

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 1-13.396

TRANSPORTADORA DE GAS DEL SUR S.A.

(Exact name of Registrant as specified in its charter)

Argentina

(Jurisdiction of incorporation or organization)

Don Bosco 3672

5th Floor

1206 Capital Federal

Argentina

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, representing Class "B" Shares Class "B" Shares, par value Ps.1 each	New York Stock Exchange New York Stock Exchange*

*Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

Class "A" Shares, par value Ps.1 each	405,192,594
Class "B" Shares, par value Ps.1 each	<u>389,302,689</u>
	<u>794,495,283</u>

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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PRESENTATION OF FINANCIAL INFORMATION

Transportadora de Gas del Sur S.A. ("TGS" or "the Company") maintains its financial books and records and publishes its consolidated financial statements in Argentine pesos. In this Annual Report, references to "pesos" or "Ps." are to Argentine pesos, and references to "US dollars", "dollars" or "US\$" are to United States dollars. A "billion" is a thousand million. References to "m³" are to cubic meters, to "Mm³" are to thousands of cubic meters, to "MMm³" are to millions of cubic meters and to "Bm³" are to billions of cubic meters. References to "cf" are to cubic feet, to "MMcf" are to millions of cubic feet, to "Bcf" are to billions of cubic feet, to "d" are to day and to "HP" are to horsepower. Argentine law requires *Banco Central de la República Argentina* (the "Central Bank") to sell dollars at the rate of one peso per dollar. The offered rate quoted by *Banco de la Nación Argentina* for the sale of U.S. dollars for pesos at close of business on December 31, 2000 and on February 20, 2001 was Ps. 1.00 = US\$ 1.00. See "Exchange Rates" for information regarding the ratio of exchange between the peso and the dollar from January 1, 1996 to the present. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

The Company prepares its financial statements in conformity with generally accepted accounting principles to consolidated financial statements in Argentina ("Argentine GAAP"). Argentine GAAP differs in certain significant aspects from generally accepted accounting principles in the United States of America ("US GAAP"). Note 12 to the Company's consolidated financial statements, included elsewhere herein, provides a description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company and an approximate reconciliation of shareholders' equity at December 31, 2000 and 1999 and net income for the years ended December 31, 2000, 1999 and 1998.

The Company's consolidated financial statements included the effects of inflation up through August 31, 1995, utilizing the inflation restatement methodology established in Technical Resolution N°6 of the Argentine Federation of Professional Councils in Economic Sciences ("TR N° 6"). Effective September 1, 1995, as provided by rules issued by the Argentine Securities Commission (Comisión Nacional de Valores -"CNV"), the Company discontinued the restatement methodology, maintaining the effects of inflation accounted for in prior periods. The discontinuance of inflation accounting is in compliance with Argentine GAAP, provided that the annual variation in the general level wholesale price index ("GLWPI") does not exceed 8% per annum. Inflation for each of the years ended from September 1, 1995 was lower than 8%. Therefore, the criteria adopted by the Company is in compliance with Argentine GAAP. Consolidated financial statements for the years ended December 31, 2000, 1999 and 1998 are presented on a historical basis, except for non-monetary assets and their related consumption and shareholders' equity accounts, which have been restated through August 31, 1995.

Certain amounts shown in this Annual Report have been subject to rounding adjustments, accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregate of the other figures in such table.

**CAUTIONARY STATEMENT FOR PURPOSES OF “SAFE-HARBOR” PROVISIONS OF THE PRIVATE
SECURITIES LITIGATION REFORM ACT OF 1995**

TGS is including the following cautionary statement in this Annual Report to make applicable and take advantage of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995 and the Securities Litigation Uniform Standard Act of 1998, for any forward-looking statement made by, or on behalf of, the Company. The factors identified in this cautionary statement are important factors (but not necessarily all important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

Forward-looking statements in this Annual Report include all statements that express the opinion or belief of the Company or its management as to the future results of operations or business developments of, or relating to the Company. Without limiting the foregoing, the words “believes”, “anticipates”, “plans”, “intends”, “expects”, and similar expressions are intended to identify forward-looking statements. Forward-looking statements include but are not limited to the following:

- 1) Estimates relating to the Company's capital expenditures plan. The capital expenditures plan may not be fully implemented depending on a variety of factors. The plan and these factors are discussed above.
- 2) Estimates relating to revenues and associated volumes derived from the Company's gas transportation, LPG production and commercialization and other services projects. The Company's estimates related to revenues and volumes derived from the Company's gas transportation, LPG production and commercialization and other services activities are discussed under sections “Business-Gas Transportation”, “LPG Production and Commercialization” and “Other Services” in Item 4 and under this section.

As required by that law, the Company hereby identifies the following important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted by the Company in forward looking statements.

- a) Uncertainties as to the growth rate in the gas demand in the Argentine and regional markets as well as the Company's ability to identify and successfully execute specific projects, the presence and competitive impact of competing projects or the availability of alternate fuels.
- b) Risks and uncertainties impacting the Company as a whole related to changes in general economic conditions, the maintenance of the Convertibility law and the ability of the international capital markets to provide funding under acceptable terms; changes in laws and regulations to which the Company is subject, including tax, environmental and employment laws and regulations; the cost and effects of legal and administrative claims and proceedings against the Company.
- c) Risks and uncertainties for the Company's regulated business primarily related to future ENARGAS' resolutions.
- d) Risks and uncertainties associated with the Company's non-regulated business, primarily related to international prices of LPG.

Sections of this annual report that by their nature contain forward-looking statements include “Item 3. Key Information”, “Item 4. Information on the Company”, “Item 5. Operating and Financial Review and Prospects”, “Item 8. Financial Information” and “Item 11. Quantitative and Qualitative Disclosure About Market Risk”.

The forward-looking statements contained in this annual report speak only as of the date of this document, and we do not undertake to update any forward-looking statement to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

EXCHANGE RATES

Fluctuations in the exchange rate between pesos and dollars would affect the dollar equivalent of the peso price of the Company's Class "B" Shares on the Buenos Aires Stock Exchange ("BASE") and, as a result, would likely to affect the market price of the ADSs ("American Depositary Shares"). Currency fluctuations would also affect the dollar amounts received by holders of ADRs on conversion by the Depository of cash dividends paid in pesos on the underlying Class "B" Shares.

As a result of inflationary pressures, the Argentine currency was devalued repeatedly during the approximately 30-year period ending in 1991. During that period, the Argentine Government utilized a number of exchange rate systems and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the dollar.

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. Since December 1989, however, Argentina has had a freely floating exchange rate for all foreign currency transactions. Since April 1, 1991, when Convertibility Law No. 23,928 and Decree No. 529/91 (collectively, the "Convertibility Law") became effective, the peso has been freely convertible into dollars. Under the Convertibility Law, the Central Bank (i) is required to sell dollars to any person who so requires at a rate of one peso per dollar and (ii) must maintain a reserve in foreign currencies, gold, net claims on the *Asociación Latinoamericana de Integración* ("ALADI"), and certain public bonds denominated in foreign currency (such bonds not to exceed 30% of such reserve), all valued at market prices, at least equal to the monetary base (which consists of currency in circulation and peso deposits of the financial sector with the Central Bank).

The following table sets forth, for the years indicated, the high, low, average and year-end exchange rate for the purchase of dollars, expressed in nominal pesos per dollar. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

<u>Year ended December 31,</u>	<u>Free rate</u>			
	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Year end</u>
2000.....	1.0000	1.0000	1.0000	1.0000
1999.....	1.0000	1.0000	1.0000	1.0000
1998.....	1.0000	1.0000	1.0000	1.0000
1997.....	1.0000	1.0000	1.0000	1.0000
1996.....	1.0000	1.0000	1.0000	1.0000

(1) Average of month-end rates.

Source: Banco de la Nación Argentina; Reuters.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table sets forth, for the years and at the dates indicated, selected financial data for TGS. The selected financial data have been derived from the Company's consolidated financial statements. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Company's consolidated financial statements and notes thereto set forth in Item 18 of this Annual Report and "Item 5. Operating and Financial Review and Prospects".

The Company's consolidated financial statements and the selected financial information set forth below include the effects of inflation up through August 31, 1995, utilizing the inflation restatement methodology established in TR N° 6. Effective September 1, 1995, following the rules issued by the CNV, the Company discontinued the restatement methodology while maintaining the effects of inflation accounted for in prior periods. The discontinuance of inflation accounting is in compliance with Argentine GAAP, provided that the annual variation in the GLWPI does not exceed 8% per annum. Inflation for each of the years ended from September 1, 1995 was lower than 8%. Therefore, the criteria adopted by the Company is in compliance with Argentine GAAP. Selected financial data for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 is presented on a historical basis, except for non monetary assets and their related expenses, which have been restated from the date those assets were acquired through August 31, 1995 and except for certain shareholders equity accounts which have been restated through August 31, 1995.

Argentine GAAP differs in certain respects from US GAAP Note 12 to the Company's consolidated financial statements, included elsewhere herein, provides a description of the main differences between Argentine GAAP and US GAAP as they relate to the Company and a reconciliation of significant differences to US GAAP of shareholders' equity at December 31, 2000 and 1999 and net income for the fiscal years ended December 31, 2000, 1999 and 1998.

	At and for the year ended December 31,				
	2000	1999	1998	1997	1996
	(in thousands of pesos, except for per share and per ADS information)				
Income Statement Data:					
Net revenues ⁽¹⁾	479,649	430,271	395,061	412,341	402,191
Gross operating profit	321,760	319,444	301,480	308,439	297,635
Administrative and selling expenses	(21,502)	(18,984)	(18,679)	(17,454)	(18,074)
Operating income	300,258	300,460	282,801	290,985	279,561
Net financial expense	(96,913)	(84,954)	(48,771)	(44,667)	(42,599)
Net income before income tax	196,238	212,482	230,333	245,156	236,589
Net income	126,263	145,724	156,482	167,985	163,789
Per Share Data⁽²⁾					
Earnings per share	0.16	0.18	0.20	0.21	0.21
Earnings per ADS	0.79	0.92	0.98	1.06	1.03
Cash dividends per share declared ⁽³⁾	0.11	0.17	0.200	0.200	0.195
Cash dividends per ADS declared ⁽³⁾	0.56	0.83	1.000	1.000	0.975
Consolidated Balance Sheet Data:					
Property, plant and equipment	1,937,539	1,949,773	1,848,022	1,704,169	1,578,316
Total assets	2,112,286	2,135,326	1,993,472	1,876,752	1,717,101
Total current liabilities	278,098	478,160	306,276	379,498	261,646
Total non-current liabilities	745,587	599,702	616,557	424,198	391,485
Capital stock	794,495	794,495	794,495	794,495	794,495
Shareholders' equity	1,088,601	1,057,464	1,070,639	1,073,056	1,063,970
Other Data:					
Capital expenditures	61,136	147,094	183,481	178,384	83,467
Depreciation and amortization	75,878	52,434	38,594	47,811	45,818
EBITDA ⁽⁴⁾	366,918	343,595	317,698	337,634	325,006
US GAAP Information:					
Net income	128,516	145,356	141,581	163,936	156,766
Shareholders' equity	984,811	951,421	964,964	982,282	977,245
Earnings per share ⁽²⁾	0.16	0.18	0.18	0.21	0.20
Earnings per ADS ⁽²⁾	0.81	0.91	0.89	1.03	0.99

(1) Represents gross revenues less gross receipts tax. Includes 384,090; 353,438; 346,260; 362,730 and 353,090 of gas transportation net revenues and 95,559; 76,833; 48,801; 49,611 and 49,101 of LPG production and commercialization and other services net revenues for the years ended December 31, 2000, 1999, 1998, 1997 and 1996, respectively. The actual transportation tariff is calculated on a dollar basis and converted into pesos as of the date of billing, in accordance with the TGS License.

(2) Earnings and cash dividends per common share under Argentine GAAP and US GAAP have been calculated based on the 794,495,283 common shares outstanding at December 31, 2000. Each ADS represents five shares.

(3) In pesos as of the date of the Shareholders' Meeting or Board of Directors' Meeting which declared such dividends.

(4) Earnings before net financial expense, income tax, depreciation and amortization. Interest expense is presented net of capitalized interest.

Dividends. A summary of the dividends paid during the five most recent years is set forth below:

	<u>Million of Ps. (1)</u>	<u>Ps. per share (1)</u>	<u>US\$ per ADS</u>
1996	151.0	0.190	0.950
1997	158.9	0.200	1.000
1998	158.9	0.200	1.000
1999	158.9	0.200	1.000
2000	95.1	0.120	0.599

(1) Stated in Ps. as of the payment date.

Dividends may be lawfully declared and paid only out of the Company's retained earnings reflected in its annual financial statements and approved by a shareholders' meeting as described below. The Board of Directors of the Company may declare interim dividends, in which case the members of the Board of Directors and of the Statutory Audit Committee are jointly and severally liable for such distribution, if such declaration is not in accordance with the Business Associations Law and the Company's by-laws.

The Company's Board of Directors regularly submits the financial statements of the Company for the preceding fiscal year, together with reports thereon by the Statutory Audit Committee, to the annual ordinary shareholders' meeting for approval. No later than April 30 of each year, an ordinary shareholders' meeting must be held to approve the financial statements and determine the allocation of the Company's net income for such year. Under the Business Associations Law, the shareholders are required to allocate not less than five percent of such net income to a legal reserve until the amount of such reserve equals 20% of the Company's capital stock plus adjustment to capital stock. If the legal reserve is subsequently impaired, dividends may not be paid until the legal reserve has been restored to its former level. The legal reserve is not available for

distribution. Under the Company's by-laws, after the allocation to the legal reserve has been made, an amount will be segregated to pay dividends on preferred stock, if any, and an amount equal to 0.25% of the net earnings for the fiscal year will be segregated to pay the participation in earnings of employee profit-sharing certificates. The remainder of the retained earnings for the year may be distributed as dividends on common stock or retained as a voluntary reserve, as determined by the shareholders' meeting. Dividends must be paid within 30 days of their declaration. For dividend taxation see "Item 10 E. Taxation – Argentine Taxes"

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Uncertainties in Argentine Regulatory Regime for the Gas Transportation Industry

The Company operates in a regulated industry that provides an essential public service. Accordingly, its results of operations will depend upon the laws and regulations that regulate gas transportation companies and their interpretation and application to the Company by ENARGAS. The privatization of GdE occurred eight years ago, however there are still rules and procedures to be issued.

In 1996 and 1997 the ENARGAS conducted the first rate review process. In 1996, the ENARGAS set the weighted average cost of capital to be used for the determination of the efficiency and investment factors at 11.3% per annum. As a result of the rate review process which ended in December 1997, the Company's transportation rates suffered a one-time decrease of 6.5% effective January 1, 1998, based on the application of the efficiency factor, calculated by ENARGAS for the second year period 1998-2002. In connection with the investment factor, the ENARGAS approved the application of periodic increases through January 2002 to the Company's tariffs resulting in a total weighted average of 2.6% as of that date to compensate the Company for approximately US\$ 70 million in investments, principally including the modifications to the Buenos Aires high-pressure ring, the expansion of the Cordillerano Pipeline in Western Argentina, and enhancements to the General San Martín pipeline in preparation for future expansions. The second "five-year rate review process" started during 2000, and should be completed by mid 2002. New gas transportation rates will take effect on January 1, 2003.

The interpretation of the existing rules and of the TGS License can also be expected to evolve over time, possibly in ways that the Company cannot foresee or control. There can be no assurance that future developments in the establishment of regulations applying to the gas transportation industry or in the interpretation of such regulations or of the TGS License, including the determination of the investment and efficiency factors, will be favorable to the Company or that there will not be decisions affecting, or changes made to, the regulatory regime which will adversely affect the consolidated financial condition or results of operations of the Company. See Item 4. "Information on the Company - Regulatory Framework".

Under the TGS License, the Company is required to fund a portion of the ENARGAS operating budget through the payment of an annual control and inspection fee. See Item 4 "Information on the Company - Regulatory Framework-Industry Structure". The amount of the ENARGAS budget increased from Ps. 9.0 million for 1993 (of which the Company paid Ps. 2.1 million) to Ps. 14.3 million for 2000 (of which the Company contributed with approximately Ps. 3.0 million). At present, there is no statutory or regulatory limit on the level of the ENARGAS budget, which is submitted to Congress for approval annually as part of the national budget of the Argentine Government. The future size of such budget, and the level of the fees levied on TGS as a result, are beyond the control of the Company.

At the beginning of 2000, the Company, together with all other gas licensee companies agreed with the Government to postpone the application of rate increases associated to adjustments in the US PPI until July, 2000. As a consequence of a court's decision, giving place to an appeal measure requested by the Ombudsman, such agreement was left in suspense and rates were not adjusted. See Item 4. "Information on the Company - Regulatory Framework".

The Argentine Economy

The Argentine economy has experienced great changes in recent years. The last decade has constituted a period of great transformations towards market economy and fiscal order. In April 1991, the "Convertibility Plan" (a currency board system) became effective. Its main target was to reduce inflation. This currency board was introduced together with a tax reform and a public expenditure reduction program aimed at restructuring the economy. Therefore, very aggressive privatization and deregulation processes that encompassed key sectors such as media and telecommunications, utilities, and oil and gas, all of which were state owned and very inefficient (producing huge deficits), started. This resulted in a radical change for the country's economy as it attracted massive foreign investment, increased the Central Bank's reserves, reduced the state's deficit. Boosted tax collections, and most importantly dramatically increased the productivity and efficiency of the entire economy allowing for significant growth in gross domestic product ("GDP").

Following the effectiveness of the Convertibility Plan, the 12-month trailing inflation rate as measured by the Argentine consumer price index ("CPI") declined from 287.3% as of March 31, 1991 to -0.1% as of December 31, 2000 and, as measured by the GLWPI, decreased from 163.5% as of March 31, 1991 to -1.7% as of December 31, 2000. The CPI experienced a variation of -0.7% in 2000 and the GLWPI only increased 2.5% last year.

As mentioned above, the Convertibility Plan contributed to strong growth rates. After declining or remaining stagnant through the 1980's, real GDP in Argentina rose by 10.5%, 10.3%, 6.3% and 5.2% in 1991, 1992, 1993 and 1994, respectively. In 1995, Argentina's GDP fell by 2.8% as a result of i) the Mexican peso devaluation crisis and ii) the uncertainty regarding presidential elections in May 1995 at which President Carlos Saúl Menem was re-elected. Subsequently, however, the Argentine economy recovered and GDP increased by 5.5% and 8.4% in 1996 and 1997, respectively. As a result of the negative impact of the international financial market crisis that took place after the Russian default (August 1998) and the Brazilian devaluation (January 1999), Argentinian GDP growth was reduced to 3.9% in 1998 and -5.2% in 1999. For 2000, GDP is estimated to fall between 0.2 to 0.3%, as a result of international and domestic factors. International events include the tightening in the U.S. monetary policy, leading to increases in interest rates, the higher volatility in the international capital markets and a flight-to-quality effect derived from the rise in the emerging market risk premium, coupled with the United States Dollar appreciation. Domestic effects included an increase in fiscal pressure, which reduced consumption, increased political instability, negatively impacted expectations and decreased private investments.

Although the Convertibility Plan substantially reduced the levels of inflation and led to important GDP growth rates for a more prolonged period than other economic programs implemented in the past, no assurance can be given that such policies will be maintained in the future or that, if maintained, these policies will produce favorable results. In addition, there can be no assurance that Argentina's current economic downturn will be addressed by the government or that, if addressed, Argentina's economic situation will improve. Future economic development in Argentina, over which the Company has no control, may impair the Company's business, consolidated financial condition or results of operations. There is no assurance that other future Argentine political or economic developments (including changes in interest rates, foreign investment policy and taxation), over which the Company has no control, will not adversely affect the Company's business, consolidated financial condition or results of operations.

Convertibility and Exchange Rate Risks

The Argentine currency has been devalued repeatedly during recent decades and the economic authorities in Argentina have utilized a number of exchange rate systems. In addition, macroeconomic instability has led to broad fluctuations in the real exchange rate of the Argentine currency relative to the dollar. Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. See "Exchange Rates". Although at present there are no foreign exchange controls preventing or restricting the conversion of pesos into dollars, no assurance can be given that such controls will not be implemented in the future.

Under the Convertibility Law, the Central Bank is obligated to sell dollars at a rate of not more than US\$1.00 per Ps.1.00 and to back up the monetary base with international reserves consisting of gold, cash, foreign exchange deposits abroad, foreign securities and certain Argentine Government obligations denominated in foreign currency. In addition, pursuant to Communication "A" 2298, since January 12, 1995, the Central Bank has been purchasing and selling dollars at the rate of Ps.1.00 per US\$1.00. Up to now, the Central Bank's international reserves have been sufficient to back up the monetary base and maintain the value of the peso. The Central Bank's future capacity in this respect depends, however, upon various factors, among which are the completion of the structural reforms, maintaining the low levels of inflation and the fiscal deficit under control, and sustained economic growth. There can be no assurance that the Convertibility Law will not be amended or rescinded, that the Argentine Government will not impose restrictions on the ability of the Company to convert pesos into dollars or that the monetary authorities will not change their policy to control the exchange rate of the peso against the dollar.

Authorities in office have guaranteed so far the maintenance of the Convertibility Law, the control on federal expenditure and fiscal deficit, as well as a commitment to serve the international debt. To that purpose, the Federal Policy makers negotiated and obtained a financial aid package that totals US\$ 39.7 billion, including funds from IMF (US\$ 13.7 bn.); World Bank (US\$ 2.5 bn.); IDB (US\$ 2.5 bn.); Local Banks (US\$ 10.0 bn.); Pension Funds (US\$ 3.0 bn.); Debt Swaps (US\$ 7.0 bn.) and Government of Spain (US\$ 1.0 bn.). Funds will be available during 2001 and 2002. Disbursements from IMF funds will be contingents on IMF targets being met on quarterly basis.

There can be no assurance that measures such as the mentioned above will be sufficient to serve financial needs, to maintain the actual exchange rate between the dollar and the peso and to maintain an adequate liquidity in the Argentine banking system, in the long term.

While the Company's gas transportation tariffs are dollar-based and approximately 75% of its costs are peso-denominated, a significant devaluation of the peso could have negative effects on the net monetary liability position maintained by the Company which at December 31, 2000 amounted to approximately US\$ 914 million. A significant devaluation of the peso could also have a negative effect on the Company's ability to make payments on its foreign currency denominated obligations. Additionally, devaluation of the peso could have adverse effects on the Argentine economy, such as creating additional inflationary pressures.

Control by CIESA

CIESA controls the Company and is in position to direct the management of the Company, to control the election of a majority of the Board of Directors, to determine the dividend policy and other policies of the Company and to generally determine the outcome of any matter put to a vote of the shareholders of the Company. Pursuant to the procedures established by the Argentine Government under which CIESA made its investment in TGS (the "Pliego"), there are restrictions on the ability of CIESA to reduce its shareholding in the Company below 51% of the share capital.

Item 4. Information on the Company

A. History and Development of the Company

Transportadora de Gas del Sur S.A. commenced commercial operations on December 29, 1992, as the largest company created in connection with the privatization of Gas del Estado S.E. ("GdE"), the state-owned gas company, whose integrated operations included gas transportation and distribution. GdE was divided into ten companies: two transportation companies and eight distribution companies. TGS is a "sociedad anónima", incorporated under Argentine law, whose registered offices are located at Don Bosco 3672 5th Floor – Buenos Aires (C1206ABF)- Argentina. Telephone Number (54 11) 4865-9050/60/70/80.

TGS is the largest transporter of natural gas in Argentina, currently delivering approximately 60% of the country's total gas consumption through 7,029 km (4,368 miles) of pipelines with a current delivery capacity of approximately 58.9 MMm³/d (approximately 2.1 Bcf/d). Substantially, all of TGS's capacity is subscribed under firm long-term transportation contracts. TGS is also the largest processor of natural gas and one of the largest marketers of liquid petroleum gases ("LPG") in Argentina. The Company also operates the General Cerri gas processing complex and the associated Galván loading and storage facility in Bahía Blanca - Buenos Aires Province (the "Cerri Complex") where natural gas liquids are separated from gas transported through the Company's pipeline system and stored for delivery.

TGS holds a 35-year license ("the TGS License"), extendible for an additional ten-year period at the option of TGS if certain conditions are met, giving it the exclusive right to operate the existing southern Argentine gas transportation pipeline system. The TGS system connects major gas fields in southern and western Argentina with distributors of gas and big users in those areas and in the greater Buenos Aires area, the principal population center of Argentina.

TGS's controlling shareholder is Compañía de Inversiones de Energía S.A. ("CIESA"), which together with Pecom Energía group and Enron Corp. ("Enron"), hold approximately 70% of the Company's common stock. The shares of CIESA are currently held 50% by Pecom Energía S.A. (formerly Perez Companc S.A.) ("Pecom Energía") and a subsidiary, and 50% by subsidiaries of Enron. The remaining ownership of TGS's capital stock is held by local and foreign investors.

During the last three fiscal years, the Company's capital expenditures amounted to approximately Ps. 391.7 million. Such investments include Ps. 153.7 million addressed to the gas transportation system expansions, Ps. 99.9 associated to improvements to the system, Ps. 62.2 million related to our LPG production and commercialization activities and Ps. 75.9 million related to other services activities. Amounts and size of future investments are included in "Item 5. Operating and Financial Review and Prospects". Future investments will be financed by cash-flow from operations and external debt.

Company's Future Strategy

TGS has set challenging goals for the next five years, primarily in four areas: business development, rate review process, operating excellence, and optimal capital structure. We cannot give any assurance that we will be able to successfully implement any of the strategies discussed below, nor can we guarantee that successful implementation of these strategies will achieve a desirable result.

1) Business Development: In the gas transportation segment, TGS will continue to evaluate and generate long-term opportunities to expand its system; this will contribute to the development of the gas reserves in southern Argentina. The concretion of these opportunities requires first defining certain regulatory topics to ensure an overall rate of return that is reasonable in the long term. TGS will also continue to evaluate the development of energy markets in the region in order to take advantage of opportunities to invest in new transportation projects. In the LPG production and commercialization segment, TGS strategy will be geared toward optimizing the use of its processing plant, to continue neutralizing the impact of competitive projects, providing incentives for contributing rich gas to the system, and at the same time expanding and strengthening its role as an LPG marketer. This will be possible through agreements signed with producers, distribution companies, and customers of LPG. As to upstream services, the Company hopes to attain a market share of 10% of the total volume of natural gas treated and injected into Argentina's transportation systems by the year 2002, operating inside or outside its service area. TGS will thereby enhance the further integration of its liquid and gas transportation business. For the telecommunications business, TGS will continue to develop its strategy for value creation in the market segment in which TGS is positioned.

2) Rate Review Process: During the year 2000, TGS started the five-year rate review process, which should be completed in mid-2002. The new rates will actually take effect on January 1, 2003. The main objective is for that process to be carried out within the terms set in the regulatory framework agreed upon in the privatization process, thereby achieving a reasonable rate of return that lets TGS continue with the expansion of its gas pipeline system and growth in the value of the business for the shareholders.

3) Operating Excellence: Safe, reliable, and efficient operations. These are TGS' constant efforts and, in fact, its basis for growth. TGS will focus on fulfilling its obligation toward the environment and thereby maintaining Certification under ISO 14.001. During 2001, TGS will make the necessary changes to meet the required standards for certification under the ISO 9000 Quality Management System. TGS will also stay focused on continuing to reduce even further the already low rate of operating accidents among its employees.

4) Optimal Capital Structure: The objective is to maintain an optimal capital structure in accordance with the Company's investment needs. TGS main goal is to maintain the average life of its debt and its credit quality. In terms of dividends, TGS will follow the policy adopted last year, maintaining a dividend level that lets the Company invest in any growth projects.

B. Business Overview

GAS TRANSPORTATION - REGULATED BUSINESS

As a transporter of natural gas, TGS receives gas owned by a shipper, typically a gas distributor, at one or more receipt points on the TGS system for transportation in the pipeline and delivery to the shipper at specified delivery points along the system. Under applicable law and the TGS License (see "Regulatory Framework" below) TGS is not permitted to buy for resale or to sell natural gas.

The TGS pipeline system connects major gas fields in southern and western Argentina with distributors of gas in those areas and in the greater Buenos Aires area, the principal population center of Argentina. Transportadora de Gas del Norte ("TGN"), the only other natural gas transportation operating company that supplies the Argentine market, holds a similar license with respect to the northern pipeline system, which also provides gas transportation services to the greater Buenos Aires area.

Gas transportation accounted for approximately 80%, 82% and 88% of TGS's total net revenues in 2000, 1999 and 1998, respectively. Approximately 92% of TGS's 2000 average daily gas deliveries were primarily made under long-term firm transportation contracts entered into with four gas distribution companies that also were formed upon the privatization of GdE (See "Customers and Marketing" below) and with big users. Firm contracts are those under which capacity is reserved and paid for regardless of actual usage by the customer. Substantially, all of TGS's remaining gas deliveries were made under interruptible transportation contracts entered into in most cases with the same four gas distribution companies and Repsol-YPF. Interruptible contracts provide for the transportation of gas subject to available pipeline capacity. All of TGS's firm contracted capacity is currently subscribed at the maximum rates allowed by ENARGAS.

Customers and Marketing

The principal service area of TGS is the greater Buenos Aires area in central eastern Argentina. The Company also serves the more rural provinces of western and southern Argentina. The service area contains approximately 4.4 million end-users, including approximately 3.1 million in the greater Buenos Aires area. Direct service to residential, commercial, industrial and electric power generation end-users is mostly provided by four gas distribution companies in the area, all of which are connected to the TGS system: *MetroGas S.A.* ("MetroGas"), *Gas Natural BAN S.A.* ("BAN"), *Camuzzi Gas Pampeana S.A.* ("Pampeana") and *Camuzzi Gas del Sur S.A.* ("Sur"). These distribution companies constitute four of the nine distribution companies (eight of which were established upon the privatization of GdE) and collectively serve approximately 67% of the Argentine distribution market in Argentina. The other five distribution companies are located in and serve northern Argentina and are not connected directly to the TGS's system.

The table below contains certain comparative information for the twelve-month period from October 1999 through September 2000 relating to the distribution companies which are connected to TGS pipeline system.

Company	Annual Deliveries (Bm ³)	% of Market Argentina	No. of Users (in million)	% of deliveries received from TGS
MetroGas (1)	6.8	27%	1.9	98%
Pampeana (1)	3.6	14%	0.9	97%
Sur	3.5	14%	0.4	100%
BAN (1)	3.3	13%	1.2	58%

(1) Also connected to TGN system.

Source: ENARGAS

The firm average contracted capacity for TGS distribution company customers and for all other customers as a group at December 31, 2000, 1999 and 1998, together with the net revenues derived from firm gas transportation services accounted for by each of them during such years, and the net revenues derived from interruptible services for 2000, 1999 and 1998 are set forth below.

	December 31,								
	2000		1999				1998		
	Average firm contracted capacity	Net revenues (million of pesos)	Average firm contracted capacity	Net revenues (million of pesos)	Average firm contracted capacity	Net revenues (million of pesos)	Average firm contracted capacity	Net revenues (million of pesos)	
Firm:	(MMm ³ /d)	(MMcf/d)	(MMm ³ /d)	(MMcf/d)	(MMm ³ /d)	(MMcf/d)	(MMm ³ /d)	(MMcf/d)	
MetroGas	20.768	733.4	163.8	20.918	738.7	162.6	21.210	749.0	166.4
Pampeana.....	11.305	399.2	71.4	11.674	412.3	71.9	11.960	422.4	73.8
BAN.....	7.429	262.4	48.7	7.388	260.9	48.0	7.215	254.8	47.5
Sur	6.450	227.8	14.1	6.806	240.4	15.8	7.150	252.5	17.5
Others	11.998	423.7	77.2 ⁽¹⁾	9.453	333.8	47.0	7.896	278.9	36.3
Total firm.....	57.950	2,046.5	375.2	56.239	1,986.1	345.3	55.431	1,957.6	341.5
Interruptible and others:	—	—	8.9 ⁽¹⁾	—	—	8.2	—	—	4.8
Total.....	57.950	2,046.5	384.1	56.239	1,986.1	353.5	55.431	1,957.6	346.3

(1) Include Ps. 18.1 million of PPI adjustment deferral (See Regulatory Framework – Regulation of Transportation Rates – Actual Rates).

Step-down Rights. As part of the privatization process, the Argentine government allocated the then existing capacity of the GdE pipeline systems among the various gas distribution companies. To effect this allocation, firm transportation contracts between the distribution companies and the transportation companies were executed prior to their transfer to the successful bidders. Originally, the contracts had ten-year terms subject to annual renewal at the expiration of that period and included specific “step-down” provisions which permitted the distribution companies to reduce some of their committed capacity for each zone (as a percentage of the initial capacity) on specified dates from 1994 through 2001. Currently, the Company’s exposure to its customers (Metrogas and BAN) remaining step-down rights represents approximately 6% of its current contracted capacity. The following chart shows the years since when the step-down rights could be exercised:

	2004	2005	Total
MMm ³ /d.....	2.8	0.5	3.3
MMcf/d.....	98.9	17.7	116.6

Within the scope of the open season conducted during the years 1998 and 1999 (see “Pipeline Expansions”), ENARGAS made TGS grant all the shippers the right to exercise step-down rights. Such rights could be exercised if, as a result of such open season, new shippers subscribed firm transportation capacity in the same zones (from the reception to the delivery point) as the original shipper and provided TGS did not suffer any economic damage. ENARGAS’s intention is to make a more efficient use of the transportation system avoiding over subscribed capacity above market needs. Additionally, ENARGAS requested from TGS to apply this scheme to all future open seasons.

In connection with the waiver of step-down rights, if a customer of the distribution company that had foregone its step-down rights enters into a firm transportation agreement either directly or indirectly with the Company (“by-pass”), then the distribution company will have the right to reduce its firm transportation commitment with the Company up to the amount of the lost service between the distribution company and the customer. Accordingly, by-pass arrangements in the affected service areas may be less economically attractive to the Company than would otherwise be the case.

