

	Pesos per U.S. dollar			
	High	Low	Average	Period end
Most recent six months:				
December, 2005	3.0400	2.9780	3.0142	3.0320
January 2006	3.0660	3.0300	3.0474	3.0660
February, 2006	3.0750	3.0660	3.0703	3.0740
March, 2006	3.0830	3.0670	3.0772	3.0820
April, 2006	3.0850	3.0390	3.0664	3.0480
May, 2006	3.0880	3.0340	3.0550	3.0850
June, 2006 (through June, 16)	3.0830	3.0790	3.0809	3.0790
Year ended December 31,				
2001	1.0000	1.0000	1.0000	1.0000
2002	3.9000	1.6000	3.2650	3.3700
2003	3.3500	2.7600	2.9489	2.9300
2004	3.0600	2.8030	2.9414	2.9790
2005	3.0400	2.8590	2.9236	3.0320

For your convenience and except as we specify otherwise, this Annual Report contains translations of peso-denominated amounts to U.S. dollars at the reported exchange rate on December 31 of each fiscal year. These translations should not be construed as representations that the amounts actually represent such U.S. dollar amounts or could be or have been converted into U.S. dollars at the rates indicated or at any other rates. On June 16, 2006, the reported exchange rate was Ps. 3.079=U.S.\$1.00.

Our results of operations and financial condition are highly susceptible to changes in the peso-U.S. dollar exchange rate because our primary assets and revenues are peso-denominated 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 most of our operations and nearly all of our assets are located in Argentina. A significant portion of our revenues are generated in Argentina and, consequently, are peso-denominated. In 2005, approximately half of our revenues were peso-denominated. Conversely, substantially all of our indebtedness is 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 and on the

exchange rate between the peso and the U.S. dollar. As detailed below, in the past several years the Argentine economy has experienced a severe recession as well as a political crisis, and the abandonment of U.S. dollar-peso parity has led to significant devaluation of the peso against major international currencies. These conditions have and may continue to significantly affect our financial condition and results of operations and may impair our ability to make payments of principal and/or interest on our financial indebtedness.

Economic and political instability resulted in a severe recession in 2002, which had a lasting effect on Argentina's economy.

By the second half of 1998, the Argentine economy entered into a recession that caused the real gross domestic product ("GDP") to decrease by 3.4% in 1999. Following his election in October 1999, President Fernando De la Rúa was confronted with the challenges of dealing with Argentina's enduring recession and obtaining political consensus on critical issues related to the economy, public sector spending, legal reforms and social programs. However, real GDP contracted by 0.8% in 2000 and by 4.4% in 2001. As the recession caused tax revenues to drop, the public sector relied increasingly on financing from local and, to a lesser extent, foreign banks, effectively foreclosing private sector companies from bank financing. As the public sector's creditworthiness deteriorated, interest rates reached record highs, bringing the economy to a virtual standstill. The lack of confidence in the country's economic future and its ability to sustain the peso's parity with the U.S. dollar led to massive withdrawals of deposits and capital outflows.

In the second half of 2001, a sustained period of economic recession culminated in severe social, monetary and financial turmoil and a series of dramatic political and legislative developments in Argentina. On December 1, 2001, the Argentine government effectively froze bank deposits and introduced exchange controls restricting capital outflows. The measures were perceived as further paralyzing the economy and caused a sharp rise in social discontent, ultimately triggering public protests, outbreaks of violence and the looting of stores throughout Argentina. After declaring a state of emergency and suspending civil liberties, President De la Rúa resigned on December 21, 2001, amid large-scale, violent demonstrations against his administration. After three interim presidents in rapid succession, Senator Eduardo Duhalde, a member of the opposition Peronist party, was elected by the Legislative Assembly and assumed the Presidency on January 2, 2002, to serve for the remainder of De la Rúa's term.

