in which we operate, risks and uncertainties that we currently consider immaterial or risks and uncertainties generally applicable to similar companies in Argentina may also impair our business, results of operations, the value of our securities, and our ability to meet our financial obligations.*

*The information in this Risk Factors section includes forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors, including those described in "Cautionary Statement Regarding Forward-Looking Statements" above.*

### **Risks Relating to Argentina**

#### **Overview**

We are a sociedad anónima and all of our operations and operating assets are located in Argentina. More than Ps. 500 million of our annual revenues are peso-denominated for the years ended December 31, 2010, 2009 and 2008. Conversely, all of our indebtedness and most of our capital expenditures are U.S. dollar-denominated. Accordingly, our financial condition and results of operations depend to a significant extent on economic, regulatory and political conditions prevailing in Argentina, the exchange rate between the peso and the U.S. dollar and the reference international prices of propane and butane ("LPG") and natural gasoline.

***Political and economic instability in Argentina have adversely affected, and may continue to adversely affect, our financial condition and results of operations.***

Fluctuations in the Argentine economy have adversely affected, and may continue to adversely affect Argentine entities, including us. Specifically, we have been adversely affected and may continue to be adversely affected by inflation, interest rates, the value of the peso against foreign currencies, price controls and business and tax regulations.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high and variable levels of inflation, and currency devaluation. During 2001 and 2002, Argentina went through a period of severe political and economic crisis. The crisis had significant and adverse consequences on our company, including (i) losses derived from the effects of the peso devaluation on us and our net borrowing position, substantially all of which was denominated in U.S. dollars, (ii) the pesification, at a rate of Ps. 1 to US\$1, of our U.S. dollar-denominated gas transportation tariffs, (iii) our default on our financial indebtedness and (iv) the elimination of tariff adjustments for public utilities based on non-Argentine indexes or other indexation methods. From 2003 until the third quarter of 2008, the Argentine economy experienced a significant recovery and growth. Beginning in the third quarter of 2008, the Argentine economy was negatively impacted by the international economic crisis. Since 2010 the Argentine economy has been recovering as a result of the monetary expansion policy carried out by the developed countries and the continued growth experienced by China, which is an important export market for Argentina.

In December 2008, the Argentine government enacted a law pursuant to which approximately Ps. 94.4 billion (US\$29.3 billion) in assets held by the country's ten private *Administradoras de Fondos de Jubilaciones y Pensiones* (pension fund management companies, or "AFJPs") were transferred to the government-run social security agency ("ANSES"), resulting in a decline in liquidity in the local capital markets, which may further limit the sources of financing for Argentine companies, including us. In April 2011, a presidential decree eliminated the 5% limit on voting rights for stock owned by ANSES, thereby expanding the Argentine government's influence in key

industries such as energy, telecommunications, finance and transport, among others.

We cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not adversely affect our financial condition or results of operations.

***Fluctuations in the value of the peso may adversely affect the Argentine economy and our financial condition, results of operations and ability to service our debt.***

Since the end of U.S. dollar-peso parity in January 2002 under the Public Emergency Law, the peso has fluctuated significantly in value. As a result, the Argentine Central Bank (“BCRA”) has taken several measures to stabilize the exchange rate and preserve its reserves. The marked devaluation of the peso in 2002 had a negative impact on the ability of the Argentine government and Argentine companies, including us, to honor their foreign currency-denominated debt, led to very high inflation initially and had a negative impact on businesses whose success is dependent on domestic market demand, including public utilities.

The significant peso devaluation during 2002 adversely affected our results and financial position. All of our financial debt is denominated in U.S. dollars. Before the enactment of the Public Emergency Law, our cash flow, generally denominated in U.S. dollars or dollar-adjusted, provided a natural hedge against exchange rate risks. The Argentine regulatory framework after the enactment of the Public Emergency Law, however, limited our ability to mitigate the impact of the peso devaluation. Particular aspects of the regulatory framework that adversely affected us included the pesification of our tariffs at a rate of Ps. 1 to US\$1 compared with an exchange rate, as of May 31, 2011, of Ps. 4.090 to US\$1, regulatory issues related to the renegotiation of our tariffs, new taxes and other restrictions on exports of LPG and gas supply.

If the peso devalues significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences to our business. On the other hand, a substantial increase in the value of the peso against the U.S. dollar also presents risks for the Argentine economy since it may lead to a deterioration of the country’s current account balance and the balance of payments.

We are unable to predict whether, and to what extent, the value of the peso may further depreciate or appreciate against the U.S. dollar and how any such fluctuations would affect the demand for our products and services. Moreover, we cannot assure you that the Argentine government will not make regulatory changes that prevent or limit us from offsetting the risk derived from our exposure to the U.S. dollar and, if so, what impact these changes will have on our financial condition and results of operations.