Pipeline Operations

Pipeline Deliveries. The following table sets forth the average daily firm and interruptible transportation deliveries for 2000, 1999 and 1998 provided by TGS to its customers:

	December 31,					
	2000		1999		1998	
	Average daily deliveries		Average daily deliveries		Average daily deliveries	
	(MMm ³ /d)	(MMcf/d)	(MMm ³ /d)	(MMcf/d)	(MMm ³ /d)	(MMcf/d)
Firm:						
MetroGas	18.3	646.3	15.4	618.0	14.9	526.2
Pampeana	9.3	328.4	9.7	342.6	10.1	356.7
Sur	4.7	166.0	5.1	180.1	5.2	183.6
BAN	5.6	197.8	5.4	190.7	4.4	155.4
Others	8.0	282.5	8.8	236.6	4.0	141.2
Total firm	45.9	1,621.0	44.4	1,568.0	38.6	1,363.1
Interruptible:						
Total	3.7	130.7	3.4	120.1	3.1	109.5
Total	49.6	1,751.7	47.8	1,688.1	41.7	1,472.6
Average annual load factor (1).....		86%		85%		75%
Average winter heating season load factor (1)....		98%		99%		90%

(1) Average daily deliveries for the period divided average daily firm contracted capacity for the period, expressed as a percentage.

Since assuming operations of its pipeline system, TGS has succeeded in increasing peak-day delivery capability, as reflected in the pipelines' increase in average three-day peak deliveries, from 42.9 MMm³/d (1.5 Bcf/d) in 1991, as measured by GdE (no measurement being available for 1992), to 64.3 MMm³/d (2.3 Bcf/d) in July 2000.

Pipeline expansions. Since assuming commercial operations, TGS has increased its available transportation capacity by 37%, from 42.9 MMm³/d (1.5 Bcf/d) to 58.9 MMm³/d (2.1 Bcf/d). To this end, TGS has conducted several "open seasons" designed to provide all potential shippers with the opportunity to secure additional firm transportation capacity.

In 1994, TGS completed its first major expansion, which consisted of the installation of four compressor stations on the Neuba II pipeline rated at approximately 78,000 total HP, thereby increasing transportation capacity from the Neuquén basin to Buenos Aires and Bahía Blanca by 7.5 MMm³/d (265 MMcf/d). The expansion was placed in service in two phases in April and July 1994 and cost approximately US\$ 91 million. TGS executed firm transportation contracts for the total additional capacity.

In 1995, the Company completed an expansion project on the General San Martín pipeline, which increased capacity by approximately 1.3 MMm³/d (45.9 MMcf/d). The expansion included: (i) the construction of 60 km (37.3 miles) of looping of 30-inch pipe, (ii) modification of 12 compressors to increase compression capacity, and (iii) the addition of a new turbine-driven compressor of 4,700 HP. The total cost of the expansion was approximately US\$ 35 million.

In 1996, TGS concentrated on the removal of bottlenecks in both its Neuba I and Neuba II pipelines. As a result of debottlenecking, capacity increased by 1.0 MMm³/d (35.3 MMcf/d) and 0.5 MMm³/d (17.6 MMcf/d) on the Neuba II and Neuba I pipelines, respectively. TGS has fully subscribed the increased capacity through long term agreements. Total investment was approximately US\$ 16 million, including the construction of a lateral line of approximately 44 km (27.3 miles), which is jointly owned by the Company and Pampeana, and the automation and upgrading of two compression stations.

In 1997, the Company completed several projects that increased transportation capacity including the construction of a 60 km (37.3 miles) lateral line, jointly owned by TGS and Sur, together with the construction of a 10 km (6.2 miles) 30-inch pipe looping in the San Martín pipeline at a cost of approximately US\$ 12 million. The resulting increased capacity of 0.65 MMm³/d (23.0 MMcf/d) was fully subscribed under a long term agreement. Also, in 1997 the Company completed the construction of a 15 km (9.3 miles) 36-inch pipe looping on the Neuba II pipeline at a total cost of approximately US\$ 8 million. All of the additional capacity was fully subscribed under a 0.54 MMm³/d (19.1 MMcf/d) long-term agreement, that became effective in 1998.

During 1998 and 1999, the Company spent approximately US\$ 11 million to expand its Cordillerano pipeline through looping and the addition of compression. This investment was included in the determination of the investment factor, which resulted in an increase in TGS's transportation rates. See "Regulatory Framework-Adjustment of Rates".

In 1999, TGS completed an expansion of the Neuba II pipeline, which increased available capacity by 1.4 MMm³/d (49.4

MMcf/d). The total investment of this expansion amounted to approximately US\$ 32 million. The expansion consisted of: (i) 60 km (37.3 miles) of 30/36-inch pipes looping, and (ii) an increase of compression capacity by approximately 5,000 HP. The total additional capacity has been fully subscribed under firm long-term transportation agreements partially effective in 1998 and with full effect in 2001.

During 1999 and 2000, TGS expanded the San Martín and Neuba II pipelines. The expansion consisted of: (i) 200 km (124.3 miles) of 30/36-inch pipes looping, and (ii) an increase of compression capacity by approximately 33,500 HP. This expansion demanded an investment of US\$ 80 million. The 2.4 MMm³/d (84.8 MMcf/d) additional capacity was mainly subscribed by industrial customers. Additionally, in 1999, the Company completed two other open seasons, which resulted in: (i) additional contracted transportation capacity for approximately 0.7 MMm³/d (24.7 MMcf/d) requested by industrial customers, effective between October 1999 and the first half of 2001, and (ii) an extensions of some transportation routes requested by two distribution company customers, effective October 1999 and June 2000. The investment related to this expansion amounted approximately to US\$ 13 million and consisted of 10 km (6.2 miles) of 30-inch pipes looping in San Martín pipeline and 20 km (12.4 miles) of 36 inch pipes looping in Neuba II pipeline.

Future expansions. In the end of 2000, TGS completed an open season which consisted of additional transportation demand for 3.2 MMm³/d (113 MMcf/d), representing a 4.1% increase of its current firm contracted transportation capacity. In addition, TGS reduced its current exposure to contracted capacity reduction risk from some of its distribution companies customers for approximately 3.4 MMm³/d (120.1 MMcf/d). Additional contracted capacity will be mainly addressed to supply the increase in domestic demand of gas distribution customers and the remainder was received from industrial customers. Pipeline expansion will consist of the construction of 302 Km (188 miles) of looping in San Martín and Neuba II pipelines. Associated investments will amount to approximately to US\$ 120 million. Upon becoming fully operational, the expansion is expected to generate additional annual revenues of approximately US\$ 17 million, at current rates, and is expected to be in service by June 2001 with full effect in earnings in 2002.

Additionally, in 2001, TGS entered into an agreement with Panamerican Energy, Wintershall Energy and British Gas to jointly construct, operate and maintain a 40 km gas pipeline that will connect TGS pipeline system to a new pipeline to be built. This new pipeline is the result of a bidding of the Uruguayan Government to construct a pipeline to Uruguay with an original capacity of 2.5 MMm³/d (88.3 MMcf/d), to provide gas mainly to two central power generators and Montevideo city. This pipeline capacity, designed to supply the Uruguay's market potential growth of an estimated gas demand of 5.5 MMm³/d (194.2 MMcf/d), could be expanded to 18.5 MMm³/d (653.3 MMcf/d) to cover the demand in the south of Brazil. The link pipeline will have an initial transportation capacity of approximately 2 MMm³/d (70.6 MMcf/d), requiring an investment of approximately US\$ 20 million, and is expected to be operational at the beginning of 2002. This represents a concrete step towards accomplishing TGS growth strategy of accessing to the regional market.

System improvements. During the five-year period ended December 31, 1997 and as a part of the five-year mandatory investment program required under its License, TGS made capital expenditures in the aggregate amount of approximately US\$ 172 million to improve the safety and reliability of its pipeline system. These investments included approximately US\$ 34 million for internal and external inspection of approximately 10,000 km (6,217 miles) including a first and, in some cases, a second inspection of TGS's main pipelines. The inspections were performed using the leading technology for detecting pipeline flaws, such as metal loss, out-of-round condition and manufacturing or welding defects and their magnitude and precise location. TGS used the information resulting from the inspection program to establish a maintenance and repair schedule. Based on the results of the inspections, the Company replaced approximately 304 km (189 miles) of pipelines on its Neuba I, Loop Sur and San Martín pipelines without any significant impact on service, at a cost of approximately US\$ 111 million, including repair costs. In addition, the Company invested approximately US\$ 27 million in other mandatory investments designed to improve the safety and reliability of the system. During the initial five-year period TGS also made capital expenditures of approximately US\$ 54 million in addition to those required under the TGS License. These investments were directed towards the pipeline compression facilities and the enhancement of overall pipeline system safety and reliability.

In 1998, 1999 and 2000, the Company made capital expenditures in the amount of US\$ 72 million to continue the enhancement of the pipeline system's safety and reliability. This amount included US\$ 40 million of investments contemplated in the determination of the "investment factor" and, accordingly, the Company benefited from an increase in its transportation rates. See "Regulatory Framework-Adjustment of Rates". As part of these investments, the replacement of five compressor units with higher compression power amounted to approximately US\$ 30 million. This replacement, which was completed in April 1999, represented an increase in compression power of 20,000 HP.

The Company is operating its pipelines in accordance with the Argentine gas transmission safety regulations, which are substantially similar to US federal regulations. The Company believes that, based on the pipeline inspection reports it has

received to date and the pipeline repairs and/or replacements being made to the General San Martín and Neuba I pipelines, the current operation of the pipeline system poses no significant safety risks. However, the Company experienced five ruptures: two in its General San Martín pipeline and three in the Neuba I pipeline. The ruptures caused a brief disruption of services to certain customers. No casualties or significant damage to third parties were experienced as a result of the ruptures. Since the commencement of its operations, in late 1992, the Company has implemented measures to ensure that the service would not be interrupted in any relevant consumption center. Except for the ruptures described above there has not been any other major safety related incident on the TGS system.

In 1999 and 2000, TGS made hydrostatic tests on 136 km of the Neuba I pipeline, which suffered three ruptures resulting from Stress Corrosion Cracking. The ruptures did not cause a disruption of services to customers. No casualties or significant damage to third parties were experienced as a result of the ruptures. The hydrostatic test consists of exposing the pipeline to higher pressure than the ordinary operating one. As a consequence of these tests, approximately 1,227 meters of pipeline were replaced.

System automation. TGS has improved system automation through a three-part program which includes installation of an electronic flow measurement system ("EFM"), implementation of remote controls at compressor stations and end devices, such as valves, and implementation of dynamic system simulation. The EFM system has been installed at custody transfer points along the system and the data is transmitted to the gas control center in Buenos Aires. The EFM system controls almost all the gas transported along the pipeline, allowing TGS to monitor the flow and pressure of gas along the pipeline in real time. The information provided by the EFM system and the remote compressor controls provide data to the system simulation. The system simulation in turn analyzes the data and assists in optimizing the volume of gas transported through the system. The Company believes that the improved system automation ensures greater control over gas flow and improves TGS's ability to deliver gas more effectively, to provide precise information to customers as to the movement of the gas, to minimize fuel usage and to generally enhance the quality and reliability of the services the Company provides. Currently, TGS remotely operates 14 of its 28 compressor stations.

Technical Assistance Agreement. As part of its bid to purchase a 70% interest in the Company from the Argentine government, CIESA was required to have as an investor a company with experience in natural gas transmission that would serve as technical operator. The technical operator for TGS is Enron Pipeline Company Argentina ("Enron Argentina"), an indirect, majority-owned subsidiary of Enron, which operates one of the largest natural gas transmission systems in the world. Enron Argentina provides technical assistance to TGS under a Technical Assistance Agreement, which has an initial term of eight years and is automatically renewable for additional eight-year terms, unless either party elects to terminate. The terms of the Technical Assistance Agreement were set by the Argentine Government as part of the privatization of GdE. As the Company is evaluating the change of the technical operator to other Enron subsidiary, subject to ENARGAS approval, the Company reached an agreement with Enron Argentina for the higher term between three months or the date in which ENARGAS approves the new elected technical operator.

The Technical Assistance Agreement sets out the services to be provided by Enron Argentina to TGS, at the request of TGS's General Director, in return for payment of an annual technical assistance fee equal to the greater of (i) US\$ 3 million or (ii) 7% of the amount obtained after subtracting US\$ 3 million from net income before financial income (expense) and holding gains (losses) and income taxes. The services to be provided by Enron Argentina to TGS under the Technical Assistance Agreement include assisting TGS in the following matters to the extent that they arise in the ordinary course of business: (i) replacement, repair and renovation of facilities and equipment to ensure that the performance of the system is in accordance with international gas transportation industry standards; (ii) preparation of performance evaluations, operating cost analyses, construction assessments and advice related to budget control; (iii) advice regarding safety, reliability and efficiency of system operation and gas industry services; (iv) advice regarding compliance with applicable laws and regulations relating to safety and health, pollution and environmental protection of the system; (v) routine and preventive maintenance of the system; (vi) staff training; (vii) design and implementation of the procedures necessary to accomplish the aforesaid services; and (viii) design and implementation of a management information and inspection system for all major aspects of natural gas transportation and LPG production.

The Argentine Natural Gas Industry

Historical Background. Prior to the privatization of GdE, the Argentine natural gas industry was effectively controlled by the Argentine Government. In addition, prior to its privatization, Repsol-YPF or its predecessors held exclusive rights over the development and production of all new hydrocarbon reserves in Argentina.

In 1992, the Natural Gas Act and Decrees Nos. 1,189/92 and 1,738/92 of the Executive Branch were passed providing for the privatization of GdE. The Natural Gas Act and the related decrees provided for, among other things, the transfer of substantially all of the assets of GdE to two transportation companies and eight distribution companies. The transportation

assets were divided into two systems on a broadly geographical basis, the northern and southern trunk pipeline systems, designed to give both systems access to gas sources and to main centers of demand, including the greater Buenos Aires area. As a result of the division, the TGS transportation system is connected to the two distribution systems serving the greater Buenos Aires area, one serving Buenos Aires Province (excluding greater Buenos Aires) and one serving southern Argentina. TGN is connected to five distribution systems serving northern Argentina. TGN is also connected to the distribution systems serving the greater Buenos Aires area and, to a limited extent, the distribution system serving Buenos Aires Province (excluding greater Buenos Aires). In the two instances where TGS and TGN are both directly connected to a distribution system, TGS is the principal supplier of gas transmission services.

The Natural Gas Act and related decrees granted each privatized company a license to operate the transferred assets, established a regulatory framework for the privatized industry based on open, non-discriminatory access, and created ENARGAS to regulate the transportation, distribution, marketing and storage of natural gas. The Natural Gas Act also provided for the regulation of wellhead gas prices in Argentina for an interim period. Prior to deregulation, the regulated price was set at US\$ 0.97/million British thermal units ("MMBtu") at the wellhead, which had been the regulated price since 1991. Pursuant to Decree No. 2,731/93, gas prices were deregulated as of January 1, 1994. Since deregulation average prices have risen by approximately 30% based on 2000 average prices, depending on the basin, the amount of gas and the time of year.

Demand for Natural Gas. Natural gas consumption in Argentina has more than tripled since 1980, from approximately 9.3 Bm³ (328 Bcf) in 1980 to 30.9 Bm³ (1,091 Bcf) in 2000, representing a compound annual rate of growth in consumption of approximately 6%. According to data published by the Argentine Secretary of Energy, local demand for natural gas is expected to increase at an annual rate of 3.6% through the year 2010 due to the availability of abundant natural gas supplies in Argentina, low prices relative to those for competing energy sources and an increase in gas pipeline capacity. In addition, natural gas has experienced a significant increase in market share in recent years to approximately 41% of total national energy consumption in 1999, almost doubling the share of energy consumption worldwide accounted for by natural gas. Despite the relatively high market share for natural gas in Argentina when compared with other countries, additional market opportunities for natural gas exist in Argentina. For example, according to the Argentine Secretary of Energy, approximately half of residential households currently have no access to natural gas.

The table below sets forth the consumption of natural gas in Argentina by class of user, stated as a percentage of total consumption, for the periods indicated.

	1980	1985	1990	1996	1997	1998	1999	2000 (1)
Residential and Commercial	27.3	29.3	27.4	25.6	25.3	29.7	25.1	25.7
Industrial	43.7	38.2	34.4	35.8	36.5	37.0	32.4	31.7
Electric Power Generator	25.3	24.6	29.9	32.6	31.6	24.9	35.4	35.1
Other	3.7	7.9	8.3	6.0	6.6	8.4	7.1	7.5
Total	100	100	100	100	100	100	100	100

(1) Based on gas consumption for the period October 1999 – September 2000.

Source: ENARGAS's 1996, 1997, 1998 and 1999 annual reports and December 2000 quarterly report.

The Company believes there will be a significant growth in the use of natural gas throughout the Southern Cone driven by the rapid growth in the electricity demand in Argentina, Brazil, Chile and Uruguay. Due to the significant gas reserves in Argentina and Bolivia within their territories, these countries are becoming major natural gas exporters to Chile, Brazil, and Uruguay. There are various pipeline construction projects in different stages of development (some of them were concluded during 1999 and 2000) to connect the electricity demand in Chile, Brazil and Uruguay to the Argentine and Bolivian gas basins. TGS is strategically positioned, being the operator of the General San Martín pipeline which connects the Austral basin gas reserves to the largest population centers of Argentina. Such reserves would become essential to support these export projects. Management believes that TGS will be required to expand the system capacity over the medium and long term if it is to participate in this expected growth in gas demand.

Gas Supply. For the most part, Argentina's gas reserves have been originally discovered as a consequence of exploration for oil reserves. There are 19 known sedimentary basins in the country, ten of which are located entirely onshore, six of which are combined onshore/offshore and three of which are entirely offshore. Production is concentrated in five basins: Noroeste in northern Argentina, Neuquén and Cuyo in central Argentina, and Golfo San Jorge and Austral in southern Argentina. Approximately 65% of the gas transported by the TGS system in 1999 originated in the Neuquén basin with the remainder coming primarily from the Austral basin. TGS's pipeline system is connected to the Neuquén, Austral and San Jorge basins. TGS is not connected to the Cuyo or Noroeste basins. According to data published by the Argentine Secretary of Energy, proved gas reserves as of December 31, 1999 from basins to which TGS's pipeline system is connected would last approximately 16 years based on the level of production

during 1999.

Set forth in the table below is the location of the principal gas producing basins by province, their proved natural gas reserves estimated as of December 1999, production in 1999 and the calculated reserve life for each basin.

Basin	Location by province	Proved Gas Reserves ⁽¹⁾⁽²⁾ MMm ³	Production 1999 MMm ³	Reserve Life ⁽³⁾ (years)
Neuquén	Neuquén, Río Negro, La Pampa, Mendoza (south)	377,118	25,124	15.0
Austral	Tierra del Fuego, Santa Cruz (south), and offshore	171,437	8,406	20.4
Golfo San Jorge	Chubut, Santa Cruz (north)	33,337	2,487	13.4
Cuyo	Mendoza (north)	879	80	11.0
Noroeste	Salta, Jujuy, Formosa	146,444	6,321	23.2
Total		<u>729,215</u>	<u>42,418</u>	<u>17.2</u>

⁽¹⁾ Estimated as of December 31, 1999. There are numerous uncertainties inherent in estimating quantities of proved reserves. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Results of drilling, testing and production after the date of the estimate may require substantial upward or downward revisions. Accordingly, the reserve estimates could be materially different from the quantity of gas that ultimately will be recovered.

⁽²⁾ Reserve figures do not include significant reserves located in certain Bolivian basins to which TGN is connected.

⁽³⁾ Weighted average reserve life for all basins, at 1999 production levels.

Source: Instituto Argentino de Petróleo y Gas.

Neuquén Basin. The largest of the gas basins and the major source of gas supply for the TGS system is the Neuquén basin, located in west central Argentina. The TGN system also accesses the Neuquén basin. Of the transported gas coming from the Neuquén Basin approximately 66% was transported by TGS and approximately 34% by TGN for the twelve-month period from October 1999 through September 2000.

Austral and Golfo San Jorge Basins. Natural gas provided by this basins, located in the extreme southern region and southern portion of Argentina, was transported mainly by TGS (Sur also transports gas through regional pipelines). In the Austral basin, exploration has centered in and around the basin's existing gas fields and on other fields located offshore. The Golfo San Jorge basin is primarily an oil-producing basin.

Regulatory Framework

Industry Structure. The Natural Gas Act, together with Decree No. 1,738/92, other regulatory decrees, *El Pliego de Bases y Condiciones para la Privatización de Gas del Estado S.E.* ("the Pliego"), the transfer agreements and the licenses of the newly privatized companies establish the legal framework for the transportation and distribution of gas in Argentina. Law No. 17,319 (the "Hydrocarbons Law") regulates the upstream gas industry, under a competitive and partially deregulated system.

Natural gas transportation and distribution companies operate in an "open access", non discriminatory environment under which producers and certain third parties, including distributors, are entitled to equal and open access to the transportation pipelines and distribution system in accordance with the Natural Gas Act, applicable regulations and the licenses of the privatized companies. In addition, a regime of concessions under the Hydrocarbons Law is available to holders of exploration concessions to transport their own gas production.

The Natural Gas Act prohibits gas transportation companies from also being merchants in natural gas. Also, (i) gas producers, storage companies, distributors, and consumers who contract directly with producers may not own a controlling interest (as defined in the Natural Gas Act) in a transportation company, (ii) gas producers, storage companies and transporters may not own a controlling interest in a distribution company, and (iii) merchants in natural gas may not own a controlling interest in a transportation or distribution company.

Contracts between affiliated companies engaged in different stages in the natural gas industry must be approved by ENARGAS. ENARGAS may reject these contracts if it determines that they were not entered into on an arms-length basis.

ENARGAS, which was established by the Natural Gas Act, is an autonomous entity responsible for enforcing the provisions of the Natural Gas Act, applicable regulations and the licenses of the privatized companies. ENARGAS is governed by a board of directors composed of five full time directors who are appointed by the Executive Branch subject to confirmation by the Congress. ENARGAS, which operates within the purview of the Ministry of Economy and Public Works and Services, has broad authority to regulate the operations of the transportation and distribution companies, including the ability to set rates. ENARGAS has its own budget which must be included in the Argentine National Budget and submitted

to Congress for approval. ENARGAS is funded principally by annual control and inspection fees that are levied on regulated entities in an amount equal to the approved budget, net of collected penalties, allocated proportionately to each regulated entity based on their respective gross regulated revenues, excluding natural gas purchase and transportation costs in the case of distribution companies. ENARGAS also collects the fines imposed for violations of the Natural Gas Act and each company's license.

In accordance with the Natural Gas Act, the Decree No. 1,738/92 and the License provisions, the ENARGAS was required to issue accounting standards based on Argentine GAAP to be applied to the gas transportation and distribution companies (the Gas Companies) for regulatory purposes within the 12-month period after the privatization. In late April 2000, ENARGAS issued Resolution N° 1,660 ("the Resolution") containing the chart of accounts and certain valuation and disclosure criteria, which should be considered by gas transportation and distribution companies for regulatory purposes, effective January 1, 2001, except for specific criteria for valuation of property, plant and equipment, which is applicable starting January 1, 2000. Regarding such specific criteria, the Resolution determined maximum useful lives applicable to each component of fixed assets related to the gas transportation service, which are lower than those used by the Company in the preparation of its financial statements until December 31, 1999. The Resolution also outlines criteria for asset retirements and defines which costs should be considered as improvements or maintenance expenses. Additionally, on September 18, 2000, ENARGAS issued Resolution N° 1,903 to clarify the definitions and guidelines mentioned in the Resolution for its better interpretation and application. The impact of higher depreciation expense, derived from the application of the useful lives determined by ENARGAS on the Company's net income for the year ended December 31, 2000, is described in Note 2.h) to the Company's consolidated financial statements as of December 31, 2000 and 1999, included elsewhere herein.

Furthermore, ENARGAS, by means of the above mentioned resolutions, determined that, among others, organization or pre-operating costs and re-organization costs shall not be considered as intangible assets. Consequently, ENARGAS requires that the book value as of December 31, 2000, of these concepts should be completely amortized during the fiscal year beginning January 1, 2001. As of December 31, 2000, Ps. 24.1 million for these concepts is recorded in the account "Intangible assets". In December 2000, TGS requested CNV to intercede with ENARGAS in order to continue recording its intangible assets in accordance with the governing Argentine GAAP. The application of ENARGAS criteria would affect the principle of information of comparability since the valuation of these intangible assets in accordance with the provisions settled by the ENARGAS would result different to that made by other listing companies developing other type of business. As of the date of issuance of this Annual Report, the Company has not received any response hereto.

The TGS License. The TGS License authorizes it to provide the public service of gas transportation through the exclusive utilization of the southern gas transportation system. The TGS License does not grant an exclusive right to TGS to transport gas in a specified geographical area and licenses may be granted to others for the provision of gas transportation services in the same geographical area. TGN operates the northern gas transportation system under a license containing substantially similar terms to those described below and elsewhere herein.

The TGS License has been granted for an original term of 35 years beginning on December 29, 1992. However, the Natural Gas Act provides that TGS may apply to ENARGAS for a renewal of the TGS License for an additional ten-year term. ENARGAS is required at that time to evaluate TGS's performance and make a recommendation to the Executive Branch. If ENARGAS determines that TGS is in substantial compliance with all its obligations arising under the Natural Gas Act, related regulations and the TGS License, the renewal must be granted by the Executive Branch. ENARGAS would have the burden of proving that TGS had not complied with the obligations described above and, therefore, should not be granted a renewal. At the end of the 35-year or 45-year term, as the case may be, the Natural Gas Act requires that a new competitive tender be held for the license, in which TGS would have the option, if it has complied substantially with its obligations described above, to match the best bid offered to the Argentine Government by any third party. To the extent that TGS were found not to have complied with the obligations described above or chose not to seek renewal of its License, the Company would be entitled to certain specified compensation. See "Certain Restrictions with Respect to Essential Assets" below.

The TGS License also specifies certain other rights and obligations of TGS relating to the service which it provides. These include:

- operating and safety standards;
- terms of service, including general service conditions such as specifications regarding the quality of gas transported, major equipment requirements, invoicing and payment procedures, imbalances and penalties, and guidelines for dispatch management;
- contract requirements, including the basis for the provision of service, e.g., "firm" or "interruptible";

- mandatory capital investments to be made over the first five years of the license term; and
- applicable rates based on the type of transportation service and the area serviced.

The mandatory five-year investment plan for the years 1993-1997, which was approved by ENARGAS in 1999, required the Company to invest on its natural gas pipeline system a total of US\$ 153 million representing US\$ 30.6 million per year beginning in 1993. This mandatory investment plan was related to the operational capability and public safety of the pipeline system and included, among others, cathodic protection, internal inspection and pipeline replacement and coating.

The TGS License establishes a system of penalties in the event of a breach by TGS of its obligations thereunder, including warnings, fines and revocation of the License. These penalties may be assessed by ENARGAS based, among other considerations, upon the severity of the breach or its effect on the public interest. Fines of up to US\$ 500,000 may be levied for persistent breaches. Revocation of the TGS License may only be declared by the Executive Branch upon the recommendation of ENARGAS. The TGS License specifies several grounds for revocation, including the following:

- repeated failure to comply with the obligations of the License and failure to remedy a significant breach of an obligation in accordance with specified procedures;
- total or partial interruption of the service for reasons attributable to the Company, affecting completely or partially transportation capacity during the periods stipulated in the License;
- sale, assignment or transfer of the Company's 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;
- bankruptcy, dissolution or liquidation of the Company;
- ceasing and abandoning the provision of the licensed service, attempting to assign or unilaterally transfer the License in full or in part without the prior authorization of ENARGAS, or giving up the License, other than in the cases permitted therein; and
- transfer of the Technical Assistance Agreement, or 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.

The TGS License also prohibits the Company from assuming debts of CIESA, or from granting credit to, creating security interests in favor of, or granting any other benefit to, creditors of CIESA.

The TGS License may not be amended without the consent of TGS. However, ENARGAS may alter the terms of service annexed to the License. If any such alteration were to have an economic effect on TGS, ENARGAS could modify TGS rates to compensate for such effect or TGS could request a change in the applicable rates.

Regulation of Transportation Rates - Actual Rates. The gas transportation rates established under each transportation company's license are based in U.S. dollars and converted into pesos at the time of billing pursuant to the terms of such license at the rate of exchange as provided in the Convertibility Law, as it may have been amended at the time of billing. The current rates are fixed for the five-year period ending December 31, 2002 and are subject to the adjustment described below.

The transportation rate for firm transportation services consists of a capacity reservation charge and is expressed as a maximum monthly charge based on the cubic meters per day of reserved transportation capacity. The rate for interruptible transportation service, which is expressed as a minimum (from which no discounts are permitted) and a maximum rate per 1,000 m³ of natural gas transported, is equivalent to the unit rate of the reservation charge for the firm service based on a load factor of 100%. For both firm and interruptible transportation services, customers are obligated to provide a natural gas in-kind allowance, expressed as a maximum percentage of gas received, equivalent to the gas consumed or lost in rendering the transportation service. The rates for all services reflect the rate zone(s) traversed from the point of receipt to the point of delivery.

The table below sets out TGS's firm and interruptible rates by pipeline and zones, in effect since January 1, 2001:

<u>Firm</u>	<u>Interruptible</u>
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Rate Zones		Reservation Charge ⁽¹⁾ (US\$/m ³ /d)	Minimum Charge ⁽²⁾ (US\$/1000 m ³ /d)	Compression Fuel and Losses ⁽³⁾ (%)
Receipt	Delivery			
From Tierra del Fuego to:	Tierra del Fuego	0.076	2.541	0.49
	Santa Cruz Sur	0.154	5.123	0.98
	Chubut Sur	0.392	13.068	3.38
	Buenos Aires Sur	0.462	15.396	5.60
	Bahía Blanca	0.707	23.583	8.40
	La Pampa Norte	0.705	23.500	8.60
	Buenos Aires	0.828	27.593	10.35
	Greater Buenos Aires	0.929	30.959	11.27
From Santa Cruz Sur to:	Santa Cruz Sur	0.077	2.575	0.49
	Chubut Sur	0.315	10.508	2.89
	Buenos Aires Sur	0.385	12.841	5.11
	Bahía Blanca	0.632	21.071	7.91
	La Pampa Norte	0.632	21.067	8.11
	Buenos Aires	0.753	25.093	9.86
	Greater Buenos Aires	0.854	28.470	10.78
From Chubut to:	Chubut Sur	0.077	2.554	0.49
	Buenos Aires Sur	0.144	4.788	2.71
	Bahía Blanca	0.383	12.768	5.51
	La Pampa Norte	0.402	13.406	5.71
	Buenos Aires	0.498	16.598	7.46
	Greater Buenos Aires	0.594	19.790	8.38
From Neuquén to:	Neuquén	0.068	2.334	0.49
	Bahía Blanca	0.331	11.018	2.80
	La Pampa Norte	0.356	11.868	3.15
	Buenos Aires	0.448	14.923	3.91
	Greater Buenos Aires	0.548	18.315	4.86

(1) Monthly charge for every cubic meter per day of reserved transportation capacity.

(2) Minimum charge equal to the unit rate of the firm reservation charge at a 100% load factor.

(3) Maximum percentage of total transported gas which customers are required to replace in-kind to make up for gas used by the Company for compressor fuel or losses in rendering transportation services.

Source: ENARGAS Resolution No. 2057/01 (gross receipts tax is not included in such transportation rates).

Adjustment of Rates. Under the TGS License, the Company is permitted to adjust rates (i) semi-annually to reflect changes in the US producer price index -industrial commodities- (“PPI”), and (ii) every five years in accordance with efficiency and investment factors to be determined by ENARGAS. In addition, subject to ENARGAS’s approval, rates may be adjusted from time to time to reflect cost variations resulting from changes in the tax regulations (other than income tax) applicable to the Company, and for objective, justifiable and non-recurring circumstances.

The Natural Gas Act requires that in formulating the rules that apply to the setting of future rates, ENARGAS must provide the transportation companies with (i) an opportunity to collect revenues sufficient to recover all proper operating costs reasonably applicable to service, taxes and depreciation, and (ii) a reasonable rate of return, determined in relation to the rate of return of businesses having comparable risk, and shall take into account the degree of efficiency achieved and the performance of the company in providing the service. No assurances can be given that the rules to be promulgated by ENARGAS will result in rates that will enable the Company to achieve specific earnings levels in the future.

The rate-setting methodology contemplated by the Natural Gas Act and the TGS License is the “price-cap with periodic review” model. Under this model, rates may be adjusted by an efficiency and an investment factor. Based upon the regulatory theory, those rates should provide a reasonable return and that the benefit of increased efficiency should be shared by the consumer and the transporter, the inclusion of an efficiency factor results in a decrease in rates as the transporter lowers costs through increased efficiency. Notwithstanding this, the inclusion of the efficiency factor in the pricing system provides the transporter with an incentive to cut costs because the price is established in advance for the period up to the next five-year revision, and does not discount for efficiencies made during the period. The adjustment to account for efficiencies is proposed by ENARGAS based on specific plans for efficiency improvements, taking into account both the expected cost savings and the investment required for the implementation of such plans.

The inclusion of the investment factor in the formula specified in the TGS License is intended to permit an increase in the rates at the time of their adjustment to compensate the Company for certain investments to be made during the relevant five-year period. The investments contemplated by the investment factor are those designed to improve the efficiency, safety or reliability of the system and to expand the system, and may either be required by ENARGAS to be made or may initially be

proposed to be undertaken by the Company. In exceptional cases, the Company may also petition ENARGAS at any time for a rate adjustment relating to proposed investments to expand system capacity when the resulting costs cannot be recovered with the existing rate.

If TGS does not agree on the efficiency or investment factors established by ENARGAS, or on the terms of the investment program established by ENARGAS, the factors established by ENARGAS will be applied but TGS may seek review of ENARGAS's action by administrative or judicial procedures.

ENARGAS is responsible for determining the rates that are to be effective during each succeeding five-year period following the initial five-year period ended December 1997. In 1996, ENARGAS set the weighed average cost of capital to be used for the determination of the efficiency and investment factors at 11.3% per annum, net of future inflation. As a result of the first general rate review process which ended in December 1997, the Company's transportation rates suffered an up front one-time decrease of 6.5% effective January 1, 1998, based on the application of the efficiency factor, representing a decrease of approximately Ps. 24 million in 1998 net revenues. In connection with the investment factor, ENARGAS approved the application of periodic increases through January 2002 to the Company's tariffs resulting in a total weighted average of 2.6% as of that date to compensate the Company for approximately US\$ 70 million in investments. These investments principally include the modifications to the Buenos Aires high-pressure ring, the expansion of the Cordillerano Pipeline in Western Argentina, and enhancements to the General San Martín pipeline in preparation for future expansions. As part of such 2.6%, ENARGAS approved average rate increases for the application of the investment factor which as of December 31, 2000 represent an accumulated 2.31%.

