

beneficiaries of corporate profits and dividends reported as payable under approved financial statements certified by an independent auditor.

For the remittance abroad of funds required for principal payments under financial loans, prior Central Bank authorization is required until August 8, 2003, as a general rule. However, the following transfers of funds abroad to repay principal on financial debts are exempted from prior Central Bank approval:

- (1) payments under financing arrangements that have been renegotiated under Argentina's Reorganization and Bankruptcy Act, if certain conditions are met;
- (2) repayment of new financing disbursed and brought into the Argentine financial system on or after February 11, 2002;
- (3) financial debts with international organizations, loans granted by banks acting as co-lenders with those organizations, loans or financings granted or guaranteed by official credit agencies and export financing insurance companies that are members of the International Union of Credit and Investment Insurance (the Berne Union) and debts with, or guaranteed by, multilateral organizations in which the Argentine government is a member;
- (4) payments relating to debts past due, providing that the total amount of repayment or partial payment does not exceed US\$1.0 million monthly;
- (5) payments of financial debts the principal of which, as of December 31, 2002, whether past due or not, did not exceed US\$5.0 million as of that date;
- (6) payments under negotiable obligations, bonds, commercial paper, syndicated loans with foreign banks, financial loans with foreign banks and not backed by foreign assets owned by the borrower or a resident individual or legal entity, financial loans with foreign parent companies and affiliates, provided that (a) the payments are required under a refinancing agreement made after January 2, 2003; (b) such refinancing does not call for payments of principal in excess of 10% in cash upon the date of the agreement, 5% within six months, and 5% within twelve months of the date of the agreement; and (c) the refinanced balance is payable in not less than five years on the average; and
- (7) payments (whether or not overdue) under negotiable obligations, bonds, commercial paper, syndicated loans with foreign banks, financial loans with foreign banks and not backed by foreign assets owned by the borrower or a resident individual or legal entity, financial loans with foreign parent companies and affiliates, if, prior to the repayment of principal under an existing credit facility, the local debtor obtains new financing which was brought into Argentina on or after December 26, 2002 through the foreign exchange market and this new financing has an average life of not less than five years, and is for an amount at least equal to the amount of the debt that will be cancelled.

Interest payments on outstanding financial indebtedness no longer require Central Bank approval for their remittance abroad, provided that the transfer abroad in connection with such payments is made not more than 15 days in advance of their stated maturity date.

In cases (4) through (7) above and in the case of interest payments, the actual transfer of funds abroad may only be made after the financial entity through which the remittance will be made is satisfied that the originating transactions are genuine and in compliance with Central Bank regulations, the borrower has reported promptly to the Central Bank the disbursement giving rise to the related financial liability, and the financial entity has received documentation supporting the receipt of the funds in Argentina and/or their application to the repayment of trade, financial, export-related or other obligations.

## E. Taxation

### General

The following is a general summary of certain Argentine and United States federal income tax matters that may be relevant to the ownership and disposition of ADSs or Class "B" Shares. The summary describes the principal tax consequences of the ownership and disposition of ADSs or Class "B" Shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of ADSs or Class "B" Shares.

The summary is based upon tax laws of Argentina and the United States and regulations thereunder as in effect on the date of this Annual Report, which are subject to change. In addition, the summary is based in part on representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement or any other related document will be performed in accordance with its terms. Holders of ADSs or Class "B" Shares should consult their own tax advisors as to the United States, Argentine or other tax consequences of the acquisition, ownership and disposition of the ADSs or Class "B" Shares in their particular circumstances.

### Argentine Taxes

**Taxation of Dividends.** Dividends of cash, property or capital stock of the Company paid or distributed to holders of Class "B" Shares or ADSs are currently exempt from Argentine withholding or other taxes. However, according to Law N° 25,063, published on December 30, 1998, cash or other type of dividend distribution, exceeding accumulated net income at year end determined as stipulated by tax regulations, will be subject to a 35% withholding tax as a sole and definite payment.

**Taxation of Capital Gains.** Capital gains derived by non-Argentine residents from the sale, exchange or other disposition of ADSs or Class "B" Shares are not subject to income tax.

**Tax on Personal Property (Individuals).** The Argentine Tax authority has recently introduced some amendments to the Personal Property Tax. In accordance with the Law 25.585, the personal tax corresponding to the ownership of securities issued by entities domiciled in Argentina, whose direct owners are individuals and/or entities domiciled in Argentina or abroad, and/or any other class of entity domiciled abroad, will be liquidated and deposited by the entity that has issued such securities. The applicable rate is 0.50% on the equity value according to the last financial statements as of each respective fiscal year. The Law presumes that securities whose holders are entities domiciled or located abroad, indirectly belong to individuals domiciled abroad. TGS will be responsible to deposit such tax and will have the right to repay such amount, even withholding and/or liquidate such securities which originated such tax payment. Amendment is effective starting fiscal year 2002.

**Value Added Tax.** The sale, exchange or other disposition of ADSs or Class "B" Shares is not subject to value added tax.

**Transfer Taxes.** The sale, exchange or other disposition of ADSs or Class "B" Shares is not subject to transfer taxes.