Because substantially all of our indebtedness is and will continue to be U.S. dollar-denominated, any future devaluation of the peso will negatively affect our revenues expressed in U.S. dollars while increasing the relative cost, in peso terms, of expenses and other financial obligations denominated in foreign currencies, thereby decreasing our cash-generating ability and having a material adverse effect on our liquidity and our ability to service our debt.

At May 31, 2011, the total amount of principal and interest under our consolidated U.S. dollar-denominated indebtedness was the equivalent of US\$375.2 million.

***Substantial inflation has occurred since the repeal of the Convertibility Law and could continue in the future, resulting in a material adverse effect on our results of operations and financial condition.***

In the past, inflation has undermined the Argentine economy and the government’s ability to stimulate economic growth. Argentina experienced significant inflation in 2002, with cumulative changes in the Consumer Price Index (“CPI”) of 42.8% and in the Wholesale Price Index (“WPI”) of 118.2%. 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 public utility rate (“tariff” or “rate”) adjustments and the large drop in demand resulting from the severe recession.

During 2006 to 2010, Argentina experienced increases in the CPI and WPI that reflected the continued increase in private consumption and in levels of economic activity, which applied upward pressure on the demand for goods and services. The rate of inflation evolved as follows:

	December 31,				
	2010	2009	2008	2007	2006
	(annual % change)				
WPI	14.8	10.0	8.8	14.4	7.2
CPI	10.5	7.7	7.2	8.5	9.8

At the end of January 2007, the *Instituto Nacional de Estadística y Censos* (“INDEC”), which is statutorily the only institution in Argentina with the power to produce official nationwide statistics, experienced a process of

institutional reforms, following which some private analysts have materially disagreed with the official inflation data (and other economic data affected by inflation data, such as poverty and Gross Domestic Product (“GDP”) estimates) published by INDEC.

The unpredictability of Argentina’s inflation rate makes it impossible for us to foresee how our business and results of operations may be affected in the future by inflation. Continued inflation in Argentina without a significant increase in our tariffs would have a material adverse effect on our business, results of operations and financial condition.

***Argentina’s ability to stimulate sustained economic growth, appease social unrest and repay its debt may depend on external financial assistance and the Argentine government’s access to international capital markets, which has been limited and may continue to be limited in the future.***

In 2001, as a result of the suspension of lending arrangements with Argentina by the International Monetary Fund (“IMF”) and Argentina’s default on approximately US\$65.4 billion of its then-outstanding sovereign debt, international rating agencies downgraded the rating of Argentina’s sovereign debt to default status. The Argentine government launched a process to restructure its sovereign debt on January 14, 2005, and, on March 18, 2005, announced that 76.15% of its bondholders had accepted the restructuring offer. The Argentine government issued new bonds to the accepting holders in April 2005 and paid overdue interest accrued from December 2003. In addition, on December 15, 2005, the Argentine government announced the early payback of its debt to the IMF, and on January 3, 2006, a disbursement was made by the Argentine government for an amount of US\$9.5 billion. In 2010, the Argentine government made a new offer to exchange new bonds and cash for defaulted bonds held by creditors who had not accepted the exchange offer made in 2005, which permitted Argentina to restructure the 66% of the remaining defaulted debt.

Several legal actions have been filed in the U.S., Italy and Germany by holders of Argentina’s sovereign debt who did not participate in either restructuring. A judgment against the Argentine government in such cases could result in a reduction in funding sources and investment capital, which could have a significant effect on the Argentine government’s ability to stimulate sustained economic growth.

Due to its efforts, the Argentine government has been able to reduce external debt levels and improve its debt maturity profile. In recent years, Argentina has based its debt-management strategy on replacing market debt by intragovernmental debt. This strategy has reduced rollover risk in the next two years and eased liquidity pressures, though it may not address longer-term fiscal pressures.

In addition, the Argentine government has been trying to negotiate with the Club of Paris in order to restructure its defaulted debt of more than US\$6 billion.

There can be no assurance that the Argentine government will not default on its debt obligations in the future. Such a default would limit the sources of financing available for Argentine companies, including us.

***The BCRA has imposed restrictions on the transfer of funds outside of Argentina in the past and may do so in the future, which could prevent us from making payments on our foreign currency-denominated indebtedness.***

Since the amendment of the Convertibility Law in December 2001, the Argentine government has imposed several temporary restrictions on the transfer of U.S. dollars outside of Argentina. Prior to January 2003, we were required to obtain the prior approval of the BCRA before we could transfer U.S. dollars outside Argentina to make payments of dividends and principal and interest on our debt obligations. Although current regulations do not require prior BCRA approval for these of payments, the BCRA may reinstate transfer of funds restrictions at any time. In such case, we cannot assure you that the BCRA will approve the transfer of funds outside Argentina for payments required under the terms of our foreign currency-denominated indebtedness. In addition, there may be a significant delay before payments required under the terms of our foreign currency-denominated indebtedness may be made.