In January 2000, ENARGAS, through its Resolution N° 1,470, and with the previous consent of the gas transportation and distribution companies, approved the postponement of the 3.78% PPI adjustment (which corresponds to the first semester of the year 2000) until July 1, 2000. Such extraordinary and one-time postponement implies a financing and subsequent recovery of the adjustment. In August 2000, the Executive Branch issued Decree N° 669/00, based on an agreement signed by the Federal Energy Bureau, representing the Ministry of Economy, ENARGAS and TGS, together with other gas licensee companies. This decree establishes that the revenues accrued during the first half of 2000 plus interest accrued for the application of the 3.78% PPI adjustment, will be billed, through a tariff increase, in a twelve-month period starting July 1, 2000. In addition, such decree provides for the deferral of any PPI adjustment from July 1, 2000, until June 30, 2002 (the PPI increases effective from July 1, 2000, and January 1, 2001 were 2.32% and 4.01%, respectively). Accrued revenues related to PPI adjustments, plus interest, will be included in an accrual fund, provided that such accrual fund remains within specific limits, and will be billed, through a tariff adjustment, in a twenty four-month period starting July 1, 2002. In late August 2000, Administrative Contentious Federal Trial Court N°8 granted a precautionary measure requested by the Ombudsman and ordered the suspension of the application of Decree N°669/00, since, in the opinion of the Court, the allegation that the application of the PPI adjustment contradicts Law N° 23,928 of Convertibility, constitutes a reasonable ground to request the suspension of Decree N° 669/00. This measure was subsequently appealed by the Federal Executive Branch, ENARGAS and the majority of licensees companies. In August 2000 and January 2001, ENARGAS notified TGS that the Company must abide by the court order, although decree N°669/00 has not been declared null. Therefore, ENARGAS requested that the effects of this decree shall not be applied on the tariffs, which shall keep the value in force during the first half of the year 2000 until there is a final court decision. The Company requested ENARGAS to reconsider the decision of applying the tariff level in place prior to the issue of the Decree N°669/00 and to apply the tariffs resulting from the Resolution N° 1,470, mentioned above.

The Company considers that: i) the billing deferral of the mentioned tariff adjustment is a financing method mandated by the Argentine Government related to rendered services regardless of future services to be provided to customers, ii) to the extent the deferral might not be billed to customers, the Company should receive a compensation from the Argentine Government for the amounts not billed as a result of services already provided and, iii) as the PPI adjustment arises from a special Law (Law N° 24,076) which is subsequent to Law N° 23,928 of Convertibility, and additionally, according to the provisions of this Law, PPI adjustment does not constitute an inflation adjustment, but it is an adjustment that follows the international evolution of changes in the value of goods and services that represent the activity of the licensee gas companies. Therefore, the mentioned tariff increases derived from the application of the Decree 669/00, which amounted to Ps. 18.1 million, were recognized as revenues in the TGS's consolidated financial statements as of December 31, 2000, and they are included in the account "Non current trade receivables" at such date, because such tariff increases are fully recoverable.

Certain Restrictions with Respect to Essential Assets. A substantial portion of the assets transferred by GdE has been defined in the TGS License as essential for the performance of the licensed service. Pursuant to the TGS License, the Company is required to segregate and maintain the essential assets, together with any future improvements thereon, in accordance with certain standards defined in the License.

The Company may not for any reason dispose of, encumber, lease, sublease or lend essential assets for purposes other than

provision of the licensed service without ENARGAS's prior authorization. Any extensions or improvements that the Company may make to the gas pipeline system may only be encumbered to secure loans that have a term of more than one year to finance such extensions or improvements.

Upon expiration of the License, the Company will be required to transfer to the Argentine Federal Government or its designee, the essential assets specified in the License as of the expiration date, free of any debt, encumbrance or attachment, receiving compensation equal to the lower of the following two amounts:

- the net book value of the essential assets determined on the basis of the price paid by CIESA for shares of common stock of TGS plus the original cost of subsequent investments carried in US dollars in each case adjusted by the PPI, net of accumulated depreciation in accordance with the calculation rules to be determined by ENARGAS.
- the net proceeds of a new competitive bidding.

Under Argentine law, an Argentine court would not permit the enforcement of a judgment on any property of TGS located in Argentina which is determined by the courts to provide essential public services. This may adversely affect the ability of a creditor to realize a judgment against the assets of TGS.

The Transfer Agreement allocates to GdE or the Company, respectively, liabilities for damages caused by or arising from the GdE assets transferred according to whether the damages arise from the operation of the assets prior to or following the Takeover Date. Also, pursuant to the Agreement, the Company is responsible for any defects in title to such assets, although any such defects are not expected to be material. The Transfer Agreement further provided that GdE is responsible for five years from the transfer date until December 1997, for the registration of easements related to the system which have not been properly recorded and for the payment to property owners of any royalties or fees in respect thereof. From 1998, the Company is responsible for properly recording any remaining easement agreement and for making payments of royalties or fees related to such easements. See Item 8. "Financial Information".

Competition

The Company's gas transportation business, which provides an essential service in Argentina, faces only limited direct competition. Although there are no regulatory limitations on entry into the business of providing gas transportation services in Argentina, the construction of a competing pipeline system would require substantial capital investment and the approval of ENARGAS. Moreover, as a practical matter, a direct competitor would have to enter into agreements with distribution companies or end users to transport a sufficient quantity of gas to justify the capital investment. In view of the Company's current firm transportation contracts with its distribution company customers, and the other characteristics of the markets in which the Company operates, management believes that it would be very difficult for a new entrant to the transportation market to pose a significant competitive threat to the Company, at least in the short to intermediate term. In the longer term, the ability of new entrants to successfully penetrate TGS's market would depend on a favorable regulatory climate, an increasing and unsatisfied demand for gas by end users, and sufficient investment in downstream facilities to accommodate increased delivery capacity from the transportation systems.

On a day-to-day basis, the Company competes with TGN, to a limited extent, for interruptible transportation services and from time-to-time for new firm transportation service made available as a result of expansion projects being undertaken by each of the two companies for service to the distribution companies to which both the Company and TGN are either directly or indirectly connected (Pampeana, MetroGas and BAN). TGS and TGN compete directly for the transportation of gas from the Neuquén basin to the greater Buenos Aires area. Interruptible transportation service represented only 2% of the Company's regulated net revenues for 2000. The relative volumes of such service will depend principally on the specific arrangements between buyers and sellers of gas between such areas, the perceived quality of service offered by the competing companies, and the applicable rate for each company. The following chart shows the current contracted capacity by Pampeana, Metrogas and BAN from the Neuquén basin with TGS and TGN in MMm³/d:

	TGS	TGN
Pampeana	7,125	250
MetroGas	13,740	970
BAN	8,968	4,305

ENARGAS has issued rules establishing a methodology to govern the brokering of excess capacity among the distribution companies and other transporters of natural gas, which has been effective since mid April 1997. The system is administered by TGS and TGN. To the extent that such capacity brokerage results in more efficient use of contracted firm capacity, the demand for interruptible transportation services by TGS and TGN customers could decrease.

Gas transportation companies should not be directly affected by changes in gas prices resulting from deregulation, since they neither buy nor sell gas commercially. However, competition in gas markets may affect both TGS and TGN to the extent that the gas basins which they service suffer from a loss of demand as a result of price competition with gas from other basins. This may affect the volume of gas transported from particular gas producing regions. Currently, the city gate price of gas (well-head cost plus transportation cost), originated from Argentine gas basins is approximately Ps. 2.2 per MM of BTU at the Greater Buenos Aires high-pressure ring (delivery points for the greater consumption area in Argentina).

The cost of gas relative to competing fuels may also affect the demand for transportation services in the long term. The delivery cost of gas to end users in Argentina, based on energy content, is currently lower than that of alternative sources of fuel, except for hydroelectric power and fuel oil (for certain periods).

Since the generation of hydroelectricity is the lowest cost source of electricity in Argentina, a substantial increase in the availability of hydroelectricity would displace a significant amount of electricity generated by gas-fired power plants in TGS service territory, thereby causing a decrease in gas usage. This could: (i) reduce demand for interruptible gas transportation, and (ii) prompt the exercise of step-down rights in firm contracted capacity by TGS's customers. The Yacyretá hydroelectric project in northeastern Argentina, with a projected annual generation capacity of 19,000 GW/h and with twenty turbines on-line, was completed in 1998. Based on information provided by *Compañía Administradora del Mercado Mayorista Eléctrico S.A. ("CAMMESA")* in 2000, Yacyretá supplied approximately 15% of the total energy generation in Argentina and 38% of total generated hydroelectricity in Argentina.

In addition, Transener S.A. (a company holding an energy transmission license covering the area from the Comahue region to the greater Buenos Aires area) successfully bid for the construction, operation and maintenance of a 1,300 Km (812 miles) /550 kw energy transmission line. The new line started operating in December 1999. The Company expects this additional energy transmission line will not have a significant negative impact on the volumes of gas transported.

LPG PRODUCTION AND COMMERCIALIZATION - NON-REGULATED BUSINESS

LPG production and commercialization activities are not subject to regulation by ENARGAS. LPG production and commercialization net revenues accounted for approximately 14%, 15% and 11% of net revenues in 2000, 1999 and 1998, respectively.

TGS's LPG production and commercialization activities are conducted at its Cerri Complex. The Cerri Complex is located near the city of Bahía Blanca, connected to each of TGS's main pipelines where ethane, propane, butane and natural gasoline are recovered.

The annual sales for the Cerri Complex for 2000, 1999 and 1998 in short tons were as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Ethane	355,057	377,711	327,578
Propane	370,952	396,390	298,788
Butane	264,588	286,204	213,571
Natural gasoline	120,562	129,288	91,457
Total	<u>1,111,159</u>	<u>1,189,593</u>	<u>931,394</u>

Sales for 2000 were lower than for 1999, principally as a result of an unusually severe winter season in 2000, which affected gas processed at the Cerri Complex. Sales for 1999 were higher than for 1998, mainly as a consequence of the start up of the Cerri Complex expansion. See "Item 5. Operating and Financial Review and Prospects".

Propane, butane and natural gasoline are transported via two eight-inch pipelines to the loading terminal at Puerto Galván. Ethane is piped via an eight-inch pipeline to Petroquímica Bahía Blanca's ("PBB") olefins plants which is the sole outlet for ethane from the Cerri Complex. The Cerri Complex extracts ethane only when it can be accepted at PBB. Otherwise, any ethane extracted is reinjected into the pipeline.

In December 1998, the Company completed the expansion of the gas processing and storage capacity at the Cerri Complex. The expansion, with a construction cost of approximately US\$ 76 million, increased processing capacity by 13 MMm³/d (0.46 Bcf/d), or 43%, and consisted of the construction of a new liquids extraction module, the upgrading of the existing turbo compressors and the construction of two refrigerated storage tanks with a combined capacity of 45,000 m³. As a result of this increase in processing capacity, TGS has been able to secure additional gas volumes for processing and to enter into agreements with: (i) *Petróleos Brasileiros S.A. ("Petrobrás")* for the sale of propane, butane and natural gasoline effective from such expansion start-up through December 2000 (See "Competition") and (ii) local

LPG marketers.

TGS currently processes natural gas principally for the accounts of Repsol-YPF, Pecom Energía and Total Austral. The processing agreement with Repsol-YPF provides for, among other things, a fixed charge per metric ton of liquids produced. Repsol-YPF has processing rights for up to the first 16 MMm³/d (565 MMcf/d) through December 31, 2005 and is required to make in-kind deliveries of additional gas to replace its attributable share of the natural gas shrinkage, fuel and losses associated with the extraction of liquids from the gas. Gross revenues derived from gas processing for the account of Repsol-YPF amounted to Ps. 22.9 million in 1999, representing approximately 35% of TGS's gas processing revenues. The processing agreements with Pecom Energía, which will finish at the beginning of 2005, provide for, among other things, a charge equal to a portion of the collected revenues from the sale of the liquids extracted and marketed by TGS for its account. Pecom Energía is required to make in-kind deliveries of additional gas to replace their attributable share of the natural gas shrinkage, fuel and losses associated with the extraction of liquids from the gas. Until December 31, 2000, TGS processed natural gas for the account of Metrogas, Pampeana and BAN. The agreements with these distribution companies provided for similar terms as the one described for Pecom Energía. As of the issuance date of this Annual Report, TGS is renegotiating the terms of the agreements with the purpose to provide incentives for the injection of rich natural gas to the system which could mitigate the effect of competitive projects. As the result of these renegotiations, TGS intends to count on the associated LPG so as to strength its role as LPG marketer.

LPG sales are principally made to liquid distributors of butane and propane at prevailing prices in the local market. The natural gasoline is sold to refiners and marketers of gasoline at prevailing prices in the local or external market. The ethane is sold to PBB at prices stipulated in the agreement.

Competition

Repsol-YPF, (which as of December 31, 2000, accounted for approximately 28% of TGS LPG production and commercialization gross revenues) together with Petrobrás and Dow Chemical, have formed Compañía MEGA S.A., which, at the end of 2000, finished building and started the operation of a gas processing plant with a capacity of approximately 36 MMm³/d (1.3 Bcf/d), located in the Province of Neuquén. Compañía MEGA S.A., as well as any other project that eventually may be developed upstream of the Cerri Complex, might adversely affect TGS' revenues from LPG production and commercialization services. To minimize the revenue impact of any project developed upstream of the Cerri Complex, during 2000, TGS signed agreements with gas producers and distributor customers to maximize the richness of the gas to be processed at the Cerri Complex and in order to have the availability of the associated liquids. TGS availability of LPG, together with the renegotiation of sale agreements with local and foreign LPG buyers, will contribute to improve position TGS into the value chain of the business, while strengthen our role as marketer of those products. In addition, the Company's management anticipates that future expansions on the pipeline system will provide new opportunities in the LPG production and commercialization business and lead to related increases in revenues from its gas transportation and LPG production and commercialization businesses.

OTHER SERVICES - NON-REGULATED BUSINESS

TGS's other services are basically activities upstream of TGS's mainline gas transportation and telecommunication services. These upstream activities consist of gas treatment at the wellhead which include the separation and removal of impurities such as water, carbon dioxide and sulfur from the natural gas stream. Small diameter pipes from the wellheads form a network, or gathering system, carrying the gas stream to larger pipelines where field compression is sometimes needed to inject the gas into the Company's large diameter gas pipelines. In addition, the Company also provides services related to pipeline construction, inspection and maintenance.

Gross revenues derived from other services for the years ended December 31, 2000, 1999 and 1998 amounted approximately to Ps. 28.1 million, Ps. 14.7 million and Ps. 4.2 million, respectively.

In connection with the development of the upstream business, in late December 1998, TGS closed an agreement with Pecom Energía to provide the services of compression and treatment of the natural gas coming from the Río Neuquén gas field from 1999 to 2017. In order to render this service, TGS acquired from Pecom Energía the compression and treatment plant located in that gas field, with a maximum capacity of 2.4 MMm³/d (74.16 Mcf/d). TGS paid for the plant US\$ 35 million and charges a monthly fee to Pecom Energía in dollars for the rendered services. Annual revenues during the first five years are expected to be approximately US\$ 10 million.

During 2000, TGS entered into agreements to implement its strategy of generating new opportunities to become one of the main suppliers in Argentina in this segment. Specifically, the Company provided construction services of a connection pipeline from gas fields located in the Santa Cruz province, owned by a consortium made up of Repsol-YPF, Astra and Pecom Energía, with TGS main pipeline system. Construction services represented revenues of approximately Ps. 15 million. TGS also provided services of operation and maintenance of that gathering system and of the associated gas treatment plant. In addition, during 2000, the Company entered into an agreement with Pan American Energy ("PAE") for the construction and subsequent operation and maintenance of a gas pipeline connecting the Cerro Dragón gas field, in Chubut province, with the Company's transportation system. That gas pipeline is 30 km long and has a transportation capacity of 2.0 MMm³/d (70 MMcf/d). The construction had an associated investment of approximately US\$ 2.9 million and started operation in the first half of 2000. Additionally, PAE requested TGS to expand the transportation capacity of 1.7 MMm³/d (60 MMcf/d), through looping the connection pipeline. The start up of the expansion is expected for mid 2001, and it will require additional investment of approximately US\$ 3.5 million. Another important achievement in this segment is the agreement signed with Pluspetrol Exploración y Producción S.A. for construction of a CO₂ extraction plant at one of its gas fields located in Salta province. That plant is expected to start operation in mid 2001 and represents the first TGS operation outside of its geographic service area.

TELCOSUR S.A. (Telecommunications System)

TGS, through its 99.98% controlled company, TELCOSUR, has incorporated a new area of services: telecommunications. TELCOSUR, was formed in September 1998 for the purpose of providing value-added and data transportation services, seeking to optimize use of the TGS' existing installed telecommunications infrastructure. Capitalizing on the growing opportunities in the telecommunications market, derived primarily from deregulation of the sector, during the second quarter of 2000, TGS, signed an agreement with NEC Argentina to expand its telecommunications system. That expansion will require approximately US\$ 29 million and will be completed in mid 2001. TELCOSUR, will provide services as an independent carrier of carriers and will also provide services to corporate customers within its area of influence. To date, TELCOSUR has successfully marketed much of its expanded capacity through long-term agreements with major local telecommunications operators.

During the last quarter of 2000, TELCOSUR embarked on a new phase in its telecommunications strategy, consisting of the installation of a high-capacity fiber optic network that will connect Buenos Aires, Bahía Blanca, and Neuquén, the most active corridor in its service area. This new step will enable TELCOSUR to strengthen its position as the leading carrier of carriers in the southern zone of Argentina within the Mercosur Corridor, and at the same time to complement the local and international telecommunications networks that have already been built or are in the process of being built. TELCOSUR, is currently negotiating the rights of way associated with laying that network. This new initiative shows TGS's on-going effort to maximize its shareholders' value, by taking advantage of favorable conditions in the telecommunications market and the availability of flexible and modern technologies.

C. Organizational Structure

TGS's controlling shareholder is CIESA, which together with Pecom Energía Group and Enron Corp., hold approximately 70% of the Company's common stock. The shares of CIESA are currently held 50% by Pecom Energía and a subsidiary and 50% by subsidiaries of Enron. The remaining ownership of TGS's capital stock is held by local and foreign investors.

TGS holds a 99.98% in TELCOSUR, company incorporated as a "sociedad anónima", under the Argentine Law. For more information about TELCOSUR, see section "Business Overview – Other Services – TELCOSUR."

D. Property, Plant and Equipment

Gas Transportation

The principal components of the pipeline system operated by TGS are as follows:

Pipelines. The 7,029 km (4,368 miles) natural gas transportation system owned and operated by TGS consists primarily of large diameter, high pressure pipelines intended for the transportation of large gas volumes at a pressure of approximately 60-70 kg/cm². Line valves are installed on the pipeline at regular intervals, permitting sections of the pipeline to be isolated for maintenance and repair work. Gas flow regulating and measurement facilities are also located at various points on the system to regulate gas pressures and volumes. In addition a cathodic protection system has been installed to protect the pipeline from corrosion and significantly reduce metal loss. All of the pipelines are located underground or underwater.

Maintenance bases. Maintenance bases are located adjacent to the gas pipeline system in order to maintain the pipeline and related surface facilities, and to handle emergency situations which may arise. Personnel at these bases periodically examine the pipelines to verify their condition, and inspect and lubricate pipeline valves. Personnel at the bases also carry out a cathodic protection system to ensure that adequate anti-corrosion systems are in place and functioning properly. They also maintain and verify the accuracy of measurement instruments to ensure that these are functioning within appropriate industry standards and in accordance with the specifications contained in TGS service regulations. TGS has determined that it can more effectively maintain the pipeline at a lower cost by outsourcing non-critical maintenance functions and reducing the number of maintenance bases. The Company has reduced the number of maintenance bases from 11 to 8. In addition, the Company has consolidated the operations of some maintenance bases with those of the compressor plants.

Compressor plants. Compressor plants along the pipelines recompress the gas volumes transported in order to restore pressure to optimal operational levels, thereby ensuring maximum use of capacity as well as efficient and safe delivery. Compressor plants are spaced along the pipelines at various points (between 100 and 200 km) depending upon certain technical characteristics of the pipelines and the required pressure for transport. Compressor plants include turbine-driven compressors or motor-driven compressors which use natural gas as fuel, together with electric power generators to supply the complementary electrical equipment (control and measurement devices, pumping, lighting, communications equipment, etc.).

TGS transports gas through four major pipeline segments: General San Martín, Neuba I, Neuba II and Loop Sur, as well as several smaller gas pipelines. Information with respect to certain aspects of TGS's main gas pipelines as of December 31, 2000, is set out in the table below:

Major Pipeline	Length (km)	Diameter (inches)	Maximum Pressure (kg/cm ²)	Compressor Units	Operative Compressor Plants	HP Output	Current Delivery Capacity	
							MMm ³ /d	MMcf/d
General San Martín	3,224	30	60	52	15	344,070	18.2	642.7
Neuba I/Loop Sur	1,203	24/30	60	12	4	54,200	11.6	409.6
Neuba II	1,352	30/36	70	15	6	119,200	29.1	1,027.7
Other ⁽¹⁾	1,250	Various	Various	6	3	7,500	--	--
	7,029			85	28	524,970	58.9	2,080.0

(1) Includes 398 km (247 miles) of transfer pipelines throughout the pipeline system, as well as the Cordillerano pipeline, with a length of 313 km (194 miles).

General San Martín. This pipeline was built in three stages, completed in 1965, 1973 and 1978, and transports gas from the extreme southern portion of Argentina to the greater Buenos Aires area in east central Argentina. It originates in San Sebastián (Tierra del Fuego), passes through the Straits of Magallanes and the Provinces of Santa Cruz, Chubut, Río Negro and Buenos Aires (including the Cerri Complex located near the city of Bahía Blanca in central Argentina), and terminates at the high pressure transmission ring around the city of Buenos Aires. The pipeline receives natural gas from the Austral basin in the extreme south at Tierra del Fuego, from the same basin further north at El Cóndor and Cerro Redondo, in the Province of Santa Cruz and from the San Jorge basin in northern Santa Cruz and southern Chubut provinces. The pipeline serves principally the districts and cities of Buenos Aires, La Plata, Mar del Plata, Bahía Blanca and Comodoro Rivadavia.

Neuba I (Sierra Barrosa-Bahía Blanca). Neuba I was built in 1970 and is one of TGS's two main pipelines serving its principal source of gas supply, the Neuquén basin. The pipeline originates in west-central Argentina at Sierra Barrosa (Province of Neuquén), passes through the provinces of Río Negro, La Pampa and Buenos Aires, and terminates at the Cerri Complex. This pipeline transports the gas received from the Neuquén basin, particularly from the Sierra Barrosa, Charco Bayo, El Medanita, Fernández Oro, Lindero Atravesado, Centenario, Río Neuquén and Loma de la Lata gas fields. The gas delivered from Neuba I is subsequently compressed and injected into the Loop Sur and the General San Martín pipelines for transportation north to the greater Buenos Aires area.

Loop Sur. This gas pipeline was built in 1972 as an extension of Neuba I and runs parallel to a portion of the General San Martín gas pipeline. Located in the province of Buenos Aires, it transports gas from the terminus of Neuba I at the Cerri Complex at Bahía Blanca and terminates at the high pressure transmission ring around Buenos Aires, which is also operated by TGS. The gas delivered by this gas pipeline constitutes a portion of the gas supply for the greater Buenos Aires area. Loop Sur is also connected to the TGN system and allows TGS to deliver gas to or receive gas from TGN. Such transfers occur occasionally during periods of high demand for gas.

Neuba II. TGS's newest pipeline, Neuba II, was built in 1988 and is TGS's other pipeline serving the Neuquén basin. Neuba II begins at Repsol-YPF's Loma de la Lata gas treatment plant in the western portion of the basin and runs through the provinces of Neuquén, Río Negro, La Pampa and Buenos Aires (through the Cerri Complex), up to its terminal station located at Ezeiza just outside of Buenos Aires. Neuba II is a principal source of gas for the Federal District and the greater Buenos Aires area.

Other Pipelines. Includes the Cordillerano pipeline, built in 1984, which receives gas from the Neuquén Basin and supplies it mainly to three tourist centers in Southern Argentina. In addition, TGS operates other minor pipelines, the high pressure transmission ring around Buenos Aires, the Chelforó-Conesa pipeline and other pipelines known as gas transfer pipelines.

Information regarding gas transportation system expansion is included in section Business Overview- Gas Transportation-Future Expansion.

Ancillary Facilities

Cathodic Protection System

Currently, TGS operates more than 200 cathodic protection devices, which are located along its main pipelines. The objective of this system is to mitigate the corrosion process on the pipe's surface. The corrosion process causes metal losses, which depending on the severity of the damage may cause pipeline ruptures. Cathodic protection equipment includes thermic, turbine-driven, motor-driven or even solar electric generators in locations where no electric lines are available. The system also includes an impressed current-deep anode, which facilitates circulation of electricity through in the circuit formed by the generator, the anode itself, the pipe and the land.

Gas Control System

Located at TGS' Buenos Aires headquarters, the gas control system controls scheduled gas injections and deliveries and allows TGS to follow gas flows in real time. Data is received from compressor stations by phone and automatically from remote terminal units ("RTU's") installed in the receipt and delivery points equipped with the EFM system. The information is normally collected by the Supervisory Control and Data Acquisition ("SCADA") system (which has an ad-hoc database that is updated every 30 seconds on average) and is then consolidated in other databases. In order to control gas injection and deliveries, TGS has developed a system software called *Solicitud, Programación, Asignación y Control* ("SPAC"), which, among other things, allows TGS to control actual volumes and projected future injections to determine producer deviations. As part of this system, TGS operates meteorological equipment and receives daily weather information from various sources, which is used for the purpose of forecasting the gas demand.

Gas Measurement

Shipped and delivered gas is measured through field primary facilities that are connected with RTU's. Such RTU's transmit the data to the Buenos Aires headquarters. This data is utilized to prepare reports for clients, shippers, producers and ENARGAS. Energetic balances are also prepared in order to control TGS system efficiency.

LPG production and commercialization

TGS's LPG production and commercialization activities are conducted at its Cerri Complex. It is located near the city of Bahía Blanca and is connected to each of TGS's main pipelines. The Cerri Complex consists of an ethane extraction plant to recover ethane, propane, butane and natural gasoline, together with a lean oil absorption plant to recover propane, butane and gasoline. The facility also includes compression, power generation and storage facilities. The Cerri Complex processing capacity is approximately 43 MMm³/d (1,519 MMcf/d).

As part of the Cerri Complex, TGS also maintains at Puerto Galván a storage and loading facility for the natural gas liquids extracted at the Cerri Complex. The Cerri Complex, including the Puerto Galván facility, is currently capable of storing 60,450 short tons. In 1998, TGS completed the expansion of the processing and storage facilities of the Cerri Complex. For a more detailed description of the expansion, see "Business Overview—LPG production and commercialization – non regulated business".

Environmental matters

TGS's management believes that the Company's current operations are in substantial compliance with applicable laws and regulations relating to the protection of the environment. TGS's environmental policy is designed to comply with Argentine laws relating to hazardous waste and air quality. Under these laws, the principal hazardous substances generated by TGS consist of discarded casing oil, and those parts of the compressor station entry filters which are soaked in hydrocarbons.

TGS has implemented a policy of reducing and treating hazardous substances. Consequently, during 1995 the Company completed a study of all the emissions produced by TGS, including gaseous, liquid and solid emissions, with the objective of making a quantitative and qualitative evaluation. The study covered all the compressor plants and maintenance bases, as well as the Cerri Complex, and extended along nearly 6,000 km (3,728 miles) of gas pipeline. Based on the results of the study, minor farm land restoration was required, as well as construction of drainage systems and the installation of incinerators for the hazardous substances. The Company has established an environmental and industrial security investment plan for the period 2000-2002 with an associated investment of approximately US\$ 3 million.

TGS' policy in connection with environmental affairs and industrial security is based on the Company's commitment to provide gas transportation and other related services observing the following principles:

- i. Continuous improvement in operating standards to avoid accidents and pollution.
- ii. Fulfillment of provisions contained in the current legislation and procedures adopted by the Company.
- iii. Establishment of annual goals and objectives in accordance with this policy and the Company's vision, mission and values.
- iv. Personnel training in accordance with the responsibility and the risks involved in each job.

In October, 1998, TGS obtained the Environmental Management System Certification, in accordance with the international standards ISO 14001.

Insurance

TGS maintains insurance, subject to deductibles, against third party liability, against business interruption and against damage to its pipeline assets which pass under rivers or other bodies of water, which it believes is commensurate with standards for international natural gas transportation companies. The terms of the policies related to the regulatory assets have been approved by ENARGAS. In addition, TGS obtained an insurance coverage for directors and officers. Such coverage is common practice among public companies who seek protection against shareholders' and other parties' claims.

Item 5. Operating and Financial Review and Prospects

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2000, 1999, and 1998, which have been prepared in accordance with Argentine GAAP. Such consolidated financial statements include the effects of inflation up through August 31, 1995, as described in Note 2.a) to the consolidated financial statements included elsewhere herein.

The financial information shown in this section is presented in accordance with Argentine GAAP. Argentine GAAP differs in certain respects from US GAAP. Note 12 to the Company's consolidated financial statements, included herein, provides a description of the main differences between Argentine GAAP and US GAAP as they relate to the Company and a reconciliation of significant differences to US GAAP of shareholders' equity at December 31, 2000 and 1999 and net income for the fiscal years ended December 31, 2000, 1999 and 1998.

A. Operating Results

The following table presents a summary of the consolidated operating results for the years ended December 31, 2000, 1999 and 1998:

	2000	1999	1998
	(in millions of pesos)		
Net revenues	479.7	430.3	395.1
Gas transportation.....	384.1	353.5	346.3
LPG production and commercialization	68.3	62.8	44.7
Other services	27.3	14.0	4.1
Operating costs	157.9	110.8	93.6
Labor costs.....	20.5	18.3	19.0
Depreciation	69.1	42.3	34.5
Other operating costs	68.3	50.2	40.1
Gross operating profit	321.8	319.5	301.5
Administrative and selling expenses	21.5	19.0	18.7
Operating income	300.3	300.5	282.8
Other expenses, net.....	7.1	3.0	3.7
Net financial expense.....	96.9	85.0	48.8
Income tax expense.....	70.0	66.8	73.8
Net income	126.3	145.7	156.5

Net income for the year ended December 31, 2000 declined by approximately 13% as compared to the same period of 1999 due primarily to: (i) increased operating costs because of the application of the new resolutions issued by ENARGAS mentioned below, resulting in a higher property, plant and equipment depreciation and pipeline maintenance expenses, and (ii) higher net financial expense, due mainly to a lower interest capitalization in fixed assets as a result of a lower level of work in progress and a higher average indebtedness. However, these effects were partially mitigated by higher net revenues in all business segments.

Net income for the year ended December 31, 1999 decreased by 7% when compared to the net income for the previous year, primarily as a consequence of: (i) increased operating costs due to mainly a higher property, plant and equipment depreciation expense, (ii) a material increase in net financial expense, as a result of a higher average indebtedness, increased interest rates and the creation of a new Argentine tax levied on certain financial costs. Both effects were partially offset by a rise in net revenues and a lower income tax expense attributable mainly to the decline in the taxable income.

Net revenues

Gas transportation (Regulated business)

Gas transportation is the Company's primary business and accounted for approximately 80%, 82% and 88% of the Company's total net revenues earned during the years 2000, 1999 and 1998, respectively. Gas transportation revenues are derived principally from firm contracts, under which pipeline capacity is reserved and paid for regardless of actual usage by the shipper. During 2000, firm transportation revenues represented 98% of total net revenues derived from the regulated business. TGS also provides interruptible transportation services subject to available pipeline capacity.

Net gas transportation revenues for the year ended December 31, 2000 increased by approximately 9% primarily derived from: (i) US producer price index-industrial commodities- ("PPI") increases of 0.24%, 3.78% and 2.32% effective July 1, 1999, January 1, 2000, and July 1, 2000, respectively, and (ii) higher average contracted capacity, which increased from 56.2 MMm³/d (1.98 Bcf/d) to 57.9 MMm³/d (2.04 Bcf/d) reflecting the impact of new firm transportation agreements which started in June and December 1999 and June 2000.

The higher contracted firm capacity resulted from, mainly, an open season concluded in May 1999, receiving 2.4 MMm³/d (84.8 MMcf/d) in net requests for additional transportation services. Also, in 1999, the Company concluded two open seasons which resulted in a 0.7 MMm³/d (24.7 MMcf/d) increase on firm contracted capacity and the extension of some transportation routes, requested by distribution companies customers. These agreements, which partially started in 1999 and will be fully effective by the first semester of the year 2001, required investments of approximately US\$ 13 million and, once operational, will generate additional annual revenues of approximately Ps. 6 million at current tariff levels. TGS did not request a tariff increase from ENARGAS in connection with this expansion project. Finally, in 1999, TGS concluded an expansion of the Neuba II pipeline, which increased available capacity by 1.4 MMm³/d (49.4 MMcf/d). The total investment of this expansion amounted to approximately US\$ 32 million. The total additional capacity was fully subscribed under firm long-term transportation agreements partially effective in 1998 and with full effect in 2001.

In late November 2000, TGS completed a new open season, receiving 3.2 MMm³/d (113 MMcf/d) in net requests for additional long term firm transportation contracts, representing an approximately 4.1% increase on its current firm contracted transportation capacity. The requests were mainly received from gas distribution customers and from industrial customers. These agreements will become partially effective during 2001, and will be fully effective by the year 2002, and are expected to generate annual additional revenues by Ps. 17 million, at current transportation rates. The expansion investments will amount to approximately US\$ 120 million and will consist of the construction of 302 km (188 miles) of looping in San Martín and Neuba II pipelines. In addition, TGS reduced by 50% its current exposure to contracted capacity reduction risk from some of its distribution companies. See Item 4. "Information on the Company – Gas Transportation – Step down Rights".

