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## TGS Reports Second Quarter and First Half Results<sup>1</sup>

**FOR IMMEDIATE RELEASE: Wednesday, August 7, 2002**

**Buenos Aires, Argentina - Transportadora de Gas del Sur S.A.** ("TGS" or "the Company") (NYSE: TGS, Merval:TGSU2) today reported net income of Ps. 163.5 million or Ps. 0.206 per share (Ps. 1.029 per ADS) for the second quarter of 2002, as compared to Ps. 71.2 million or Ps. 0.090 per share (Ps. 0.448 per ADS) for the same quarter of 2001. Net income increase is attributable to the recognition of a gain on exposure to inflation accounted for in the second quarter 2002, as explained below. For the six-month period ended June 30, 2002, TGS reported a net loss of Ps. 486.4 million or Ps. (0.612) per share (Ps. (3.061) per ADS), as compared to a net income of Ps. 135.8 million or Ps. 0.171 per share (Ps. 0.855 per ADS) for the first half of 2001.

To counter both the high inflation rates brought about by the end of the convertibility monetary system (\$1=US\$1) in Argentina at the beginning of 2002 and the distortion this caused in the Argentine companies' financial statements, the Argentine Government issued Decree N° 1269/02 on July 17, 2002. This decree, among other things, provided for the restoration of inflation accounting and urged the National Securities Commission ("CNV") to issue specific procedures to rule its application. Consequently, on July 25, 2002 the CNV issued Resolution N° 481/2002 which establishes the application of inflation accounting procedures starting January 1st, 2002 for any financial statements filed subsequent to the date of the resolution.

As a result, amounts for the second quarter and first half ended June 30, 2001, presented herein for comparative purposes, have been restated to June 30, 2002 using a conversion factor of 1.9562, which represents the rate of inflation during the first half of 2002, as measured by the wholesale internal price. Considering the little time between the date of the above-mentioned resolution and the filing deadline, TGS has requested from the CNV and the Buenos Aires Stock Exchange an extension for the filing of its financial statements as of June 30, 2002. Therefore, the information contained in this press release is unaudited.

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<sup>1</sup> All figures included in this press release are unaudited.

### **Capitalization of the foreign exchange loss originated by the Argentine peso devaluation**

As stated in our first quarter 2002 earnings release, at the beginning of 2002, the Professional Council of Economic Sciences of the City of Buenos Aires issued an accounting rule which allows the capitalization of the foreign exchange loss (originated by the Argentine peso devaluation which started in January 2002) generated by debts denominated in US dollars, whose purpose was to finance investments in fixed assets and/or other companies incorporated in Argentina. Such rule establishes that the foreign exchange loss generated by such debts could be capitalized proportionally to the corresponding remaining balances of such assets at the end of the period or year, up to the limit of their recoverable value. Consequently, for the first half 2002, TGS capitalized Ps. 1,360.8 million in the account "Property, Plant and Equipment, net".

### **Second Quarter ended June 30, 2002 vs. Second Quarter ended June 30, 2001**

Net revenues decreased from Ps. 259.0 million for the second quarter 2001 to Ps. 204.2 million in the current quarter, as a result of the inflation adjustment of 2001 amounts. The decrease resulted from the fact that total revenues increased at a lower rate than the rate of inflation, considering that gas transportation tariffs remained frozen during the period, which was partially offset by the improvement in the NGL production and commercialization segment which went up more than inflation as a result of higher prices and volumes.

Gas transportation revenues for the current quarter decreased on a historical basis by Ps. 4.7 million principally as a result of the U.S. Producer Price Index ("PPI") increases accounted for during the second quarter of 2001. The accrual for PPI increases in gas transportation tariffs was reversed and suspended during the fourth quarter of 2001, when TGS recorded a loss in "Other expenses, net" reflecting the Company's inability to recover deferred PPI adjustments accrued both in 2001 and 2000. In January 2002, the Argentine National Congress passed the Economic Emergency and Exchange Rate Law, which will have effect until December 10<sup>th</sup>, 2003. Such law, among other things, suspended the dollar adjustment and any other adjustment provision based on foreign countries price index, which were included in the public services tariffs. In addition the law stipulated that the resulting prices and tariffs remain in pesos, at an exchange rate of US\$ 1=Ps. 1. Moreover, the law granted the Executive Power authorization to re-negotiate contracts between the national Government and the companies who render public services. Given the current scenario, TGS believes that it is improbable that either its legitimate claim to apply PPI increases to regulated tariffs or recover them through the Argentine Government will be fulfilled. However, the Company does not waive in any way its rights or the legal recourses it is entitled to, according to specific provisions contained in the Regulatory Framework. This negative effect was partially offset by higher average firm contracted capacity coming from the full effect of new gas transportation agreements entered into in May 2001 and higher interruptible service revenue. Firm contracted capacity rose from 60.4 million cubic meters a day ("MMm<sup>3</sup>/d") or 2.13 Billion cubic feet a day ("Bcf/d") in the second quarter of 2001, to 61.5 MMm<sup>3</sup>/d or 2.17 Bcf/d in the current quarter.