We cannot assure you as to how long the current, more flexible regulations will be in effect or whether they will become more restrictive again in the future. If the Argentine government decides once again to tighten the restrictions on the transfer of funds, we may be unable to make dividend payments and principal or interest payments on our debt when they become due, which could have a material adverse effect on us.

***The Argentine financial market and economy may be adversely affected by the economic and financial global crisis***

In 2008, the economy of the United States of America entered into a recession in part as a result of the mortgage market crisis. This financial crisis quickly spread to other developed countries, affecting (i) their financial markets through the steep decline in financial assets prices (including oil and other commodities) and (ii) their real economies, generating recessions and unemployment rate increases. The Argentine economy showed signs of weakness: a significant fall in both trade and fiscal surpluses; lower economic activity; workforce suspensions and dismissals; and

local currency devaluation.

However, since 2009, economic conditions have showed signs of improvement in Argentina driven principally by higher agricultural commodity prices and the growth of some industries.

In 2010 the global economy continues to recover unevenly, with most emerging economies expanding faster than advanced economies. In many emerging economies, including Argentina, the recovery has been much faster than in Europe or the United States.

Although many analysts believe the risk of a double-dip recession in the United States has receded, Europe remains vulnerable and new risks have emerged. New uncertainties about oil supply have led to a sharp increase in oil prices, which would slow global growth and in turn push down prices of other commodities, including those exported by Argentina. The absence of a well-defined medium-term fiscal adjustment plan in the United States could put upward pressure on U.S. interest rates and tighten global financial conditions.

There can be no assurance about the duration and depth of this international economic crisis and if it will continue to adversely affect the Argentine economy.

***Because the Argentine standards for corporate disclosure and accounting differ from those of the United States, information about us may not be as detailed or comprehensive as that of non-Argentine companies, including that of companies in the United States.***

We are 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 companies in the United States. Furthermore, there is less extensive 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. We prepare our Financial Statements in accordance with Argentine GAAP and the regulations of the CNV, which differ in certain significant respects from US GAAP. See Note 12 to our Financial Statements for a description of the material differences between Argentine GAAP and US GAAP as they relate to us and for a quantification of the impact of those differences on net income for the year and our Shareholders' equity.

#### **Risks Relating to Our Business**

***Because we receive a significant portion of our net revenues from public service contracts, which tariffs are no longer stated in dollars or subject to indexing, our net revenues and liquidity have been harmed as a result of inflation and the devaluation of the peso.***

All of our net revenues from our gas transportation segment (which represented approximately 33% and 42% of total net revenues during 2010 and 2009, respectively) are attributable to public service contracts, which are subject to Argentine government regulation. We entered into these public service contracts primarily with natural gas distribution companies in connection with the privatization of Gas del Estado S.E. ("**GdE**") in 1992. Prior to the passage of the Public Emergency Law, our tariffs were stated in U.S. dollars and subject to indexing, based on semi-annual changes in the U.S. Producer Price Index ("**PPI**"), with adjustments every five years, based on the efficiency of, and investments in, our gas transportation operations. The Public Emergency Law, however, eliminated tariff indexation. In accordance with the Public Emergency Law, in January 2002, public service tariffs were converted into pesos and fixed at an exchange rate of Ps. 1.00=US\$1.00 even as the peso was allowed to devalue against the U.S. dollar.

In July 2003, UNIREN was created under the joint jurisdiction of the Ministry of Economy and Production and the Ministry of Federal Planning and Public Investment and Utilities ("**MPFIPyS**") in order to renegotiate public service contracts, including the tariffs charged in those contracts. Little progress has been made to date in our renegotiation process with UNIREN. On October 9, 2008, we signed a transitional agreement with the UNIREN that contemplated a tariff increase of 20%, which is retroactively applicable to September 1, 2008. According to this agreement, the funds generated by this tariff increase would be temporarily deposited in a trust fund until we need them to carry out an investment plan for improvements in our pipeline system. However, as the tariff increase has not been granted yet, the entire investment plan has been executed with our funds.

On December 3, 2009, the Executive Branch ratified this transitional agreement through the Presidential Decree No. 1,918/09. By means of this Decree, we will be able to bill the tariff increase to our clients as soon as ENARGAS publishes the new tariff schedule and sets the methodology to bill the retroactive effect. However, ENARGAS has not carried out these duties and due to this delay, in August 2010, we requested ENARGAS authorization to issue the tariff schedule including the 20% transitory tariff increase and the retroactive collection methodology, and application of an interest rate in line with the established method of payment. ENARGAS responded to us that they had submitted the records and the tariff project to the Coordination and Management Control Under Secretariat ("**SCyCG**"), which is under the scope of the MPFIPyS, based on the Resolution No. 2000/2005 of the MPFIPyS.