TGS, together with the consortium that won the bid to build a gas pipeline that will link Buenos Aires with Uruguay, with the possibility of expanding it into Brazil (the "Cruz del Sur" gas pipeline), are working to construct, operate and maintain the gas pipeline between TGS's system and the Cruz del Sur pipeline. This connection pipeline, which will have a length of approximately 40 km, will be extended from Buchanan, located in the high pressure ring (which is part of TGS's pipeline system) that surrounds Buenos Aires city, to Punta Lara and will have an initial capacity of 2 MMm³/d (70.6 MMcf/d) with an associated investment of approximately US\$ 20 million. The Cruz del Sur pipeline design projects to supply the potential growth of the Uruguayan market, with an estimated gas demand of 5.5 MMm³/d (194.2 MMcf/d) and furthermore meet additional opportunities on the southern of Brazil.

Net transportation revenues for the year ended December 31, 1999, were 2.1% higher than for the same period of 1998, primarily because of higher firm average contracted capacity, which rose from 55.4 MMm³/d (1.96 Bcf/d) for 1998 to 56.2 MMm³/d (1.98 Bcf/d) for 1999. The increased contracted capacity reflects additional transportation agreements, which started in May and December 1998, and June 1999. The Company's base transportation tariffs remained flat for the year 1999 given that the investment-related factor ("K Factor") increases were offset in equal proportion by a net reduction related to the semiannual adjustments for changes in the PPI. Changes in the PPI included reductions of 2.42% and 0.64% effective July 1, 1998 and January 1, 1999, respectively, and an increase of 0.24% effective July 1, 1999. Tariffs increases associated to the K Factor, consisted of 0.24%, 1.36% and 0.54%, effective July 1, 1998, January 1, 1999, and July 1, 1999, respectively, as approved by ENARGAS.

With respect to the increase of 3.78% derived from the PPI adjustment above mentioned, in January 2000, ENARGAS, through its Resolution N° 1,470, and with the previous consent of the gas transportation and distribution companies, approved the postponement of the 3.78% PPI adjustment (which corresponds to the first semester of the year 2000) until July 1, 2000. Such extraordinary and one-time postponement implies a financing and subsequent recovery of the adjustment. In August 2000, the Executive Branch issued Decree N° 669/00, based on an agreement signed by the

Federal Energy Bureau, representing the Ministry of Economy, ENARGAS and TGS, together with other gas licensee companies. This decree establishes that the revenues accrued during the first half of 2000 plus interest accrued for the application of the 3.78% PPI adjustment, will be billed, through a tariff increase, in a twelve-month period starting July 1, 2000. In addition, such decree provides for the deferral of any PPI adjustment from July 1, 2000, until June 30, 2002 (the PPI increases effective from July 1, 2000 and January 1, 2001 were 2.32% and 4.01%, respectively). Accrued revenues related to PPI adjustments, plus interest, will be included in an accrual fund, provided that such accrual fund remains within specific limits, and will be billed, through a tariff adjustment, in a twenty four-month period starting July 1, 2002. In late August 2000, Administrative Contentious Federal Trial Court N°8 granted a precautionary measure requested by the Ombudsman and ordered the suspension of the application of Decree N°669/00, since, in the opinion of the Court, the allegation that the application of the PPI adjustment contradicts Law N° 23,928 of Convertibility, constitutes a reasonable ground to request the suspension of Decree N° 669/00. This measure was subsequently appealed by the Federal Executive Branch, ENARGAS and the majority of licensees companies. In August 2000 and January 2001, ENARGAS notified TGS that the Company must abide by the court order, although decree N°669/00 has not been declared null. Therefore, ENARGAS requested that the effects of this decree shall not be applied on the tariffs, which shall keep the value in force during the first half of the year 2000 until there is a final court decision. The Company has requested ENARGAS to reconsider the decision of applying the tariff level in place prior to the issue of the Decree N°669/00 and to apply the tariffs resulting from the Resolution N° 1,470, mentioned above.

The Company considers that: i) the billing deferral of the mentioned tariff adjustment is a financing method mandated by the Argentine Government related to rendered services regardless of future services to be provided to customers, ii) to the extent the deferral might not be billed to customers, the Company should receive a compensation from the Argentine Government for the amounts not billed as a result of services already provided and, iii) as the PPI adjustment arises from a special Law (Law N° 24,076) which is subsequent to Law N° 23,928 of Convertibility, and additionally, according to the provisions of this Law, PPI adjustment does not constitute an inflation adjustment, but it is an adjustment that follows the international evolution of changes in the value of goods and services that represent the activity of the licensee gas companies. Therefore, the mentioned tariff increases derived from the application of the Decree 669/00, which amounted to Ps. 18.1 million, were recognized as revenues in the TGS's consolidated financial statements as of December 31, 2000, and they are included in the account "Non current trade receivables" at such date, because such tariff increases are fully recoverable.

The Company's transportation operations are affected by ENARGAS interpretation and application of regulations that apply to the Company. There can be no assurance that future developments in the establishment of applicable regulations to the natural gas industry or in the interpretation of such regulations or of the License will be favorable to the Company or that there will not be decisions affecting, or changes made to the regulatory regime which will adversely affect the consolidated financial condition or results of operations of the Company.

LPG production and commercialization (Non-regulated business)

The LPG production and commercialization segment is not subject to regulation by ENARGAS.

Net revenues from the LPG production and commercialization segment represented approximately 14%, 15% and 11% of the Company's total net revenues during 2000, 1999 and 1998, respectively.

Net revenues from the LPG production and commercialization increased by Ps. 5.5 million during the year ended December 31, 2000, as compared to the previous year, resulted fundamentally from higher international prices of LPG, partially mitigated by lower LPG volumes sold as a consequence of an unusually severe winter season, which affected gas processed at the Cerri Complex.

Net revenues for the year ended December 31, 1999 increased by approximately Ps. 18.1 million when compared to the previous year, primarily as a result of an approximate 26% rise in the volumes processed at the Cerri Complex attributable to the conclusion of the Complex expansion, as described below, and the scheduled plant maintenance in 1998.

At December 31, 2000, TGS has outstanding agreements with Repsol-YPF, certain gas distribution companies and natural gas producers, which assure the utilization of a firm processing capacity of approximately 42 MMm³/d (1.5 Bcf/d). At the end of 2000, TGS renegotiated the processing contract with Repsol-YPF for 16 MMm³/d (0.56 Bcf/d). Under this renegotiation, Repsol-YPF resigned its right to reduce the current contracted capacity up to 50% from January 1, 2001, and extended the term of the contract until December 31, 2005.

Compañía MEGA S.A. (whose shareholders are Dow Chemical, Repsol-YPF and Petróleos Brasileiros) built and started to operate a gas processing plant with a capacity of approximately 36 MMm³/d (1.3 Bcf/d) at the end of 2000. The MEGA project, as well as any other project that eventually may be developed upstream of the Cerri Complex, may adversely affect TGS's revenues from the LPG production and commercialization and other services businesses. However, TGS is negotiating with natural gas producers to introduce more rich gas in the Cerri Complex and mitigate the mentioned negative effect.

Other services (Non regulated business)

Other services segment is not subject to regulation by ENARGAS.

Net revenues from the other services segment represented approximately 6%, 3% and 1% of the Company's total net revenues during 2000, 1999 and 1998, respectively.

Net revenues from the other services segment increased by Ps. 13.3 million during the year ended December 31, 2000, as compared to the previous year, resulted fundamentally from pipeline construction services rendered to third parties.

Net revenues for the year ended December 31, 1999 increased by Ps. 9.9 million when compared to the previous year, primarily as a result of: (i) the commencement of operations of a gas treatment and compression plant located in the Río Neuquén gas field, acquired from Pecom Energía at US\$ 35 million, through which TGS renders services to Pecom Energía until late 2017, and (ii) pipeline construction services rendered to Profertil.

Operating costs and administrative and selling expenses

Operating costs and administrative and selling expenses for the year ended December 31, 2000 were approximately Ps. 49.6 million higher than the previous year, principally, because of the application of the resolutions issued by ENARGAS, mentioned below, resulting in higher depreciation expense and pipeline maintenance expenses. Additionally, the year ended December 31, 2000 includes the construction cost of a pipeline sold to third parties, mentioned above. In addition, labor cost capitalization during 2000 decreased by Ps. 2.0 million, reflecting lower capital expenditures in 2000.

Operating and administrative expenses for the year ended December 31, 1999, were Ps. 17.5 million higher than for the same period of 1998 due primarily to increased gas transportation maintenance expenses and higher property, plant and equipment depreciation, reflecting the Río Neuquén plant acquisition and the Cerri Complex expansion, both in late 1998.

In late April 2000, ENARGAS issued Resolution N° 1,660 ("the Resolution") containing the chart of accounts and certain valuation and disclosure criteria, which should be considered by gas transportation and distribution companies for regulatory purposes, effective January 1, 2001, except for specific criteria for valuation of property, plant and equipment, which is applicable starting January 1, 2000. Regarding such specific criteria, the Resolution determined maximum useful lives applicable to each component of fixed assets related to the gas transportation service, which are lower than those used by the Company in the preparation of its financial statements until December 31, 1999. The Resolution also outlines criteria for asset retirements and defines which costs should be considered as improvements or maintenance expenses. Additionally, on September 18, 2000, ENARGAS issued Resolution N° 1,903 to clarify the definitions and guidelines mentioned in the Resolution for its better interpretation and application. The impact of higher depreciation expense, derived from the application of the useful lives determined by ENARGAS on the Company's operating income for the year ended December 31, 2000 amounted to approximately Ps. 23.2 million. The new useful lives applied by the Company, disclosed in Note 13.a) to the consolidated financial statements included elsewhere herein, do not exceed the maximum useful lives, determined in such resolutions. As a consequence of the resolutions mentioned above, the Company's operating costs for 2000 reflect approximately Ps. 3.8 million of higher maintenance expenses as compared to the previous year.

The Company applied the straight-line method with a composite depreciation rate for all assets allocated to gas transportation service until December 31, 1999. Until December 31, 1997, average useful lives used for the depreciation of such assets was 45. The Company reevaluated the average useful lives in early 1998 following the conclusion of the five-year mandatory investment program required by ENARGAS for the period 1993-1997 and other safety and reliability investments performed to meet international standards. In doing so, the Company used the technical services of independent engineering experts who evaluated the condition of the assets allocated to the gas transportation and LPG production and commercialization services. Based on the results of such evaluation, a remaining average useful life of 67 years was determined for the assets related to the gas transportation service, effective from 1998. In late September

1999, ENARGAS requested the Company not to consider the useful life reestimation mentioned above, retroactive as of December 31, 1997, until such regulatory authority would make a final decision about the useful lives assigned to the assets related to the gas transportation service. The impact of the reestimation of the average useful life on net income amounted to approximately Ps. 11 million for each of the years ended December 31, 1999 and 1998. On January 24, 2000, the Company was again requested by ENARGAS not to apply the reestimated useful life of the assets allocated to the gas transportation system, notwithstanding the continuance of administrative procedures and subject to the beginning of the duly disciplinary proceedings. Based on the reasonability of the criteria applied on the reestimation of the useful life mentioned above and the interpretation of the Resolution regarding the valuation criteria of property, plant and equipment, the Company's management believes that any change that may eventually result from the above mentioned matters will not have a material retroactive impact at January 1, 2000.

In addition, during the fiscal year 2000, in compliance with the provisions stated by ENARGAS in the mentioned resolutions and maintaining the straight line method, the Company has changed the above mentioned composite depreciation rate, for individual depreciation rates for each component of the assets allocated to the gas transportation service. The impact of the depreciation criteria change for the assets allocated to the gas transportation on the Company's retained earnings as of December 31, 1999 and the consolidated net income for the year ended December 31, 2000, was not material.

ENARGAS, by means of the above mentioned resolutions, determined that, among others, organization or pre-operating costs and re-organization costs shall not be considered as intangible assets. Consequently, ENARGAS requires that the book value as of December 31, 2000, of these concepts should be completely amortized during the fiscal year beginning January 1, 2001. As of December 31, 2000, Ps. 24.1 million for these concepts is recorded in the account "Intangible assets". In December 2000, TGS requested CNV to intercede with ENARGAS in order to continue recording its intangible assets in accordance with the governing Argentine GAAP. The application of ENARGAS criteria would affect the principle of information of comparability since the valuation of these intangible assets in accordance with the provisions settled by the ENARGAS would result different to that made by other listing companies developing other type of business. As of the date of issuance of this Annual Report, the Company has not received any response hereto.

In connection with the easements payable starting January 1, 1998, TGS is currently negotiating with ENARGAS the recovery of the amounts paid, through increases in the gas transportation rates. The Company expects, based on its rights, to fully recover the amounts recorded.

TGS is a party in certain administrative procedures related to stamp tax on transportation service contracts and offers from its shippers. Additionally, GdE filed a legal action against TGS claiming the refunding of US\$ 23 million paid in connection with two compressor plants purchase orders. By the end of February 2000, a first judgement was pronounced upholding GdE's claim. Afterwards, TGS filed an appeal against this initial judgement (see Item 8 for further information regarding legal and regulatory matters).

Other expenses, net

Other expenses, net, for the year ended December 31, 2000, increased by Ps. 4.1 million, as compared to the same period of 1999, due mainly to a one-time adjustment of differences in payments of provincial taxes.

Net financial expense

Net financial expense for the year ended December 31, 2000, increased by approximately 14% as compared to the previous year due fundamentally to a 5% increase in TGS's average indebtedness, incurred principally to finance capital expenditures and a lower interest capitalization derived from a lower level of work in progress. The average all-in net cost of indebtedness increased slightly from 10.11% for the year ended December 31, 1999 to 10.13% for 2000.

Net interest expense for the year ended December 31, 1999, increased Ps. 36.2 million when compared to the previous year as a result of: (i) a 19% increase in the Company's average indebtedness incurred mainly to finance capital expenditures, (ii) a rise in interest rates, reflecting unfavorable international financial market conditions, which together with the amortization of the settlement cost of the hedges of anticipated transactions, as described in Note 5 to the consolidated financial statements included elsewhere herein, caused the average net cost of debt to increase from 7.5% in 1998 to 9.3% in 1999 and (iii) the creation of a new Argentine tax levied on interest payment and financial costs set by Law N° 25,063. The impact of such new tax on financial expense represented approximately 84 basis points, thus increasing the average all-in net cost of debt for 1999 to 10.11%. TGS is carrying out the judicial procedures to recover the burden of the new tax on interest payments and financial costs mentioned above, through an adjustment to the gas transportation tariffs, as provided in the License. For the years ended December 31, 2000 and 1999, Ps. 6.8 million and

Ps. 7.9 million, respectively, were accrued for such concept in the account “Net financial expense” of the TGS consolidated statement of income.

Although no assurance can be given, the Company believes that a devaluation of the Argentine peso would not have a material adverse impact on the Company's operating income because the Company's gas transportation tariffs are dollar-based, while approximately 75% of its costs are peso-denominated. Nevertheless, a significant devaluation of the exchange rate would result in a foreign currency loss, derived from the foreign-currency denominated net debt maintained by the Company which at December 31, 2000 amounted to approximately US\$ 914 million.

Income tax expense

The statutory income tax rate is applicable to taxable income as calculated according to Argentine tax regulations, which differ in certain respects from accounting rules established by Argentine GAAP. For purposes of US GAAP information, further description of deferred tax assets and liabilities is disclosed in Note 12 to the consolidated financial statements included elsewhere herein.

Income tax expense for 2000 was Ps. 3.2 million higher than for 1999, given the increase in effective tax rate, partially offset by a decrease in taxable income.

Income tax expense declined from Ps. 73.8 million for 1998 to Ps. 66.8 million in 1999, primarily as a consequence of a lower taxable income.

TELCOSUR

TELCOSUR, a TGS's subsidiary, which renders telecommunication services, began operations as of July 1, 2000. TELCOSUR has a license to provide data transmission and value added telecommunication services.

For the fiscal year ended December 31, 2000, TELCOSUR registered a net loss of Ps. 1.3 million.

During 2000, TGS began a capacity expansion project of its telecommunication system, with a US\$ 29 million associated investment. Most of the expanded capacity has already been commercialized through long-term agreements with important local telecommunication operators. In addition, TELCOSUR has begun a new phase in its telecommunication strategy, consisting of the installation of a high capacity fiber optic system that will link Buenos Aires, Bahía Blanca and Neuquén.

B. Liquidity and Capital Resources

The primary sources and uses of cash during the years ended December 31, 2000, 1999 and 1998 are shown in the table below:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of pesos)		
Cash flows from operating activities	170.2	193.8	194.4
Cash flows used in investing activities	(66.0)	(151.3)	(167.1)
Cash flows from financing activities before dividends paid	(51.3)	125.4	106.4
Dividends paid	(95.1)	(158.9)	(158.9)
Cash flows used in financing activities	(146.4)	(33.5)	(52.5)
Change in cash and cash equivalents	<u>(42.2)</u>	<u>9.0</u>	<u>(25.2)</u>

Cash flows from operating activities

Cash flows from operating activities during the year ended December 31, 2000, decreased by Ps. 23.6 million as compared to the year 1999, due fundamentally to: (i) a higher interest payment, advanced income tax payments, and operating expenses, and (ii) a lower Value Added Tax (“VAT”) payment during the first quarter of 1999, as a result of a higher VAT credit mainly generated by the acquisition of a gas compression and treatment plant located in the Río Neuquén gas field to Pecom Energía in December 1998. All these effects were partially compensated by a higher income generated by higher net revenues.

Cash flows from operating activities in the year ended December 31, 1999, remained level with those of 1998, given that the higher interest payment was offset by lower income tax payments (reflecting two additional advanced payments during 1998 as disposed by the Tax Bureau) and increased net revenues.

Cash flows used in investing activities

Cash flows used in investing activities during the year ended December 31, 2000, decreased by Ps. 85.3 million, due primarily to higher capital expenditures related to the transportation system expansion during the year ended December 31, 1999.

The 15.8 million 1999 decrease in cash flows used in investing activities as compared to 1998 is primarily due to investments during 1998 associated to the Río Neuquén plant acquired from Pecom Energía mentioned above and the completion of the Cerri Complex expansion.

Cash flows used in financing activities

Cash flows used in financing activities during the year ended December 31, 2000, increased by Ps. 112.9 million as compared to the same period in 1999, due primarily to: (i) a decrease in borrowed funds to finance principally a lower level of capital expenditures and (ii) a reduction of the liquidity reserve in the year ended December 31, 2000 compared to the same period of 1999. These effects were partially offset by a lower dividend payment during the year ended December 31, 2000.

Cash flows from financing activities before dividends paid were Ps. 19 million higher for the year ended December 31, 1999, compared to the same period of 1998, reflecting an increase in borrowed funds to finance principally the Company's 1999 capital expenditures.

Dividends paid amounted to Ps. 0.12 per share (Ps. 0.60 per ADS) during 2000, and Ps. 0.20 per share (Ps. 1.00 per ADS) during 1999 and 1998. In August 2000, TGS paid an advanced dividend of Ps. 42.7 million (Ps. 0.054 per share or Ps. 0.27 per ADS), based on 2000 first half earnings. In connection with 2000 second half earnings, the Company's Board of Directors submitted for approval of the Ordinary Shareholders' Meeting, to be held on March 2, 2001, a dividend payment of Ps. 0.057 per share (Ps. 0.29 per ADS). The payment represents a dividend payout ratio of approximately 70% of TGS's second half 2000 net income. The dividend reduction, as compared with prior years, is consistent with the Company's dividend policy that was adopted last year consisting of maintaining a dividend level that assures TGS credit quality and lets the partial reinvestment of earnings, considering growth projects that the Company may develop. Consequently, TGS was able to reduce the ratio that relates the total debt as a percentage of total capitalization from 49% in the 1999 fiscal year to 46% for the year ended December 31, 2000.

According to Law N° 25,063, 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. The Company's Management does not anticipate any impact derived from this tax on the dividend distribution related to the 2000 second half payment.

Capital Resources

The Company relies on cash generated from internal operations as its primary source of liquidity, supplemented with uncommitted credit facilities with commercial banks and the access to capital markets through Global Programs. In 1999, the Company structured a US\$ 500 million Global Program for the issuance of debt securities to replace the 1993 Global Program which extinguished in late 1998. During the year 2000, the Company launched two issuances under this Global Program with a three-year term and in an aggregate principal amount of US\$ 150 million each. These medium-term notes refinanced the issuances under the 1997 Global Program and prepaid and partially refinanced the second issuance of notes under the 1996 Global Program (for further information see Note 5 to the Company's consolidated financial statements, included elsewhere herein).

The Shareholders' Meeting held on February 22, 2000, approved the creation of a new Global Program for the issuance of short and medium-term notes for a maximum outstanding amount of US\$ 300 million, in order to replace the 1997 Global Program created in February 1997 for US\$ 150 million. The new Program has been approved by CNV, BCBA and Luxembourg Stock Exchange.

The Company must comply with certain restrictive covenants contained in its outstanding debt agreements. For a more detailed description of the main covenants, see Note 5 to the consolidated financial statements, included elsewhere

herein.

At December 31, 2000, the Company's total outstanding debt was US\$ 945.4 million (see additional information about outstanding debt issues in Note 5 to the consolidated financial statements, included elsewhere herein) as compared to US\$ 997.9 million as of December 31, 1999, of which 21% and 40% represented short-term debt, respectively. Total debt as a percentage of total capitalization was 46% and 49% as of December 31, 2000 and 1999, respectively. In January 2000, the rating of TGS dollar-denominated debt has been downgraded by Standard & Poor's from BBB- to BB+, resulted from unfavorable local economic situation.

As of December 31, 2000, outstanding debt maturities are as follows (for more detailed information, see Note 13.f) to the consolidated financial statements, included elsewhere herein):

<u>Year</u>	<u>Amount in local currency</u>
2001	199.7
2002	114.1
2003	310.5
2004	47.6
2005	44.3
From 2006 onwards	239.1
Total	955.3

- Derivative financial instruments

As of December 31, 2000, the Company has an outstanding interest rate swap agreement with Bank of America for approximately 600 million of yens (for further information see Note 5 to the consolidated financial statements included elsewhere herein). Approximately 67% of TGS's debt as of December 31, 2000, has a fixed interest cost.

In 2000, TGS entered into interest rate cap agreements with major financial institutions for the six-month LIBOR of US\$ 100 million related to the third issuance under 1993 Global Program (for more information see Note 5 to the consolidated financial statements included elsewhere herein).

At December 31, 2000, the current debt includes borrowings with maturities within 182 days, amounting to approximately 3.1 billion of yens (representing approximately US\$ 28 million at the exchange rate in effect at the inception of the agreements). Additionally, the non-current debt includes a loan amounting to approximately 600 million of yens (representing approximately US\$ 6 million at the exchange rate in effect at the inception of the agreement). The Company has entered into foreign currency future agreements to provide a protection against a devaluation of the US dollar with respect to the yen, fixing the exchange rates to be in effect at the maturity date of each loan.

The Company believes that cash flows from operations supplemented with external debt financing will provide sufficient liquidity to pay dividends, fund its capital expenditures, cover its debt service and provide sufficient working capital.

Statement of Financial Accounting Standards ("SFAS") N° 133 issued by Financial Accounting Standards Board must be adopted by TGS for fiscal years beginning on January 1, 2001. The SFAS N° 133 cannot be applied retroactively. The Company is currently quantifying the impacts of adopting SFAS N° 133 and expects to conclude it by late April, 2001. For a more detailed information, see Note 12 to the consolidated financial statements included elsewhere herein.

Future Capital Requirements

Details of the Company's currently projected capital expenditures for the 2001-2003 period in million of dollars are set forth in the following table:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total</u>
Gas transportation				
-Reliability and others (1)	19.7	18.8	17.4	55.9
-Operational efficiencies	11.5	1.9	1.3	14.7
-Expansion	120.0	—	—	120.0
Total	151.2	20.7	18.7	190.6
LPG production and commercialization	—	—	—	—
Other services	9.0	—	—	9.0
Systems, telecommunications and others	27.3	1.8	1.3	30.4
TOTAL CAPITAL EXPENDITURES (2)	187.5	22.5	20.0	230.0

(1) Includes approximately US\$ 3 million for environmental and industrial safety investments.

(2) TGS may decide to reconsider, adjust or postpone certain capital expenditures.

In addition to the projected expenditures summarized in the table above, the Company anticipates significant additional strategic capital expenditures on projects to expand its gas transportation system and to develop new business opportunities in the non-regulated portion of its business. Additional expenditures estimated at US\$ 370 million are possible over the 2001-2003 period, principally for projects addressed to expand the Company's transportation business, specifically to satisfy increases in the local and regional demand and to acquire and/or construct gas treating and compression facilities.

The foregoing statements regarding capital expenditures are forward-looking in nature. The actual amount of such future capital expenditures will depend on a variety of factors, many of which are beyond the Company's control, and could be significantly less than US\$ 370 million. These factors include, among others, future growth in gas demand in the Argentine and regional markets, the Company's ability to identify and successfully execute specific projects, the presence and competitive impact of competing projects, applicable Argentine and foreign regulations, general economic conditions, including the consequences of the international financial crisis, and the availability of funding under acceptable terms.

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information

In late November 2000, TGS completed a new open season, receiving 3.2 MMm³/d (113 MMcf/d) in net requests for additional long term firm transportation contracts, representing an approximately 4.1% increase on its current firm contracted transportation capacity. The requests were mainly received from gas distribution customers and from industrial customers. These agreements will become partially effective during 2001, and will be fully effective by the year 2002, and are expected to generate annual additional revenues by Ps. 17 million, at current transportation rates. The expansion investments will amount to approximately US\$ 120 million and will consist of the construction of 302 km (188 miles) of looping in San Martín and Neuba II pipelines. In addition, TGS reduced by 50% its current exposure to contracted capacity reduction risk from some of its distribution companies. See Item 4. "Information on the Company – Gas Transportation – Step down Rights".

TGS, together with the consortium that won the bid to build a gas pipeline that will link Buenos Aires with Uruguay, with the possibility of expanding it into Brazil (the "Cruz del Sur" gas pipeline), are working to construct, operate and maintain the gas pipeline between TGS's system and the Cruz del Sur pipeline. This connection pipeline, which will have a length of approximately 40 km, will be extended from Buchanan, located in the high pressure ring (which is part of TGS's pipeline system) that surrounds Buenos Aires city, to Punta Lara and will have an initial capacity of 2 MMm³/d (70.6 MMcf/d) with an associated investment of approximately US\$ 20 million. The Cruz del Sur pipeline design projects to supply the potential growth of the Uruguayan market, with an estimated gas demand of 5.5 MMm³/d (194.2 MMcf/d) and furthermore meet additional opportunities on the southern of Brazil.

Compañía MEGA S.A. (whose shareholders are Dow Chemical, Repsol-YPF and Petróleos Brasileiros) built and started to operate a gas processing plant with a capacity of approximately 36 MMm³/d (1.3 Bcf/d) at the end of 2000. The MEGA project, as well as any other project that eventually may be developed upstream of the Cerri Complex, may adversely affect TGS's revenues from the LPG production and commercialization and other services businesses. However, TGS is negotiating with natural gas producers to introduce more rich gas in the Cerri Complex and mitigate the mentioned negative effect.

During 2000, TGS began a capacity expansion project of its telecommunication system, with a US\$ 29 million associated investment. Most of the expanded capacity has already been commercialized through long-term agreements with important local telecommunication operators. In addition, TELCOSUR has begun a new phase in its telecommunication strategy, consisting of the installation of a high capacity fiber optic system that will link Buenos Aires, Bahía Blanca and Neuquén.

With respect to the increase of 3.78% derived from the PPI adjustment above mentioned, in January 2000, ENARGAS, through its Resolution N° 1,470, and with the previous consent of the gas transportation and distribution companies, approved the postponement of the 3.78% PPI adjustment (which corresponds to the first semester of the year 2000) until July 1, 2000. Such extraordinary and one-time postponement implies a financing and subsequent recovery of the adjustment. In August 2000, the Executive Branch issued Decree N° 669/00, based on an agreement signed by the Federal Energy Bureau, representing the Ministry of Economy, ENARGAS and TGS, together with other gas licensee companies. This decree establishes that the revenues accrued during the first half of 2000 plus interest accrued for the application of the 3.78% PPI adjustment, will be billed, through a tariff increase, in a twelve-month period starting July 1, 2000. In addition, such decree provides for the deferral of any PPI adjustment from July 1, 2000, until June 30, 2002 (the PPI increases effective from July 1, 2000 and January 1, 2001 were 2.32% and 4.01%, respectively). Accrued revenues related to PPI adjustments, plus interest, will be included in an accrual fund, provided that such accrual fund remains within specific limits, and will be billed, through a tariff adjustment, in a twenty four-month period starting July 1, 2002. In late August 2000, Administrative Contentious Federal Trial Court N°8 granted a precautionary measure requested by the Ombudsman and ordered the suspension of the application of Decree N°669/00, since, in the opinion of the Court, the allegation that the application of the PPI adjustment contradicts Law N° 23,928 of Convertibility, constitutes a reasonable ground to request the suspension of Decree N° 669/00. This measure was subsequently appealed by the Federal Executive Branch, ENARGAS and the majority of licensees companies. In August 2000 and January 2001, ENARGAS notified TGS that the Company must abide by the court order, although decree N°669/00 has not been declared null. Therefore, ENARGAS requested that the effects of this decree shall not be applied on the tariffs, which shall keep the value in force during the first half of the year 2000 until there is a final court decision. The Company has requested ENARGAS to reconsider the decision of applying the tariff level in place prior to the issue of the Decree N°669/00 and to apply the tariffs resulting from the Resolution N° 1,470, mentioned above.

The Company considers that: i) the billing deferral of the mentioned tariff adjustment is a financing method mandated by the Argentine Government related to rendered services regardless of future services to be provided to customers, ii) to the extent the deferral might not be billed to customers, the Company should receive a compensation from the Argentine Government for the amounts not billed as a result of services already provided and, iii) as the PPI adjustment arises from a special Law (Law N° 24,076) which is subsequent to Law N° 23,928 of Convertibility, and additionally, according to the provisions of this Law, PPI adjustment does not constitute an inflation adjustment, but it is an adjustment that follows the international evolution of changes in the value of goods and services that represent the activity of the licensee gas companies. Therefore, the mentioned tariff increases derived from the application of the Decree 669/00, which amounted to Ps. 18.1 million, were recognized as revenues in the TGS's consolidated financial statements as of December 31, 2000, and they are included in the account "Non current trade receivables" at such date, because such tariff increases are fully recoverable.

ENARGAS, by means of the above mentioned resolutions, determined that, among others, organization or pre-operating costs and re-organization costs shall not be considered as intangible assets. Consequently, ENARGAS requires that the book value as of December 31, 2000, of these concepts should be completely amortized during the fiscal year beginning January 1, 2001. As of December 31, 2000, Ps. 24.1 million for these concepts is recorded in the account "Intangible assets". In December 2000, TGS requested CNV to intercede with ENARGAS in order to continue recording its intangible assets in accordance with the governing Argentine GAAP. The application of ENARGAS criteria would affect the principle of information of comparability since the valuation of these intangible assets in accordance with the provisions settled by the ENARGAS would result different to that made by other listing companies developing other type of business. As of the date of issuance of this Annual Report, the Company has not received any response hereto.

In connection with the easements payable starting January 1, 1998, TGS is currently negotiating with ENARGAS the recovery of the amounts paid, through increases in the gas transportation rates. The Company expects, based on its rights, to fully recover the amounts recorded.

TGS is a party in certain administrative procedures related to stamp tax on transportation service contracts and offers from its shippers. Additionally, GdE filed a legal action against TGS claiming the refunding of US\$ 23 million paid in connection with two compressor plants purchase orders. By the end of February 2000, a first judgement was pronounced upholding GdE's claim. Afterwards, TGS filed an appeal against this initial judgement (see Item 8 for further information regarding legal and regulatory matters).

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

General. Management of the business of the Company is vested in the Board of Directors. The Company's By-laws provide for a Board of Directors consisting of seven Directors and seven Alternate Directors. In the absence of one or more Directors, Alternate Directors will attend meetings of the Board of Directors. Directors and Alternate Directors are elected at an ordinary meeting of shareholders to serve one- to three-year renewable terms, as decided by the shareholders.

The current Board of Directors of the Company was elected by the Company's shareholders at the Annual Shareholders' Meeting held on February 22, 2000 for a one-year term.

Under the Company's By-laws and Argentine law, the Board of Directors is required to meet at least once every three months. A majority of the members of the Board constitutes a quorum, and resolutions must be adopted by a majority of the Directors present. In the case of a tie, the Chairman or the person replacing him at a particular meeting is entitled to cast the deciding vote.

Duties and Liabilities of Directors. Under Argentine law, Directors have the obligation to perform their duties with the loyalty and the diligence of a prudent business person. Directors are jointly and severally liable to the Company, the shareholders and third parties for the improper performance of their duties, for violating the law, the Company's By-laws or regulations, if any, and for any damage caused by fraud, abuse of authority or gross negligence. Under Argentine law, specific duties may be assigned to a Director by the Company's By-laws or regulations, if any, or by a resolution of a shareholders' meeting. In such cases, a Director's liability will be determined with reference to the performance of such duties, provided that certain recording requirements are met. Under Argentine law, Directors are prohibited from engaging in activities in competition with the Company without express shareholders' authorization. Certain transactions between Directors and the Company are subject to ratification procedures established by Argentine law.

A Director will not be liable if, notwithstanding his presence at the meeting at which a resolution was adopted or his knowledge of such resolution, a written record exists of his opposition thereto and he reports his opposition to the Statutory Audit Committee before any complaint against him is brought before the Board, the Statutory Audit Committee, a shareholders' meeting, the competent governmental agency or the courts. Shareholders' approval of a Director's performance terminates any liability of a Director vis-à-vis the Company, provided that shareholders representing at least 5% of the Company's capital stock do not object and provided further that such liability does not result from a violation of the law or the By-laws or regulations, if any.

Causes of action against Directors may be initiated by the Company upon a majority vote of shareholders. If a cause of action has not been initiated within three months of a shareholders' resolution approving its initiation, any shareholder may start the action on behalf and for the account of the Company.

The Shareholders' Meeting held on March 6, 1996, approved the acquisition of a civil liability insurance coverage for directors, syndics and officers. Such coverage is common practice among public companies who seek protection against shareholders' and other parties' claims.

The following table sets out the current membership of the Board of Directors of the Company, their respective positions on the Board and the year they were appointed to such position. Except for Peter E. Weidler, Joe Kishkill, Randel Ray Young and Ralph Hesje, all members live in Argentina.