**Purchase or Sale of Foreign Currency.** There is no tax on the purchase or sale of foreign currency.

**Deposit and Withdrawal of Class "B" Shares in Exchange of ADSs.** No Argentine tax is imposed on the deposit or withdrawal of Class "B" Shares in exchange for ADSs.

**Other Taxes.** There are no Argentine inheritance or succession taxes applicable to the ownership, transfer or disposition of ADSs or Class "B" Shares. There are no Argentine stamp, issue, registration or similar taxes or duties payable by holders of ADSs or Class "B" Shares.

**Tax Treaties.** Argentina has entered into tax treaties with several countries. A tax treaty between Argentina and the United States has been signed but has not yet been ratified and therefore is not currently in effect. It is not clear when, if ever, the treaty will be ratified or enter into effect.

### United States Taxes

**General.** This discussion relating to certain US federal tax consequences only applies to investors who hold the Company's ADSs or class "B" shares as capital assets for tax purposes and are not a member of a special class of holders subject to special rules, including: a dealer in securities; a trader in securities that elects to use a mark-to-market method of accounting for their securities holdings; a tax-exempt organization; an insurance company, a person liable for alternative minimum tax; a person that actually or constructively owns 10% or more of TGS voting stock; a person that holds shares or ADSs as part of a hedging or straddle or conversion transaction; or a US holder whose functional currency is not the US dollar. A holder is a US holder if such holder is a beneficial owner of shares or ADSs and such holder is: a citizen or resident of the United States; a domestic corporation; an estate whose income is subject to US federal income tax regardless of its source; or a trust, if a US court can exercise primary supervision over the trust's administration and one or more US persons are authorized to control all substantial decisions of the trust.

Moreover, the effect of any applicable US state or local tax laws is not discussed in this annual report.

For US federal income tax purposes, if a holder of ADRs evidencing ADSs, he will be treated as the owner of the underlying shares represented by those ADSs, and exchanges of class "B" shares for ADRs, and ADRs for ordinary shares, will not be subject to US federal income tax.

**Taxation of Dividends.** Subject to the passive foreign investment company ("PFIC") rules discussed below, if a holder is a US holder such holder must include in his or her gross income the gross amount of any dividend (or other distribution, other than certain distributions in redemption of ADSs or class "B" shares or distributions of TGS capital stock or rights to subscribe for TGS capital stock) paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). If you are a noncorporate US holder, dividends paid to you in taxable years beginning after December 31, 2002 and before January 1, 2009 that constitute qualified dividend income will be taxable to him at a maximum tax rate of 15% provided that he holds the shares or ADSs for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends with respect to the shares or ADSs generally will be qualified dividend income, provided that in the year that he receives the dividend, the shares or ADSs are readily tradable on an established securities market in the US. The holder must include dividends in income when he or she receives them, either actually or constructively, in the case of class "B" shares, or when the depository receives such dividend, in the case of ADSs. The dividend will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. Distributions in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of a holder's basis in the ADSs or class "B" shares and thereafter as capital gain.

The amount of the dividend distribution that a holder must include in his or her income will be the US dollar value of the Argentine peso payments made, determined at the spot Argentine peso/US dollar rate on the date such dividend distribution is includible in such holder's income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a holder includes the dividend payment in income to the date such payment is converted into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. Such gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

For foreign tax credit purposes, the dividend will be income from sources outside the United States, but generally will be "passive income" or "financial services income" which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a holder. No US foreign tax credit will be allowed to US holders of class "B" shares or ADSs in respect of any personal property or similar tax imposed by Argentina (or any taxing authority thereof or therein). Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Distributions of additional shares to US holders with respect to their class "B" shares or ADSs that are made as part of a pro rata distribution to all shareholders generally will not be subject to US federal income tax.

**Taxation of Capital Gains.** Subject to the PFIC rules discussed below, a US holder that sells or otherwise disposes of class "B" shares or ADSs will recognize gain or loss for US federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realized and his or her tax basis (determined in US dollars) in such shares or ADSs. Capital gain of a noncorporate US holder that is recognized on or after May 6, 2003 and before January 1, 2009 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the US for foreign tax credit limitation purposes.

**PFIC Rules.** TGS believes the class "B" shares or ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If TGS were to be treated as a PFIC, unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the class "B" shares or ADSs, gain realized on the sale or other disposition of the shares or ADSs would in general not be treated as capital gain. Instead, US Holder, you would be treated as if he had realized such gain and certain "excess distributions" ratably over the holding period for the shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, dividends that he receives from the Company will not be eligible for the special tax rates applicable to qualified dividend income if TGS a PFIC either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

## **F. Dividends and Paying Agents.**

Not applicable.

## **G. Statement by Experts.**

Not applicable.

## **H. Documents on Display**

TGS is subject to the informational requirements of the CNV and the BASE and files reports and other information relating to TGS's business, financial condition and other matters with the CNV and the BASE. You may read such reports, statements and other information, including TGS's publicly-filed financial statements, at the public reference facilities of the CNV and BASE maintained in Buenos Aires. TGS is also required to file annual and special reports and other information with the SEC. You may read and copy any documents filed by TGS at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. TGS's filings with the SEC will also be available to the public at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005.