REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Transportadora de Gas del Sur S.A.

We have audited the accompanying consolidated balance sheets of Transportadora de Gas del Sur S.A. and its subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial position of Transportadora de Gas del Sur S.A. and its subsidiary at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in Argentina.

Accounting principles generally accepted in Argentina vary in certain significant respects from the accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F, information relating to the nature and effect of such differences is presented in Note 12 to the consolidated financial statements.

PRICE WATERHOUSE & CO. S.R.L.
Rubén O. Vega (Partner)
City of Buenos Aires, Argentina
February 5, 2007 (except with respect to the matters discussed in
Note 12 to the consolidated financial statements, which is as of April 17, 2007)

TRANSPORTADORA DE GAS DEL SUR S.A.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(In thousands of Argentine pesos as described in Note 2.b.
except for per share and per ADS amounts in Argentine pesos)

	2007	2006	2005
Net revenues (Note 3)	1,257,273	1,309,502	1,064,738
Cost of sales (Note 14.f.)	(638,655)	(623,932)	(527,106)
GROSS PROFIT	618,618	685,570	537,632
Administrative expenses (Note 14.h.)	(42,825)	(38,263)	(28,645)
Selling expenses (Note 14.h.)	(85,774)	(77,177)	(66,090)
OPERATING INCOME	490,019	570,130	442,897
Other expenses, net (Note 2.r.)	(2,594)	(731)	(6,110)
Gain / (loss) on related companies	590	(442)	2,607
Net financial results (Note 2.r.)	(193,495)	(189,043)	(209,072)
NET INCOME BEFORE INCOME TAX	294,520	379,914	230,322
Income tax expense (Note 2.l.)	(147,012)	(21,891)	(12,815)
Minority interest	-	(1)	-
NET INCOME FOR THE YEAR	147,508	358,022	217,507
Net income per share (Note 2.s.)	0.19	0.45	0.27
Net income per ADS (Note 2.s.)	0.93	2.25	1.37

The accompanying notes are an integral part of these consolidated financial statements.

TRANSPORTADORA DE GAS DEL SUR S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006

(In thousands of Argentine pesos as described in Note 2.b.)

	2007	2006
CURRENT ASSETS		
Cash and banks	2,816	6,583
Investments (Note 14.d.)	421,102	471,673
Accounts receivable, net (Note 4.a.)	165,100	178,314
Other receivables (Note 4.b.)	77,630	45,635
Inventories	16,525	9,636
Total current assets	683,173	711,841
NON CURRENT ASSETS		
Accounts receivable (Note 4.c.)	13,443	14,710
Other receivables (Note 4.d.)	123,154	193,710
Investments (Note 14.c.)	1,112	641
Property, plant and equipment, net (Note 14.a.)	4,170,600	4,217,871
Intangible assets, net (Note 14.b.)	10,202	469
Total non-current assets	4,318,511	4,427,401
Total assets	5,001,684	5,139,242

	2007	2006
CURRENT LIABILITIES		
Accounts payable (Note 4.e.)	163,590	174,616
Loans (Note 6)	16,459	99,063
Payroll and social security taxes payable	22,799	14,764
Taxes payable (Note 4.f.)	34,269	20,805
Advances from customers (Note 4.g.)	15,362	7,174
Other liabilities (Note 4.h.)	12,154	12,193
Provisions for contingencies (Note 14.e.)	48,108	50,133
Total current liabilities	312,741	378,748
NON CURRENT LIABILITIES		
Loans (Note 6)	1,574,500	1,918,524
Taxes payable (Note 4.i.)	57,404	-
Advances from customers (Note 4.j.)	127,491	59,839
Total non-current liabilities	1,759,395	1,978,363
Total liabilities	2,072,136	2,357,111
MINORITY INTEREST	1	2
SHAREHOLDERS' EQUITY	2,929,547	2,782,129
Total liabilities and shareholders' equity	5,001,684	5,139,242

The accompanying notes are an integral part of these consolidated financial statements.

TRANSPORTADORA DE GAS DEL SUR S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(In thousands of Argentine pesos as described in Note 2.b.)