On September 30, 2010, we filed an *acción de amparo* (a summary proceeding to guarantee constitutional rights) against ENARGAS and the SCyCG in order to obtain the implementation of the new tariff increase schedule. On October 25, 2010, ENARGAS and the SCyCG provided the information required by the Judge on October 19, 2010. On November 8, 2010 we were served notice of the judgment that upheld the injunction filed by us. Said judgment orders the SCyCG to return to ENARGAS -within a two-day period- the documents remitted by ENARGAS in connection with the tariff schedule applicable to us under Decree No. 1,918/09; and orders ENARGAS -within two days following reception of said documents- to set the tariff schedule and the retroactive collection methodology. ENARGAS and the SCyCG filed an appeal against the judgment that upheld the *acción de amparo* filed by us.

Moreover, on November 16, 2010, we received an invitation from the UNIREN in order to move forward with the renegotiation of the License Agreement within the scope and in the terms of the Public Emergency Law, to which end the UNIREN requires the suspension of claims, appeals, or administrative or judicial action taken against the Argentine Government in connection with or arising from the Renegotiation Process of remuneration under the License Agreement. On November 18, 2010, we decided to authorize the suspension of the *acción de amparo* mentioned above for a twenty- working-day period automatically renewable at the expiration of said term (unless the Board before or at the expiration of each period decides not to renew it) in order to move forward with the renegotiation of the License Agreement. On December 28, 2010, we requested ENARGAS and the MPFIPyS to join our request to suspend the *acción de amparo*, and as of the date of this Annual Report, we have not received any favorable response in this matter.

On April 5, 2011, the Second Chamber of the Court of Appeals in administrative federal matters set a 60 business day term for the SCyCG to act according to the provisions of Resolution No. 2000/2005 and return to ENARGAS the documents remitted by ENARGAS in connection with the tariff increase schedule and for ENARGAS to decide -within a 60 business day term following reception of said documents and verification of compliance with the provisions set forth in the transitory agreement dated October 9, 2008, on the tariff adjustment and the transitional tariff schedule stipulated therein. We and ENARGAS filed an extraordinary appeal before the Court of Appeals, which were dismissed by the Court of Appeals on May 27, 2011.

We cannot offer any assurance as to when ENARGAS will publish the tariff schedule and set the methodology. The transitional agreement will be in force until the effective date of the integral license renegotiation agreement to be signed with the Argentine government.

According to the transitional agreement, we should reach an agreement with the UNIREN on the terms and conditions of the overall renegotiation before the expiration date under the Public Emergency Law on December 31, 2011. If we do not reach this agreement, then UNIREN would inform the Executive Branch and provide it with recommendations for the procedural steps to follow.

In this regard, in October 2008, we received a proposal for a comprehensive license renegotiation agreement from the UNIREN (which includes the initial 20% tariff increase). As of the date of this Annual Report, we are still evaluating the terms of this proposal and negotiating with the UNIREN.

Notwithstanding this tariff increase, a delay in the application of the integral license renegotiation or any failure of the Argentine government to comply with the terms of the renegotiated license could materially adversely affect the profitability of our gas transportation segment.

In addition, the lack of a tariff adjustment has also adversely affected some gas distribution companies, which are our main clients in the gas transportation business segment. Failure of the distribution companies to reach an agreement with the Argentine government on their own tariff adjustment could materially adversely affect the collectability of our gas transportation revenues.

***Our results of operations may be adversely affected because our License with the Argentine government is 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.

Since the enactment of the Public Emergency Law, there has not been significant progress with respect to the renegotiation of our public service contract with UNIREN. In spite of the transitional agreement reached,

mentioned above, and the proposal made by the UNIREN, we cannot at this time provide any assurances with regard to the terms or the timing of any renegotiation of our License or the tariffs for our public service contract. The deadline for the renegotiation of the public works and utilities contracts has been extended until December 31, 2011.

Even if our public service contract is renegotiated on more favorable terms, those terms nonetheless may be insufficient to avoid a material adverse effect on our results of operations and financial condition. See “Item 4. Our Information–B. Business Overview–Gas Transportation–Regulatory Framework–Adjustment of Rates” below for more information.

Enron Corp. (“**Enron**”), a former indirect shareholder of Compañía de Inversiones de Energía S.A. (“**CIESA**”), our controlling shareholder, and Ponderosa Assets L.P. (“**Ponderosa**” and together with Enron, the “**Claimants**”) filed a claim with the International Centre for the Settlement of Investment Disputes (“**ICSID**”) against the Argentine government under the Bilateral Investment Treaty between the United States and Argentina (the “**Claim**”). We understand that the Claim argues that the pesification of tariffs and other unilateral changes to our regulatory structure affected by the Public Emergency Law and related laws and decrees violate the requirement of fair and equitable treatment under the treaty. On May 22, 2007, ICSID decided in favor of Enron and ordered the Argentine government to pay US\$106.2 million to the Claimants. In July 2010, an ICSID committee annulled the award rendered in 2007 and ordered the Claimants to reimburse the Argentine government the total amount of the annulment award costs. This annulment does not prevent the plaintiff from filing a new claim before said tribunal. On October 18, 2010, Enron Creditors Recovery Corp. (Enron’s new corporate name) and Ponderosa filed a new claim against the Argentine government before the ICSID. Currently, preparatory acts are being carried out for the establishment of the Tribunal that will hear the case. The continued pursuit of the Claim has adversely affected the timing and/or terms of any renegotiated tariff structure applicable to our gas transportation activities.