Name	Year of Appointment	Position
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Walter F. Schmale	1992	President of the Board of Directors, Director of Pecom Energía
Eduardo Ojea Quintana	1998	Vice President of the Board of Directors; Chief Executive Officer of TGS
Peter E. Weidler	2000	Director, Vice President of Generation and Pipelines of Enron for South America
Joe Kishkill	2000	Director, Vice President of Enron for South America
Mike Guerriero	2000	Director, President of Enron América del Sur S.A
Pablo A. Ferrero	1999	Director, Gas and Oil Transportation and Marketing Director of Pecom Energía
Guillermo Daniel	2000	Director, Exploration and Production Director of Pecom Energía
Carlos Manuel Alvarez	1997	Alternate Director, Corporate Finance Director of Pecom Energía
Javier Gremes Cordero	1998	Alternate Director, Corporate Finance Manager of Pecom Energía
Jorge Casagrande	2000	Alternate Director, Planning and Control Corporate Manager of Electricity and Gas Business of Pecom Energía
José Luis de la Fuente	1997	Alternate Director, Technical Consultant of TGS
Randel Ray Young	2000	Alternate Director, Senior Lawyer of Enron
Federico Cerisoli	2000	Alternate Director, Marketing and Supply Regional Manager of Enron South America
Ralph Hesje	1999	Alternate Director, Vice President of Pipeline Development of Enron for South America

A new Board of Directors will be elected at the next Shareholders' Meeting to be held on March 2, 2001.

The present principal occupations and employment backgrounds of each executive officer of TGS are set forth below:

Mr. Walter F. Schmale received an engineering degree from the University of La Plata in 1960 and graduated as an oil engineer in the Buenos Aires University in 1961. He joined the Pecom Energía group in 1973 and is currently Vice President of the Gas and Oil unit. He also is member of the Board of Directors of Pecom Energía, Corod Producciones S.A., World Fund Investment Co., Perez Companc International, Perez Companc Ecuador, Petrolera San Carlos, Petrolera Perez Companc S.A., Perez Companc Bolivia, Perez Companc Brasil, Perez Companc Argentina, Perez Companc Peru, Perez Companc Venezuela, World Fund Financial Services, Petrolera San Carlos Cayman, Perez Companc Electricity Investment and Perez Companc S.A. Also, he is President of Perez Companc del Peru, Cerro Vanguardia S.A., CIESA, Pecom Energy S.A., Petrolera patagonica S.A., Pecom Energía Internacional and he is Vice President of Perez Companc de Venezuela S.A.

Mr. Eduardo Ojea Quintana received a law degree from the University of Museo Social Argentino. He worked with Pecom Energía from 1972 to 1992. At the beginning of TGS's operations, he served as Director of Legal, Regulatory and Public Affairs of TGS until March 1998, when he became Chief Executive Officer. He also is President of Enron Argentina Ciesa Holding S.A. and Enron Argentina and also he is Manager of Enron Inversiones de Gas S.R.L.

Mr. Peter E. Weidler obtained a mechanical engineering degree from New York State University and a Master in Business Administration from the University of Chicago. Before joining Enron, he worked in Amoco and UOP Inc. He started working for Enron in 1987. Mr. Weidler is currently the Vice President of Generation and Pipelines of Enron for South America. He also is member of the Board of Directors of Transredes, Accroven S.R.L., Compañía Anonima luz y Fuerza de Puerto Cabello, Promigas, V. Holdings Industries S.A., Vengas S.A.

Mr. Joe Kishkill obtained an electronic engineering degree from Brown University. He has worked for General Electric and joined Enron in 1990. Mr. Kishkill is currently Vice President of Enron for South America. He also is President of Enron America Do Sul Ltda, Enron Comercializadora de Energía Ltda and PEP – Plena Energía Participacoes Ltda.

Mr. Mike Guerriero obtained a B.A. in Economics. He worked in Kimball Resources, Texaco, National Gas & Electric and Pecom Energía. He joined Enron in 1999. Currently, he is the President of Enron América del Sur S.A. He also is President of Enron Comercializadora de Energía Argentina S.A. and he is member of the Board of Directors of Enron Argentina.

Mr. Pablo Ferrero obtained an engineering degree from Universidad Católica Argentina and a Masters in Business Administration from the University of Washington. In 1991, he joined Pecom Energía and from 1992 to 1998 worked for TGS as Marketing and Tariffs Manager and Director. Currently, he is the Gas and Oil Transportation and Marketing Director of Pecom Energía and Manager of Enron de Inversiones de Energía S.C.A.

Mr. Guillermo Daniel obtained an engineering degree from the University of Buenos Aires. He joined Pecom Energía in 1979 and he is currently the Exploration and Production Director of Pecom Energía. He also is member of the Board of Directors of Quintana Exploration Argentina, Sudelektra and TGS.

Mr. Carlos Manuel Alvarez graduated from the University of Buenos Aires in 1985 as a Certified Public Accountant. He joined Pecom Energía in 1980 where he is currently the Corporate Finance Director. He also is member of the Board of Directors of Corod Producciones S.A. and World Fund Financial Services.

Mr. Javier Gremez Cordero received a degree as a Certified Public Accountant from Universidad Católica Argentina. He joined Pecom Energía in 1993, having worked formerly at SADE S.A. At present, he holds the position of Corporate Finance Manager.

Mr. Jorge Casagrande graduated from the University of Buenos Aires as a Certified Public Accountant. He worked in Massalin Particulares and Price Waterhouse. He joined Pecom Energía in 1992. Mr. Casagrande is currently, the Planning and Control Corporate Manager of Electricity and Gas Business of Pecom Energía. He also is member of the Board of Directors of Distrilec Inversora, Citelec, Transener, Enecor S.A., Chasylec, Transba S.A., CIESA, Conuar S.A. and FAE S.A.

Mr. Jose Luis de la Fuente is an engineer in Oil, with a degree from Texas University. He worked as Director of the Regulating Entity in USA Southwest from 1970 to 1990. He joined Enron in 1990 and worked in the development of projects in several countries. He has been a technical consultant at TGS since 1997. He also is Vice President of Enron Argentina and Enron Argentina CIESA Holding S.A.

Mr. Randel Ray Young graduated from the University of Texas as a lawyer. He worked for important American law firms. He joined Enron in 1996. Currently, he is a Senior Lawyer of Enron.

Mr. Federico Cerisoli received a degree as a Certified Public Accountant from the Universidad Católica Argentina. He worked in Central Puerto S.A. He joined Enron in 1996. Mr. Cerisoli is currently, the Marketing and Supply Regional Manager of Enron for South America. He also is Vice President of Enron America del Sur S.A. and Enron Comercializadora de Energía S.A.

Mr. Ralph Hesje received a mechanical engineering degree from the University of Saskatchewan Bachelor of Science. He has worked at TGN and Amoco. He joined Enron in 1996. Currently, he is the Vice President of Pipeline Development of Enron for South America.

Executive Officers. The following list of the Company's current executive officers, their respective positions with the Company and the year they were appointed to such position as of the date of issuance of this Annual Report, is as follow:

Name	Year of Appointment	Position
Eduardo Ojea Quintana	1998	Chief Executive Officer
Jorge Garcia	1998	Director of Marketing
Claudio Schuster	1998	Director of Administration and Finance
Jorge Boneto	2000	Director of Operations
Daniel Perrone	1999	Director of Regulatory Affairs and Tariffs
Gustavo Matta y Trejo	2000	Director of Transportation Business Development
Cristian Dougall	1998	Legal Affairs Departmental Manager
Luis Atucha	1998	Human Resources and Public Affairs Departmental Manager
Alejandro Basso	1998	Planning and Project Evaluation Departmental Manager
Alberto Artuso	1993	Engineering Departmental Manager

The present principal occupations and employment history of each executive officer of TGS are set forth below:

Mr. Eduardo Ojea Quintana (see description above).

Mr. Jorge Garcia received an accounting degree from the University of Buenos Aires. Mr. Garcia worked for the following companies within Pecom Energía Group: Central Costanera S.A. during 1992, Petroquímica Argentina S.A. from 1987 to 1991 and Pecom Energía from 1980 to 1986. He was TGS' Director of Administration and Finance from 1992 to September 1998, and currently is the Director of Marketing.

Mr. Claudio Schuster received an accounting degree from the University of Buenos Aires and a Master Degree in Finance and Capital Markets from the ESEADE. He was associated with Diners Club Argentina from 1981 to 1983 and with Citibank, N.A. from 1983 to 1993. Mr. Schuster was TGS' Director of Internal Audit and Consulting from 1993 to 1998. Mr. Schuster has served as Director of Administration and Finance since September 1998.

Mr. Jorge Boneto received an electromechanical engineering degree from the University of Córdoba and a Master Degree in Business Administration from the IAE. Before joining TGS, he worked for Petroquímica Argentina S.A., Petroquímica Cuyo S.A. and Corcemar S.A. He has served as Director of Operations since May 2000.

Mr. Daniel Perrone received a mechanical engineering degree from the Universidad Tecnológica Nacional. He was associated with Cometarsa S.A., Matoil S.A., Servoil S.A., Bidas S.A.P.I.C. and TransCanada International. Since the end of 1999, he has been the Director of Regulatory Affairs and Tariffs.

Mr. Gustavo Matta y Trejo received an electromechanical engineering degree from the University of Buenos Aires and a Master Degree in Economics and Business Administration from the ESEADE. He worked in Schoeller Argentina and Techint. Since March 2000, he has been the Director of Transportation Business Development.

Mr. Cristian Dougall received a law degree from the University of Buenos Aires. From 1973 to 1993, he worked in the law firm of Dougall & Emery. He joined TGS in 1993. He was Legal and Regulatory Affairs Manager from March 1998 to November 1999. He is currently the Legal Affairs Departmental Manager.

Mr. Luis Atucha received a law degree from the University of Museo Social Argentino and a Master Degree in Institutional Communications from the UCES. He worked in Banco de la Provincia de Buenos Aires from 1976 to 1989 and in Pecom Energía from 1989 to 1992. At the beginning of TGS' operations, he assumed the position of Public Affairs Manager. He has been Human Resources and Public Affairs Departmental Manager since October 1998.

Mr. Alejandro Basso received an accounting degree from the University of Buenos Aires. He was associated with Pecom Energía from 1987 to 1992 and with Quitral-Co from 1992 to 1994. From 1994 to 1998, he acted as Planning and Corporate Control Manager. He has been Planning and Project Evaluation Departmental Manager since September 1998.

Mr. Alberto Artuso received a mechanical engineering degree from the Universidad Tecnológica Nacional. He worked in GdE from 1972 to 1992. He has been Engineering Departmental Manager since 1993.

Indemnification of Officers and Directors. Under the Shareholders Agreements, CIESA will act to cause the Company to: (i) limit the liability of each officer and director of the Company for all actions or omissions of such officers and directors, excluding actions or omissions involving bad faith or willful misconduct and (ii) enter into agreements obligating CIESA to defend, indemnify and hold harmless each officer and director of the Company from and against all liabilities, losses, and other expenses incurred by each such officer or director in connection with a pending, threatened or completed civil, criminal, administrative or other proceeding, or any investigation that could lead to such a proceeding, by reason of the fact that such officer or director is or was an officer or director of the Company, excluding actions or omissions involving bad faith or willful misconduct.

B. Compensation

The aggregate remuneration paid or accrued by TGS during 2000 to all directors and executive officers was approximately Ps. 3.0 million. TGS does not provide pension, retirement or similar benefits for directors and officers.

The executive officers are involved in a system of management by objectives and a program of variable compensation. The agreed-upon objectives, whether for individuals or for sectors, are aligned with the Company's objectives whereas the variable compensation program connects part of their pays to their own performance and to that of the Company.

C. Board Practices

Statutory Audit Committee. The Statutory Audit Committee is the Company's monitoring body as stipulated in article N° 284 of the Business Associations Law. The Company's By-laws provide for a Statutory Audit Committee consisting of three members ("Syndics") and three alternate members ("Alternate Syndics"). In accordance with the By-laws, two Syndics and the respective Alternate Syndics are elected by a majority vote of the holders of Class "A" Shares of the Company. The remaining Syndic and corresponding Alternate Syndic are elected by the majority vote of the remaining holders of the common stock of the Company. Each member of the Statutory Audit Committee is elected at the annual ordinary shareholders' meeting and serves for a one-year renewable term. Members of the Statutory Audit Committee must be lawyers or accountants qualified under Argentine law. Directors, officers or employees of the Company may not be members of the Statutory Audit Committee. The Company's By-laws require the Statutory Audit Committee to hold meetings at least once per month.

The primary responsibilities of the Statutory Audit Committee consists basically of monitoring the Company's management compliance with the Business Associations Law, the By-laws of the Company and the shareholders' resolutions, and without prejudice to the role of external auditors, reporting to the shareholders at the Annual Ordinary Shareholders' Meeting regarding the reasonableness of the financial information of the Company. Furthermore, the members of the Statutory Audit Committee are entitled to: (i) attend Board of Directors and Shareholders' Meetings, (ii) call to Extraordinary Shareholders' Meetings when deemed necessary, and to Ordinary Shareholders' Meetings when the Board of Directors fails to do so, and (iii) investigate written inquires directed by the shareholders. The Statutory Audit Committee does not control the operations of the Company, neither evaluate Management's decisions, which are the exclusive responsibility of the Board of Directors.

The current members of the Statutory Audit Committee, which were appointed at the Annual Shareholders' Meeting held on February 22, 2000, the year they were initially appointed to the Statutory Audit Committee and the year their term expires, are as follows:

Name	Member since	Term Expires	Position
Juan Duggan	1996	2001	Syndic
Héctor Daniel Casal	1997	2001	Syndic
Antonello Tramonti	1998	2001	Syndic
Horacio Ruiz Moreno	1997	2001	Alternate Syndic
Daniel Rennis	2000	2001	Alternate Syndic
Manuel Alvarez Tronge	2000	2001	Alternate Syndic

The present principal occupations and employment history of Syndics of TGS are set forth below:

Mr. Juan Duggan is a partner of Hope, Duggan y Silva. He received his law degree from the University of Buenos Aires.

Mr. Héctor Daniel Casal has been associated with the Pecom Energía group since 1991, most recently as Manager of Legal affairs advising the financing, mining and petrochemical areas of such group. He obtained his law degree from the Universidad Católica Argentina.

Mr. Antonello Tramonti has been associated with the Pecom Energía group since 1984 most recently as Corporate Legal Affairs Director. He previously worked in the National Judicial Branch. He obtained his law degree from the University of Buenos Aires.

D. Employees

On December 28, 1992, 1,334 employees were transferred to TGS from GdE. In January 1993, the Company launched a voluntary retirement plan under which 463 employees elected to accept early retirement at a cost of approximately Ps. 12.1 million.

As of December 31, 2000, TGS employed 653 employees located in seven provinces of the country (Buenos Aires, La Pampa, Río Negro, Chubut, Neuquén, Santa Cruz and Tierra del Fuego) and the City of Buenos Aires. More than 50% of TGS employees have technical or professional backgrounds.

The following table sets out the number of employees according to department as of December 31, 2000:

Department	Number of Employees as of December 31,		
	2000	1999	1998

General.....	3	3	3
Administration and Finance	80	81	80
Engineering	19	14	22
Human Resources and Public Affairs	15	15	13
Planning and Project Evaluation.....	6	5	5
Legal Affairs	9	8	6
Regulatory Affairs and Tariffs.....	3	2	-
Transportation Business Development.....	6	-	-
Marketing.....	32	29	13
Operations.....	480	491	489
Total.....	653	648	631

At December 28, 1992, all personnel transferred from GdE to TGS were affiliated with unions (three national and five provincial/regional unions). By April 1993, 70% of TGS personnel had withdrawn from union membership. The remaining 30% were affiliated with a national union, the *Federación Argentina de Trabajadores de la Industria del Gas Natural y Afines* (the "Federation") and with a regional union. TGS has signed collective bargain agreements with both unions. Currently, approximately 7% of the TGS workforce is unionized. The Company has not experienced any conflict with the Federation and considers relations with its employees to be good.

E. Share Ownership

The total amount of TGS' class "B" shares held by the directors and executive officers as of February 29, 2000 is 206,536.

Each of the directors and executive officers, mentioned in the section "Directors and Senior Management", has less than 1% of TGS' Class "B" shares.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

TGS's controlling shareholder is CIESA, which together with Pecom Energía group and Enron Corp., hold approximately 70% of the Company's common stock. The remaining 30% ownership in the Company is currently held by local and foreign investors.

CIESA is owned 50% by Pecom Energía and a subsidiary and 50% by subsidiaries of Enron and has the ability to direct the management of the Company, to control the election of the majority of the Board of Directors, to determine the dividend policy and other policies of the Company and to determine the outcome of any matter put to a vote of the shareholders of the Company. CIESA may freely dispose of its Class "B" shares in TGS and may transfer or sell any of TGS Class "A" shares under certain conditions and with ENARGAS approval

The General Director and a number of the Directors and senior managers of TGS were with Enron Argentina or Pecom Energía prior to assuming their positions with the Company (see Item 6.A. "Directors and Senior Management").

The following table sets forth certain information, with respect to each shareholder known to the Company to own more than five percent of its Common Shares.

Name of Beneficial Owner	Number of Shares	% Total Common Shares	Class
CIESA	405,192,594	51.000	A
CIESA	34,133,200	4.2962	B
Enron de Inversiones de Energía S.C.A.	79,449,529	10.000	B

The Company does not know of any arrangements by virtue of which a change of control may result. Pursuant to the Pliego and the Company's debt agreement, CIESA may not reduce its shareholding in the Company below 51% of the share capital. See Item 10 "Exchange controls and other limitations affecting security holders".

Shareholders Agreements

Transfers of CIESA and TGS Shares. The original holders of the common stock of CIESA entered into two shareholders agreements (the "Shareholders Agreements") for the purpose of governing certain matters relating to their participation in CIESA and in the Company. Pecom Energía and Enron Argentina continue to be parties to these agreements. The Shareholders Agreements provide certain rights of first refusal and "tag-along" or co-sale rights in the event of a proposed transfer of CIESA shares. The Shareholders Agreements further provide that any CIESA shareholder must offer to sell to the other shareholders all of its shares of CIESA common stock in the event of a change in control of such shareholder or in certain events of bankruptcy, insolvency or liquidation.

Under the Shareholders Agreements, the sale or transfer of any TGS shares held by CIESA requires the approval of an absolute majority of the directors of CIESA, except that the sale or transfer of TGS shares such that CIESA would own less than 51% of the voting common stock of TGS requires the unanimous vote of the CIESA directors. Such a transaction would also require previous ENARGAS approval.

Election of TGS Directors and Officers; Voting. The Shareholders Agreements also contain provisions governing the voting of the TGS shares held by CIESA, the election of Directors and Syndics, the appointment of certain officers of the Company and certain other matters.

The Board of Directors of the Company consists of seven Directors (see "Item 6 A. Directors and Senior Management"). Under the Shareholders Agreements, each CIESA shareholder (so long as it retains at least a 15% interest in CIESA) is entitled to direct the appointment of one Director of the Company (the "Core Directors"). If CIESA has the ability to elect additional Directors of the Company, such additional Directors will be designated by the shareholders of CIESA on a rotating basis. The TGS shares held by CIESA are required under the Shareholders Agreements to be voted unanimously for the nominees of the CIESA shareholders.

The following actions by the Company require approval by a majority of the Core Directors: (i) certain sales of assets other than in the ordinary course of business; (ii) adoption of the Company's annual financial plan and certain significant modifications thereto; (iii) certain borrowings, capital expenditures and operating expenses in excess of the amounts approved in the annual financial plan; (iv) appointment of officers other than the General Director (whose appointment is directed by Enron Argentina); (v) certain capital expenditures not approved in the annual financial plan of the Company; (vi) salary and compensation policies; (vii) amendments to the Technical Assistance Agreement; (viii) decisions relating to certain legal claims by or against the Company; (ix) certain decisions relating to tax planning; and (x) granting of certain guarantees, indemnities or similar security arrangements other than in the ordinary course of business and not approved in the annual financial plan of the Company. Notwithstanding the foregoing, in the case of any decision with respect to an area in which Enron Argentina could have liability under the Technical Assistance Agreement, Enron Argentina's affirmative vote will be required, except in certain circumstances specified in the Shareholders Agreements. Company policies regarding public communication and government relations must be approved unanimously by the Core Directors. Under the Shareholders Agreements a deadlock among the Core Directors with respect to any decision is considered a "no-vote", except that with respect to any area in which Enron Argentina could have liability under the Technical Assistance Agreement, Enron Argentina may adopt one of the proposed alternatives, which will then be binding on the other shareholders.

The Shareholders Agreements further provide that no CIESA shareholder shall compete with the Company in the open access gas transportation business in Argentina or have a preferential position in doing business with the Company.

Under the Shareholders Agreements, Pecom Energía is entitled to direct the appointment (and removal) of the President of the Board of Directors of the Company, and Enron Argentina is entitled to direct the election (and removal) of the Vice President of the Board of Directors of the Company. Enron Argentina is also entitled to direct the appointment of the General Director, who is the chief executive officer of the Company, and has the authority to direct its day-to-day operations, subject to provisions of the Shareholders Agreements requiring approval by specified proportions of the Core Directors or of all TGS Directors appointed by CIESA. Also, the TGS shares held by CIESA are required under the Shareholders Agreements to be voted unanimously for the nominees of CIESA shareholders on all occasions on which such shares are voted for the election of the first, second and third Syndics (and their alternates), respectively.

Actions Requiring Special Shareholder Approval. The Shareholders Agreements provide that all of the TGS' shares held by CIESA will be voted in favor of the following Company's actions only if approved by all the directors of CIESA: (i) mergers or sale of all or substantially all of the assets of the Company; (ii) engaging in any business other than the gas transportation business in Argentina; (iii) declarations of dividends in amounts not consistent with the policy set forth in the Shareholders Agreements; and (iv) amendments to the Company's By-laws. Approval by a majority of the directors of CIESA will be required for the favorable vote of the TGS' shares held by CIESA with respect to the issuance of additional shares of the Company.

Current shareholders of CIESA

Enron Argentina and Enron. Enron Argentina, incorporated under the laws of the Republic of Argentina, is an indirect wholly-owned subsidiary of Enron. Enron, is one of the world's leading integrated natural gas and electricity company. Enron, with assets of approximately US\$ 52.9 billion as of September 30, 2000 in energy and communication assets, produces electricity and natural gas, develops, constructs and operates energy facilities worldwide, delivers physical commodities and financial and risk management services to customers around the world.

Pecom Energía is one of the largest private-sector groups in Argentina with approximately US\$ 5.3 billion of total assets as of September 30, 2000. Its related companies are engaged in a wide variety of activities, including oil and gas production, petrochemicals and refineries, electric generation, transmission and distribution, gas transmission and forestry.

B. Related Party Transactions

The principal recurrent transactions with related parties are payments under the Technical Assistance Agreement entered into with the technical operator, Enron Argentina, in compliance with the provisions of the Bid Package and the Transfer Contract, whereby Enron Argentina is to provide technical advisory services which include services related to, among others, the operation of the gas transportation system, the LPG production facilities and related facilities and equipment, the replacement and renovation of facilities to ensure that the performance of the system is in conformity with international standards and compliance with the environmental standards. For these services the Company pays a monthly fee based on the higher of: a percentage of certain defined income of the Company or a specified fixed annual amount. The term of the contract is for eight years from December 28, 1992, and may be renewed automatically upon expiration for additional eight-year periods. As the Company is evaluating the change of the technical operator to other Enron subsidiary, subject to the ENARGAS approval, the Company reached an agreement with EPCA to extend the term of such contract for the higher term between three months or the date in which ENARGAS approves the new elected technical operator.

The detail of significant transactions with companies for the years ended December 31, 2000, 1999 and 1998 is as follows:

Fiscal year ended December 31, 2000

Company	Revenues				
	Gas Transportation	LPG production and commercialization and other services	Salaries and wages	Compensation for technical assistance	Telecommunications services
Enron Argentina	-	-	704	21,857	-
Pecom Energía	18,933	14,288	-	-	-
TELCOSUR	-	1,000 (2)	-	-	934
Enron América del Sur S.A.	4,500	146	-	-	-
Santa Cruz II Area (Joint Venture) (1)	-	16,218	-	-	-
Total	23,433	31,652	704	21,857	934

(1) As of December 31, 2000, Pecom Energía has 37.80% of this joint venture.

(2) Additionally, TGS billed TELCOSUR 157 related to administrative services for the year ended December 31, 2000.

Fiscal year ended December 31, 1999

Company	Revenues			Compensation for technical assistance
	Gas Transportation	LPG production and commercialization and other services	Salaries and wages	
Enron Argentina	-	-	891	22,238
Pecom Energía	16,899	12,081	-	-
Enron América del Sur S.A.	3,496	96	-	-
Total	20,395	12,177	891	22,238

Fiscal year ended December 31, 1998

Company	Gas Transportation revenues	Salaries and wages	Compensation for technical assistance
Enron Argentina	-	1,364	20,625
Pecom Energía	16,722	-	-
Enron América del Sur S.A.	1,817	-	-
Total	18,539	1,364	20,625

C. Interest of Management in Certain Transactions

None.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

The audited consolidated financial statements included herein consist of balance sheets of TGS as of December 31, 2000 and 1999, and the related statements of income, cash flows and changes in shareholders' equity for the years ended December 31, 2000, 1999 and 1998, all stated in Argentine pesos as described in Note 2.a) to the consolidated financial statements.

Legal and Regulatory Proceedings

In April 1996, GdE filed a legal action against TGS for US\$ 23 million, which is the amount GdE claims is due to it as reimbursement of its cost to construct two compressor plants currently in operation on the TGS pipeline. TGS has denied such claim on the grounds that it owes no monies to GdE as it acquired rights to these compressor plants as part of its overall purchase of the pipeline assets in the 1992 privatization. The Company has recorded such plants as "Property Plant and Equipment", valued at Ps. 4.8 million based on the replacement cost of similar compressor equipment. At the end of February 2000, a first judgment was pronounced upholding GdE's claim for US\$ 23 million plus interest (calculated at the "passive rate" set by the Argentine Central Bank Circular 14,290 from the date GdE paid the above-mentioned purchase orders) and litigation expenses. TGS's management considers that this judgment is based on a partial understanding of the facts and findings proven by TGS, and that the serious inaccuracies and omissions included therein render it arbitrary. Accordingly, TGS proceeded to file an appeal. The Company believes that the most likely outcome is that subsequent judicial proceedings will overturn the initial judgment against TGS based on the facts and findings mentioned above.

As of the date of issuance of this Annual Report, GdE directly or through ENARGAS, has not fulfilled the obligations set forth in the Transfer Agreement and in the License in connection with its responsibility for the five-year period ending on December 31, 1997, for the registering of easements relating to the transferred pipeline system which have

not been properly registered and for related payments to property owners of any required easements. In order to fulfill its capital expenditures program related to the system integrity and public safety required by the License, the Company has entered into easement agreements with certain land owners and paid related amounts. Consequently, the Company filed a claim against GdE to recover such amounts recorded.

On October 7, 1996, the Executive Branch, through Decree N° 1,136/96, created a contribution fund, as provided for in the License, to assume GdE's obligations for paying easements and any other compensation to land owners for an initial five-year period, beginning with the privatization and ending on December 28, 1997. ENARGAS manages the above mentioned fund, which is financed by a special charge included in the transportation rates and reimbursed to ENARGAS. TGS has filed against GdE-ENARGAS an administrative claim asking for the amounts paid in connection with easements related to facilities existing prior to December 28, 1992. In December 1997, ENARGAS declared that it will allow the reimbursement of the useful expenses, as determined by the Government, derived from easements. The Company expects to fully recover the amounts paid, based on its rights derived from the License.

In connection with the easements payable starting January 1, 1998, TGS is negotiating with ENARGAS the recovery of amounts paid through increases in the transportation rates. The Company expects, based on its rights, to fully recover the amounts recorded.

In September 1999, ENARGAS requested TGS not to consider the useful life re-estimation of assets allocated to the gas transportation service, retroactive as of December 31, 1997, until such regulatory authority would make a final decision about the useful lives assigned to the above mentioned assets. See "Item 5 A. Operating and Financial Review and Prospects – Operating Results".

In 1997, the Company received a preliminary assessment from the Tax Bureau of the Neuquén Province related to stamp tax derived from transportation contracts entered into between TGS and four gas distribution companies shortly before the take-over date of TGS and while GdE was the sole shareholder of the Company. In December 1999, the Tax Bureau of the Neuquén Province formalized the claim through a final assessment for an amount of approximately Ps. 97 million (with its related interests as of December 31, 1999). Moreover, proceedings integration was set in order to evaluate eventual penalties application. TGS's management believes that these contracts were not subject to provincial stamp taxes because the parties to the contracts at the time they were formed, were governmental entities that were exempt from the tax. Moreover, even if the contracts were subject to provincial stamp taxes, management believes that GdE would bear responsibility for this tax under the Transfer Agreement. As regards the preliminary assessment, the Company has notified GdE of its position and has filed an appeal with the Tax Bureau of the Neuquén Province requesting that the relevant statute of limitations be enforced on the tax obligation claimed by such province. However, if the Company were forced to pay any amount, it would have the right to be reimbursed from GdE or the Argentine Government. The Argentine Government has recognized that is responsible for the payment of such tax. In connection with the final assessment received in December 1999, TGS filed an appeal to the Tax Bureau of the Neuquén Province.

In December 1998, TGS received another preliminary assessment from the Tax Bureau of the Neuquén Province in the amount of approximately Ps. 17 million related to the stamp tax (and related interests as of December 31, 1998) arising from the Transfer Agreement subscribed by TGS in the privatization of GdE. TGS's management believes, as in the assessment described above, that this transfer was not subject to the stamp tax, as expressly defined in the first part of the above paragraph. However, if the Company were forced to pay any amount, it would have the right to be reimbursed by GdE or the Argentine Government. The Company has notified the Argentine Government of its position and proceeded to request that the relevant statute of limitations be enforced on the tax obligation. Additionally, TGS received another preliminary assessment from such Tax Bureau regarding the Technical Assistance Agreement. TGS has asserted that such tax is unfounded mainly because the agreement has no effects in such province.

In May 1999, TGS was notified of a preliminary assessment by the Tax Bureau of the Río Negro Province related to the stamp tax on transportation contracts entered into before the take-over date of TGS and transportation service offer letters received from shippers in the claimed amount of approximately Ps. 87 million plus Ps. 86 million of interests (as of September 30, 1999) and Ps. 168 million as penalties. In September 1999, the Tax Bureau of the Río Negro Province formalized the claim through a final assessment. Additionally, TGS was notified in October 1999 of a preliminary assessment by the Tax Bureau of the Santa Cruz Province in connection with stamp tax to be levied on transportation service offer letters received from shippers, for an amount of approximately Ps. 17 million (not including interests nor penalties). The assessments of both provinces comprise transportation agreements entered into by TGS and several shippers, both before TGS take-over and when GdE was the sole shareholder of the Company, as well as the offer letters received after such date. TGS' management believes, as in the case of the Neuquén Province, that agreements prior to the take-over were not subject to the application of provincial stamp tax, since the subscribing parties belonged to the Argentine Government, which is exempt from the stamp tax. In addition, TGS's management believes that, even if the contracts signed before the take over were subject to the stamp tax, GdE would be responsible for the payment of such tax, according to the Company Transfer Agreement provisions. If the Company were forced to pay any amount arising

from these agreements, it would have the right to be reimbursed by GdE or the Argentine Government.

In connection with the remaining assessments, the Company's management believes that offer letters for transportation service rendering are not subject to the tax mentioned above. Should they be taxable, TGS believes that such event must be considered a change in the interpretation of the tax law, and its impact should be reflected in the tariff according to regulations on the subject. ENARGAS believes that the claims for stamp tax lack merit because it considers the tax unlawful.

The Company believes that all assessments in connection with agreements and offer letters prior to January 1, 1994 have been extinguished. The Company notified the Argentine Government of its position and appealed through an administrative motion before the Tax Bureau of the Río Negro Province, which was rejected in January 2001. Consequently, the Company has filed an appeal to the Río Negro Province Government. In regard to the preliminary assessment of the Tax Bureau of the Santa Cruz Province, TGS has notified GdE of its position and filed its appeal to such province entity. Furthermore, TGS filed a declaratory action of certainty before the Supreme Court of Justice ("SCJ"), so that such entity issues a judgement on the legitimacy of the Tax Bureau claim of Santa Cruz Province. In the meantime, until SCJ pronounces judgement on the issue, TGS requested a preventive measure from the SCJ.

Regarding tariff increases derived from the PPI applied from January 1, 2000, see "Item 5 A. Operating and Financial Review and Prospects – Operating Results".

In addition to the matters discussed above, the Company is a party to certain lawsuits and administrative proceedings arising in the ordinary course of business.

Although no assurances can be given, the Company believes there are meritorious defenses, which will be asserted vigorously, to substantially all such claims and that any liability which may finally be determined will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Additionally, TGS is carrying out the judicial procedures to recover the burden of the new tax on interest payments and financial costs established by Law N° 25,063, through an adjustment to the gas transportation tariffs, as provided in the License. For the years ended December 31, 2000 and 1999, Ps. 6.8 million and Ps. 7.9 million, respectively, were accrued for such concept in the account "Net financial expense".

Dividend Distribution Policy

The Company's dividend distribution policy consists of maintaining a dividend level that assures TGS credit quality and lets the partial reinvestment of earnings, considering growth projects that the Company may develop.

B. Significant Changes

None.

Item 9. The Offer and Listing

A. Offer and Listing Details

Trading of the Company's Shares. Prior to May 5, 1994, there was no public market for the Company's Common Shares or ADSs. On May 5, 1994, the Company established a Rule 144A American Depositary Receipt ("Rule 144A ADR") facility and a Regulation S American Depositary Receipt ("Regulation S ADR") facility, each with Citibank, N.A., as Depositary. On that date, the Argentine Government, as selling shareholder, made an international offering of 195,000,000 Class "B" Shares. A portion of the Class "B" shares was offered in the form of Rule 144A ADRs in the United States pursuant to Rule 144A under the Securities Act and in the form of Regulation S ADRs outside the United States and Argentina, pursuant to Regulation S under the Securities Act.

