

amounts or could be or have been converted into U.S. dollars at the rates indicated or at any other rates. On June 17, 2009, the reported exchange rate was Ps. 3.7670=US\$1.00.

Our results of operations and financial condition are highly susceptible to changes in the peso-U.S. dollar exchange rate because approximately 65% of our revenues were peso-denominated for the three-month period ended March 31, 2009 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 most of our operations and nearly all of our assets are located in Argentina. Approximately 65% of our revenues were peso-denominated for the three-month period ended March 31, 2009. Conversely, 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 further described below, in the past several years, the Argentine economy has recovered from a severe recession and political crisis, which began in 2001 and caused devaluation of the peso against the U.S. dollar and other major international currencies. Despite the significant gross domestic product ("GDP") growth experienced in recent years, currently, the Argentine economy is reflecting the increasing negative effects of the international economic and financial crisis, principally through a decrease in exports via lower commodities prices and lower volumes, leading to a reduction in economic activity. In particular, we have been significantly affected by the lower propane and butane ("LPG") and natural gasoline international prices and the increasing local currency devaluation. These conditions have adversely affected, and may continue to adversely affect, our financial condition and results of operations, and they may impair our ability to make payments of principal and/or interest on our financial indebtedness.

***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 2008, the Argentine economy experienced a significant recovery and growth. However, toward the end of 2008 and in 2009, the severe international economic crisis has caused a contraction of the Argentine trade surplus, principally caused by the significant fall of agricultural commodities prices, and a lower demand for manufactured products.

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, and may further limit the sources of financing for Argentine companies, including us.

The Argentine economy could be adversely affected if the international financial and economic crisis continues.

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, 2009, of Ps. 3.749 to US\$1, regulatory issues related to the renegotiation of our tariffs, new taxes and other restrictions on exports of LPG.

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.

Despite the stability of the peso-U.S. dollar exchange rate in recent years, 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, 2009, the total amount of principal and interest under our consolidated U.S. dollar-denominated indebtedness was the equivalent of US\$403.4 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 from December 2001 through January 31, 2003, with cumulative changes in the Consumer Price Index ("CPI") of 42.8% and in the 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%. Despite the lower relative level of inflation from 2003 to 2006, private economic analysts reported annual inflation rates measured by the CPI between 20% and 30% for 2007 and 2008, which differ from the approximately 10% for each of such years reported by the *Instituto Nacional de Estadística y Censos* ("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 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, 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 the 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.

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 the restructuring, which delayed settlement of the exchange offer associated with the 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 capacity to implement reforms and reinstate sustainable economic growth, all of which could adversely affect us. In addition, in September 2008, the Argentine government announced its intention to repay its defaulted debt of more than US\$ 6 billion granted by the Club of Paris. However, since the global crisis deepened in late 2008, the Argentine government has not made substantial progress in repaying this debt.

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 providers, including the World Bank, without subsequent new loans in order to avoid a default on the indebtedness owed to such providers. All such events could limit the sources of financing 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 as a result of, in part, 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 has started to show signs of weakness: a significant fall in both trade and fiscal surpluses; lower economy activity; workforce suspensions and dismissals; and local currency devaluation.

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 36% and 41% of total net revenues during 2008 and 2007, 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**"). Prior to the passage of the Public Emergency Law, our tariffs were stated in 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.

However, on October 9, 2008, we signed a provisional agreement with the UNIREN that contemplated a tariff increase of 20%, which is retroactively applicable to September 1, 2008. This increase would result in increased revenue of approximately Ps. 7 million per month, assuming current contracted firm transportation capacity. According to this provisional agreement, the funds generated by this tariff increase are required to be invested in the pipeline system, and until such investment, these funds would be deposited in a trust fund. The tariff increase, which is not effective as of the date of this Annual Report, will come into effect once the provisional agreement is ratified by a Presidential Decree.