On January 20, 2011, Pampa Energía S.A. (“**Pampa**”) announced (a) its plans to acquire Enron Pipeline Company Argentina S.A. (“**EPCA**”) along with Enron’s economic rights to the Claim; (b) the purchase from Ashmore Energy International Limited (“**AEI**”) of debt issue by CIESA in respect of all notes (*Obligaciones Negociables*) issued by CIESA on April 22, 1997 (the “**CIESA Notes**”) and the two derivative transactions originally executed between CIESA and J. Aron & Company on August 3, 2000 and between CIESA and Morgan Guaranty Trust Company of New York on August 4, 2000 (the “**Derivatives**”) and (c) the purchase of AEI’s rights in certain litigation identified as “*Compañía de Inversiones de Energía S.A. v. AEI, AEI v. Compañía de Inversiones de Energía S.A., Petrobras Energía S.A., Petrobras Hispano Argentina S.A., Héctor Daniel Casal, Claudio Fontes Nunes y Rigoberto Mejía Aravena*” currently pending before the Supreme Court of the State of New York, New York County (the “**New York Litigation**”).

The proposal of UNIREN for the renegotiation of our License requires us, and our present and former shareholders, including Enron and its affiliates, to abandon any claim or lawsuit we or they may have against the Argentine government resulting from the effects of the Public Emergency Law applicable to the License and the PPI tariff adjustments that were not applied in 2000 and 2001. Additionally, the proposal would require us to hold the Argentine government harmless from any claim or lawsuit filed by any of our present or former shareholders or any compensation in favor of such shareholders and to reimburse the Argentine government for any amount paid by it to our shareholders in connection with any such claim or lawsuit. If our shareholders or shareholders of CIESA are unwilling to abandon such claims and lawsuits, our ability to secure tariff increases, and accordingly our revenues from gas transportation, may be adversely affected. Ponderosa, the entity holding the Claim, has indicated that it would only consider waiving the Claim, if it receives what it considers to be fair compensation.

Even if our shareholders and CIESA’s shareholders abandon such claims, there is no certainty regarding when the License renegotiation process will be completed. Other similarly situated public utility companies have complied with the UNIREN requirement. Some of these companies have been able to sign agreements with UNIREN that contemplate, among other things, an initial tariff increase and a tariff adjustment scheme for the future. However, the process for future tariff increases for these companies has been significantly delayed.

#### ***We conduct our business in an unionized environment***

The sectors in which we operate are largely unionized. Although we consider our current relations with our workforce to be acceptable, we have experienced organized work disruptions and stoppages in the past and we cannot assure you that we will not experience them in the future. Additionally, labor demands are commonplace in Argentina’s energy sector and unionized workers have blocked access to plants and routes in the recent past.

We do not maintain insurance coverage for business interruptions, including business interruptions caused by labor actions. Strikes, picketing or other types of conflict with the unionized personnel may adversely affect our results of operations and financial condition.

***Our regulated business is dependent on our ability to maintain our License, which is subject to revocation under some circumstances.***

We conduct our natural gas transportation business pursuant to the License, which authorizes us to provide gas transportation services through the exclusive use of the southern gas transportation system in Argentina. The Executive Branch may revoke our 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 our License may be revoked include:

- § repeated failure to comply with the obligations of our License and failure to remedy a significant breach of an obligation in accordance with specified procedures;
- § total or partial interruption of service for reasons attributable to us that affects transportation capacity during the periods stipulated in our License;
- § sale, assignment or transfer of our 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;
- § our bankruptcy, dissolution or liquidation;
- § ceasing and abandoning the provision of the licensed service, attempting to assign or unilaterally transfer our License in full or in part without the prior authorization of ENARGAS, or giving up our License, other than in the cases permitted therein; and
- § delegation of the functions granted in such contract without the prior authorization of ENARGAS, or the termination of such agreement without regulatory approval of a new contract.

If our License were revoked, we would be required to cease providing gas transportation services. The impact of a loss of our License on our business, financial condition and results of operations would be material and adverse.

***Our creditors may not be able to enforce their claims against us in Argentina.***

We are a stock corporation with limited liability, or *sociedad anónima*, organized under the laws of Argentina. Substantially all of our assets are located in Argentina.