The Duhalde administration quickly adopted a series of emergency measures affecting Argentina's monetary and fiscal policies including: ratifying the suspension of payment of certain of Argentina's sovereign debt declared by interim President Rodríguez Saá; converting certain U.S. dollar-denominated loans from financial institutions into peso-denominated debts ("pesification") at a one-to-one exchange rate plus an adjustment for variations in consumer prices (*Coefficiente de Estabilización de Referencia*, "CER") or in salaries (*Coefficiente de Variación Salarial*, "CVS") and U.S. dollar-denominated bank deposits into peso-denominated bank deposits at an exchange rate of Ps.1.40 per U.S.\$1.00, as adjusted by CER; converting most U.S. dollar-denominated obligations with non-financial institutions into peso-denominated obligations at a one-to-one exchange rate, plus an adjustment by CER or CVS, as the case may be, plus an equitable adjustment, in certain cases; restructuring the maturity and interest rates on bank deposits and maintaining restrictions on bank withdrawals; enacting an amendment to the Central Bank's charter to (1) allow it to print currency in excess of the amount of foreign reserves it holds, (2) make short-term advances to the federal government and (3) provide financial assistance to financial institutions with liquidity constraints or solvency problems; converting public service tariffs, including those affecting our business, which had been established in U.S. dollars, into pesos at a one-to-one exchange rate; authorizing the federal government to renegotiate public service contracts on a case-by-case basis; imposing restrictions on transfers of funds abroad subject to certain exceptions, most of which have been lifted; and requiring the deposit into the Argentine financial system of foreign currency earned from exports, subject to certain exceptions. Commercial and financial activities were virtually paralyzed in 2002, further aggravating the economic recession that precipitated the above-mentioned political crisis. Presidential elections were held on April 27, 2003, but no candidate obtained the requisite percentage of votes to be elected president. Although a run-off election between the two candidates that obtained the highest number of votes was initially required, Carlos Menem withdrew from the run-off election and as a result, Néstor Kirchner was elected president and assumed office on May 25, 2003. Since taking office, Kirchner has enjoyed high levels of political support and the recovery and growth of the economy.

Notwithstanding this continued stabilization, the Argentine economic and social situation have quickly deteriorated in the past, and may quickly deteriorate in the future, and we cannot assure you that the Argentine economy will continue to grow.

Potential future devaluation of the peso creates uncertainty as to Argentina's economic future and which will likely have a material adverse effect on our results of operations and financial condition and our ability to service our debt obligations.

In April 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy, enacting Law No. 23,928 and its Regulatory Decree No. 529/91, known as the Convertibility Law. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar and required that the Central Bank maintain reserves in gold and foreign currency at least equivalent to the monetary base. Following the enactment of the Convertibility Law, inflation declined steadily and the economy experienced growth through most of the period from 1991 to 1997. In the fourth quarter of 1998, however, the Argentine economy entered into a recession that caused the GDP to decrease by 3.4% in 1999, 0.8% in 2000, 4.4% in 2001 and 10.9% in 2002. In the second half of 2001, Argentina's recession worsened significantly, precipitating the political and economic crisis described in greater detail above.

Beginning in December 2001, the Argentine government implemented a number of monetary and currency exchange control measures that included restrictions on the free disposition of funds deposited with banks and tight restrictions on the transfer of funds abroad, with certain exceptions for transfers related to foreign trade and other authorized transactions, which were generally subject to prior approval by the Central Bank, most of which as of the date of this Annual Report are no longer applicable in connection with repayments made to foreign creditors. In December 2001, the Argentine government declared an official default on Argentina's foreign debt payments. On January 7, 2002, the Argentine Congress enacted the Public Emergency Law No. 25,561 (the "**Public Emergency Law**"), which introduced dramatic changes to Argentina's economic model.

The Public Emergency Law ended more than a decade of uninterrupted U.S. 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. Throughout 2002, the peso-dollar exchange rate fluctuated significantly and, consequently, the Central Bank intervened on several occasions by selling U.S. dollars in order to lower the exchange rate. The policies adopted and the actions taken by the Argentine government, however, may not be able to control the value of the peso. Although the peso-U.S. dollar exchange rate has remained relatively stable from 2003 through 2005 and into 2006 thus far it is impossible to predict future fluctuations in the exchange rate and how they could affect our results of operations and financial condition (see "Exchange Rate Information" above). Moreover, we cannot predict or anticipate whether, and to what extent, the Argentine government will further modify its monetary policy and, if so, what impact any of those changes could have on the value of the peso. The devaluation of the peso and the uncertainty surrounding its future value relative to the U.S. dollar and other currencies place the Argentine economy at risk for further deteriorations.