	2007	2006	2005
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES			
Net income for the year	147,508	358,022	217,507
Reconciliation of net income to cash flows provided by operating activities			
Depreciation of property, plant and equipment	197,806	192,653	186,993
Amortization of intangible assets	1,117	234	10,582
Retirement of property, plant and equipment	18,926	20,608	27,966
Impairment of property, plant & equipment	19,600	-	-
(Reversal) / increase in allowances and provisions	(2,025)	26,129	3,416
Minority interest	-	1	-
(Gain) / loss on related companies	(590)	442	(2,607)
Interest expense	156,661	193,674	185,458
Result of the debt prepayment	(10,576)	-	-
Income tax expense	147,012	21,891	12,815
Foreign exchange rate and other net financial results	29,878	25,756	40,712
Changes in assets and liabilities:			
Net increase in investments other than cash and cash equivalents	(4,214)	-	-
Accounts receivable	14,481	4,894	(36,272)
Other receivables	(34,842)	(54,699)	96,193
Inventories	(6,889)	(3,710)	(425)
Accounts payable	(7,126)	44,042	14,335
Advances from customers	(14,407)	(25,503)	(3,965)
Payroll and social security taxes payable	8,035	2,403	1,991
Taxes payable	15,718	27,422	10,734
Other liabilities	81	(31,915)	(2,155)
Provisions for contingencies	-	(493)	-
Others	-	-	96
Interest paid	(139,292)	(175,468)	(158,313)
Income tax and asset tax paid	(18,459)	(20,137)	(20,341)
Net cash provided by operating activities	518,403	606,246	584,720
CASH FLOWS USED IN INVESTING ACTIVITIES			
Distribution from affiliates	-	-	2,053
Contribution to affiliates	-	-	(110)
Payment for the acquisition of property, plant and equipment	(203,565)	(127,383)	(168,071)
Net increase in investments other than cash and cash equivalents	(28,386)	-	-
Net cash used in investing activities	(231,951)	(127,383)	(166,128)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Advances from customers	90,216	48,758	13,516
Proceeds from loans	1,530,650	-	-
Payment of loans	(1,994,256)	(562,309)	(254,961)
Net cash used in financing activities	(373,390)	(513,551)	(241,445)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(86,938)	(34,688)	177,147
Cash and cash equivalents at the beginning of the year	478,256	512,944	335,797
Cash and cash equivalents at the end of the year	391,318	478,256	512,944

For supplemental cash flow information see Note 5.
The accompanying notes are an integral part of these consolidated financial statements.

TRANSPORTADORA DE GAS DEL SUR S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(In thousands of Argentine pesos as described in Note 2.b.)

	Shareholders´ contributions			Retained Earnings			
	Common stock	Inflation adjustment to common stock	Total Common stock	Legal reserve	Accumulated Retained earnings	Other comprehensive loss	Total shareholders' equity
Balances at December 31, 2004	794,495	1,145,012	1,939,507	148,517	118,576	-	2,206,600
Resolutions of the Ordinary Shareholders´Meeting held on March 31, 2005:							
Appropiation to legal reserve	-	-	-	5,929	(5,929)	-	-
Net income for the year	-	-	-	-	217,507	-	217,507
Balances at December 31, 2005	794,495	1,145,012	1,939,507	154,446	330,154	-	2,424,107
Resolutions of the Ordinary Shareholders´Meeting held on March 20, 2006:							
Appropiation to legal reserve	-	-	-	10,875	(10,875)	-	-
Net income for the year	-	-	-	-	358,022	-	358,022
Balances at December 31, 2006	794,495	1,145,012	1,939,507	165,321	677,301	-	2,782,129
Resolutions of the Ordinary Shareholders´Meeting held on April 12, 2007:							
Appropiation to legal reserve	-	-	-	17,901	(17,901)	-	-
Other comprenhesive loss (Note 6)	-	-	-	-	-	(90)	(90)
Net income for the year	-	-	-	-	147,508	-	147,508
Balances at December 31, 2007	794,495	1,145,012	1,939,507	183,222	806,908	(90)	2,929,547

The accompanying notes are an integral part of these consolidated financial statements.

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

1. BUSINESS DESCRIPTION

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 operations on December 29, 1992 and it is engaged in the transportation of natural gas and production and commercialization of natural gas liquids ("NGL"). TGS's pipeline system connects major gas fields in southern and western Argentina with gas distributors and industries 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 the Ente Nacional Regulador del Gas (National Gas Regulatory Agency or "ENARGAS"). The General Cerri Gas Processing Complex (the "Cerri Complex"), where the Company processes natural gas by extracting NGL, was transferred from GdE along with the gas transmission assets. The Company also renders midstream services, which mainly consist of gas treatment, removal of impurities from the natural gas stream, gas compression, wellhead gas gathering and pipeline construction, operation, and maintenance services.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Argentina ("Argentine GAAP") as approved by Professional Council in Economic Sciences of the Autonomous City of Buenos Aires ("CPCECABA"), and the regulations of the *Comisión Nacional de Valores* (the Argentine National Securities Commission or "CNV") and ENARGAS. Argentine GAAP differs in certain significant respects from generally accepted accounting principles in the United States of America ("US GAAP"). Such differences involve methods of measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission ("SEC"). A description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company is set forth in Note 12 to these consolidated financial statements.

In accordance with Argentine GAAP, 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 these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes.

The consolidated financial statements include the accounts of TGS and its subsidiary Telcosur S.A. ("Telcosur") over which it has effective control. Investments in companies, in which the Company exercises significant influence, but not control, are accounted for under the equity method. The Company followed the methodology established in Technical Resolution ("TR") No. 21 "Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions" of the Argentine Federation of Professional Councils in Economic Sciences ("Argentine Federation") and approved by the CPCECABA. The accounting policies followed by Telcosur in the preparation of its financial information are consistent with those applied by TGS. All significant intercompany transactions have been eliminated in consolidation.