Under Argentine law, foreign judgments may be enforced by Argentine courts, provided that the requirements of Articles 517 through 519 of the Federal Code of Civil and Commercial Procedure are met. Foreign judgments cannot violate principles of public policy (*orden público*) of Argentine law, as determined by Argentine courts. It is possible that an Argentine court would deem the enforcement of foreign judgments ordering us to make a payment in a foreign currency outside of Argentina to be contrary to Argentine public policy if at that time there are legal restrictions prohibiting Argentine debtors from transferring foreign currency outside of Argentina.

Under Argentine law, attachment prior to execution and attachment in aid of execution will not be ordered by an Argentine court with respect to property located in Argentina and determined by such courts to be utilized for the provision of essential public services. A significant portion of our assets may be considered by Argentine courts to be dedicated to the provision of an essential public service. If an Argentine court were to make such determination with respect to any of our assets, unless the Argentine government ordered the release of such assets, such assets would not be subject to attachment, execution or other legal process as long as such determination stands and the ability of any of our creditors to realize a judgment against such assets may be adversely affected.

***In order to mitigate the energy crisis, the Argentine government has initiated new strategies, measures and programs with respect to the gas transportation industry, including the expansion of our pipeline and the interruption of firm transportation service (including the diversion of natural gas supply from the Cerri Complex), which could materially adversely affect our business, results of operations and financial condition.***

Since 2002, the gas industry has experienced a sharp increase in natural gas demand as a consequence of: (i) the recovery of certain industries in the Argentine economy between 2002 and 2008, (ii) the 2002 devaluation of the peso and pesification of transportation and distribution tariffs and the elimination of both tariff and wellhead gas price adjustments, making this fuel relatively inexpensive for consumers as compared to other types of fuel the prices of which are affected by inflation and (iii) the growth of GDP between 2003 and 2008. However, notwithstanding this increase in demand, these conditions have severely and negatively impacted the profitability of companies providing services relating to the production, transportation and distribution of natural gas.

Specifically, distribution companies have been prohibited from passing through price increases to consumers. Producers of natural gas, therefore,

have had difficulty implementing wellhead gas price adjustments since 2002, which has caused such producers to suffer a sharp decline in their rate of return on investment activities. As a result, natural gas production has not been high enough to meet the increasing demand. Likewise, the elimination of tariff adjustments for transportation companies has caused transportation companies to suffer a decrease in their profitability.

#### Pipeline expansions

In light of these events, the Argentine government has decided to implement a number of strategies, measures and programs aimed at mitigating the energy crisis and supporting the recovery of the Argentine economy generally. With respect to the natural gas industry, these strategies, measures and programs include, among others, the expansion of our pipeline, through the creation of financial trust funds as vehicles to facilitate financing of those investments. In order to finance such expansions, Law No. 26,095 was passed to provide for the creation of additional tariff surcharges (“*cargos específicos*”), which are special contributions to the gas trust fund made by the potential or actual beneficiaries of the improved gas transportation systems.

In 2005, a trust fund was created to carry out the expansion of the San Martín pipeline, which was completed in August 2005 and resulted in a transportation capacity increase of 102 MMcf/d. In addition, in April 2006, the MPFIPyS, the Federal Energy Bureau of Argentina (the “**Federal Energy Bureau**”) and gas transporters, among others, signed a Letter of Intent to carry out a second, significantly larger expansion of the gas pipeline system. This second expansion will increase the aggregate transportation capacity of our system by 378 MMcf/d.

Ownership of the works of the second expansion will lie with a gas trust fund and the investment will be financed by other gas trust funds, whose trustors are the gas producers and the shippers who subscribed the additional capacity. The works will be repaid with a new tariff charge that will ultimately be paid by the business and industrial users with firm transportation contracts, and not by the residential users.

The second expansion involves the installation of over 708 miles of pipeline loops and 196,800 HP of additional power. It also involves the construction of a new pipeline in the Magellan Strait, which was completed in March 2010, and permits the transportation of more natural gas from the Austral basin. As of December 31, 2010, 222 MMcf/d of the second expansion project has been completed and become operational.

The remaining 156 MMcf/d is estimated to be completed in different stages-53 MMcf/d in July 2011 and 103 MMcf/d during 2012. We cannot assure you that the remaining expansion projects will be completed by such time.

Although the expansion projects described above have not adversely affected our results of operations or financial condition, we cannot assure you that future expansion projects will not have such adverse effects.

#### Government-mandated interruption of contracted firm transportation services

In 2004, the Executive Branch issued Decree No. 181/04 directing the Federal Energy Bureau to establish a system of priority pursuant to which power stations and gas distribution companies (for their residential clients) could receive natural gas in priority to other users, even those with firm transportation and firm gas supply contracts. On March 23, 2005, we received a notice from the Federal Energy Bureau that provides that from time to time, as necessary, it can require us to interrupt transportation service (including those with firm transportation contracts) to our customers in order to service power stations and gas distribution companies and that ENARGAS will set the priority of transportation in such cases.