The Public Emergency Law was extended until December 31, 2006. As detailed above, the Argentine economy has experienced a severe recession and political and economic crisis, and the abandonment of the peso/U.S. dollar parity has led to significant devaluation of the peso against major international currencies. Argentine government actions concerning the economic policy, including with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had and may continue to have a material adverse effect on private sector entities, including us. Although some economic indicators of the Argentine economy stabilized in 2003, 2004 and 2005 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 business, financial condition, or results of operations or impair our ability to make payments of principal and/or interest on our outstanding indebtedness.

Since 2003 the peso has traded within a relatively narrow range against the dollar. However, because substantially all of our indebtedness is U.S. dollar-denominated, further 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 potentially having a material adverse effect on our liquidity and our ability to service our debt.

At December 31, 2005, our total consolidated U.S. dollar-denominated indebtedness was the equivalent of US\$ 836.3 million.

Substantial inflation has occurred following the repeal of the Convertibility Law and in the future it may continue, which may have a material adverse effect on our results of operations and financial condition.

Argentina experienced significant inflation from December 2001 through January 31, 2003, with cumulative changes in the Consumer Price Index (“CPI”) of 42.8% and in the Wholesale Price Index (“WPI”) of 118.9%. 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. Inflation slowed in 2003, with the CPI increasing by 3.7% and the WPI increasing by 2.0% for the year. Further, during 2004, the CPI increased by 6.1% and the WPI increased by 7.9%. This reduction in the relative level of inflation reflected the appreciation of the peso against the U.S. dollar, the increased demand for domestic currency and the distortion of relative prices due to the elimination of public service tariff adjustments. Although in 2003 and 2004 there was a slowdown in the inflation indexes, we cannot assure you that this situation will remain the same. During 2005, the Argentine CPI increased 12.3% and the WPI increased 10.6% from the prior year, reflecting increasing inflation compared with 2004. During the first quarter of 2006, the WPI increased 2.5%, while the CPI increased 2.9%, a rate that is higher on an annualized basis than the 8% to 11% annual rate goal range established in the Monetary Program of the Central Bank for 2006, and the 9.1% annual rate stipulated in the national budget for 2006.

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

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 us to foresee how our results of operations and financial condition may be affected in the future by inflation. Because a significant portion of our revenues are peso-denominated, unless our tariffs increase at a rate at least equal to the rate of inflation, any further increase in the rate of inflation will result in a relative decrease in our revenues, which 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, which has been limited and may continue to be limited in the future.

Due to the failure of Argentina to meet budgetary targets, including those for the fourth quarter of 2001, on December 5, 2001, the International Monetary Fund (“IMF”) suspended disbursements under its lending arrangements with Argentina. On December 23, 2001, interim President Rodríguez Saá declared the suspension of debt payments on approximately US\$65.4 billion of Argentina’s approximately US\$144.5 billion of sovereign debt, as of December 31, 2001. As a result of these events, international rating agencies downgraded the rating of Argentina’s sovereign debt to default status.

On January 24, 2003, the IMF approved an eight-month US\$3 billion Stand-by Credit Facility that was designed to provide transitional financial support to Argentina through the period ending August 31, 2003. This arrangement replaced Argentina’s prior arrangements with the IMF. In September 2003, after the expiration of this transitional agreement, a long-term agreement was executed for the 2003-2006 period, which agreement postponed the maturity date of certain amounts of its debt and established a series of quantitative and qualitative conditions to be met by the Argentine government during the 2003-2004 period. These conditions included, among other things, the renegotiation of the public debt that is currently in default status, implementation of tax reforms and the adjustment of utility rates. Under the agreement, the status of these conditions is reviewed every three months. The first and second reviews were completed in January 2004 and March 2004, respectively.