Detailed data reflecting subsidiary direct control as of December 31, 2007, 2006 and 2005 is as follows:

Company	% of shareholding and votes			Closing date	Legal address
	2007	2006	2005		
TELCOSUR S.A.	99.98%	99.98%	99.98%	December 31,	Don Bosco 3672, 6th Floor Autonomous City of Buenos Aires

Certain reclassifications of prior year information have been made to conform to the current year presentation.

a) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting fiscal year. Estimates are used when accounting for the allowance for doubtful accounts, depreciation, amortization, income taxes, allowance for contingencies, impairment of long-lived assets, and present value of long term receivables and liabilities. Actual results could be significantly different from such estimates.

b) Presentation of consolidated financial statements in constant Argentine pesos

The consolidated financial statements have been prepared in constant Argentine pesos, recognizing the overall effects of inflation up to August 31, 1995. As from that date, in line with professional accounting standards and the requirements of the control authorities, the Company discontinued the restatement of its consolidated financial statements until December 31, 2001.

As established by Resolution No. 3/2002 of the CPCECABA and Resolution No. 415 of the CNV, as from January 1, 2002, the Company resumed the recognition of the effects of inflation in these consolidated financial statements, following the provisions of TR No. 6, as amended by TR No. 19, both issued by the Argentine Federation. Accounting measurements restated due to the change in the purchasing power of the currency up to August 31, 1995, as well as those which have been originated between that date and December 31, 2001, are stated in the currency value as of the later date.

On March 25, 2003, the Executive Branch issued Decree No. 664, which provides that financial statements for periods ending after such date shall be stated in historical Argentine pesos. As a consequence and in accordance with Resolution No. 441, issued by the CNV, the Company suspended inflation accounting effective March 1, 2003. This criterion is not in line with Argentine GAAP, which stipulate that financial statements should be restated as of September 30, 2003. If the Company had applied inflation accounting for the period from March 1 to September 30, 2003, the non-recognized inflation effect on net income and shareholders´equity for the fiscal years ended December 31, 2007, 2006 and 2005 would not be significant.

The restatement methodology is computed at each balance sheet date, using the Argentine Wholesale Price Index (“WPI”) published by the *Instituto Nacional de Estadística y Censos* (“INDEC”), as follows:

- Non-monetary items and consolidated statement of income amounts are adjusted to reflect the then-current general purchasing power;
- Monetary items are not adjusted as such items are, by their nature, stated in terms of current general purchasing power in the financial statements; and
- Monetary gains or losses are recognized in the consolidated statement of income, reflecting the effect of holding monetary items. This gain or loss on exposure to inflation (monetary gain or loss) is included in the consolidated statement of income within “Net financial expense”.

Information presented for comparative purposes has been restated in constant currency as of February 28, 2003.

c) Adoption by CNV of accounting standards

The CNV issued General Resolutions No. 485 and No. 487 on December 29, 2005 and January 26, 2006, respectively, which adopted, with certain modifications, the new accounting standards previously issued by the CPCECABA through its Resolution CD 93/2005. These standards were mandatory for fiscal years or interim periods corresponding to fiscal years beginning as from January 1, 2006.

The most significant changes included in the accounting standards adopted by the CNV relate to (i) changes in the impairment test of long-lived assets and (ii) changes to deferred income tax accounting.

Under the new standards, the carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows from such asset are separately identifiable and are less than the carrying value of the asset. Expected cash flows are determined using the anticipated cash flows discounted at a rate commensurate with the risk involved.

The new standards provide for the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements. The new accounting mandates companies to treat these differences as temporary differences. However, the standard allows a one-time accommodation to continue treating the differences between the tax basis and indexed book basis of non-monetary items as permanent at the time of adoption of the standard. As such, the Company elected to continue treating differences as permanent.

d) Short-term receivables and liabilities

Short-term receivables and liabilities, including accrued interest if applicable at the end of each year, have been valued at their respective nominal amount, which does not materially differ from the present value of the future cash flow that the receivables and liabilities will generate, using the internal rate of return estimated at inception.

e) Foreign currency assets and liabilities

Assets and liabilities denominated in foreign currencies, including accrued interest, if applicable, have been translated at the prevailing exchange rates at the end of each year. Detailed information is disclosed in Note 14.g).

Generally, foreign currency transaction gains and losses are included in the determination of net income.