The NGL Production and Commercialization segment reported on a historical basis a Ps. 56.8 million increase. This increase reflects higher prices in pesos for sales in the local market, and higher amounts in pesos for the NLG exports, as a result of the devaluation of the Argentine peso. Additionally, as a result of various agreements with gas producers which improve the richness of the gas processed at the Cerri Complex, the Company increased its NGL production by almost 60% in the second quarter 2002, compared to second quarter 2001 production levels. Most of the additional production was exported to take advantage of dollar-denominated prices. However, increased revenues from exports were somewhat

reduced by a tax on exports imposed by the Economic Emergency Law.

Other services segment reported a Ps. 2.6 million revenue increase on a historical basis, as a result of construction services during the second quarter of 2002 rendered to Gas Link S.A. (a related company responsible for linking TGS's gas transportation system to the Cruz del Sur Pipeline).

Operating costs and administrative and selling expenses for the second quarter of 2002- before depreciation and amortization expenses - decreased by Ps. 17.9 million as compared to the same period of last year. Considering that amounts for the second quarter 2002 were adjusted for inflation, this decrease implies that the Company's costs increased at a lower rate than the general rate of inflation as measured by the wholesale internal price index. The decrease was partially mitigated by a Ps. 9.3 million increase in depreciation and amortization, largely attributable to the capitalization of the foreign exchange loss in fixed assets.

Net financial expense, which includes interest, net effect of devaluation and effect of inflation declined by Ps. 94.2 million in the second quarter of 2002 as compared to the same period of 2001. Interest accrual denominated in dollars remained almost unchanged compared to the same period of last year, considering that the average all-in-cost of debt declined to 8.56% in the current quarter from 9.49% in the 2001 quarter, compensated by a higher outstanding debt. However, as a result of the peso devaluation, interest expense increased by almost Ps. 80 million, which partially compensates the inflation adjustment effect of the second quarter 2001 amounts. Remainder positive difference reflects a gain on exposure to a 48% inflation rate during the quarter, net of the impact of devaluation not capitalized in fixed assets.

The Company did not make any accrual for income tax for the second quarter 2002 due the tax loss carry-forward generated by the Argentine peso devaluation.

### **Six-month period ended June 30, 2002**

Net revenues decreased from Ps. 507.0 for the first half 2001 to Ps. 434.4 million in the first half of 2002, as a result of the inflation adjustment of the 2001 amounts. The decrease reflects that total revenues increased at a lower rate than the rate of inflation, considering that gas transportation tariffs remained frozen during the period, which was partially offset by an improvement in the NGL production and commercialization segment which went up more than inflation as a result of higher prices and volumes.

Gas transportation revenues for the first half 2001 decreased on a historical basis by Ps. 5.9 million principally as a result of the PPI increases accounted for during the same period of 2001, partially offset by a higher average firm contracted capacity resulting from the full effect of new gas transportation agreements entered into in May 2001, as well as a higher interruptible service revenue. Firm contracted capacity rose from 59.3 MMm<sup>3</sup>/d or 2.09 Bcf/d in the first half of 2001 to 61.5 MMm<sup>3</sup>/d or 2.17 Bcf/d in the first half of 2002.

The NGL Production and Commercialization segment reported on historical basis a Ps. 66.7 million increase, as a result of the effects mentioned above.

Other services revenue increased approximately by Ps. 8.1 million as a result of additional construction, upstream and telecommunication services rendered during the first half of 2002, including those to Gas Link S.A.

Operating costs and administrative and selling expenses for the first half of 2002- before depreciation and

amortization expense- decreased by Ps. 28.5 million as compared to the same period of last year. Considering that amounts for the second quarter 2001 were adjusted for inflation, this decrease implies that the Company's costs increased at a lower rate than the general rate of inflation, as measured by the wholesale internal price index. The decrease was offset by a Ps. 31.4 million increase in depreciation and amortization expense, largely attributable to the capitalization of the foreign exchange loss in fixed assets.