In August 2004, the IMF announced the suspension of the third review and postponed disbursements to Argentina, in order to evaluate the implementation by the Argentine government of the pending structural reforms related to public utility contracts and the progress made in the renegotiation of the Argentine sovereign debt.

Also in August 2004, the Argentine government announced the suspension of negotiations with the IMF until December 31, 2004, in order to focus efforts on the restructuring of its defaulted sovereign debt. On September 17, 2004, the IMF granted Argentina a one-year grace period in the repayment of an amount of principal of approximately US\$1,100 million, initially scheduled to mature between September 20, 2004 and January 17, 2005.

On November 1, 2004, the Argentine government filed with the SEC (and later with the securities commissions of Italy, Germany and Luxembourg) the terms of the new public debt securities to be issued in order to restructure the defaulted debt. Sovereign debt in default totaled approximately US\$100 billion, comprised of principal and unpaid interest accrued before December 31, 2001. The new securities offered in connection with the exchange offer were to be denominated in U.S. dollars, euros, Japanese yens and Argentine pesos (indexed by CER). On December 9, 2004, Executive Decree No. 1735/04 was issued, approving the debt restructuring under the terms and conditions set forth in the offering circular supplement attached to such Decree, and approving the terms and conditions of the new securities to be delivered in exchange for the eligible securities.

On January 14, 2005, the Argentine government officially launched the debt restructuring process and, on March 18, 2005, officially announced that 76.15% of bondholders had accepted the offer. The new bonds were issued in April 2005.

On February 10, 2005, the Argentine Executive Branch enacted Law No. 26,017, which prohibits the Argentine government from reopening the exchange offer. This law essentially eliminates the ability of the Argentine government from entering into separate negotiations with hold-outs that did not participate in the exchange offer process.

On June 2, 2005, the Argentine government issued the new bonds and paid overdue interests accrued from December 2003, as the final stage of the exchange for the Argentine government's debt restructuring. For this reason, Standard & Poor's Rating Services rose the short and long term sovereign qualification of Argentina from "SD" to "B-".

Several legal actions were filed in the U.S., Italy and Germany by bondholders who did not accept the Argentine government's offer, which delayed settlement of the exchange offer. On March 21, 2005, a U.S. District Court judge for the Southern District of New York issued several ex parte orders seeking to attach certain bonds with a face value of US\$7 billion that had been tendered by bondholders participating in the debt exchange, effectively preventing the scheduled settlement by Argentina and its exchange offer. A week later, the judge decided to vacate the orders, but upon request of the plaintiffs, agreed to stay the vacatur pending plaintiffs' appeal to the 2nd U.S. Circuit Court of Appeals. On May 13, 2005, the Court of Appeals affirmed the order of the District Court vacating the restraining order and the order of pre-judgment attachment and on May 23, 2005, the District Court vacated its stay. A judgment against the Argentine government in such pending cases could result in a reduction in funding sources and investment capital, which could have a significant effect on the Argentine government's capacity to implement reforms and reinstate sustainable economic growth, all of which could adversely affect us.

On December 15, 2005, President Kirchner announced the early payback of the debt to the IMF. To that end, on January 3, 2006 a disbursement was made by the Argentine government for an amount of U.S.\$9.5 billion.

Despite these measures, it is unclear what additional measures the plaintiffs in the litigation against the government will pursue. Further claims against the Argentine government could result in a reduction in funding sources and investment capital, which could have a significant effect on the Argentine government's capacity to implement reforms and reinstate sustainable economic growth, all of which could adversely affect us. Moreover, there can be no assurance that the Argentine government will not default on its obligations under the new bonds in the future. In addition, the Argentine government must continue to honor principal and interest payments to credit agencies including the World Bank without subsequent new loans in order to avoid a default vis-à-vis such agencies. All such events could also impair Argentina's capacity to maintain the current economic recovery and could result in a recession, higher inflation, unemployment and social discontent.

Although the Argentine financial system appears to be recovering, there is still a risk of future collapse.