However, CNV Resolution No. 398 provides, under certain circumstances, for the application of CPCECABA Resolution MD No. 3/02, issued in March 2002, which provides that foreign currency transaction gains or losses on or after January 6, 2002, related to liabilities in foreign currency as of such date may be allocated to the cost of assets acquired or constructed with such financing as long as a series of conditions and requirements established in such standard are complied with. However, in July 2003, the CPCECABA issued Resolution CD No. 87/03, which suspended such accounting treatment and therefore required foreign currency transaction gains and losses to be included in the determination of net income for the period as from July 29, 2003.

f) Inventories

Inventories consist of natural gas of TGS (in excess of line pack, which is classified as property, plant and equipment) and third parties in the pipeline system, and NGL obtained from natural gas processing at the Cerri Complex. Inventories have been valued at replacement or reproduction cost, as applicable, at the end of each year. The carrying value of inventories does not exceed its net realizable value.

g) Current investments

Bank accounts and time deposits in local and foreign currency have been valued at their face values plus accrued interest. Private bonds have been valued at their face values plus accrued interest ("amortized cost"), which do not materially differ from their discounted value using the internal rate of return effective at inception.

Mutual funds in foreign currency have been valued at market value at year-end.

Unrealized gains and losses on time deposits and mutual funds are included in financial results, net, in the consolidated statement of income.

h) Long-term receivables and liabilities in currency

Long-term receivables and liabilities (except for deferred tax assets and liabilities and asset tax credit as described below) have been valued based on the best estimate of the discounted value of the amounts expected to be collected or paid, as applicable, using the interest rate effective at the time of the initial measurement.

Loans have been valued based on the present value of the amounts expected to be paid, using the internal rate of return estimated at the inception of the transaction. This rate does not significantly differ from the market interest rate at that moment.

Assets and liabilities generated as a result of the application of the deferred tax method and the asset tax credit have been calculated at their nominal value.

i) Non-current investments

Equity investments in companies in which the Company's ownership interest ranges between 20% and 50% are Gas Link S.A. ("Link"), Transporte y Servicios de Gas en Uruguay S.A. ("TGU") and Emprendimientos de Gas del Sur S.A. ("EGS"), have been accounted for under the equity method. These investments have been valued based on the financial statements at the dates specified in Note 14.c), which have been prepared applying the same accounting policies as those used by the Company to prepare its consolidated financial statements. As of December 31, 2007 and 2006, the investment in Link has been adjusted by Ps. 4,350 and Ps. 4,368, respectively, due to the elimination of intercompany profits. The book value of the investment in EGS and TGU as of December 31, 2007 includes Ps. 64 and Ps. 29, respectively, corresponding to the transactions between EGS and the Company in the three-month period ended on December 31, 2007.

The Company considers its foreign subsidiary TGU to be a "non-integrated subsidiary". Consequently, TGU's assets and liabilities have been translated into Argentine pesos using the exchange rate in effect at year-end, while its common stock and retained earnings accounts have been translated using historical exchange rates.

The Company's management is not aware of any significant subsequent events which affected the financial statements of EGS, Link and TGU as from September 30, 2007 to December 31, 2007.

j) Property, plant and equipment, net

- Assets transferred from the privatization of GdE: The value of these assets was determined based on the price paid for the acquisition of 70% of the Company's common stock, which amounted to US$ 561.2 million. This price was the basis to determine a total value of common stock of US$ 801.7 million, which, when added to the debt assumed under the Company's privatization agreement (the "Transfer Agreement") of US$ 395.0 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.b).

- Line pack: It represents the natural gas in the transportation system that is necessary to keep the system at operating capacity, and is valued at acquisition cost and restated for the effects of inflation as described in Note 2.b).

- Capitalization of foreign exchange loss: Resolutions No. 3/2002 and 87/03 issued by the CPCECABA and Resolution No. 398 of the CNV established that exchange losses arising from the devaluation of the peso from January 6, 2002 to July 28, 2003, to the extent that they were related to foreign currency liabilities existing at the first date, may be added to the cost basis of assets acquired or constructed with direct financing by such foreign currency liabilities. Similar accounting treatment is permitted, but not required, for foreign exchange losses arising from indirect financing. It was assumed that the proceeds from such financings were used, firstly, to cover working capital requirements and, secondly, to finance the acquisition or construction of assets that do not qualify for capitalization. The remainder was assumed to relate to assets for which capitalization is permitted.

- Additions: They have been valued at acquisition cost restated for the effects of inflation as described in Note 2.b). 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. Additionally, Resolutions No. 1,660 and No. 1,903 issued by ENARGAS include definitions prescribing which costs should be considered improvements and which costs should be considered maintenance expenses. Repair and maintenance costs have been expensed as incurred.

- Depreciation: Accumulated depreciation related to natural gas transportation assets is computed under the straight-line method over the estimated useful lives of the specific assets, provided they are lower than the maximum useful lives established by the ENARGAS through Resolutions No. 1,660 and No. 1,903.

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

For depreciation of all other property, plant and equipment, the Company uses the straight-line method of depreciation and applies the annual depreciation rates disclosed in Note 14.a).

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income statement.

Capitalized foreign exchange loss is depreciated over the remaining useful lives of the assets that led to such capitalization.

- Financial charges capitalization: The Company capitalizes financial expense on long term construction projects. Financial expense capitalized was Ps. 5,053 and Ps. 2,622 for the years ended December 31, 2007 and 2006, respectively.