Since February 2008, gas delivery has been managed by a committee (formed by government officials from the Domestic Commerce Bureau, the MPFIPyS and the ENARGAS), who make adjustments to the daily natural gas deliveries considering the availability of natural gas and the demand of residential consumers and power plants (the latter provided by Compañía Administradora del Mercado Mayorista Eléctrico S.A. which administers the electricity market). If there is not sufficient natural gas availability, this committee decides how to allocate the available volumes among the different types of consumers by interrupting the natural gas exports and the supply to certain big industries (mainly petrochemicals companies including the Cerri Complex), without considering if they have firm or interruptible contracts of natural gas supply and/or transportation.

During the winter of 2007, natural gas production could not meet the demand, which was higher than in previous years, resulting from a combination of factors that included economic growth, lower hydroelectric generation and intense cold weather recorded during this season. At no time did transportation capacity constitute a bottleneck for the supply of available natural gas to the market. However, the transportation system was affected because the Argentine government expressly instructed us to redirect gas deliveries to supply power plants, residential users and vehicles according to instructions from the governmental committee referred to above during the emergency without considering whether other users have firm or interruptible natural gas supply and/or transportation contracts. During the last three winters, the natural gas demand from the residential segment was lower than



in 2007 as a direct consequence of the warmer weather recorded in this period, while a higher demand from the industrial and electric power plants sectors was observed. Although the natural gas supply shortage did not generate a bottleneck in the transportation capacity for meeting the total demand from the system, the Argentine government imposed restrictions on the consumption of natural gas by certain customers that hold firm transportation contracts with us, in an effort to redirect and target the supply to the demand regarded as top priority, mainly residential users, compressed natural gas (“CNG”) stations and industries connected to the distribution network.

On September 2010, ENARGAS issued Resolution No. 1410/10 which came to regulate and complement the natural gas transportation dispatch dispositions regulated under Resolution No. 716/98. Moreover, ENARGAS issued complementary dispositions in April and June, 2011. This legal framework contains specific dispositions regarding the administration of natural gas deliveries, allocating the available natural gas volumes to the priority demand -which includes consumers type R, P and subdistribution-. Furthermore, it sets the standards regarding dispatch disbalances and rules the involvement of ENARGAS in the express request for the reallocation of transportation capacity from one consumer to another -where Priority Services prevail- on the grounds of natural gas deficits.

Although neither our results of operations nor financial condition were materially adversely affected by transportation service interruptions during the last three winters described above, we cannot assure you that similar interruptions will not in the future materially adversely affect our results of operations or financial condition.

***Our liquids production depends on the natural gas that arrives at the Cerri Complex through three main pipelines from the Neuquén and Austral natural gas basins, which flow and caloric power are subject to risks that could materially adversely affect our liquids business segment. Gas arriving from the Neuquén basin has declined in quality since 2009.***

Argentina relies heavily on natural gas. However, its natural gas reserves are declining. There is some risk that natural gas production will continue to decrease in the future and that new exploration will not compensate for such decline, which would adversely affect our liquids business segment by reducing the amount of natural gas flowing to the Cerri Complex and, therefore, the amount of liquids we produce. In addition, since 2009, the quality of natural gas injected from the Neuquén basin has been lower (as a consequence of the reduction of natural gas production in this basin) and not appropriate for processing in the Cerri Complex, impacting negatively on its level of production. This lower output of natural gas also causes the increase in the cost of liquids production and commercialization for our own account which reduces our profit from this business segment.

We could also be adversely affected by additional competition in our liquids business. In 2000, a gas processing plant was built upstream of the Cerri Complex (see “Item 4.— Our Information—B. Business Overview— Liquids Production and Commercialization—Competition” below). Any other project that eventually may be developed upstream of the Cerri Complex, could adversely affect our revenues from liquids production and commercialization services.

In addition, as discussed in the preceding risk factor, actions taken by the Argentine government during the winter periods of recent years resulted in natural gas being redirected away from certain users, including the Cerri Complex. During the winter of 2007, processing at the Cerri Complex was interrupted for 27 days, not including days with partial interruptions. As a result, liquids production in 2007 was the lowest recorded since 2002. In the following years, the Cerri Complex has suffered fewer interruptions, mainly due to the use of regasified natural gas from a liquefied natural gas (“LNG”) regasification tanker. In the future, we could suffer natural gas supply interruptions as a result of unusually cold weather, falling natural gas reserves, or other factors beyond our control, and such interruptions could materially adversely affect our liquids business (see “Item 4.— Our Information—B. Business Overview— Liquids Production and Commercialization” below).

Finally, the level of liquids production could be materially adversely affected if natural gas prices in the domestic market increase relative to the reference international prices of LPG and natural gasoline, a condition that could cause gas producers to sell the natural gas rather than process it at the Cerri Complex.