In recent years, the Argentine financial system has been characterized by extreme volatility. In the past, the Argentine government has restricted bank withdrawals and required the conversion of U.S. dollar-denominated deposits into pesos (“pesification”). However, these measures have led to a significant decrease in commercial and financial activities, diminished spending and greatly increased social unrest, resulting in widespread public protests against financial institutions.

Recently, a large number of cases brought in Argentine courts have challenged the constitutionality of pesification pursuant to the Public Emergency Law and have demanded the return of deposits in dollars or in pesos at the prevailing exchange rate at the time of payment. In at least one case, the Argentine Supreme Court (the “**Supreme Court**”) has struck down the mandatory conversion into pesos of U.S. dollar deposits. On March 5, 2003, the Supreme Court held unconstitutional the Argentine government’s conversion of U.S. dollar-denominated deposits into pesos in the case of deposits of the province of San Luis with Banco de la Nación. On October 26, 2004, however, the Supreme Court upheld the constitutionality of the pesification in a separate case brought by a private depositor against the financial institution where the deposit was held. Notwithstanding this decision, the constitutionality of pesification continues to be challenged by private depositors and the inconsistency of the decisions by the Supreme Court creates uncertainty for the Argentine banking system as a whole and raises the possibility that a large number of depositors may seek to withdraw all of their deposits and convert them into dollars in the future. If this happens, a liquidity crisis would occur and the Argentine government may be required to provide additional financial assistance to banks. This, in turn, would add to the country’s outstanding debt and is viewed with concern by holders of Argentina’s currently outstanding bonds. If the Argentine government is not able to provide this assistance and withdrawals from banks become significant, one or more banks or even the entire Argentine financial system could collapse. Funds withdrawn from Argentine banks or the Argentine financial system generally may flow to foreign markets which could adversely affect exchange and inflation rates and cause additional volatility in the Argentine financial system.

While the Argentine financial system is recovering, it continues to be fragile. The system’s failure would have a material adverse effect on our prospects for economic recovery and stability. Even short of failure, the crisis in Argentina and its financial sector has had a material adverse effect on us and will likely continue to adversely affect our ability to borrow funds (including the establishment of lines of credit), requiring us to continue to rely on internally generated funds to sustain our operations. We would be materially and adversely impacted if the Argentine financial system were to collapse or deteriorate.

The Central Bank 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 debt.

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 Central Bank before we could transfer U.S. dollars outside Argentina to make payments of principal on our debt obligations. Although current regulations do not require prior Central Bank approval for payment of either principal or interest that is due and payable under our indebtedness, the Central Bank may reinstate transfer of funds restrictions at any time. In such case, we cannot assure you that the Central Bank 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.

The Argentine financial market and economy may be adversely affected by the deterioration of other emerging markets.

A significant decline in the economic growth of any of Argentina's major trading partners, such as Brazil and Chile, could have a material impact on Argentina's balance of trade and adversely affect Argentina's economic growth. Brazil is Argentina's largest export market. A decline in Brazilian demand for imports could have a material adverse effect on Argentine exports and Argentina's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a 'contagious' effect in which an entire region or class of investment is disfavored by international investors, Argentina could be adversely affected by negative economic or financial developments in other emerging market countries. For example, the crisis which occurred in certain Asian countries in mid-1997, the debt moratorium in Russia in 1998, and the Real devaluation in Brazil at the beginning of 1999 had a negative impact on financial markets worldwide, particularly in emerging countries. Consequently, the Argentine financial markets may be adversely affected by the deterioration of other emerging markets.

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 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. 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 an estimate of the impact of those differences on net income (loss) for the year and our shareholder's equity.

Risks Relating to Our Business

Because we receive a significant portion of our net revenues from public service contracts that are no longer 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 are attributable to public service contracts, which are subject to 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**"). Prior to the passage of the Public Emergency Law, the tariffs we were permitted to charge under these public service contracts permitted indexation, 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. Future gas transportation regulated tariffs may not be increased or, if increased, may not be increased to a rate that we believe is high enough to adequately compensate us. As a result, our net revenues from our gas transportation segment have been and may continue to be materially adversely affected.