The Company periodically evaluates the carrying value of these assets for impairment, by comparing the carrying value with its fair value which is calculated based on the projected cash flow discounted at a rate commensurate with the risk involved. In case that its carrying value is higher than its fair value, a loss would be recognized based on the amount by which the carrying value exceeds its fair value.

Based on the projections made as discussed in Note 2.a) and c), the Company's management believes that the recorded value of property, plant and equipment does not exceed its fair value.

k) Intangible assets

Intangible assets have been valued at their historical cost, restated to account for the effects of inflation as described in Note 2.b), less accumulated amortization.

Debt issuance costs are being amortized over the term of the notes issued on May 14, 2007 (Note 6).

The intangible assets balance includes costs generated by the acquisition of turbine maintenance and repair licenses and the expenses related to the creation of the Global Program 2007. Both of these items are being amortized in a 5-year period.

l) Income tax

The Company did not either calculate or pay income taxes on a consolidated basis for any of the periods presented.

The Company and its subsidiary record income taxes using the deferred tax method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Argentine GAAP requires companies to record a valuation allowance for that component of net deferred tax assets which are not recoverable. The statutory income tax rate was 35% for all the periods presented.

The reconciliation between the income tax computed for tax purposes and the income tax expense charged to the statement of income is as follows:

	2007	**2006**	**2005**
Estimated current income tax expense	16,205	1,714	611
Deferred income tax expense	130,807	164,726	113,566
Change in valuation allowance	-	(144,549)	(101,362)
Income tax expense	**147,012**	**21,891**	**12,815**

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

The components of the net deferred tax (liability) / asset as of December 31, 2007 and 2006, are the following:

	2007	2006
Deferred tax assets		
Allowance for doubtful accounts	27	98
Present value other receivables	38	5,769
Present value advanced payments from clients	-	451
Other provisions	869	835
Provision for contingencies	16,838	17,547
Accrued interest from loans	-	18,221
Labor provisions	3,120	1,532
Tax loss carryforwards	-	110,750
Foreign exchange loss generated by current investments	177	651
	21,069	**155,854**
Deferred tax liabilities		
Deferred revenues	683	744
Property, plant and equipment, net	77,695	81,612
	78,378	**82,356**
Net deferred tax (liability) / asset (Note 4.i and 4.d)	**(57,309)** (1)	**73,498**

(1) Net of deferred tax asset of Ps. 95 recorded under "Other non-current receivables".

Income tax expense computed at the statutory tax rate on pre-tax income differs from the income tax expense for the years ended December 31, 2007, 2006 and 2005 as follows:

	2007	2006	2005
Pre-tax income	294,520	379,914	230,322
Statutory income tax rate	35%	35%	35%
Income tax expense at statutory income tax rate	103,082	132,970	80,613
Permanent differences at statutory income tax rate			
- Inflation adjustment	36,524	32,781	35,908
- Non-taxable income and non-deductible expenses	(533)	(447)	(979)
- Variation in deferred tax assets allowance	-	(144,549)	(101,362)
- Others	7,939	1,136	(1,365)
Income tax expense	**147,012**	**21,891**	**12,815**

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become recoverable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning in making these assessments. The Company is required to continuously evaluate the recoverability of deferred tax assets. This evaluation is based on internal projections made as discussed in Note 2.a), which are routinely updated to reflect more recent trends in the Company's results of operations.

As mentioned in Note 2.c), TGS has elected to disclose in the note to the consolidated financial statements the deferred tax liability generated by the net book value of the inflation adjustment included in the accounting value of the property, plant and equipment. This deferred tax liability does not constitute an account payable, but it is a liability that will be reversed over the remaining period over which these assets are depreciated. In compliance with Resolution No. 487 of the CNV, TGS advises that, if that liability had been recognized, the deferred tax liability as of December 31, 2007, would have increased in Ps. 687,826 (generating a net liability position of Ps. 745,230) and a positive effect of Ps. 36,395, Ps. 32,714 and Ps. 33,817 on the Company's net income for the years ended December 31, 2007, 2006 and 2005, respectively, would have been recognized. Additionally, in 2007 and subsequent years, TGS would have recorded a lower income tax expense as follows:

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

	Amount
Year 2008	30,421
Year 2009	30,817
Year 2010	30,359
Year 2011	30,305
Year 2012 onwards	565,924
Total	**687,826**

m) Asset tax

The Company and its subsidiary are subject to the Asset Tax Law (*"Impuesto a la Ganancia Mínima Presunta"*). The asset tax is calculated on an individual entity basis at the statutory tax rate of 1%, and is based upon the taxable assets of each Argentine entity as of the end of the year. This tax is complementary to income tax and the Company is required to pay the greater of the income tax or the asset tax. Any excess of the asset tax over the income tax may be carried forward and recognized as a payment on account of any excess of income tax over asset tax occurring within the subsequent ten years.