In November 1994, the Company completed an exchange offer (the "Exchange Offer"), whereby it offered existing Rule 144A ADR holders registered ADRs in exchange for their restricted Rule 144A ADRs. Except for the absence of resale restrictions, the terms of the registered ADRs received in the Exchange Offer were substantially identical to the terms of the restricted Rule 144A ADRs tendered. The Company has terminated its Rule 144 A ADR facility. Each ADR represents five Class "B" shares.

The table below shows the high and low market prices of the Class "B" shares on the Buenos Aires Stock Exchange ("BASE"), stated in Argentine pesos and of the ADRs in the New York Stock Exchange ("NYSE"), stated in US Dollars, for each of the last five fiscal years.

Years	NYSE		Shares in BASE	
	High	Low	High	Low
1996	13.25	11.12	2.67	2.20
1997	14.00	8.75	2.73	1.78
1998	12.37	7.50	2.46	1.46
1999	10.44	7.63	2.09	1.54
2000	9.50	6.81	1.93	1.35

The table below shows the high and low market prices of the Class "B" shares on the BASE, stated in Argentine pesos and of the ADRs in the NYSE, stated in US Dollars, for each full quarterly period within the two most recent fiscal years.

Quarters	2000				1999			
	NYSE		Shares in BASE		NYSE		Shares in BASE	
	High	Low	High	Low	High	Low	High	Low
First Quarter	9.50	8.00	1.93	1.58	10.44	9.00	2.09	1.80
Second Quarter	9.06	7.56	1.81	1.47	10.13	8.50	2.01	1.78
Third Quarter	9.44	7.25	1.92	1.44	9.94	7.63	1.98	1.54
Fourth Quarter	8.56	6.81	1.75	1.35	9.38	8.00	1.90	1.61

The table below shows the high and low market prices of the Class "B" shares on the BASE, stated in Argentine pesos and of the ADRs in the NYSE, stated in US Dollars, for each full monthly period within the six most recent months.

Months	NYSE		Shares in BASE	
	High	Low	High	Low
August 2000	8.25	7.25	1.67	1.44
September 2000	7.62	7.25	1.55	1.44
October 2000	8.44	6.81	1.75	1.35
November 2000	8.56	7.19	1.74	1.42
December 2000	7.50	7.00	1.55	1.39
January 2001	8.00	7.06	1.62	1.42

As of December 31, 2000, approximately 24% of the securities held by the public were held in the form of ADRs. At such date, a total of 11,448,110 ADRs, representing 57,240,550 Class "B" shares, were held by 101 holders of record. Because certain of these ADRs are held by nominees, the number of record holders may not be representative of the number of beneficial owners. In addition, Class "B" shares were held by 3,465 holders as of December 31, 2000.

B. Plan of Distribution

Not Applicable.

C. Markets

The Argentine Securities Market. In Argentina, the oldest and largest exchange is the BASE, founded in 1854 and on which the majority of equity trades in Argentina are executed. As of December 28, 2000, the market capitalization of shares of the 116 companies (excluding mutual funds) listed on the BASE was approximately US\$ 165.8 billion. At the end of December 2000, the top 10 listed securities represented approximately 88% of the total. Trading in securities listed on an exchange is conducted through the Mercado de Valores ("Stock Market") affiliated with such exchange.

Securities may also be listed and traded through over-the-counter market brokers who must be linked to an electronic reporting system. The activities of such brokers are controlled and regulated by the Mercado Abierto Electrónico S.A. (the "MAE"), an electronic over-the-counter market reporting system that functions independently from the Mercado de Valores de Buenos Aires S.A. (the "Buenos Aires Stock Market") and the BASE. Under an agreement between the BASE and the MAE, trading in equity and equity-related securities is conducted exclusively on the BASE and trading in corporate debt securities is conducted on both the BASE and the MAE. Trading in Argentine Government securities, which are not covered by the agreement, may be conducted on either or both of the BASE and the MAE. The agreement does not extend to other Argentine exchanges.

Changes to the legal framework of security trading have been introduced permitting issuance and trading of new, non-bank financial products in the Argentine capital markets, including commercial paper, new types of corporate bonds and futures and options. The Argentine Government deregulated brokerage fees and eliminated transfer taxes and stamp taxes on securities transactions in November 1991.

The Buenos Aires Stock Market. The Buenos Aires Stock Market, which is affiliated with the BASE, is the largest Stock Market in Argentina. The Buenos Aires Stock Market is a corporation whose 250 shares are owned by a number of members who are the only individuals and entities authorized to trade in the securities listed on the BASE. Trading on the BASE is conducted by open outcry and a computer-based negotiation system called SINAC from 11:00 A.M. to 6:00 P.M. each business day. The BASE also operates an electronic continuous market system from 11:00 A.M. to 6:00 P.M. each business day, on which privately-arranged trades are registered and made public. To control price volatility, the Buenos Aires Stock Market operates a system which restricts dealing in shares of any issuer when changes in the price the such issuer's shares vary 15% from the previous closing price, unless trading at the top price.

Investors in the Argentine securities market are primarily individuals, companies and institutional investors consisting of a limited number of mutual funds. The Argentine Congress passed amendments to the social security laws, which took effect July 1, 1994. These amendments partially privatized the government social security system and have substantially increased the assets of Argentine institutional pension funds and the volume of trading on the BASE. Certain information regarding the Argentine equities market is set forth in the table below.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Market capitalization (US\$ in billions)	55.6	45.3	83.9	165.8
Market capitalization as percent of GDP	19.0%	15.2%	29.7%	58.1%
Average daily trading volume (US\$ in millions)	151.3	104.8	47.2	38.8
Number of listed companies	132	129	114	116

Source: Data published by the Buenos Aires Stock Market and other sources.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Information contained in Item 14 of the Registration Statement on Form 20-F is hereby incorporated by reference.

Amendment of TGS corporate purpose

The TGS' Board of Directors Meeting, held on January 31, 2001, submitted for the Shareholders' approval the amendment of the Company's corporate purpose. Such proposal will be discussed at the Extraordinary Shareholders' Meeting to be held on March 2, 2001. The amendment is as follows:

TITLE II: OF THE CORPORATE PURPOSE. ARTICLE 4. The company shall engage in rendering of the transport of natural gas public service for its own account, or on account of, or in association with any third parties within the country. In addition, the Company shall be entitled within the country or abroad to transport natural gas, and perform any and all complementary or subsidiary activities, including separation of liquids, processing, treatment, compression of natural gas, and any other activity in that connection, availing to that end of full legal capacity to gain rights and incur obligations, and exercise any other actions not expressly forbidden by laws and regulations, or these By-laws, including the carrying out of mandates and commissions, rendering of operating services, and maintenance of pipelines, and facilities for processing and treatment of natural gas, advisory services, construction of works, and other ancillary activities or in connection with this corporate purpose. In addition, the Company shall be entitled to render either directly or indirectly, telecommunication services related to its infrastructure facilities, securing rendering of telecommunication services for the natural gas transportation service, on its own account or on account of third parties under the regulations in effect. Likewise, the Company shall be entitled to engage in any kind of financial transactions, in general, except for transactions covered under prescriptions of the Argentine Financial Institutions Laws, and to incorporate and take part in stock of companies, making the appropriate capital investment to that end.

C. Material Contracts

None.

D. Exchange Controls

There are currently no Argentine foreign exchange control restrictions on the payment of dividends on the Class "B" Shares or the conduct of TGS operations. For information regarding historical foreign exchange rates in Argentina and exchange controls in Argentina, see "Exchange Rates".

E. Taxation

General

The following is a general summary of certain Argentine and United States federal 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 of United States federal income tax matters applies only to holders of ADSs or Class “B” Shares that hold such ADSs or Class “B” Shares as capital assets and does not apply to special classes of holders such as certain non-resident alien individuals who were previously U.S. Holders, as defined below, dealers in securities, holders whose functional currency is not the U.S. Dollar, tax-exempt organizations, certain insurance companies, financial institutions, traders in securities that elect to mark to market, holders liable for the alternative minimum tax, persons holding the ADSs or Class “B” Shares in a hedging transaction or as part of a straddle or conversion transaction or holders that own, or are treated as owning, 10% or more of the voting shares of the Company.

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. The Company’s Management does not anticipate any impact derived from this tax on the dividend distribution which will be submitted for approval at the Annual Shareholders’ meeting to be held on March 2, 2001.

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). Pursuant to the Argentine Personal Property Tax Law No. 23,966, as amended (the “Personal Property Tax Law”), and the implementing Decree No. 127/96 (the “Decree”), individuals that are deemed to be the “direct owners” of securities issued by entities domiciled in Argentina, including the Company, are subject to an annual personal property tax (the “Personal Property Tax”). The tax is levied on securities held at December 31 of each year. The applicable rate is 0.5% of the personal properties (subject to the Personal Property Tax) which exceed Ps. 102,300. Pursuant to the Law 25,239, approved by the Congress in December 1999, the rate increases to 0.75% (to be applied over the excess of the non-taxable amount of Ps. 102,300) when personal properties exceed Ps. 302,300 in the aggregate.

In accordance with the Law No. 25.360, section 4, a personal property tax exemption will be applied to the “direct owners” of shares issued by corporations or limited partnership, constituted in the country, listing in stock exchanges or markets of the Argentine Republic, up to the amount of Ps. 100,000 appraised in accordance with the Personal Property Tax Law, provided that the invested amount had formed part of the personal equity, during the whole fiscal period. This exemption will be enforceable by the fiscal period 2001.

The Argentine tax authority has not issued any resolution or non-binding opinion addressing the applicability of the Personal Property Tax to holders of ADSs. Although the Personal Property Tax applies only to “direct owners” of securities, it is unclear whether the term “direct ownership” should be interpreted in this context as meaning record ownership or beneficial ownership. Accordingly, it is unclear whether a holder of ADRs would be deemed to be the “direct owner” of the underlying Class “B” Shares and may be subject to the Personal Property Tax on that basis. The following discussion assumes that the beneficial owner of the ADSs will be treated as the “direct owner” of the underlying Class “B” Shares.

Although Class “B” Shares and ADSs that are held by individuals or undivided estates domiciled outside Argentina technically would be subject to the Personal Property Tax, in light of the Decree it is clear that the Personal Property Tax may not be collected in respect of Class “B” Shares or ADSs that are held by such individuals or undivided estates. Legal entities domiciled in Argentina are not subject to the Personal Property Tax. Legal entities domiciled outside Argentina are exempt from Personal Property tax.

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 U.S. federal tax consequences only applies to investors who hold TGS ADSs or ordinary 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; a life 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 ordinary shares or ADSs as part of a hedging or straddle or conversion transaction; *or* a person whose functional currency is not the U.S. dollar. A holder is a U.S. holder if such holder is a beneficial owner of ordinary 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 U.S. federal income tax regardless of its source; *or* a trust and a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust. Moreover, the effect of any applicable U.S. state or local tax laws is not discussed in this annual report.

For U.S. federal income tax purposes, if a holder holds ADRs evidencing ADSs, such holder will be treated as the owner of the underlying ordinary shares represented by those ADSs, and exchanges of ordinary shares for ADSs, and ADSs for ordinary shares, will not be subject to U.S. federal income tax.

Taxation of Dividends. Subject to the passive foreign investment company (“PFIC”) rules discussed below, if a holder is a U.S. 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 ordinary shares or distributions of TGS capital stock or rights to subscribe for TGS capital stock) paid by TGS out of its current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). The dividend is ordinary income that such holder must include in income when he or she receives the dividend, either actually or constructively, in the case of ordinary shares, or when the depositary receives such dividend, in the case of ADSs. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. 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 ordinary 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 U.S. dollar value of the Argentine peso payments made, determined at the spot Argentine peso/U.S. 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 U.S. 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 U.S. dollars will be treated as ordinary income or loss. Such gain or loss will generally be income 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 U.S. foreign tax credit will be allowed to U.S. holders of ordinary shares or ADSs in respect of any personal property or similar tax imposed by Argentina (or any taxing authority thereof or therein).

Distributions of additional ordinary shares to U.S. holders with respect to their ordinary shares or ADSs that are made as part of a pro rata distribution to all TGS shareholders generally will not be subject to U.S. federal income tax.

Taxation of Capital Gains. Subject to the PFIC rules discussed below, if a holder is a U.S. holder and such holder sells or otherwise disposes of his or her TGS ordinary shares or ADSs, such holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and his or her tax basis (determined in U.S. dollars) in such ordinary shares or ADSs. Generally such gain or loss will be long term capital gain or loss if such holder’s holding period for such ordinary shares or ADSs exceeds one year and any such gain or loss will be income from sources within the United States for foreign tax credit limitation purposes. Long-term capital gain of an individual U.S. holder is generally subject to a maximum tax rate of 20%.

In general, if a holder is a U.S. holder, TGS will be a PFIC with respect to such holder if, for any taxable year in which such holder held TGS ADSs or ordinary shares, either: at least 75% of the gross income of TGS for the taxable year is passive income; *or* at least 50% of the value (determined on the basis of a quarterly average) of the assets of TGS is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the other corporation’s assets, and as receiving directly its proportionate share of the other corporation’s income.

If a holder is a U.S. holder that did not make a mark-to-market election and TGS is treated as a PFIC, such holder would be subject to special rules with respect to: any gain realized on the sale or other disposition of TGS ordinary shares or ADSs; *and* any “excess distribution” by TGS to such holder (generally, any distributions to such holder in respect of the ordinary shares or ADSs during a single taxable year that are greater than 125% of the average annual distributions received by such holder in respect of the ordinary shares or ADSs during the three preceding taxable years or, if shorter, such holder’s holding period for the ordinary shares or ADSs). Under these rules: the gain or excess distribution would be allocated ratably over such holder’s holding period for TGS ordinary shares or ADSs; the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income; the amount allocated to each prior year, with certain exceptions, would be subject to tax as ordinary income at the highest tax rate applicable to such holder in effect for that year; *and* the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

If an investor owns shares in a PFIC that are treated as marketable stock, such investor may also make a mark-to-market election. Although stock traded on a “qualified” foreign exchange may be considered “marketable stock,” the U.S. Internal Revenue Service has not yet identified specific foreign exchanges that are “qualified” for this purpose. If a holder makes this election, such holder will not be subject to the PFIC rules described above. Instead, in general, such holder will include as ordinary income each year the excess, if any, of the fair market value of such holder’s TGS ordinary shares or ADSs at the end of the taxable year over such holder’s adjusted basis in such holder’s TGS ordinary shares or ADSs. Such holder will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of such holder’s TGS ordinary shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Such holder’s basis in the TGS ordinary shares or ADSs will be adjusted to reflect any such income or loss amounts.

If a holder is a U.S. holder who owns TGS ordinary shares or ADSs during any year that TGS is a PFIC, such holder must file Internal Revenue Service Form 8621.

F. Dividend and Paying Agents.

Not applicable.

G. Statements 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.

TGS has appointed Citibank N.A. to act as depository for its ADSs. During the time there continue to be TGS ADSs deposited with the depository, TGS will furnish the depository with:

its annual reports; *and*

summaries of all notices of general meetings of shareholders and other reports and communications that are made generally available to shareholders of TGS.

The depository will, as provided in the deposit agreement, arrange for the mailing of summaries in English of such reports and communications to all record holders of the ADSs of TGS. Any record holder of ADSs may read such reports, notices, or summaries thereof, and communications at the depository's office. The depository's office is located at 111 Wall Street, New York, NY 10043.

Whenever a reference is made in this Annual Report to a contract or other document of TGS, please be aware that such reference is not necessarily complete and that you should refer to the exhibits that are a part of the Annual Report for a copy of the contract or other document. You may review a copy of the Annual Report at the SEC's public reference room in Washington, D.C.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure is associated with changes in the interest and foreign currency exchange rates. Interest rate risk exposure derives from variable rate debt obligations and LIBOR issuances. Foreign currency risk is a consequence of dollar denominated debt.

According to the authorization granted by TGS' Board of Directors, the Company manages market risk exposure through the utilization of derivative financial instruments entered into only for hedging purposes. Such derivatives financial instruments include interest rate swaps which require payments to (or receipts from) counterparties based on the differential between variable interest rates, interest rate cap with knock out clauses and foreign currency futures which involve cash settlements based on the future estimated price of the foreign currency. See "Item 5 B. Liquidity and Capital Resources" and Note 5 to the consolidated financial statements included elsewhere herein. Approximately 67% of the outstanding principal debt at December 31, 2000, bears fixed interest rate.

Interest Rate Risk

The following table provides information about the Company's interest rate risk sensitive instruments, including short and long-term debt under interest variable rates, interest rate swap and interest rate cap. For debt obligations, the table presents principal cash flows and weighted average interest rate by expected maturity dates. For interest rate swap, the table presents notional amounts and weighted average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual cash flows to be exchanged under the interest rate swaps. Weighted average variable

rates are based on current rates as of December 31, 2000. For interest rate cap, the table presents contract amounts and weighted average strike prices. Contract amounts are used to calculate the contractual cash flows to be exchanged, if applicable, under the interest rate caps. Weighted average strike prices are based on the strike price settled in the contract as of December 31, 2000.

	Expected maturity dates						Total	Fair value
	2001	2002	2003	2004	2005	Thereafter		
(in million of pesos)								
<u>On Consolidated Balance Sheet Financial Instruments:</u>								
Short-term debt	3.9	—	—	—	—	—	3.9	3.7
Average variable rate (%)	7.07	—	—	—	—	—	7.07	
Long-term debt	25.9	139.1	166.5	8.9	5.6	25.1	371.1	293.9
Weighted average variable rate (%)	8.40	8.41	9.02	10.11	10.46	10.46	8.93	
<u>Derivative Financial Instruments:</u>								
Interest rate swap (pay variable / receive variable):⁽¹⁾	(0.2)	—	—	—	—	—	(0.2)	(0.7)
Weighted average pay rate (%)	8.25						8.25	
Weighted average receive rate (%)	2.53						2.53	
Interest rate cap (with knock out clauses):⁽²⁾	0.0 ⁽³⁾	0.0 ⁽³⁾	—	—	—	—	0.0	0.0
Weighted average strike prices (%)	7.0						7.0	

(1) Notional amounts of this derivative agreement amounted to approximately US\$ 6.3 million at December 31, 2000.

(2) Contract amounts of this derivative financial agreement amounted to approximately US\$ 100 million. For a more detailed description of the transaction, see Note 5 to the consolidated financial statements included elsewhere herein.

(3) Cash flows were calculated considering the six-month LIBOR as of December 29, 2000.

As of December 31, 1999, the Company had an interest rate swap agreement for US\$ 100 million related with the third issuance under the 1993 Global Program, which matured in mid June 2000. Such derivative financial instrument required payments to counterparties based on the differential between a fix and a variable interest rate. In addition, the Company was exposed to changes in the Fed Composite Rate in connection with the issuances under the 1997 Global Program, whose last issuances were cancelled on March 27, 2000. For a more detailed description, see Note 5 to the consolidated financial statements included elsewhere herein.

Risk of Devaluation of the Argentine Peso

In the event of a significant devaluation of the Argentine peso, the Company will experience a material loss in its income statement stated in Argentine pesos which might affect the future earnings and consequently dividend distributions. However, if translated into US dollars, TGS' revenue stream is dollar denominated and approximately 75% of its costs are in pesos. Consequently, operating income will not suffer a material adverse effect and net financial expense will remain at the same level since almost 100% of the Company's debt is dollar denominated.

Item 12. Description of Securities Other Than Equity Securities

Not applicable.

Part II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. (Reserved)

Item 16. (Reserved)

Part III

Item 17. Financial Statements

The registrant has responded to Item 18 in lieu of responding to this Item.

Item 18. Financial Statements

Reference is made to pages F-1 through F-37.

Item 19. Exhibits

(a) The following financial statements are filed as part of this Form 20-F:

Transportadora de Gas del Sur S.A.--

	<u>Page</u>
Report of independent public accountants	F-1
Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998	F-2
Consolidated Balance Sheets as of December 31, 2000 and 1999	F-3
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998	F-4
Statements of Changes in Shareholders' Equity for the years ended December 31, 2000, 1999 and 1998	F-5
Notes to Consolidated Financial Statements for the years ended December 31, 2000, 1999 and 1998	F-6

(b) Exhibits: See Exhibit Index

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing this Annual Report on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSPORTADORA DE GAS DEL SUR S.A.
(Registrant)

By:

/s/ Eduardo Ojea Quintana

Name: Eduardo Ojea Quintana
Title: Chief Executive Officer or General
Director

/s/ Claudio Schuster

Name: Claudio Schuster
Title: Director of Administration and
Finance

Dated: February 23, 2001.

EXHIBIT INDEX

Exhibit

1. Consent of Pistrelli, Díaz y Asociados

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Directors of
TRANSPORTADORA DE GAS DEL SUR S.A.:

We have audited the accompanying consolidated balance sheets of TRANSPORTADORA DE GAS DEL SUR S.A. (an Argentine Corporation) and its subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years ended December 31, 2000, 1999 and 1998, all expressed in Argentine pesos as described in Note 2.a) to the consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of TRANSPORTADORA DE GAS DEL SUR S.A. and its subsidiary as of December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years ended December 31, 2000, 1999 and 1998, in conformity with generally accepted accounting principles applicable to consolidated financial statements in Argentina.

Certain accounting practices used by the Company in preparing the accompanying consolidated financial statements conform with generally accepted accounting principles applicable to consolidated financial statements in Argentina, but do not conform with generally accepted accounting principles in the United States of America. A description of the significant differences and a reconciliation, as permitted by the Securities and Exchange Commission of the United States of America, of shareholders' equity as of December 31, 2000 and 1999 and consolidated net income for the years ended December 31, 2000, 1999 and 1998 to generally accepted accounting principles in the United States of America are set forth in Note 12 to the consolidated financial statements.

Buenos Aires,
January 31, 2001

PISTRELLI, DIAZ Y ASOCIADOS

EZEQUIEL A. CALCIATI
Partner

TRANSPORTADORA DE GAS DEL SUR S.A.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

(Stated in thousands of Argentine pesos as described in Note 2.a.,
except for per share and per ADS amounts in Argentine pesos)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
NET REVENUES (Note 3)	479,649	430,271	395,061
OPERATING COSTS (Note 13.e)	<u>(157,889)</u>	<u>(110,827)</u>	<u>(93,581)</u>
Gross operating profit	321,760	319,444	301,480
ADMINISTRATIVE EXPENSES (Note 13.e)	(19,341)	(16,990)	(16,934)
SELLING EXPENSES (Note 13.e)	<u>(2,161)</u>	<u>(1,994)</u>	<u>(1,745)</u>
Operating income	300,258	300,460	282,801
OTHER EXPENSES, NET	(7,107)	(3,024)	(3,697)
NET FINANCIAL EXPENSE (Note 2.1)	<u>(96,913)</u>	<u>(84,954)</u>	<u>(48,771)</u>
Net income before income tax	196,238	212,482	230,333
INCOME TAX EXPENSE (Note 2.j)	(69,975)	(66,758)	(73,851)
MINORITY INTEREST	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>126,263</u>	<u>145,724</u>	<u>156,482</u>
Earnings per share (Note 2.e)	<u>0.16</u>	<u>0.18</u>	<u>0.20</u>
Earnings per ADS (Note 2.e)	<u>0.79</u>	<u>0.92</u>	<u>0.98</u>

Notes 1 to 13 are integral parts of these statements.

TRANSPORTADORA DE GAS DEL SUR S.A.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2000 AND 1999
(Stated in thousands of Argentine pesos as described in Note 2.a)

	2000	1999
CURRENT ASSETS		
Cash	1,055	11,073
Investments (Note 13.c)	18,875	51,054
Trade receivables (Note 3)	64,800	54,056
Other receivables	10,850	10,810
Inventories	1,127	2,047
Total current assets	96,707	129,040
NON CURRENT ASSETS		
Trade receivables (Note 6.a)	29,668	9,085
Other receivables	13,422	9,172
Property, plant and equipment (Note 13.a)	1,937,539	1,949,773
Intangible assets (Note 13.b)	34,950	38,256
Total non current assets	2,015,579	2,006,286
Total assets	2,112,286	2,135,326
CURRENT LIABILITIES		
Accounts payable	49,406	46,819
Loans (Note 5)	199,846	398,202
Payroll and social security taxes	1,454	1,097
Taxes payable (Note 2.j)	23,154	28,761
Other liabilities	4,238	3,281
Total current liabilities	278,098	478,160
NON CURRENT LIABILITIES		
Loans (Note 5)	745,587	599,702
Total liabilities	1,023,685	1,077,862
MINORITY INTEREST	-	-
SHAREHOLDERS' EQUITY	1,088,601	1,057,464
Total liabilities and shareholders' equity	2,112,286	2,135,326

Notes 1 to 13 are integral parts of these statements.

TRANSPORTADORA DE GAS DEL SUR S. A.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998
(Stated in thousands of Argentine pesos as described in Note 2.a)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	126,263	145,724	156,482
Reconciliation of net income to cash flows from operating activities:			
Depreciation of property, plant and equipment	72,572	44,964	36,801
Amortization of intangible assets	3,306	7,470	1,793
Consumption of materials	667	280	879
Changes in assets and liabilities:			
Trade receivables	(31,327)	(22,106)	6,241
Other receivables	(4,290)	3,451	(7,084)
Inventories	920	(759)	376
Accounts payable	7,417	3,032	11,383
Payroll and social security taxes	357	24	(206)
Taxes payable	(5,607)	10,271	(15,264)
Other liabilities	957	(440)	228
Interest payable and others	(988)	1,916	2,726
Cash flows from operating activities	<u>170,247</u>	<u>193,827</u>	<u>194,355</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Additions to property, plant and equipment	(65,967)	(151,323)	(169,386)
Cash from investment amortization	-	-	2,300
Cash flows used in investing activities	<u>(65,967)</u>	<u>(151,323)</u>	<u>(167,086)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from loans	319,939	408,114	418,419
Payment of loans	(390,571)	(180,653)	(342,193)
Net increase / (decrease) in short term debt (1)	19,281	(82,907)	30,185
Settlement of hedges of anticipated transactions (2)	-	(19,201)	-
Dividends paid	(95,126)	(158,899)	(158,899)
Cash flows used in financing activities	<u>(146,477)</u>	<u>(33,546)</u>	<u>(52,488)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(42,197)	8,958	(25,219)
Cash and cash equivalents at the beginning of year	<u>62,127</u>	<u>53,169</u>	<u>78,388</u>
Cash and cash equivalents at the end of year	<u><u>19,930</u></u>	<u><u>62,127</u></u>	<u><u>53,169</u></u>

(1) Less than three-month maturity.

(2) See Note 5 "Derivative financial instruments".

For supplemental information on cash flows, see Note 4.

Notes 1 to 13 are integral parts of these statements.

TRANSPORTADORA DE GAS DEL SUR S.A.
AND SUBSIDIARY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

(Stated in thousands of Argentine pesos as described in Note 2.a, except for per share and per ADS amounts in Argentine pesos)

	Shareholders' Contributions			Retained earnings			Total Shareholders' Equity
	Capital Stock	Adjustment to capital stock	Subtotal	Legal Reserve	Voluntary Reserve for Future Dividends	Unappropriated Retained Earnings	
Balance as of December 31, 1997	794,495	87,802	882,297	34,740	-	156,019	1,073,056
Resolution of the Ordinary Shareholders' Meeting held on February 17, 1998 and of the Director's Meeting held on July 8, 1998:							
Appropriation to Legal Reserve	-	-	-	8,399	-	(8,399)	-
Appropriation to Voluntary Reserve for Future Dividends	-	-	-	-	68,170	(68,170)	-
Cash dividends (0.20 per share and 1.00 per ADS - Note 2.e)	-	-	-	-	(2,407)	(156,492)	(158,899)
Net income	-	-	-	-	-	156,482	156,482
Balance as of December 31, 1998	<u>794,495</u>	<u>87,802</u>	<u>882,297</u>	<u>43,139</u>	<u>65,763</u>	<u>79,440</u>	<u>1,070,639</u>
Resolution of the Ordinary Shareholders' Meeting held on February 17, 1999 and of the Director's Meeting held on July 12, 1999:							
Appropriation to Legal Reserve	-	-	-	7,824	-	(7,824)	-
Cash dividends (0.20 per share and 1.00 per ADS - Note 2.e)	-	-	-	-	(20,478)	(138,421)	(158,899)
Net income	-	-	-	-	-	145,724	145,724
Balance as of December 31, 1999	<u>794,495</u>	<u>87,802</u>	<u>882,297</u>	<u>50,963</u>	<u>45,285</u>	<u>78,919</u>	<u>1,057,464</u>
Resolution of the Ordinary Shareholders' Meeting held on February 22, 2000 and of the Directors' Meeting held on July 31, 2000:							
Appropriation to Legal Reserve	-	-	-	7,286	-	(7,286)	-
Cash dividends (0.12 per share and 0.60 per ADS - Note 2.e)	-	-	-	-	(45,285)	(49,841)	(95,126)
Net income	-	-	-	-	-	126,263	126,263
Balance as of December 31, 2000	<u>794,495</u>	<u>87,802</u>	<u>882,297</u>	<u>58,249</u>	<u>-</u>	<u>148,055</u>	<u>1,088,601</u>

Notes 1 to 13 are integral parts of these statements.

TRANSPORTADORA DE GAS DEL SUR S.A.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

(Amounts stated in thousands of Argentine pesos as described in Note 2.a.,
except for per share and per ADS amounts in Argentine pesos or where otherwise indicated)

1. ORGANIZATION AND START-UP OF THE COMPANY

Transportadora de Gas del Sur S.A. ("the Company" or "TGS") is one of the companies created as a result of the privatization of Gas del Estado S.E. ("GdE"). The Company commenced commercial operations on December 29, 1992 and is engaged in the transportation of natural gas and production and commercialization of liquid petroleum gases ("LPG") in Argentina. TGS's pipeline system connects major gas fields in southern and western Argentina with distributors of gas in those areas and in the greater Buenos Aires area. The gas transportation license to operate this system for a period of thirty-five years ("the License") was exclusively granted to the Company. TGS is entitled to a one time extension of ten years provided that it has essentially met the obligations imposed by the License and by Ente Nacional Regulador del Gas ("ENARGAS"). The General Cerri Gas Processing Complex (the "Cerri Complex"), where the Company processes natural gas by extracting LPG, was transferred along with the gas transmission assets. The Company also renders upstream services which mainly consist of gas treatment, removal of impurities from the natural gas stream, gas compression, wellhead gas gathering and transportation and pipeline construction, operation and maintenance services.

TGS's controlling shareholder is Compañía de Inversiones de Energía S.A. ("CIESA"), which together with Pecom Energía and Enron Corp. ("Enron") hold approximately 70% of the Company's common stock. CIESA is owned 50% by Pecom Energía S.A. (formerly Perez Companc S.A.) ("Pecom Energía") and a subsidiary and 50% by subsidiaries of Enron. The remaining ownership of TGS' capital stock is held by local and foreign investors.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with generally accepted accounting principles in Argentina ("Argentine GAAP") and current Argentine legislation, the presentation of the parent company's individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of this filing, individual financial statements have been omitted since they are not required for Securities and Exchange Commission ("SEC") reporting purposes. The consolidated financial statements of the Company have been prepared in accordance with Argentine GAAP applicable to consolidated financial statements taking into consideration the regulations of the Argentine Securities Commission (Comisión Nacional de Valores - "CNV"). They also include certain additional disclosures in order to conform more closely to the form and content required by the SEC.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

The consolidated financial statements for the years ended December 31, 2000, 1999 and 1998, include the accounts of TGS and its subsidiary TELCOSUR S.A. ("TELCOSUR") and have been consolidated following the methodology established in Technical Resolution ("TR") No. 4 of the Argentine Federation of Professional Councils in Economic

Sciences (“Argentine Federation”). The accounting policies used by TELCOSUR are consistent with those applied by TGS. All significant intercompany transactions have been eliminated in consolidation.

Detailed data reflecting subsidiary control as of December 31, 2000 and 1999, is as follows:

<u>Company</u>	<u>% of Shareholding and Votes</u>		<u>Closing Date</u>	<u>Legal Address</u>
	<u>2000</u>	<u>1999</u>		
	<u>Direct</u>	<u>Direct</u>		
TELCOSUR S.A.	99.98	99.98	December 31,	Don Bosco 3672, 6 th Floor, Buenos Aires

In late April 2000, ENARGAS issued Resolution N° 1,660 (“the Resolution”) containing the chart of accounts and certain valuation and disclosure criteria, which should be considered by gas transportation and distribution companies for regulatory purposes, effective January 1, 2001, except for specific criteria for valuation of property, plant and equipment, which is applicable starting January 1, 2000. Regarding such specific criteria, the Resolution determined maximum useful lives applicable to each component of fixed assets related to the gas transportation service, which are lower than those used by the Company in the preparation of its financial statements until December 31, 1999. The Resolution also outlines criteria for asset retirements and defines which costs should be considered as improvements or maintenance expenses. Additionally, on September 18, 2000, ENARGAS issued Resolution N° 1,903 to clarify the definitions and guidelines mentioned in the Resolution for its better interpretation and application. The impact of higher depreciation expense, derived from the application of the useful lives determined by ENARGAS on the Company's net income for the year ended December 31, 2000, is described in Note 2.h).

Furthermore, ENARGAS, by means of the above mentioned resolutions, determined that, among others, organization or pre-operating costs and re-organization costs shall not be considered as intangible assets. Consequently, ENARGAS requires that the book value as of December 31, 2000, of these concepts should be completely amortized during the fiscal year beginning January 1, 2001. As of December 31, 2000, 24,135 for these concepts is recorded in the account “Intangible assets”. In December 2000, TGS requested CNV to intercede with ENARGAS in order to continue recording its intangible assets in accordance with the governing Argentine GAAP. The application of ENARGAS criteria would affect the principle of information of comparability since the valuation of these intangible assets in accordance with the provisions settled by the ENARGAS would result different to that made by other listing companies developing other type of business. As of the date of issuance of these consolidated financial statements, the Company has not received any response hereto.

a) Presentation of consolidated financial statements in Argentine pesos

The Company's consolidated financial statements include the effects of inflation up through August 31, 1995, utilizing the inflation restatement methodology established in TR N° 6 of the Argentine Federation. Effective September 1, 1995, the Company discontinued the restatement methodology, maintaining the effects of inflation accounted for in prior periods, as provided by the CNV rules.