The provisional agreement will be in force until the effective date of the integral license renegotiation agreement to be signed with the Argentine government. In October 2008, we received an integral license renegotiation agreement proposal from the UNIREN (which includes the initial tariff increase of the 20%), which addresses the license renegotiation and the overall tariff revision. As of the date of the issuance of this Annual Report, TGS is evaluating this proposal. According to the provisional agreement, we must reach agreement with the UNIREN on the terms and conditions of the overall renegotiation before the expiration date under the Emergency Law on December 31, 2009. If we do not reach this agreement, then UNIREN would inform the Executive Branch with recommendations for the procedural steps to follow.

Notwithstanding this tariff increase, future gas transportation tariffs will not compensate us for increased costs that we paid in prior periods and may be insufficient to compensate us for increased costs that we must pay in future periods. As a result, the profitability of our gas transportation segment has been and may continue to be materially adversely affected.

***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 contracts with UNIREN. In spite of the provisional 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 contracts. The deadline for the renegotiation of the public works and utilities contracts has been extended until December 31, 2009.

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-B. Business Overview-Gas Transportation-Regulatory Framework-Adjustment of Rates" below for more information.

Enron Corp. ("**Enron**"), 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 Argentine government 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 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 Enron. In two similar claims, the Argentine government is seeking the annulment of the awards in favor of the claimants. The continued pursuit of such claim by Enron has adversely affected 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 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. Enron Pipeline Company Argentina S.A. ("**EPCA**") has indicated that it would only consider waiving the claim described above if Ponderosa Assets L.P. ("**Ponderosa**"), the controlling company of EPCA 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 have been significantly delayed.

***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 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 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 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 and gas transporters, among others, signed a Letter of Intent to carry out a second, significantly larger expansion of the gas pipeline system. This new expansion will increase the aggregate transportation capacity of our system by 378 MMcf/d. The investment will be financed by the shippers who subscribe to the additional capacity. In 2008, we completed the first stage which consisted of a 78 MMcf/d transportation capacity increase. At the end of 2008, we started a second stage which consists in the expansion of transportation capacity of 169 MMcf/d, which includes the construction of a new pipeline in the Strait of Magellan. This expansion is expected to be completed before winter of 2010. Dates for the start and termination of the expansion works for the remaining 131 MMcf/d have not been settled yet.

Although the expansion projects described above have not adversely affected our results of operations or financial condition, we cannot assure you that expansion projects will not in the future 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 demand from residential users continued growing and the demand from power plants 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. Natural gas production could not meet this higher demand but 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 in a first rank of priority during the emergency without considering if they have firm or interruptible contracts of natural gas supply and/or transportation. During the winter of 2008, 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.

***Our NGL 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 NGL business segment.***

Argentina relies heavily on natural gas. However, natural gas reserves are declining. There is a significant risk that natural gas production will continue to decrease in the future and that new exploration will not compensate for such decline, which will adversely affect our NGL business segment by reducing the amount of natural gas flowing to the Cerri Complex and, therefore, the amount of NGL we produce.

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

In addition, as discussed in the preceding risk factor, actions taken by the Argentine government during the winter months of 2007 and 2008 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, NGL production in 2007 was the lowest in the last six years. In April and May 2008, the Cerri Complex suffered additional interruptions due to the low temperatures recorded on several days and a reduced availability of natural gas as producers performed maintenance in such months. In the future, we could suffer natural gas supply interruptions as a result of unusually cold weather or other factors beyond our control, and such interruptions could materially adversely affect our NGL business (see "Item 4.— Our Information—B. Business Overview—NGL Production and Commercialization" below).

Finally, the level of NGL 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 NGL 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 NGL production and commercialization have represented more than 50% of our total net revenues since 2003. In 2008, the international market for NGL 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.

Any additional significant decline in international prices of LPG or natural gasoline, which have fluctuated significantly over the last ten years, may materially adversely affect our results of operations and financial condition.