In the opinion of management, it is probable that the Company will utilize such asset against future taxable income charges within the next ten years and, as a result, the Company has recognized the accumulated asset tax charge within "Other non-current receivables" in the accompanying consolidated balance sheet.

This tax credit has been recorded at its nominal value according to what it is mentioned in Note 2.h).

The breakdown of the asset tax credit as of December 31, 2007 is as follows:

Fiscal year	Amount	Year of expiration
2002	10,395	2012
2003	26,214	2013
2004	23,861	2014
2005	22,680	2015
2006	22,807	2016
2007	7,960	2017
Balance at the end of the year (Note 4.d.)	**113,917**	

n) Advances from customers in kind

The advances from customers in kind have been valued at their respective nominal amount considering that this value is higher than the cost of rendering the gas transportation services that will cancel said advances.

o) Allowances and provisions for contingencies

The Company provides for losses relating to its accounts receivable. The allowance for losses is based on management's evaluation of various factors, including the credit risk of customers, historical trends and other information. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all events and/or transactions that are subject to reasonable and normal methods of estimation, and the consolidated financial statements reflect that consideration.

The Company has certain contingent liabilities with respect to existing claims, lawsuits and other proceedings, including those involving legal and regulatory matters. The Company records liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments known by TGS at the date of the issuance of these consolidated financial statements, estimates of the outcome of these matters and the experience of its legal counsel in contesting, litigating and settling other matters. As the scope of the contingent liabilities become better defined, there will be changes in the estimates of future costs, which could have a material effect on the Company's future results of operations and financial condition or liquidity.

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

Contingencies and allowances are disclosed in Note 9 and Note 14.e).

p) Shareholders' equity accounts

These accounts have been restated to account for the effects of inflation as described in Note 2.b), except for "Common stock nominal value" which is stated at original cost. The adjustment derived from the restatement of such account has been disclosed under the line item "Inflation adjustment to common stock", in the Statement of Changes in Shareholders´ Equity.

q) Revenue recognition

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

r) Statement of income accounts

Accounts relating to the statement of income have been registered as follows:

-Accounts that accumulate monetary transactions, at their nominal value.

-Expenses related to consumption of non-monetary assets have been charged to the statement of income taking into account the restated cost of such assets as described in Note 2.b).

- Gain / (loss) on related companies were determined on the basis of TGS' affiliates' results and were disclosed under "Gain / (loss) on related companies".

Other expenses, net for the years ended December 31, 2007, 2006 and 2005, include the following items:

	2007	2006	2005
Insurance liquidation associated with the damage of a facility located at the Cerri Complex	-	24,722	-
Provision for contingencies (Note 14.e.)	2,025	(26,129)	(3,490)
Others	(4,619)	676	(2,620)
Total other expense, net	**(2,594)**	**(731)**	**(6,110)**

The breakdown of "Net financial results" line item for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Generated by assets			
Interest income	34,103	30,603	15,363
Foreign exchange gain	8,421	13,390	15,822
Impairment of property, plant and equipment	(19,600)	-	-
Other financial results, net	-	1,654	(254)
Total	**22,924**	**45,647**	**30,931**
Generated by liabilities			
Interest expense	(156,661)	(193,674)	(185,458)
Foreign exchange loss	(42,643)	(26,536)	(40,256)
Gain on debt prepayment	10,576	-	-
Other expenses and financial charges	(27,691)	(14,480)	(14,289)
Total	**(216,419)**	**(234,690)**	**(240,003)**
Total net financial results	**(193,495)**	**(189,043)**	**(209,072)**

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

s) Earnings and dividends per share and per American Depositary Shares (“ADS”)

Earnings and dividends per share and per ADS for the years ended December 31, 2007, 2006 and 2005 have been calculated based on 794,495,283 outstanding shares during each year. One ADS represents five Class B shares. As the Company does not have preferred stock or convertible debt, the amount of basic earnings per share is the same as the amount of diluted earnings per share.

t) Derivative financial instruments

The Company has outstanding derivative financial instruments with major financial institutions with the aim to reduce the risk of the financial market, at a competitive cost in accordance with the market conditions, to manage the impact of the floating interest rate changes and the US dollar exchange rate changes. TGS does not use financial instruments with speculative aims.

The derivative financial instrument described in Note 6 consists of a currency forward and has been valued at its net realizable value.

3. CONSOLIDATED BUSINESS SEGMENT INFORMATION

Operating segments are defined under Argentine GAAP as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or the decision-making group, in deciding how to allocate resources and in assessing performance. The Company’s decision-making group is the Executive Officer Committee.

For the years ended December 31, 2007, 2006 and 2005, the Company classifies its businesses into three segments: Natural Gas Transportation Services, NGL Production and Commercialization and Other Services. The operating segments are reviewed separately because each operating segment represents a strategic business unit that generally offers different products, although interrelated, and/or serves different markets.

The Company manages its segments to the operating income (loss) level of reporting.

The accounting policies of the operating segments are the same as those described in Note 2.