The discontinuance of inflation accounting is in compliance with Argentine GAAP, provided that the annual variation in the general level wholesale price index (“GLWPI”) does not exceed 8% per annum. Inflation for each of the years ended since September 1, 1995 was lower than 8%. Consequently, the criteria adopted by the Company is in compliance with Argentine GAAP.

b) Financial instruments

The Company utilizes derivative financial instruments to manage market risks reducing its exposure resulting from fluctuations in the interest rate and in the yen exchange rate. Such instruments are disclosed in Note 5 and include: interest rate swap and cap, foreign currency futures and interest rate swap for anticipated transactions. The Company does not use derivative financial instruments for trading purposes.

Gains and losses related to hedge instruments are deferred and included in the measurement of the gains and losses of the hedged position, which are included in the consolidated income statement under “Net financial expense”. Gains and losses from hedging anticipated transactions are deferred until the gains and losses of the hedged position occur.

Accrued and realized gains and losses derived from such financial instruments, which at December 31, 2000 were not material, are included in the Consolidated Balance Sheet as “Loans”.

c) Argentine legal requirements

Certain disclosures related to formal legal requirements for reporting in Argentina have been omitted for purposes of these consolidated financial statements, since they are not required for SEC reporting purposes.

d) Amounts in foreign currencies

Such amounts have been valued at the relevant exchange rates in effect as of the end of each year, including accrued interest, if applicable. The respective detail is disclosed in Note 13.d.

e) Earnings and dividends per share and per ADS

Earnings and dividends per share and per American Depositary Shares (“ADS”) have been calculated based on 794,495,283 outstanding shares during each year. One ADS represents five Class “B” shares.

f) Revenue recognition

Firm transportation revenues are recognized based on the contracted capacity reserved regardless of actual usage. For interruptible transportation services and certain LPG production and commercialization contracts, revenues are recognized upon the delivery of natural gas or gas liquids to customers, respectively. For other LPG production and other services contracts, revenues are recognized when services are rendered.

g) Inventories

Consist of natural gas in the pipeline system owned by TGS in excess of line pack, which is classified as property, plant and equipment, valued at replacement cost of the transported gas at the end of each year. The carrying value of inventories does not exceed its recoverable value.

h) Property, plant and equipment

- Assets transferred from the privatization of GdE: its value was determined based on the price paid for the 70% of the Company’s capital stock which amounted to US\$ 561.2 million. This price was the basis to determine a

total capital stock of US\$ 801.7 million, which when added to the Initial Debt assumed under the Transfer Contract of US\$ 395 million resulted in a total value for property, plant and equipment of US\$ 1,196.7 million. Such value, converted at the exchange rate in effect as of the date of the Transfer Contract, has been restated for the effects of inflation as described in Note 2.a).

- Line pack: represents the natural gas in the transportation system estimated necessary to keep the system at operating capacity, valued at acquisition cost and restated for the effects of inflation as described in Note 2.a).
- Additions: valued at acquisition cost restated for the effects of inflation as described in Note 2.a). The Company capitalizes the net cost of debt used to finance works in progress until such assets are ready to be placed in service. The Company has capitalized all the investments stipulated as mandatory in the License during the first five-year period, in order to achieve system integrity and public safety equal to those required by international standards. Such investments included, among others, the costs of survey programs related to internal and external pipeline inspection, cathodic protection and pipeline replacement and recoating. Repairs and maintenance costs are expensed in the year in which they are incurred.
- Depreciation: the Company applied the straight-line method with a composite depreciation rate for all assets allocated to transportation service and to the LPG production and commercialization until December 31, 1999. Under this method periodic evaluation of the average useful life is required. Until December 31, 1997, average useful lives used for the depreciation of the assets allocated to the gas transportation and LPG production and commercialization were 45 and 20 years, respectively. The Company reevaluated the average useful lives in early 1998 following the conclusion of the five-year mandatory investment program required by ENARGAS for the period 1993-1997 and other safety and reliability investments performed to meet international standards. In doing so, the Company used the technical services of independent engineering experts who evaluated the condition of the assets allocated to the gas transportation and LPG production and commercialization. Based on the results of such evaluation, a remaining average useful life of 67 years was determined for the assets related to the gas transportation service, effective from 1998. In late September 1999, ENARGAS requested the Company not to consider the useful life reestimation mentioned above, retroactive as of December 31, 1997, until such regulatory authority would make a final decision about the useful lives assigned to the assets related to the gas transportation service. The impact of the reestimation of the average useful life on consolidated net income amounted to approximately Ps. 11 million for each of the years ended December 31, 1999 and 1998. On January 24, 2000, the Company was again requested by ENARGAS not to apply the reestimated useful life of the assets allocated to the gas transportation system, notwithstanding the continuance of administrative procedures and subject to the beginning of the duly disciplinary proceedings. Based on the reasonability of the criteria applied on the reestimation of the useful life mentioned above and the interpretation of the Resolution regarding the valuation criteria of property, plant and equipment, the Company's management believes that any change that may eventually result from the above mentioned matters will not have a material retroactive impact at January 1, 2000.

In addition, and as discussed above, ENARGAS has set forth in the Resolutions N° 1,660 and N° 1,903 useful lives applicable to each component of the assets related to the gas transportation service to be applied effective January 1, 2000. The impact of higher depreciation expense, derived from the application of the useful lives determined by ENARGAS on the Company's consolidated net income for the year ended December 31, 2000, amounted to approximately Ps. 17.6 million. The new useful lives applied by the Company, disclosed in Note 13.a), do not exceed the maximum useful lives, determined in such resolutions. During the fiscal year 2000, in compliance with the provisions stated by ENARGAS in the mentioned resolutions and maintaining the straight line method, the Company has changed the above mentioned composite depreciation rate, for individual depreciation rates for each component of the assets allocated to the gas transportation service. The impact of the depreciation criteria change for the assets allocated to the gas transportation service on the Company's retained earnings as of December 31, 1999 and the consolidated net income for the year ended December 31, 2000, was not material.

Regarding the assets allocated to LPG production and commercialization, in early 1999, TGS reestimated its average useful life considering the completion of the Cerri Complex expansion. Based on the technical evaluation of the LPG production and commercialization assets conditions made by independent engineering experts, a remaining average useful life of 17 years was determined for such assets, effective from the beginning of 1999. The impact of the average useful life extension on net income for the year ended December 31, 1999, was not material. During the fiscal year 2000, maintaining the straight line method, the Company has changed the above mentioned composite depreciation rate, for individual depreciation rates for each component of the assets allocated to the LPG production and commercialization. The impact of the depreciation criteria change for such assets on the Company's retained earnings as of December 31, 1999 and the consolidated net income for the year ended December 31, 2000, was not material.

For depreciation of all other property, plant and equipment, the Company uses the straight-line method at the rates disclosed in Note 13.a), recording the loss or gain on retirement of the assets in income of the year when incurred.

The recorded value of property, plant and equipment, taken as a whole, does not exceed its recoverable value.

i) Intangible assets

Intangible assets are valued at historical cost, restated for the effects of inflation as described in Note 2.a), less related accumulated amortization calculated over a deferral period of primarily thirty-five years for organization and pre-operating costs, cancellation costs of commitments assumed under the Transfer Contract and other costs, while the settlement costs of the hedge agreements are deferred over the related loan terms.

j) TGS's income tax and TELCOSUR's tax on minimum presumed income

TGS and TELCOSUR accrue their respective income taxes using the 35% rate on their estimated taxable income for the fiscal year, without considering the effect of temporary differences between the accounting income and the taxable income.

Additionally, TELCOSUR accrues the tax on minimum presumed income using the 1% rate on the computable assets as of the end of each year. This tax is complementary to income tax. The Company's final liability will be equal to the higher of both taxes. However, should the tax on minimum presumed income exceed the tax based on income in any given year, such excess may be applied to reduce any excess of income tax over the tax on minimum presumed income in any of the ten succeeding years.

For the year ended December 31, 2000, TELCOSUR estimated income tax loss carryforward for approximately 1,300 and determined the amount accrued as tax on minimum presumed income for 13, which was allocated in the account "Other receivables". Based on the paragraph mentioned above, TELCOSUR's management estimates that such tax receivable is fully recoverable.

A reconciliation between the amount accrued as income tax expense and the pre-tax income at the statutory tax rate for the 2000, 1999, and 1998 fiscal years is as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Pre-tax income	196,238	212,482	230,333
Statutory tax rate	35%	35%	35%
Income tax expense at statutory rate	68,683	74,369	80,617
Differences in property, plant and equipment	(210)	(6,090)	(7,035)
Net effect of inflation accounting	1,445	894	1,033
Others (not individually material)	57	(2,415)	(764)
Income tax expense.....	<u>69,975</u>	<u>66,758</u>	<u>73,851</u>

Income tax accrual, net of advanced payments, included in "Taxes payable" amounted to 18,238, 23,038 and 17,030 as of December 31, 2000, 1999 and 1998, respectively.

k) Shareholders' equity accounts

These accounts have been restated for the effects of inflation as described in Note 2.a), except for "Capital Stock" which is valued at original cost. The effect of the adjustment to restate this account as described in Note 2.a) has been disclosed in the account "Adjustment to Capital Stock".

l) Income statement accounts

Expenses related to depreciation and amortization of non-monetary assets have been restated for the effects of inflation as described in Note 2.a).

The breakdown of "Net financial expense", which consists mostly of interest, separated between those generated on assets and on liabilities, and the amortization of the hedges of anticipated transactions costs for the years ended December 31, 2000, 1999 and 1998 is as follows:

	<u>Gain (Loss) generated on</u>					
	<u>Assets</u>			<u>Liabilities</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Interest and other	4,706	5,161	4,205	(1) (101,619)	(1) (90,115)	(1) (52,976)

(1) Net of 3,299, 9,451 and 9,990 capitalized interest on "Property, plant and equipment" for the years ended December 2000, 1999 and 1998, respectively.

3. CONSOLIDATED BUSINESS SEGMENT INFORMATION

The Company's principal business is to provide natural gas transportation service through its pipeline system. Also, the Company produces and commercializes LPG at the Cerri Complex and renders other non-regulated services.

Operating income consists of net revenues less operating expenses. In the calculation of operating income, the following items have not been included: other expenses, net, net financial expense and income tax expense.

Assets identifiable with each segment are those used by the Company to develop each business. Assets that cannot be identified with a specific segment have been grouped under "Corporate" and include investments, among others.

Regarding transactions held between the business segments, TGS billed TELCOSUR 1,000 and 157 for the provision of telecommunication facilities and administrative services, respectively, for the year ended December 31, 2000. On the other hand, TELCOSUR billed TGS 934 for telecommunication services rendered in the year ended December 31, 2000. Such transactions were eliminated for financial statement consolidation purposes, following the methodology established in TR No. 4 of the Argentine Federation.

At December 31, 2000	Gas transportation	LPG production and commercialization	Other services	Corporate	Total
Net revenues	384,090	68,271	27,288	-	479,649
Operating income (loss)	276,110	41,195	4,455	(21,502)	300,258
Depreciation of property, plant and equipment .	54,930	10,597	3,554	3,491	72,572
Additions to property, plant and equipment (includes work in progress).....	48,807	3,245	7,585	1,499	61,136
Identifiable assets	1,808,446	198,595	56,831	48,414	2,112,286
At December 31, 1999					
Net revenues	353,438	62,774	14,059	-	430,271
Operating income (loss)	277,174	33,833	8,437	(18,984)	300,460
Depreciation of property, plant and equipment .	28,165	10,929	3,223	2,647	44,964
Additions to property, plant and equipment (includes work in progress)	127,159	6,316	11,394	2,225	147,094
Identifiable assets	1,787,086	195,099	60,819	92,322	2,135,326
At December 31, 1998					
Net revenues	346,260	44,675	4,126	—	395,061
Operating income (loss)	272,673	26,702	2,105	(18,679)	282,801
Depreciation of property, plant and equipment	26,901	6,766	826	2,308	36,801
Additions to property, plant and equipment (includes work in progress)	93,277	51,118	36,419	2,667	183,481
Identifiable assets	1,676,351	188,847	43,828	84,446	1,993,472

The Company provides credit in the normal course of its gas transportation business principally to gas distribution companies, Pecom Energía and YPF S.A. (“YPF”). Concentration of credit and principal customers gross revenues from gas transportation for the years ended December 31, 2000, 1999 and 1998 are as follows:

Gas Transportation:	Trade receivables		Gross revenues		
	2000	1999	2000	1999	1998
MetroGas S.A. (2)	16,090	19,749	169,405	169,560	171,840 ⁽¹⁾
Camuzzi Gas Pampeana S.A.....	7,627	7,704	74,057	75,015	77,419
Gas Natural BAN S.A.....	5,728	5,693	50,553	49,597	49,032
Pecom Energía	1,863	2,009	18,933	16,918	16,722
Camuzzi Gas del Sur S.A.....	1,422	1,454	15,507	17,518	18,699
YPF.....	1,049	2,284	10,880	12,594	11,894

(1) Amount in the table above reflect certain reclassifications for comparative purposes with the 2000 and 1999 amounts.

(2) Pecom Energía sold its indirect shareholding in this company during the third quarter of 1998.

The principal customers in the LPG production and commercialization segment are YPF, Petroquímica Bahía Blanca S.A (“PBB”) and Petróleo Brasileiro S.A. (“Petrobras”). The amounts of trade receivables and gross revenues for these customers for the years ended December 31, 2000, 1999 and 1998 are as follows:

LPG Production and Commercialization:	Trade receivables		Gross revenues		
	2000	1999	2000	1999	1998
YPF.....	3,885	3,837	19,249	22,864	21,798
Petrobras.....	7,950	5,536	20,258 (1)	17,508 (1)	2,693 (1)
PBB.	7,439	2,004	12,615 (1)	10,613 (1)	5,959 (1)

(1) Such amounts in the table above reflect LPG production and trading services derived from their sale for the account of third parties .

4. ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

In the preparation of the consolidated statements of cash flows, cash and cash equivalents include investments with original maturities of three months or less. The Company uses the indirect method, which requires a series of adjustments to the year’s net income to obtain the cash flows generated by operations.

Cash paid for income tax and interest during the years ended December 31, 2000, 1999 and 1998 is as follows:

	2000	1999	1998
Income tax.....	77,180	60,224	89,426
Interest (net of capitalized amounts)	99,975	80,532	51,928

Non-cash investing activities for the years ended December 31, 2000, 1999 and 1998 include fixed assets acquisitions amounting to 16,715, 21,546 and 25,775 unpaid at such dates, respectively, as well as the financed acquisition of fixed assets, which amounted to 335 at December 31, 1998.

Accounts receivable derived from sales of property, plant and equipment amounted to 937 and 1,134, at December 31, 2000 and 1999, respectively, and are classified under "Other current receivables". Additionally, expenses paid in advance for 3,019 and 3,006 as of December 31, 2000 and 1999, respectively, and tax receivables for 2,948 at the end of the current fiscal year were registered in such account.

5. LOANS

At December 31, 2000, TGS is a party to various short-term credit agreements with a total outstanding amount of 199,846 with an interest rate ranging from 6.28% to 10.25%. These loans mainly include 152,991 from the first issuance of notes under the 1996 Global Program and approximately 28,453 from loans in yen currency, as described below.

Long-term debt outstanding at December 31, 2000 and 1999 consisted of the following:

	<u>2000</u>	<u>1999</u>
-1993 Global Program: third issuance due 2002, interest rate of 7.22% ⁽¹⁾	99,718	99,577
-1996 Global Program: first issuance due 2001, interest rate of 10.25% ^{(2) (3)}	—	151,073
-Inter-American Development Bank ("IDB") Loans due through 2011 (interest rates between 9.61% and 10.46%) ⁽¹⁾	322,142	321,597
-1999 Global Program: first issuance due 2003, interest rate of 8.90% ⁽¹⁾	148,217	—
-1999 Global Program: second issuance due 2003, interest rate of 10.38% ^{(1) (2)}	146,841	—
-Other bank borrowings due through 2006 (interest rates ranging between 6.91% and 8.83% in 2000) ⁽¹⁾	28,669	27,455
	<u>745,587</u>	<u>599,702</u>

(1) Net of unamortized portion of up front fees.

(2) Net of issuance discounts.

(3) Includes unamortized portion of a Treasury lock settlement, which effectively locked in the rate on the five-year US Treasury Bond in opportunity of a debt issuance. The settlement generated an approximately US\$ 6 million gain which was originally deferred and is being amortized over the five-year term of the debt issuance.

Detailed information on significant debt as of December 31, 2000, is as follows:

- Debt issuances under Global Programs :

1993 Global Program

At the Shareholders' Meeting held on August 27, 1993, the establishment of a Global Program for the issuance of short and medium Term Notes (Eurocommercial Papers ("ECP") and Euro Medium Term Notes ("EMTN"), respectively) was approved. The Program allowed an aggregate notional outstanding amount at any given time of US\$ 350 million. At the Shareholders' Meeting held on March 6, 1996, the maximum amount of this Program was increased to US\$ 500 million. The Global Program had been registered with the Bolsa de Comercio de Buenos Aires ("BCBA") and the CNV.

The description of the outstanding issuance under this Global Program as of December 31, 2000, is as follows:

- *Third Issuance*: Five-year registered notes due December 18, 2002, in one payment for an aggregate amount of US\$ 100 million bearing interest at six-month LIBOR plus 0.65% through the first year, stepping up to

0.85% in the fifth year. The notes were approved for trading in the Luxembourg Stock Exchange and in the BCBA. Net proceeds from the placement were used to debt refinancing, to finance capital expenditures and working capital needs.

1996 Global Program

At the Shareholders' Meeting held on March 6, 1996, the setting up of a new Global Program for the issuance of short-term and medium-term notes up to a maximum outstanding amount at any given time of US\$ 350 million was approved. This Global Program has been registered with the SEC for being able to make issuances of traded debt securities in the US capital markets. The CNV and the BCBA authorized the Program. The description of the outstanding issuance under this Global Program as of December 31, 2000, is as follows:

- *First Issuance:* Medium-term (5 years) registered notes in an aggregate principal amount of US\$ 150 million, maturing in a single payment on April 25, 2001, issued at a price of 99.935%. The notes bear interest at an annual fixed rate of 10.25%, payable semi-annually. The funds obtained from this issuance were used as follows: (a) approximately US\$ 100 million to pay or prepay short-term debt, and (b) the remaining for working capital needs. The BCBA has authorized the public trading of this issuance. This issuance is registered with the SEC.

1999 Global Program

The Shareholders' Meeting held on February 17, 1999, ratified the authorization given by the Shareholders' Meeting held on February 17, 1998, for the creation of a new US\$ 500 million Global Program, to replace the 1993 Global Program which expired at the end of 1998. This program has been authorized by the CNV, the BCBA and the Luxembourg Stock Exchange. The description of the outstanding issuances under this Global Program as of December 31, 2000, is as follows:

- *First issuance:* Medium-term (3 years) registered notes in an aggregate principal amount of US\$ 150 million, maturing in a single payment on March 27, 2003. The notes bear interest at 30, 60, 90 or 180 days LIBOR, as the Company may choose, plus 2.25% through the first year, stepping up to 3% in the third year. The next interest payment will due on January 29, 2001. The BCBA has authorized the public trading of this issuance. Net proceeds from this transaction were applied to refinance the issuances under the 1997 Global Program, created in February 1997 for a term of 36 months and whose last issuances were cancelled on March 27, 2000.
- *Second issuance:* Medium-term (3 years) registered notes in an aggregate principal amount of US\$ 150 million, issued at a price of 99.694%, maturing in a single payment on April 15, 2003. The notes bear interest at an annual fixed rate of 10.38% , payable semi-annually. The Luxembourg Stock Exchange, BCBA and Mercado Abierto Electrónico have authorized the public trading of this issuance. Net proceeds from this transaction were exclusively used to prepay and partially refinance the second issuance under the 1996 Global Program, which matured in June 2000.

The Shareholders' Meeting held on February 22, 2000, approved the creation of a new Global Program for the issuance of short and medium-term notes for a maximum outstanding amount of US\$ 300 million, in order to replace the 1997 Global Program. This program has been authorized by the CNV, the BCBA and the Luxembourg Stock Exchange.

- IDB loans

In the first half of 1999, TGS collected funds from the IDB loan agreement which total US\$ 226 million. The

transaction has a final maturity of 12 years, with a five-year grace period which results in an eight and a half-year average life. The IDB loan agreement is structured through an A loan disbursement of US\$ 50 million which is funded by the IDB and a B loan disbursement of US\$ 176 million which was raised through a private placement to foreign investors. IDB is the lender of record and administrator for both the A and B loans disbursements. The transaction was priced at 450 basis points over an average US Treasury bond interest rate settled at 5.15% (for US\$ 200 million) and at 375 basis points over LIBOR (for the remaining US\$ 26 million). The proceeds of the transaction were received with the purpose of financing part of the capital expenditures over the period 1998-2002 associated with expansions and enhancements of the gas transportation, LPG production and commercialization and other services activities.

Additionally, in November 1999, TGS received another loan which totals US\$ 100 million from the IDB loan agreement mentioned above. The transaction has a final maturity of eleven and a half years, with a four and a half-year grace period and an eight-year average life. The IDB loan agreement is structured through an A loan disbursement of US\$ 25 million which is funded directly by the IDB and a B loan disbursement of US\$ 75 million which was raised through a private placement to foreign investors. The transaction was priced at 420 basis points over an average US Treasury bond interest rate settled at 5.99%. The proceeds of the transaction were received with the purpose of financing part of the capital expenditures over the period 1999-2002 associated with expansions and enhancements of the gas transportation, LPG production and commercialization and other services activities.

- Other bank borrowings:

Include credit lines granted by the Export Import Bank of USA ("Eximbank") payable over five years in semi-annual installments accruing interest at 180-day LIBOR plus 0.20% or 0.40% per annum depending on the credit line. As of December 31, 2000 and 1999, the current outstanding principal of such debt amounted to 7,052 and 7,974, respectively, and the non-current portion amounted to 14,891 and 21,943, respectively.

At December 31, 2000, the current portion includes borrowings with maturities within 182 days, amounting to approximately 3.1 billion of yens (representing approximately US\$ 28 million at the exchange rate in effect at the inception of the agreements). Additionally, the non-current portion includes a loan amounting to approximately 600 million of yens (representing approximately US\$ 6 million at the exchange rate in effect at the inception of the agreement). The Company has entered into foreign currency future agreements to provide a protection against a devaluation of the US dollar with respect to the yen, fixing the exchange rates to be in effect at the maturity date of each loan.

- Covenants:

The Company must comply with the restrictive covenants contained in its debt agreements which include, among others, the following:

- i) restrictions to create liens: as long as any note issued remains outstanding, the Company may not encumber its assets or its present or future revenues with debt incurred which in the aggregate exceeds US\$ 10 million, unless the Company finances, in full or in part, the purchase or construction of the assets so encumbered.
- ii) restrictions on the level of indebtedness: as of the closing date of annual and/or interim financial statements, debt assumed by the Company may not exceed 60% or 65% (as applicable, according to the respective TGS's Global Programs) of the sum of total debt plus shareholders' equity. Additionally, under the IDB loan agreement, debt assumed by the Company may not exceed 65% of the sum of total debt plus shareholders' equity, minus intangible assets, issuance discounts, deferred issuance expenses and other similar to them.
- iii) restrictions on the EBITDA (defined as earnings before net financial expense, income tax, depreciation and

amortization) to “Net financial expense” ratio: this ratio must not be less than 2.5 in any moment.

- Derivative financial instruments:

As of December 31, 2000, the Company has an outstanding interest rate swap agreement with Bank of America for approximately 600 million of yens that converts six-month Yen LIBOR plus 1.125% per annum to six-month Dollar LIBOR plus 1.36% per annum. Additionally, foreign currency future agreements are disclosed in “Other bank borrowings”.

In August 2000, TGS entered into interest rate cap agreements with major financial institutions for the six-month LIBOR of US\$ 100 million related to the third issuance under 1993 Global Program. Through these agreements, the Company set the six-month LIBOR at an annual cost of 7% if in any semi-annual period the level of this rate fluctuates between 7% and 8%. There fore, if during any semi-annual period the level of the mentioned rate is lower or higher than this range, TGS will pay the effective six-month LIBOR of the period. These agreements are effective from December 18, 2000, to December 18, 2002. Moreover, until mid June 2000, the Company had interest rate swap agreements for US\$ 100 million mentioned above.

In 1998, the Company entered into two agreements which locked in the rate on the US Treasury Bond at a cost between 5.66% and 5.89%, with a notional amount of US\$ 200 million to hedge the interest rate associated with the IDB loan mentioned above. In February 1999, the Company settled one of such agreements with a notional amount of US\$ 100 million. The other agreement with a notional amount of US\$ 100 million was partially settled in March 1999 while the remainder was settled in April 1999. The settlement cost of these agreements amounted to approximately Ps. 11 million, which was recorded in the account “Intangible assets” and amortized over the term of the IDB loan agreement.

In addition, the Company entered into a hedge transaction which locked in the rate on the 5-year US Treasury Bond at 5.62%. The hedge transaction was entered in contemplation of a US\$ 200 million debt issuance based on the 5-year US Treasury rate to refinance the first issuance under the 1993 Global Program. Given the instability in the capital markets, the Company made the second issuance under the 1996 Global Program amounting to US\$ 200 million and with an 18-month maturity. Consequently, the approximate Ps. 8 million cost of such hedge agreement settled in January 1999 (allocated as a financing cost of the transaction in the account “Intangible assets”) is amortized over the refinancing periods.

6. REGULATORY FRAMEWORK

a) General:

The Company's natural gas transportation business is regulated by Law No. 24,076 (“the Natural Gas Act”), and by regulations issued by ENARGAS, who is entitled, among other things, to set the basis for the calculation of, monitor and approve tariffs. Current transportation tariffs are calculated in US dollars and converted into Argentine pesos as of the billing date. The basic gas transportation tariffs charged by TGS were established upon the privatization and may be adjusted, prior authorization, in the following cases: (i) semi-annually to reflect changes in the US producer price index -industrial commodities- (“PPI”) and (ii) every five years according to efficiency and investment factors determined by ENARGAS. The efficiency factor is a reduction to the base tariff resulting from future efficiency programs while the investment factor increases the tariffs to compensate for future investments. Also, subject to ENARGAS approval, tariffs may be adjusted to reflect non recurring circumstances or tax changes, other than income tax.

In 1996 and 1997, ENARGAS conducted the first rate review process. In 1996, ENARGAS set the weighted

average cost of capital to be used for the determination of the efficiency and investment factors at 11.3% per annum. As a result of the rate review process which ended in December 1997, the Company's gas transportation rates suffered a one-time decrease of 6.5% effective January 1, 1998, based on the application of the efficiency factor determined by ENARGAS for the second five-year period, 1998-2002. In connection with the investment factor, ENARGAS approved the application of periodic increases through January 2002 to the Company's tariffs resulting in a total weighted average of 2.6% as of that date to compensate the Company for approximately US\$ 70 million in investments which principally include the modifications to the Great Buenos Aires high-pressure ring, the expansion of the Cordillerano Pipeline in Western Argentina, and enhancements to the General San Martín pipeline in preparation for future expansions.

Transportation rates increased 0.24%, effective July 1, 1999 derived from PPI adjustments. Effective January 1, 2000, PPI adjustment increased 3.78%. In January 2000, ENARGAS, through its Resolution N° 1,470, and with the previous consent of the gas transportation and distribution companies, approved the postponement of the 3.78% PPI adjustment (which corresponds to the first semester of the year 2000) until July 1, 2000. Such extraordinary and one-time postponement implies a financing and subsequent recovery of the adjustment. In August 2000, the Executive Branch issued Decree N° 669/00, based on an agreement signed by the Federal Energy Bureau, representing the Ministry of Economy, ENARGAS and TGS, together with other gas licensee companies. This decree establishes that the revenues accrued during the first half of 2000 plus interest accrued for the application of the 3.78% PPI adjustment, will be billed, through a tariff increase, in a twelve-month period starting July 1, 2000. In addition, such decree provides for the deferral of any PPI adjustment from July 1, 2000, until June 30, 2002 (the PPI increases effective from July 1, 2000 and January 1, 2001, were 2.32% and 4.01%, respectively). Accrued revenues related to PPI adjustments, plus interest, will be included in an accrual fund, provided that such accrual fund remains within specific limits, and will be billed, through a tariff adjustment, in a twenty four-month period starting July 1, 2002. In late August 2000, Administrative Contentious Federal Trial Court N°8 granted a precautionary measure requested by the Ombudsman and ordered the suspension of the application of Decree N°669/00, since, in the opinion of the Court, the allegation that the application of the PPI adjustment contradicts Law N° 23,928 of Convertibility, constitutes a reasonable ground to request the suspension of Decree N° 669/00. This measure was subsequently appealed by the Federal Executive Branch, ENARGAS and the majority of licensees companies. In August 2000 and January 2001, ENARGAS notified TGS that the Company must abide by the court order, although decree N°669/00 has not been declared null. Therefore, ENARGAS requested that the effects of this decree shall not be applied on the tariffs, which shall keep the value in force during the first half of the year 2000 until there is a final court decision. The Company requested ENARGAS to reconsider the decision of applying the tariff level in place prior to the issue of the Decree N°669/00 and to apply the tariffs resulting from the Resolution N° 1,470, mentioned above.

The Company considers that: i) the billing deferral of the mentioned tariff adjustment is a financing method mandated by the Argentine Government related to rendered services regardless of future services to be provided to customers, ii) to the extent the deferral might not be billed to customers, the Company should receive a compensation from the Argentine Government for the amounts not billed as a result of services already provided and, iii) as the PPI adjustment arises from a special Law (Law N° 24,076) which is subsequent to Law N° 23,928 of Convertibility, and additionally, according to the provisions of this Law, PPI adjustment does not constitute an inflation adjustment, but it is an adjustment that follows the international evolution of changes in the value of goods and services that represent the activity of the licensee gas companies. Therefore, the mentioned tariff increases derived from the application of the Decree 669/00, which amounted to Ps. 18,1 million, were recognized as revenues in the TGS's consolidated financial statements as of December 31, 2000, and they are included in the account "Non current trade receivables" at such date, because such tariff increases are fully recoverable.

The LPG production and commercialization and other services segment is not regulated by ENARGAS, and as provided in the Transfer Contract, is organized as a division within the Company and maintains separate accounting information.

The License stipulates, among other restrictions, that the Company may not assume debts of CIESA, or grant

credit, encumber its assets or grant any other benefit to CIESA's creditors.

b) Essential assets:

A substantial portion of the assets transferred by GdE has been defined as essential for the performance of the gas transportation service. Therefore, the Company is required to segregate and maintain these assets, together with any future improvements, in accordance with certain standards defined in the License.

The Company may not, for any reason, dispose of, encumber, lease, sublease or loan essential assets nor use such assets for purposes other than providing the licensed service without ENARGAS prior authorization. Any expansion and improvement that the Company may make to the gas pipeline system after the takeover may only be encumbered to secure loans that have a term of more than one year to finance new expansions and improvements to the licensed service.

Upon expiration of the License, the Company will be required to transfer to the Argentine Federal Government or its designee, the essential assets listed in the updated inventory as of the expiration date, free of any debt, encumbrance or attachment, receiving compensation equal to the lower of the following two amounts:

- i) The net book value of the essential assets determined on the basis of the price paid by the acquiring joint venture, and the original cost of subsequent investments carried in US dollars and adjusted by the PPI, net of accumulated depreciation according to the calculation rules to be determined by ENARGAS.
- ii) The net proceeds of a new competitive bidding.

7. CAPITAL STOCK AND DIVIDENDS

a) General:

The Company was incorporated on November 24, 1992 with a capital of 12. The first General Ordinary and Extraordinary Shareholders' Meeting held on December 28, 1992, approved an irrevocable contribution against future share subscriptions which, in Argentine pesos as of that date, amounted to 794,483. The shareholders also decided to increase capital stock through the partial capitalization of this contribution which, in Argentine pesos of that date, amounted to 557,297 since an inventory of the assets transferred had not yet been completed. Once the inventory of the assets transferred was completed, the General Ordinary Shareholders' Meeting held on March 24, 1994, approved the capitalization of the balance of the irrevocable contribution against future share subscriptions. Thus, the capital stock was increased by 237,186 to a total of 794,495 in Argentine pesos of that date.

As of December 31, 2000 the Company's common stock subscribed, paid in and issued is composed of:

Classes of stock

Common stock, nominal value 1, one vote per share:

Class "A" shares	405,192,594
Class "B" shares	389,302,689
	<u>794,495,283</u>

The Argentine Government initially held a 27% shareholding in the Company represented solely by Class "B" shares. Such Class "B" shares were sold in two parts: (i) a substantial part in 1994 through a local and international public offering (outside Argentina, the shares were offered under the form of ADSs representing five

shares each; the ADSs issued in the United States of America are SEC registered and traded on the New York Stock Exchange) and (ii) the remainder, representing approximately a 2% shareholding in the Company, to local and foreign investors during 1996.

The Company is obligated to maintain the authorization to offer the Company's capital stock to the public and the corresponding authorization for the shares to be listed on the Argentine Republic's authorized securities markets for a minimum period of 15 years from the respective dates on which such authorizations were granted.

b) Limitation of the transfer of the Company's shares:

The Company's by-laws provide that prior approval of ENARGAS and the unanimous approval of CIESA's shareholders, under agreements among them, must be obtained in order to transfer Class "A" shares (representing 51% of capital stock). The Bid Package states that approval of ENARGAS will be granted, provided that:

- The sale covers 51% of capital stock or, if the proposed transaction is not a sale, the act of reducing the shareholding will result in the acquisition of a shareholding of not less than 51% by another investment company;
- The applicant provides evidence to the effect that the transaction will not impair the operating quality of the licensed service;
- The existing technical operator, or a new technical operator approved by ENARGAS, holds the minimum required 10% of the new investor company's shares during the eight-year period following the take over and a technical assistance contract remains in force.

In the case of shareholders of CIESA who have qualified due to the equity, guarantee and/or technical background of their respective parent companies, the sale of shares representing the capital of such subsidiaries by the respective ultimate, direct or indirect parent companies, and/or the cessation of the management running the Company, requires the prior authorization of ENARGAS.