***Our liquids business is volatile and fluctuations in international prices may materially adversely affect our results of operations and financial condition.***

As a result of the deterioration of our gas transportation segment and the significant increase in international prices of LPG and natural gasoline, operations relating to liquids production and commercialization have represented more than 50% of our total net revenues since 2003. In 2008, the international market for liquids remained favorable throughout most of the year, and even hit historical highs. However, prices fell dramatically in the last quarter of 2008 as the result of the international financial crisis. Since mid 2009 prices have recovered firmly, but remained below the record prices registered in 2008.

Any additional significant decline in international prices of LPG or

natural gasoline may materially adversely affect our results of operations and financial condition.

***Our ethane sales strongly depend on the PBB Polisur S.A. ("PBB") capacity to purchase our production***

We sell all our ethane to PBB under a 10-year agreement that will expire on December 31, 2015. The price was fixed until December 2007 and is now subject to adjustment based on a variety of factors. Any ethane extracted from the Cerri Complex which cannot be sold to PBB is reinjected into the pipeline. Ethane sales represented approximately 22%, 29% and 19% of our liquids production and commercialization business segment revenues in 2010, 2009 and 2008, respectively.

Within recent years, PBB has suffered several adverse operational conditions which affected its capacity to off-take our production of ethane. We cannot assure you that PBB's adverse conditions will not repeat in the future. Any future unwillingness or inability of PBB to purchase our ethane production may materially affect our results of operations and financial condition.

***The affirmative and restrictive covenants in our currently outstanding indebtedness could adversely restrict our financial and operating flexibility and subject us to other risks.***

Our currently outstanding indebtedness contains numerous affirmative and restrictive covenants that limit our ability to, among other things, create liens; incur additional debt; pay dividends, acquire shares of stock and make payments on subordinated debt; enter into transactions with affiliates; sell assets; or consolidate, merge or sell substantially all of our assets.

These restrictions may limit our ability to operate our businesses and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. The breach of any of these covenants by us or the failure by us to meet any of these conditions could result in a default under any or all of such indebtedness. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions and the renegotiation of public works and licenses process. In addition, if we are unable to generate sufficient cash flow from operations, we may be required to refinance outstanding debt or to obtain additional financing. We cannot assure you that a refinancing would be possible or that any additional financing would be obtained on acceptable terms.

***Principal shareholders exercise significant control over matters affecting us.***

Our controlling shareholder, CIESA, is in a position to direct our management, to control the election of a majority of the Board of Directors, to determine our dividend and other policies and to generally determine the outcome of any matter put to a vote of our shareholders. Pursuant to the procedures established by the Argentine government under which CIESA made its investment in us, there are restrictions on the ability of CIESA to reduce its shareholding in us below 51% of the share capital.

CIESA defaulted on its debt on April 22, 2002. On September 1, 2005, CIESA, its shareholders and its creditors executed a restructuring agreement (the "**Restructuring Agreement**"). In January 2009, AEI, which claimed to be the only holder of CIESA Notes, announced its decision to terminate the Restructuring Agreement. On January 28, 2009, CIESA commenced a legal action in the Supreme Court of the State of New York, County of New York (the "**New York Court**") seeking a judicial declaration that any claim by AEI against CIESA arising in connection with CIESA Notes is time-barred because the statute of limitations period pertaining to any such claim has expired under New York law (see "Item 4.— Our Information—A. Our History and Development—General" below). Petrobras Argentina S.A. ("**Petrobras Argentina**"), Petrobras Hispano Argentina S.A. ("**Petrobras Hispano**") and together with Petrobras Argentina, the "**Group Petrobras Argentina**"), Pampa, Pampa Inversiones S.A. ("**PISA**") and Inversiones Argentina I Ltd. ("**IAI**" and together with Pampa and PISA, the "**Group Pampa**") and CIESA entered into a Memorandum of Agreement dated May 10, 2011, (the "**Memorandum of Agreement**") which provides, among others, that such parties shall negotiate and reach an agreement to, first, suspend ("standstill") the New York Litigation, reestablish the restructuring set forth in the Restructuring Agreement (based on the exchange of the Equity Option Debt for the Equity Option Consideration as described in Section 2.6 of the Restructuring Agreement and elsewhere in the Restructuring Agreement) and include Pampa as a party to the Restructuring Agreement, with the objective of obtaining the regulatory approvals and compliance of the remaining conditions precedent for the consummation of the Equity Option under the Restructuring Agreement, and, second, to settle and resolve the New York Litigation.

We are not a party to either action, but the outcome of this litigation, or any related settlement, could affect who controls or may control us.

As a consequence of the enactment of Law No. 26,425 in December 2008,

which established the nationalization of the social security system, the AFJPs transferred to the ANSES their respective TGS shareholdings, representing more than 20% of our common stock. ANSES previously had been subject to a 5% limit on its voting rights until a Presidential Decree in April 2011 eliminated such restriction. Thus, the ANSES has become our main minority shareholder.