Assets and liabilities were allocated to each segment based on the specific identification of the assets and liabilities related to the specific business. Assets and liabilities that cannot be allocated to a specific segment were grouped under "Corporate" and include current investments and loans, among others.

As of and for the year ended December 31, 2007	**Gas Transportation**	**NGL Production and commercialization**	**Other services**	**Corporate**	**Total**
Net revenues	509,501	667,395	80,377	-	1,257,273
Operating income (loss)	218,406	297,187	25,570	(51,144)	490,019
Depreciation of property, plant and equipment	149,130	32,795	14,226	1,655	197,806
Additions to property, plant and equipment	114,593	56,964	7,929	9,575	189,061
Identifiable assets	3,737,490	474,601	174,224	615,369	5,001,684
Identifiable liabilities	249,528	59,510	9,345	1,753,753	2,072,136

As of and for the year ended December 31, 2006	**Gas Transportation**	**NGL Production and commercialization**	**Other services**	**Corporate**	**Total**
Net revenues	491,996	726,393	91,113	-	1,309,502
Operating income (loss)	211,379	370,836	33,864	(45,949)	570,130
Depreciation of property, plant and equipment	144,401	31,050	13,294	3,908	192,653
Additions to property, plant and equipment	119,882	17,719	15,429	3,381	156,411
Identifiable assets	3,836,424	449,891	166,475	686,452	5,139,242
Identifiable liabilities	121,982	61,709	9,734	2,163,686	2,357,111

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

As of and for the year ended December 31, 2005	Gas Transportation	NGL Production and commercialization	Other services	Corporate	Total
Net revenues	460,008	546,302	58,428	-	1,064,738
Operating income (loss)	202,787	258,470	15,952	(34,312)	442,897
Depreciation of property, plant and equipment	141,211	29,251	13,664	2,867	186,993
Additions to property, plant and equipment	140,388	23,015	4,034	4,093	171,530
Identifiable assets	3,882,854	473,787	183,561	657,028	5,197,230
Identifiable liabilities	68,145	61,074	8,067	2,635,837	2,773,123

The Company renders services of gas transportation business principally to gas distribution companies, to Petrobras Energía, to Profertil S.A. ("Profertil") and to Repsol-YPF S.A. ("Repsol-YPF"). Significant customers in terms of net revenues from gas transportation for the years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
MetroGAS S.A.	169,590	176,474	173,518
Camuzzi Gas Pampeana S.A.	92,474	89,501	83,696
Gas Natural BAN S.A.	71,519	70,042	64,477
Petrobras Energía (Note 10)	28,500	26,635	25,173
Camuzzi Gas del Sur S.A.	24,857	23,915	22,542
Profertil	11,445	11,459	11,577
Repsol-YPF	17,524	27,346	16,853

Significant customers in the NGL production and commercialization segment are Petrobras International Finance Company ("PIFC"), a subsidiary of Petrobras Petróleo Brasileiro S.A., and PBB-Polisur S.A. ("Polisur"). Net revenues from these customers (include NGL sales made on behalf of third parties, from which TGS withholds charges for the production and commercialization of NGL) for the fiscal years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
PIFC (Note 10)	476,551	530,212	383,871
Polisur	203,888	238,188	141,547

4. SUMMARY OF SIGNIFICANT BALANCE SHEET ITEMS AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
a) Current accounts receivable		
Gas transportation		
MetroGAS S.A.	8,773	16,649
Camuzzi Gas Pampeana S.A.	8,803	8,473
Gas Natural BAN S.A.	7,479	7,358
Camuzzi Gas del Sur S.A.	2,128	2,189
Profertil	1,261	1,158
Repsol-YPF	3,045	6,997
Total Austral S.A. ("Total Austral")	3,345	2,969
Pan American Sur S.R.L. ("PAS")	2,948	1,906
Related companies	4,125	3,469
Others	12,866	7,753
Subtotal	**54,773**	**58,921**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts stated in thousands of Argentine pesos as described in Note 2.b.,
except for per share and per ADS amounts in Argentine pesos or unless otherwise indicated)