Our results of operations may be harmed because our public service contract 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 in respect to the renegotiation of our public service contracts. In July 2003, UNIREN was created under the joint jurisdiction of the Ministries of Economy, Production, Federal Planning, Public Investment and Utilities. Little progress has been made to date in the renegotiation process with 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 contracts. The deadline for the renegotiation of the public works and utilities contracts has been extended until December 31, 2006, pursuant to Law No. 26,077.

If our public service contracts are renegotiated, the new terms of such contracts may be less favorable than the current terms of these public service contracts. If the public service contracts are renegotiated on less favorable terms than our current tariffs provide, our results of operations and financial condition will be materially adversely affected. Even if our public service contracts are 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-Business Overview-Gas Transportation Regulated Business-Regulatory Framework-Adjustment of Rates" below for more information.

Enron Corp., the parent corporation of certain shareholders of Compañía de Inversiones de Energía S.A. ("CIESA"), our controlling shareholder, has filed a claim with the International Centre for the Settlement of Investment Disputes ("ICSID") against the Government of Argentina under the Bilateral Investment Treaty between the United States and Argentina. We understand that the claim argues that the pesification of tariffs and other unilateral changes to our regulatory structure effected by the Public Emergency Law and related laws and decrees, violates the requirement of fair and equitable treatment under the treaty. A number of similar claims have been filed by shareholders of public service companies in Argentina under bilateral investment treaties. One such case involving a US shareholder, has been decided in favor of the shareholder, although media reports indicate that the Argentine government intends to contest the award. The outcome of the ICSID proceeding is unclear. It is possible, however, that the continued pursuit of such claim by Enron could adversely affect the timing and/or terms of any renegotiated tariff structure applicable to our gas transportation activities.

The proposal of UNIREN for the renegotiation of our license requires us, and our shareholders, 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 which were not applied in 2000 and 2001. Additionally, we are required to hold Argentine government harmless from any claim or lawsuit filed by any of our shareholders or any compensation in favor of such shareholders and 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.

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, in some cases the initial tariff increases have not been approved yet by their respective regulatory entities, and in other cases the process for future tariff increases have been suspended, due to their potential impact on inflation.

Our results of operations may be harmed if the Argentine courts prevent the implementation of tariff adjustments.

The Public Emergency Law eliminated tariff indexation and adjustments. On January 23, 2003, however, the Argentine government issued Emergency Decree No. 120/03, which established that the Argentine government may provide for interim tariff increases or adjustments until the completion of the renegotiation of public service contracts and licenses process required under the Public Emergency Law. On January 29, 2003, the Argentine government issued Decree No. 146/03, which established a temporary tariff adjustment for the provision of energy and gas services. However, this measure has been challenged in the Argentine courts and suspended by an injunction, on the grounds that the Natural Gas Act (Article 46 of Law No. 24,076), which

regulates the transportation and distribution of natural gas, requires that a public hearing and formal contract renegotiations be held with respect to tariff rate increases and absent such measures, an increase cannot be sanctioned by government fiat.

We can provide no assurance that we will be able to obtain another adjustment in the future. Further, our results of operations will be harmed to the extent that the Argentine courts continue to suspend proceedings initiated to permit tariff adjustments in our favor.

Our business may be affected by the recent creation of the MEG or future regulations by the Federal Energy Bureau.

The Executive Branch, through Decree No. 180/04 issued on February 16, 2004, among other measures, established the creation of MEG with the purpose of improving the transparency of financial and operating performance, the coordination of daily transactions in both the gas spot and the transportation and distribution secondary markets along with producing efficient prices through offer and demand free interaction. To that end, all firm transportation capacity not allocated for the following day must be marketed through the MEG and the proceeds from that capacity sale will be used in accordance with the Secretaría de Energía's (the "**Federal Energy Bureau**") requirements. Non-allocated capacity includes remaining capacity not used in any of the transportation systems or pipelines. This requirement may have a material impact on non-firm transportation revenues, which for the year ended December 31, 2005 amounted to approximately Ps. 29.2 million. For a description of our gas transportation business, see "Item 4. Our Information--Business Overview--Gas Transportation Regulated Business" below.