In case the Company wishes to reduce its capital, redeem its shares or distribute any part of its equity, except for the dividends payment, in accordance with the provisions of the Argentine Business Associations Law, it should require prior authorization from ENARGAS.

c) Dividend distribution:

The TGS's Board of Directors will submit for approval at the Annual Ordinary Shareholders' Meeting to be held in March 2, 2001, a distribution proposal of 2000 earnings. The distribution base is 190,744 and the distribution proposal is as follows: (i) cash dividends amounting to 88,372 or 0.111 per share (0.556 per ADS) for the fiscal year ended December 31, 2000, of which 42,689 or 0.054 per share (0.269 per ADS) were paid in advance in August 2000, based mainly on 2000 first half earnings, (ii) legal reserve amounting to 6,313 and (iii) to keep in retained earnings amounting to 96,059.

According to Law N° 25,063, cash or other type of dividend distribution, exceeding net income determined as stipulated by tax regulations, will be subject to a 35% withholding tax as a sole and definite payment. The Company's management considers that this withholding tax has no effect on the dividend distribution above mentioned.

d) Restrictions on retained earnings:

Under current Argentine legal requirements, 5% of net income per year must be appropriated into a legal reserve until such reserve equals 20% of total capital stock adjusted for inflation.

In addition, the by-laws provide for the issuance of Profit Sharing Vouchers, as defined in Article 230 of the Argentine Business Associations Law, payable to all regular employees so as to distribute 0.25% of the net income of each year among them. An accrual for this expense has been recorded in the account "Other liabilities".

8. ENVIRONMENTAL MATTERS

TGS's management believes that the Company's current operations are in substantial compliance with applicable laws and regulations relating to the protection of the environment. TGS's environmental policy is designed to comply with Argentine laws relating to hazardous waste and air quality. Under these laws, the principal hazardous substances generated by TGS consist of discarded casing oil, and those parts of the compressor station entry filters which are soaked in hydrocarbons.

TGS has implemented a policy of reducing and treating hazardous substances. Consequently, during 1995 the Company completed a study of all the emissions produced by TGS, including gaseous, liquid and solid emissions, with the objective of making a quantitative and qualitative evaluation. The study covered all the compressor plants and maintenance bases, as well as the Cerri Complex, and extended along nearly 6,000 km (3,728 miles) of gas pipeline. Based on the results of the study, minor farm land restoration was required, as well as construction of drainage systems and the installation of incinerators for the hazardous substances.

TGS's policy in connection with environmental affairs and industrial security is based on the Company's commitment to provide gas transportation and other related services observing the following principles:

- 1) Continuous improvement in operating standards to avoid accidents and pollution.
- 2) Fulfillment of provisions contained in the current legislation and procedures adopted by the Company.
- 3) Establishment of annual goals and objectives in accordance with this policy and the Company's vision, mission and values.
- 4) Personnel training in accordance with the responsibility and the risks involved in each job.

In October 1998, TGS obtained the certification of environmental management system, in accordance with the international standards ISO 14001.

9. LEGAL AND REGULATORY MATTERS

- a) In April 1996, GdE filed a legal action against TGS for US\$ 23 million, which is the amount GdE claims is due to it as reimbursement of its cost to construct two compressor plants currently in operation on the TGS pipeline. TGS has denied such claim on the grounds that it owes no monies to GdE as it acquired rights to these compressor plants as part of its overall purchase of the pipeline assets in the 1992 privatization. The Company has recorded such plants as "Property Plant and Equipment", valued at Ps. 4.8 million based on the replacement cost of similar compressor equipment. At the end of February 2000, a first judgment was pronounced upholding GdE's claim for

US\$ 23 million plus interest (calculated at the "passive rate" set by the Argentine Central Bank Circular 14,290 from the date GdE paid the above-mentioned purchase orders) and litigation expenses. TGS's management considers that this judgment is based on a partial understanding of the facts and findings proven by TGS, and that the serious inaccuracies and omissions included therein render it arbitrary. Accordingly, TGS proceeded to file an appeal. The Company believes that the most likely outcome is that subsequent judicial proceedings will overturn the initial judgment against TGS based on the facts and findings mentioned above.

- b) As of the date of issuance of these consolidated financial statements, GdE directly or through ENARGAS, has not fulfilled the obligations set forth in the Transfer Agreement and in the License in connection with its responsibility for the five-year period ending on December 31, 1997, for the registering of easements relating to the transferred pipeline system which have not been properly registered and for related payments to property owners of any required easements. In order to fulfill its capital expenditures program related to the system integrity and public safety required by the License, the Company has entered into easement agreements with certain land owners and paid related amounts. Consequently, the Company filed a claim against GdE to recover such amounts paid.

On October 7, 1996, the Executive Branch, through Decree N° 1,136/96, created a contribution fund, as provided for in the License, to assume GdE's obligations for paying easements and any other compensation to land owners for an initial five-year period, beginning with the privatization and ending on December 28, 1997. ENARGAS manages the above mentioned fund, which is financed by a special charge included in the transportation rates and reimbursed to ENARGAS. TGS has filed against GdE-ENARGAS an administrative claim asking for the amounts paid in connection with easements related to facilities existing prior to December 28, 1992. In December 1997, ENARGAS declared that it will allow the reimbursement of the useful expenses, as determined by the Government, derived from easements. The Company expects to fully recover the amounts paid, based on its rights derived from the License.

In connection with the easements payable starting January 1, 1998, TGS is negotiating with ENARGAS the recovery of amounts paid through increases in the transportation rates. The Company expects, based on its rights, to fully recover the amounts recorded.

- c) In 1997, the Company received a preliminary assessment from the Tax Bureau of the Neuquén Province related to stamp tax derived from transportation contracts entered into between TGS and four gas distribution companies shortly before the take-over date of TGS and while GdE was the sole shareholder of the Company. In December 1999, the Tax Bureau of the Neuquén Province formalized the claim through a final assessment for an amount of approximately Ps. 97 million (with its related interests as of December 31, 1999). Moreover, proceedings integration was set in order to evaluate eventual penalties application. TGS's management believes that these contracts were not subject to provincial stamp taxes because the parties to the contracts at the time they were formed, were governmental entities that were exempt from the tax. Moreover, even if the contracts were subject to provincial stamp taxes, management believes that GdE would bear responsibility for this tax under the Transfer Agreement. As regards the preliminary assessment, the Company has notified GdE of its position and has filed an appeal with the Tax Bureau of the Neuquén Province requesting that the relevant statute of limitations be enforced on the tax obligation claimed by such province. However, if the Company were forced to pay any amount, it would have the right to be reimbursed from GdE or the Argentine Government. The Argentine Government has recognized that is responsible for the payment of such tax. In connection with the final assessment received in December 1999, TGS filed an appeal to the Tax Bureau of the Neuquén Province.

In December 1998, TGS received another preliminary assessment from the Tax Bureau of the Neuquén Province in the amount of approximately Ps. 17 million related to the stamp tax (and related interests as of December 31, 1998) arising from the Transfer Agreement subscribed by TGS in the privatization of GdE. TGS's management believes, as in the assessment described above, that this transfer was not subject to the stamp tax, as expressly defined in the first part of the above paragraph. However, if the Company were forced to pay any amount, it would have the right to be reimbursed by GdE or the Argentine Government. The Company has notified the Argentine Government of its position and proceeded to request that the relevant statute of limitations be enforced

on the tax obligation. Additionally, TGS received another preliminary assessment from such Tax Bureau regarding the Technical Assistance Agreement. TGS has asserted that such tax is unfounded mainly because the agreement has no effects in such province.

In May 1999, TGS was notified of a preliminary assessment by the Tax Bureau of the Río Negro Province related to the stamp tax on transportation contracts entered into before the take-over date of TGS and transportation service offer letters received from shippers in the claimed amount of approximately Ps. 87 million plus Ps. 86 million of interests (as of September 30, 1999) and Ps. 168 million as penalties. In September 1999, the Tax Bureau of the Río Negro Province formalized the claim through a final assessment. Additionally, TGS was notified in October 1999 of a preliminary assessment by the Tax Bureau of the Santa Cruz Province in connection with stamp tax to be levied on transportation service offer letters received from shippers, for an amount of approximately Ps. 17 million (not including interests nor penalties). The assessments of both provinces comprise transportation agreements entered into by TGS and several shippers, both before TGS take-over and when GdE was the sole shareholder of the Company, as well as the offer letters received after such date. TGS's management believes, as in the case of the Neuquén Province, that agreements prior to the take-over were not subject to the application of provincial stamp tax, since the subscribing parties belonged to the Argentine Government, which is exempt from the stamp tax. In addition, TGS's management believes that, even if the contracts signed before the take-over were subject to the stamp tax, GdE would be responsible for the payment of such tax, according to the Company Transfer Agreement provisions. If the Company were forced to pay any amount arising from these agreements, it would have the right to be reimbursed by GdE or the Argentine Government.

In connection with the remaining assessments, the Company's management believes that offer letters for transportation service rendering are not subject to the tax mentioned above. Should they be taxable, TGS believes that such event must be considered a change in the interpretation of the tax law, and its impact should be reflected in the tariff according to regulations on the subject. ENARGAS believes that the claims for stamp tax lack merit because it considers the tax unlawful.

The Company believes that all assessments in connection with agreements and offer letters prior to January 1, 1994 have been extinguished. The Company notified the Argentine Government of its position and appealed through an administrative motion before the Tax Bureau of the Río Negro Province, which was rejected in January 2001. Consequently, the Company will file an appeal to the Río Negro Province Government. In regard to the preliminary assessment of the Tax Bureau of the Santa Cruz Province, TGS has notified GdE of its position and filed its appeal to such province entity. Furthermore, TGS filed a declaratory action of certainty before the Supreme Court of Justice ("SCJ"), so that such entity issues a judgement on the legitimacy of the Tax Bureau claim of Santa Cruz Province. In the meantime, until SCJ pronounces judgement on the issue, TGS requested a preventive measure from the SCJ.

- d) In addition to the matters discussed above, the Company is a party to certain lawsuits and administrative proceedings arising in the ordinary course of business.

Although no assurances can be given, the Company believes there are meritorious defenses, which will be asserted vigorously, to substantially all such claims and that any liability which may finally be determined will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Additionally, TGS is carrying out the judicial procedures to recover the burden of the new tax on interest payments and financial costs established by Law N° 25,063, through an adjustment to the gas transportation tariffs, as provided in the License. For the years ended December 31, 2000 and 1999, 6,847 and 7,864, respectively, were accrued for such concept in the account "Net financial expense".

10. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

The principal recurrent transactions with related parties are payments under the Technical Assistance Agreement entered into with the technical operator, Enron Pipeline Company Argentina S.A. ("EPCA"), in compliance with the provisions of the Bid Package and the Transfer Contract, whereby EPCA is to provide technical advisory services which include services related to, among others, the operation of the gas transportation system, the LPG production facilities and related facilities and equipment, the replacement and renovation of facilities to ensure that the performance of the system is in conformity with international standards and compliance with the environmental standards. For these services the Company pays a monthly fee based on the higher of: a percentage of certain defined income of the Company or a specified fixed annual amount. The term of the contract is for eight years from December 28, 1992, and may be renewed automatically upon expiration for additional eight-year periods. As the Company is evaluating the change of the technical operator to other Enron subsidiary, subject to the ENARGAS approval, the Company reached an agreement with EPCA to extend the term of such contract for the higher term between three months or the date in which ENARGAS approves the new elected technical operator.

The detail of significant outstanding balances for transactions with related companies as of December 31, 2000 and 1999 is as follows:

Company	2000		1999	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
EPCA	-	2,031	-	1,931
Pecom Energía	3,883	4,070	3,088	2,368
Enron América del Sur S.A.	506	-	655	102
Santa Cruz II Area (Joint Venture) (1)	404	-	-	-
Total	4,793	6,101	3,743	4,401

(1) As of December 31, 2000, Pecom Energía has 37.80% of this joint venture.

The detail of significant transactions with related companies for the years ended December 31, 2000, 1999 and 1998 is as follows:

Company	Revenues			
	Gas Transportation	LPG production and commercialization and other services	Salaries and wages	Compensation for technical assistance
EPCA	-	-	704	21,857
Pecom Energía	18,933	14,288	-	-
Enron América del Sur S.A.	4,500	146	-	-
Santa Cruz II Area (Joint Venture) (1)	-	16,218	-	-
Total 2000	23,433	30,652	704	21,857
Total 1999	20,395	12,177	891	22,238
Total 1998	18,539	-	1,364	20,620

(1) As of December 31, 2000, Pecom Energía has 37.80% of this joint venture.

11. TELCOSUR

On September 29, 1998, TGS's Board of Directors approved the creation of TELCOSUR, whose special purpose is the rendering of telecommunication services, assuring the optimal utilization of TGS's telecommunication system. TGS's ownership interest in such company is 99.98% and the remainder 0.02% is held by EPCA. On October 22, 1998, the Governmental Regulatory Agency of Corporations approved the constitution of the company.

On February 16, 1999, the regulatory agency (The Federal Communication Bureau), through Resolution N° 3,468, granted the license to TELCOSUR to provide data transmission and value added telecommunication services in Argentina. By the end of 1999, TELCOSUR obtained from the National Communication Commission the reserve for most of the frequencies necessary for the operation. As of July 1, 2000, TELCOSUR began operations.

On December 13, 2000, the TELCOSUR's Board of Directors approved an irrevocable contribution of Ps. 2 million made by TGS for a future share issuance.

The significant transactions with TELCOSUR for the year ended December 31, 2000 are disclosed in Note 3.

12. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The accompanying consolidated financial statements have been prepared in accordance with Argentine GAAP which differ in certain respects from those applicable in the United States of America ("US GAAP"). Accordingly, these consolidated financial statements are intended solely to present consolidated financial position, results of operations and cash flows in accordance with Argentine GAAP.

The significant differences between Argentine GAAP and US GAAP that affect the Company's consolidated financial statements are principally related to the following items:

a) Restatement of financial statements for general price-level changes:

As described in Note 2.a) effective September 1, 1995, the restatement for inflation methodology was discontinued, maintaining the effects of inflation accounted for in prior periods. The discontinuance of inflation accounting is in compliance with Argentine GAAP, provided that the annual variation in the GLWPI does not exceed 8% per annum.

Under US GAAP, account balances and transactions are stated in the units of currency of the period when the transactions originated. This accounting model is commonly known as the historical cost basis of accounting. SEC rules establish that foreign private issuers that prepare their financial statements in a reporting currency that comprehensively includes the effects of price level changes are not required to eliminate such effects in the reconciliation to US GAAP. Therefore, the US GAAP reconciliation of net income and shareholders' equity shown in paragraph h) does not reflect the effect of the general-price level restatement as a difference.

b) Income taxes:

Argentine GAAP income tax expense is based upon the estimated current income tax liability to the Argentine Tax Authority, "Administración Federal de Ingresos Públicos". When income and expense recognition for income tax purposes does not occur in the same period as income and expense recognition for financial statement purposes,

the recording of the differences is not a common practice among Argentine corporations. Under US GAAP, Statement of Financial Accounting Standards (“SFAS”) N° 109 “Accounting for Income Taxes” requires the liability method be used to account for deferred taxes. Under this method, deferred tax assets and liabilities are recorded based on anticipated tax consequences attributable to differences between financial statements carrying amounts of assets and liabilities and their respective tax bases. Under current Argentine tax regulations, the effects of inflation are not included in the determination of taxable income nor in the tax basis of assets or liabilities. Accordingly, the net deferred tax liability or asset included in the US GAAP reconciliation of net income and shareholders’ equity shown in paragraph h) includes the effects of inflation on non monetary assets.

c) Intangible assets:

Under Argentine GAAP, organization and pre-operating costs (including costs associated with voluntary retirement programs) and cancellation costs of commitments assumed, incurred in the start-up of a privatized company, may be deferred and amortized over the resultant period of benefit. Under US GAAP such costs must be expensed as incurred.

d) Vacation accrual:

Under Argentine GAAP, there are no specific requirements governing the recognition of the accrual for vacations. The acceptable practice in Argentina is to charge vacations to expense when taken and to accrue only the amount of vacation in excess of the normal remuneration. Under US GAAP, vacation expense is fully accrued in the period the employee renders service to earn such vacation.

e) Valuation of property, plant and equipment:

Under Argentine GAAP transferred assets were valued as described in Note 2.h). Under US GAAP, Accounting Principles Board N° 16 “Business Combinations” provides the guidance for the valuation of property, plant and equipment in connection with an acquisition. As CIESA acquired 70% of the capital stock of TGS, the fixed assets transferred should have been valued at the price effectively paid for such 70%, plus the inflation adjusted historical cost carried by GdE for the remaining 30%. The condition of GdE’s books and records, specifically that no separate financial statements or financial information was kept with respect to transportation operations or the operation of assets transferred to TGS, and the unavailability of any 1992 GdE financial information made it impossible to determine historical cost. TGS’ management believes, based on information maintained by the Argentine Government Public Notary, that the fair value of the transferred assets recorded on its books was significantly below the 1991 GdE historical book values brought forward to 1992 and restated in constant Argentine pesos at the Transfer Date. Therefore, no adjustment has been recorded in the US GAAP reconciliation of net income and shareholders’ equity shown in paragraph h) related to the valuation of property, plant and equipment.

For purposes of SFAS N° 121 “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of” measurement, TGS’ management believes that estimates of future cash flows by group, based on reasonable assumptions that represent the best estimate of the cash flows expected to result from their use, show that no impairment loss has to be recognized.

f) Hedge of anticipated transaction:

As described in Note 5, TGS entered into a hedge transaction which locked in the rate of an anticipated 5-year maturity debt raising to refinance the first issuance of US\$ 200 million under the 1993 Global Program.

According to SFAS N° 80 “Accounting for Futures Contracts” (“SFAS N° 80”) results generated by the hedges of anticipated transactions can be deferred over the term of such transactions provided that all of the following conditions are met: (i) the item to be hedged exposes the Company to interest rate risk, (ii) the derivative reduces that risk and is designated as a hedge at the inception, (iii) the significant characteristics and expected terms of the anticipated transaction are identified, including the expected date of the transaction, and (iv) it is probable that the anticipated transaction will occur.

TGS failed to make the 5-year debt issuance at the expected date. Consequently, under the restrictive criteria of SFAS N° 80, hedge accounting was terminated and mark-to-market accounting was applied at December 31, 1998.

Under Argentine GAAP there are no specific requirements governing hedge accounting and the Company followed the criteria described in Note 5. Therefore, the US GAAP reconciliation of the Company’s net income shown in paragraph h) below, reflects the impact of the strict accounting criteria adopted by SFAS N° 80 for 1998 and reflects the reversal of the amortization of the hedges of anticipated transaction costs recorded under Argentine GAAP for years 2000 and 1999.

g) Adoption of SFAS No. 133:

Financial Accounting Standards Board (“FASB”) issued SFAS N° 133, “Accounting for Derivative Instruments and Hedging Activities”, amended by SFAS N° 137, “Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of SFAS N° 133” and SFAS N° 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities” (all together “SFAS N° 133”). SFAS N° 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS N° 133 requires that changes in the derivative’s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative’s gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS N° 133 must be adopted by TGS for fiscal years beginning on January 1, 2001. The SFAS N° 133 cannot be applied retroactively. The Company is currently quantifying the impacts of adopting SFAS N° 133 and expects to conclude it by late April, 2001.

Under Argentine GAAP, there are no specific requirements governing the financial instruments accounting. The Company’s derivative financial instruments were accounted for as described in Note 2.b) and Note 5.

h) Reconciliation of Net Income and Shareholders' Equity to US GAAP:

The following is a summary of the significant adjustments to net income for the years ended December 31, 2000 1999 and 1998, and to shareholders’ equity as of December 31, 2000 and 1999, which would be required if US GAAP were applied instead of Argentine GAAP in the accompanying consolidated financial statements.

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income in accordance with Argentine GAAP	126,263	145,724	156,482
US GAAP adjustments- Increases (decreases) due to:			
Additions, amortizations and retirements of intangible assets	1,195	1,195	938
Provision for vacation accrual.....	(115)	517	344
Hedge of anticipated transaction	811	5,408	(8,112)
Deferred income taxes	362	(7,488)	(8,071)
Approximate net income in accordance with US GAAP	<u>128,516</u>	<u>145,356</u>	<u>141,581</u>

Earnings per share:

Amounts per accompanying financial statements	0.16	0.18	0.20
Approximate amounts under US GAAP	0.16	0.18	0.18

Earnings per ADS:

Amounts per accompanying financial statements	0.79	0.92	0.98
Approximate amounts under US GAAP	0.81	0.91	0.89

	<u>2000</u>	<u>1999</u>
Shareholders' equity in accordance with Argentine GAAP.....	1,088,601	1,057,464
US GAAP adjustments- Decreases due to:		
Intangible assets charged to operations.....	(24,135)	(25,330)
Provision for vacation accrual.....	(2,013)	(1,898)
Hedge of anticipated transaction	(1,893)	(2,704)
Deferred income taxes	(75,749)	(76,111)
Approximate shareholders' equity in accordance with US GAAP ..	<u>984,811</u>	<u>951,421</u>

i) Additional significant US GAAP disclosures:

1) Deferred income taxes:

The following table presents the components of the Company's consolidated deferred income tax balances:

	<u>2000</u>	<u>1999</u>
Deferred tax assets		
Vacation accrual	705	664
TELCOSUR' s tax loss carryforward	459	-
Hedge of anticipated transaction	663	946
	<u>1,827</u>	<u>1,610</u>
Deferred tax liabilities		
Difference between tax and accounting basis of:		
Property, plant and equipment	74,398	75,327
Debt issuance costs	2,029	1,233
Deferred revenues	1,149	1,161
	<u>77,576</u>	<u>77,721</u>
Net deferred tax liability	<u>(75,749)</u>	<u>(76,111)</u>

Income tax computed at the statutory tax rate (35% in 2000, 1999 and 1998) on pre-tax income differs from the income tax expense for the years ended December 31, 2000, 1999 and 1998 computed in accordance with US GAAP as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Income tax at statutory tax rate on pre-tax income in accordance with US GAAP.....	69,345	76,861	78,226
Change in statutory tax rate.....	—	—	3,669
Others, not individually significant	268	(2,615)	27
Approximate income tax expense under US GAAP....	<u>69,613</u>	<u>74,246</u>	<u>81,922</u>

2) Disclosures about fair value of financial instruments:

The following disclosure of the estimated fair value of financial instruments is presented in accordance with the requirements of SFAS No. 107 "Disclosure about Fair Value of Financial Instruments". The estimated fair value amounts have been determined by the Company using available market information and valuation methodologies.

As of December 31, 2000 and 1999, the carrying amounts of certain financial instruments used by the Company including cash, cash equivalents, receivables, payables and short term loans, except for the first issuance under the 1996 Global Program, are representative of fair value because of the short term maturity of these instruments. The estimated fair value of other non-current assets do not differ significantly from the carrying amount. The estimated fair value of long term debt is based on quoted market prices for the same or similar issues or on current rates available to TGS for debt of the same remaining maturities. The fair value of the derivative financial instruments is the estimated amount at which management believes they could be liquidated based on current market conditions or other estimates as quoted market prices obtained from third-party dealers.

The following table reflects the carrying amount and estimated fair value of the Company's financial instruments at December 31, 2000 and 1999:

	2000		1999	
	Carrying amount	Fair value	Carrying amount	Fair value
Balance Sheet financial instruments		(in million of US\$)		
<u>Debt:</u>				
First issuance under the 1996 Global Program	153.0	150.7	151.1	152.8
Second issuance under the 1996 Global Program	—	—	200.5	201.2
Third issuance under the 1993 Global Program	99.7	95.0	99.6	92.4
First issuance under the 1999 Global Program	148.2	148.4	—	—
Second issuance under the 1999 Global Program	146.8	149.0	—	—
IDB loans	322.1	323.2	321.6	325.4
Derivative financial instruments				
<u>Non trading:</u>				
Interest rate cap agreements	(0.3)	0.0	—	—
Interest rate swap agreements	0.2	0.7	(0.1)	(0.5)
Foreign currency futures	0.1	0.7	0.5	(2.0)

Credit risk relates to the risk of loss that the Company would incur as a result of non performance by counterparties. Pursuant to the terms of their contractual obligations it is related to the ability of the counterparties to meet the term of the contracts. However, counterparties associated with interest rate swaps, caps and foreign currency futures are investment grade financial institutions and, accordingly, the Company does not anticipate non-performance by such third-parties.

13. OTHER CONSOLIDATED FINANCIAL STATEMENT INFORMATION

The following tables present additional consolidated financial statement disclosures required under Argentine GAAP. This information is not required as part of the consolidated financial statements under US GAAP, however, certain of these tables substantially duplicate the schedule requirements of the SEC.

- a) Property, plant and equipment
- b) Intangible assets
- c) Investments
- d) Foreign currency assets and liabilities
- e) Expenses incurred
- f) Detail of maturities of cash investments, receivables and liabilities

a) Property, plant and equipment:

Main Account	Original Cost					2000				1999		1998	
	Beginning of year	Additions	Retirements	Transfers	End of year	Accumulated at beginning of year	Retirements	Depreciation Expenses for the year		Accumulated at the end of year	Net book value	Net book value	Net book value
								Amount	Rate %				
Real property	56,002	-	10	1,027	57,019	9,520	-	1,026	2	10,546	46,473	46,482	46,734
Assets related to the gas transportation service	1,760,170	416	-	49,937	1,810,523	173,878	-	50,106	(2) 2.5 a 25	223,984	1,586,539	1,586,292	1,431,341
Assets related to the gas upstream service	43,272	-	-	3,875	47,147	4,624	-	3,539	2.2 to 33.3	8,163	38,984	38,648	41,696
Assets related to the LPG production and commercialization	205,892	-	-	66	205,958	43,491	-	10,117	(2) 5.9	53,608	152,350	162,401	166,214
Vehicles	16,848	880	1,071	1,586	18,243	9,416	950	1,685	6.7 to 20	10,151	8,092	7,432	8,065
Furniture, hardware, software and industrial tools	35,587	248	3	3,354	39,186	20,476	3	6,099	10 and 20	26,572	12,614	15,111	15,946
Subtotal	2,117,771	1,544	1,084	59,845	2,178,076	261,405	953	72,572		333,024	1,845,052	1,856,366	1,709,996
Line pack	5,562	121	-	-	5,683	734	-	-	-	734	4,949	4,828	4,784
Work in progress	56,066	53,981	-	(52,013)	58,034	(1) -	-	-	-	-	58,034	56,066	95,434
Materials	32,513	5,490	667	(7,832)	29,504	-	-	-	-	-	29,504	32,513	37,808
Total 2000	<u>2,211,912</u>	<u>61,136</u>	<u>1,751</u>	<u>-</u>	<u>2,271,297</u>	<u>262,139</u>	<u>953</u>	<u>72,572</u>		<u>333,758</u>	<u>1,937,539</u>		
Total 1999	<u>2,065,727</u>	<u>147,094</u>	<u>909</u>	<u>-</u>	<u>2,211,912</u>	<u>217,705</u>	<u>530</u>	<u>44,964</u>		<u>262,139</u>		<u>1,949,773</u>	
Total 1998	<u>1,887,119</u>	<u>183,481</u>	<u>4,873</u>	<u>-</u>	<u>2,065,727</u>	<u>182,950</u>	<u>2,046</u>	<u>36,801</u>		<u>217,705</u>			<u>1,848,022</u>

(1) Includes advances to suppliers for 6,950.
(2) See Note 2.h).

b) Intangible assets:

DEFERRED CHARGES	2000							1999	1998	
	Original Cost			Amortization				Net book value	Net book value	
	Beginning of year	Additions	End of year	Accumulated at beginning of year	Expenses for the year		Accumulated at the end of year			
				Amount	Rate %					
Organization, pre-operating costs, cancellation costs of commitments assumed under the Transfer Contract and other costs (1)	32,089	-	32,089	6,759	1,195	(3) 2.8 and 20	7,954	24,135	25,330	26,525
Settlement costs of hedges of anticipated transactions (2)	19,201	-	19,201	6,275	2,111	(4) (5)	8,386	10,815	12,926	-
Total 2000	<u>51,290</u>	<u>-</u>	<u>51,290</u>	<u>13,034</u>	<u>3,306</u>		<u>16,340</u>	<u>34,950</u>		
Total 1999	<u>32,089</u>	<u>19,201</u>	<u>51,290</u>	<u>5,564</u>	<u>7,470</u>		<u>13,034</u>		<u>38,256</u>	
Total 1998	<u>34,810</u>	<u>272</u>	<u>35,082</u>	<u>6,764</u>	<u>1,793</u>		<u>8,557</u>			<u>26,525</u>

(1) Includes the cost of the Voluntary Retirement Program of 1993, accepted by 463 employees, for approximately 12,122.

(2) See Note 5.

(3) Included in "Other expenses, net".

(4) See Note 2.i).

(5) See Note 2.i).

c) Investments:

	2000		1999
	Cost Adjusted for inflation	Book Value	Book Value
CURRENT INVESTMENTS			
Bank deposits in local currency	6,702	6,702	14,694
Mutual funds in local currency	830	830	-
Bank deposits in foreign currency	8,703	8,703	36,360
Mutual funds in foreign currency	2,640	2,640	-
Total current investments	18,875	18,875	51,054

d) Foreign currency assets and liabilities:

<u>ACCOUNT</u>	2000					1999		
	Foreign currency and amount (in thousands)		Exchange rate		Amount in local currency	Foreign currency and amount (in thousands)		Amount in local currency
CURRENT ASSETS								
Cash	US\$	98	1.00	(1)	98	US\$	9,864	9,864
Investments	US\$	11,343	1.00	(1)	11,343	US\$	36,360	36,360
Trade receivables	US\$	18,174	1.00	(1)	18,174	US\$	6,662	6,662
Other receivables	US\$	97	1.00	(1)	<u>97</u>	US\$	<u>29</u>	<u>29</u>
					<u>29,712</u>			<u>52,915</u>
NON CURRENT ASSETS								
Trade receivables	US\$	8,769	1.00	(1)	8,769	US\$	9,085	9,085
Property, plant and equipment - work in progress								
Advances to suppliers	US\$	2,191	1.00	(1)	2,191	US\$	597	597
						EUR	732	748
					<u>10,960</u>			<u>10,430</u>
					<u>40,672</u>			<u>63,345</u>
CURRENT LIABILITIES								
Accounts payable	US\$	10,540	1.00	(2)	10,540	US\$	15,501	15,501
	ITL	732,858	0.00048	(2)	352			
Loans	US\$	198,466	1.00	(2) (3)	<u>198,466</u>	US\$	398,031	<u>398,031</u>
					209,358			413,532
NON CURRENT LIABILITIES								
Loans	US\$	745,587	1.00	(2)	<u>745,587</u>	US\$	599,702	<u>599,702</u>
					<u>954,945</u>			<u>1,013,234</u>

(1) Buying exchange rate.

(2) Selling exchange rate.

(3) See Note 5. "Other bank borrowings".

e) Expenses incurred:

<u>Account</u>	2000				1999	1998
	<u>Operating costs</u>	<u>Administrative expenses</u>	<u>Selling expenses</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
Compensation to Directors and Statutory Audit Committee	-	180	-	180	180	180
Salaries, wages and other contributions	16,232	5,813	1,461	23,506	21,143	22,035
Social security taxes	2,893	1,412	304	4,609	4,427	4,685
Other employee benefits	1,384	1,155	145	2,684	2,474	2,416
Depreciation of property, plant and equipment	69,081	3,491	-	72,572	44,964	36,801
Operating expenses, materials, supplies and repairs	36,265	2,301	105	38,671	21,469	15,525
Technical assistance, licensee, and other fees	26,650	2,767	52	29,469	28,794	22,542
Insurance	1,778	187	-	1,965	2,015	1,974
Taxes and contributions	3,057	213	-	3,270	1,855	3,567
General expenses	<u>549</u>	<u>1,822</u>	<u>94</u>	<u>2,465</u>	<u>2,490</u>	<u>2,535</u>
Total 2000	<u>157,889</u>	<u>19,341</u>	<u>2,161</u>	<u>179,391</u>		
Total 1999	<u>110,827</u>	<u>16,990</u>	<u>1,994</u>		<u>129,811</u>	
Total 1998	<u>93,581</u>	<u>16,934</u>	<u>1,745</u>			<u>112,260</u>

f) Detail of maturities of cash investments, receivables and liabilities:

	<u>Cash investments (1)</u>	<u>Receivables (2)</u>	<u>Debt (3)</u>	<u>Other liabilities (4)</u>
<u>Without specified maturity</u>	-	36,472	-	5,090
<u>With specified maturity</u>				
* Past due				
From 10-01-00 to 12-31-00	-	6,365	-	-
From 07-01-00 to 09-30-00	-	125	-	-
From 04-01-00 to 06-30-00	-	-	-	-
From 01-01-00 to 03-31-00	-	3	-	-
Until 12-31-99	-	2,330	-	-
Total past due	<u>-</u>	<u>8,823</u>	<u>-</u>	<u>-</u>
* Non-due				
From 01-01-01 to 03-31-01	18,875	63,186	23,435	72,226
From 04-01-01 to 06-30-01	-	154	171,682	914
From 07-01-01 to 09-30-01	-	-	3,052	22
From 10-01-01 to 12-31-01	-	162	1,483	-
During 2002	-	1,525	114,127	-
During 2003	-	391	310,515	-
During 2004	-	436	47,644	-
During 2005	-	485	44,269	-
During 2006	-	540	43,502	-
During 2007	-	602	43,466	-
From 2008 onwards	-	5,964	152,133	-
Total non-due	<u>18,875</u>	<u>73,445</u>	<u>955,308</u>	<u>73,162</u>
Total with specified maturity	<u>18,875</u>	<u>82,268</u>	<u>955,308</u>	<u>73,162</u>
Total	<u>18,875</u>	<u>118,740</u>	<u>955,308</u>	<u>78,252</u>

- (1) Includes bank deposits and mutual funds which bear fixed rate interest, except for approximately 19% which bears floating rate interest.
- (2) Includes trade and other receivables which bear no interest, except for approximately 25% which bears interest at a weighted average annual interest rate of 7.39%. The receivables without specified maturity include 3,325 registered in current assets and 33,147 registered in non current assets.
- (3) Includes loans excluding debt issuance discounts, the cash received from the contract settlement of the Treasury lock related to the First Issuance of debt notes under the 1996 Global Program and up front fees amounting to a total of 9,875. Approximately 67% of the outstanding principal debt bears fixed rate interest taking into account the interest rate swap agreements (see Note 5 "Derivative financial instruments").
- (4) Includes liabilities other than debt, which bear no interest.