Net financial expense during the first half of 2002 significantly increased as a result of the interest denominated in dollars and the significant effect of devaluation (net of the capitalized portion in fixed assets), which were partially offset by the impact of inflation

The Company did not make any accrual for income tax for the first half of 2002 due the tax loss carry-forward generated by the Argentine peso devaluation.

*TGS, with a current delivery capacity of approximately 62.5 MMm<sup>3</sup>/d or 2.2 Bcf/d is Argentina's leading transporter of natural gas. The Company is also Argentina's leading processor of natural gas and one of the largest marketers of natural gas liquids. TGS is quoted on both the New York and Buenos Aires stock exchanges under the ticker symbols TGS and TGSU2, respectively. TGS's controlling shareholder is Compañía de Inversiones de Energía S.A. ("CIESA"), which together with Pecom Energía and Enron Corp. subsidiaries, hold approximately 70% of the Company's common stock. CIESA is currently owned 50% by Pecom Energía S.A. (formerly Perez Companc S.A.) and a subsidiary, and 50% by subsidiaries of Enron Corp.*

*Please see attached table for additional financial and operating information.*

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This press release includes forward-looking statements within the meaning of Section 27 A of the Securities Act of 1933, as amended. Forward-looking statements are based on management's current views and assumptions and involve known and unknown risks. Although the Company has made reasonable efforts to ensure that the information and assumptions on which these statements and projections are based are current, reasonable and complete, a variety of factors could cause actual results to differ materially from the projections, anticipated results or other expectations contained in this release. Neither the Company nor its management can guarantee that anticipated future results will be achieved. Investors should refer to the Company's filings with the U.S. Securities and Exchange Commission for a description of important factors that may affect actual results.

Exhibit I

Transportadora de Gas del Sur S.A.

Financial and Operating Data for the second quarters and the six-month periods ended June 30, 2002 and 2001

(In million of constant Argentine pesos as of June 30, 2002, except for per share and per ADS information in pesos or where otherwise indicated)

<i>Consolidated Income Statements</i>	<b>2nd Quarter</b>		<b>1st Semester</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Net Revenues</b>	<b>204.2</b>	<b>259.0</b>	<b>434.4</b>	<b>507.0</b>
Gas Transportation	109.1	203.6	275.1	401.8
NGL Production and Commercialization	88.8	49.3	139.3	93.3
Other Services	6.3	6.1	20.0	11.9
<b>Operating Costs</b>	<b>(86.6)</b>	<b>(90.5)</b>	<b>(191.5)</b>	<b>(177.8)</b>
Operation and maintenance	(39.6)	(53.4)	(87.2)	(105.6)
Depreciation and amortization expenses	(47.0)	(37.1)	(104.3)	(72.2)
<b>Gross Operating Profit</b>	<b>117.6</b>	<b>168.5</b>	<b>242.9</b>	<b>329.2</b>
Administrative and Selling Expenses	(8.4)	(13.1)	(17.3)	(28.1)
<b>Operating Income</b>	<b>109.2</b>	<b>155.4</b>	<b>225.6</b>	<b>301.1</b>
Other Expense, net	(0.6)	(2.7)	(1.7)	(2.3)
Equity in earnings of related companies	3.2	0.0	1.7	0.0
Net Financial gain (expense)	52.3	(41.9)	(711.4)	(86.1)
<b>Net Income before Income Tax</b>	<b>164.1</b>	<b>110.8</b>	<b>(485.8)</b>	<b>212.7</b>
Income Tax Expense	(0.6)	(39.6)	(0.6)	(76.9)
<b>Net Income</b>	<b>163.5</b>	<b>71.2</b>	<b>(486.4)</b>	<b>135.8</b>
<b>Earnings per share</b>	0.206	0.090	(0.612)	0.171
<b>Earnings per ADS</b>	1.029	0.448	(3.061)	0.855
 <i>Selected Financial Information</i>				
Capital Expenditures	30.2	165.1	50.6	298.9
EBITDA	176.7	192.1	350.0	376.2
 <i>Operating Data</i>				
<b>Transmission Volumes (million of cf/d)</b>				
Average firm contracted capacity	2,171.8	2,133.0	2,171.8	2,094.1
Average deliveries	1,981.1	1,815.2	1,723.3	1,670.4
 <b>NGL sales (thousands of short tons)</b>				
Ethane	98.8	61.5	183.3	147.0
Propane and Butane	155.4	99.1	270.9	206.7
Natural Gasoline	34.5	19.0	50.7	46.0