There can be no assurance that the future requirements imposed by the Federal Energy Bureau will not have a material adverse effect on our results of operations and financial condition.

Our business is dependent on our being able to maintain our License, which is subject to revocation under some circumstances.

We are licensed 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. In addition, certain changes to our License could result in an Event of Default under our outstanding debt instruments. See "Item 10. Additional Information--Material Contracts--New Debt Obligations--Events of Default."

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

Our restructured indebtedness contains numerous affirmative and restrictive covenants that limit our ability to, among other things:

- make capital expenditures;
- enter into transactions with shareholders and affiliates;
- sell assets;
- incur additional debt;
- pay dividends, acquire shares of stock and make payments on subordinated debt;
- make investments;
- create liens; 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.

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 or a substantial portion of our assets are located in Argentina.

Under Argentine law, foreign judgments are enforced 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 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, which could materially adversely affect our business, results of operations and financial condition.

Since 2004, 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, and (ii) the devaluation of the peso and the 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. 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 been limited, if not unable, to implement wellhead gas price adjustments since 2002 until May 2004, which has caused such producers to suffer a sharp decline in their rate of return on investment activities. As a result, natural gas producers have limited their investments in exploration and production of natural gas. Likewise, the elimination of tariff adjustments for transportation companies has caused transportation companies to suffer a decrease in their profitability and, therefore, such companies have limited their investments in pipeline expansion activities. These events have contributed to the energy crisis in the natural gas industry in Argentina, where demand is exceeding available capacity.

In light of these events, the Argentine government has decided to initiate 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 those investments.

In 2005, a trust fund was created to carry out the expansion of the San Martin pipeline which transportation capacity was increased by 2.9 MMm³/d (102.4 MMcf/d) (for more information see "Item 10. Additional Information-Material Contracts-Gas Trust"). In addition, in April 2006, the Ministry of Federal Planning and Public Service, the Federal Energy Bureau and gas transporters, among others, signed a Letter of Intent to carry out the second expansion of the gas pipeline system. This new expansion will increase the transportation capacity by 20 MMm³/d, of which almost 7.0 MMm³/d correspond to our system. In a first stage, our expansion would be for an additional transportation capacity of 3.3 MMm³/d and would be fulfilled between 2007 and 2008. The investment would be financed by the shippers who subscribed the additional capacity. However, there can be no assurance that we will not be forced by the Argentine Government to finance part of this expansion.

Also, 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 could receive natural gas in priority to other users, even those with firm transportation 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 make request us to interrupt transportation service 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. Although to date our business has not been materially adversely affected by interruption requests, we can not assure you that in the future our business and results of operations will not be adversely affected by such requests.

Our NGL business is volatile as the result of that business depend largely on factors outside our control. In particular, increases in export taxes on, a decrease in international prices of or other regulation of NGL may materially adversely affect our results of operations and financial condition.

As a result of the deterioration of our gas transportation segment, operations relating to NGL production and commercialization represented a larger portion of our total net revenues since 2003. For the years ended December 31, 2005 and 2004 net revenues relating to NGL production and commercialization represented approximately 51% of our total net revenues while for the year ended December 31, 2003 net revenues represented approximately 48% of our total net revenues. This increase is primarily due to higher international prices for propane and butane ("LPG") and production volume increases. Any decline in international prices for LPG, which have fluctuated significantly over the last ten years, may materially adversely affect our results of operations and financial condition.

In addition, effective March 1, 2002, the Argentine government imposed a 5% export tax on NGL exports, which tax was increased to 20% effective May 2004. Any further changes in this tax rate may materially adversely affect our results of operations and financial condition.

Finally, under the current regulatory regime, producers of LPG are obliged to ensure that demand in the domestic Argentine market is met, a requirement that may lead us to sell LPG into the domestic market in preference to the export market where prevailing prices are likely to be higher. In addition, according to Law No.