		2007	2006
	NGL production and commercialization		
	Polisur	22,032	25,089
	Pan American Energy LLC (Argentine Branch)	1,165	7,979
	Total Austral	3,788	5,790
	Related companies	47,848	50,681
	Others	6,827	6,456
	Subtotal	**81,660**	**95,995**
	Other services		
	Pan American Energy LLC (Argentine Branch)	939	2,085
	Profertil	3,437	3,340
	Sipetrol Argentina S.A.	-	538
	Gas trust fund (Note 7.c.)	9,230	-
	Related companies	2,604	9,246
	Others	13,173	9,109
	Subtotal	**29,383**	**24,318**
	Allowance for doubtful accounts (Note 14.e)	(716)	(920)
	Total	**165,100**	**178,314**
b)	**Other current receivables**		
	Tax credits	13,357	23,592
	Prepaid insurance expense	4,311	4,589
	Advances to suppliers	26,127	9,737
	Claims to third parties [(1)]	25,493	-
	Others	8,342	7,717
	Total	**77,630**	**45,635**
c)	**Non-current accounts receivable**		
	Other services		
	Profertil	13,443	14,710
	Total	**13,443**	**14,710**
d)	**Other non-current receivables**		
	Deferred income tax (Note 2.l.)	95	73,498
	Asset tax credit (Note 2.m.)	113,917	111,641
	Easement expense to be recovered	4,233	4,233
	Others	4,909	4,338
	Total	**123,154**	**193,710**
e)	**Current accounts payable**		
	Suppliers	147,954	152,285
	Customers (Credit balances)	13,594	19,880
	Related companies (Note 10)	2,042	2,451
	Total	**163,590**	**174,616**
f)	**Taxes payable**		
	Asset tax, net	-	13,733
	Turnover tax	568	884
	Income tax (net of advances and others)	6,371	-
	Value added tax (“VAT”)	106	1,917
	Tax on exports	23,021	803
	Others	4,203	3,468
	Total	**34,269**	**20,805**

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

		2007	2006
g)	**Current advances from customers[2]**		
	Aluar Aluminio Argentino S.A.C.I. (“Aluar”)	2,411	1,765
	Total Austral	6,426	1,743
	Wintershall Energía S.A. (“Wintershall”)	1,656	1,743
	PAS	4,284	1,162
	Other	585	761
	Total	**15,362**	**7,174**
h)	**Other liabilities**		
	Negative equity value (Note 14.c)	-	120
	Provisions for *GdE* lawsuit (Note 9.d)	12,035	11,517
	Other provisions	119	556
	Total	**12,154**	**12,193**
i)	**Non-current taxes payable**		
	Deferred income tax	57,404	-
	Total	**57,404**	**-**
j)	**Non-current advances from customers[2]**		
	Aluar	55,539	47,488
	Total Austral	41,582	4,611
	Wintershall	2,628	4,611
	PAS	27,721	3,073
	Others	21	56
	Total	**127,491**	**59,839**

[1] It corresponds to an arbitration claim initiated by TGS against the Bank of America for the amount of US$ 9 million, net of a related payment received late in December 2007. The claim is based on the annulment made by the bank, of the transfer of funds to TGS account that had been instructed by the Company on December 6, 2007 to redeem securities of the Columbia Strategic Cash Fund (Cash Fund arranged by the Bank of America). On such date, the Cash Fund entered into a liquidation process, and pledged to refund to the subscribers the proceeds of the settlement of its investments in the following months. From December 6, 2007 to the date of the issuance of these consolidated financial statements the Cash Fund has reimbursed to TGS US$ 2.8 million, on account of the US$ 9 million (Note 9.e.).

[2] They are mainly related to the financing of TGS pipeline system expansion works for the rendering of firm transportation services contracted by such clients. The advance payments will be settled with the effective rendering of firm transportation service.

5. SUPPLEMENTAL CASH FLOW INFORMATION

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid temporary investments with an original maturity of three months or less at the time of purchase to be cash equivalents. The cash flow statement has been prepared using the indirect method, which requires a series of adjustments to reconcile net income for the year to net cash flows from operating activities.

The following table reconciles the balances included as cash and banks and current investments in the balance sheet to the total amounts of cash and cash equivalents at the beginning and end of the period shown in the statements of cash flows:

	As of December 31,		
	2007	**2006**	**2005**
Cash and banks	2,816	6,583	2,418
Current investments	421,102	471,673	510,526
Current investments other than cash and cash equivalents	(32,600)	-	-
Total cash and cash equivalent	**391,318**	**478,256**	**512,944**

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

Non-cash transactions are as follows:

	As of December 31,		
	2007	2006	2005
Acquisition of property, plant & equipment through an increase in accounts payable	20,312	36,079	7,337
Financial charges capitalization	(1,264)	(286)	(1,647)

Cash flows resulting from operations include net financial expense generated by cash and cash equivalents as of December 31, 2007, 2006 and 2005 for Ps. 27,295, Ps. 33,405 and Ps. 24,808, respectively.

6. LOANS

Short-term and long-term debt as of December 31, 2007 and 2006 comprise the following:

	2007	2006
Current Loans:		
Tranche A:		
2004 Euro medium – term notes ("EMTN") Program: Series 1 notes	-	54,381
Privately placed notes	-	3,414
Inter-American Development Bank ("IDB") loans	-	30,197
1999 EMTN Program: Series 2 notes [1]	94	92
Interests payable	15,636	8,003
Financial leases (annual interest rate of 7.65%)	729	2,976
Total current loans	**16,459**	**99,063**
Non- current loans:		
2007 EMTN Program: Series 1 notes	1,574,500	-
Tranche A:		
2004 EMTN Program: Series 1 notes	-	331,490
Privately placed notes	-	20,810
IDB loans	-	184,211
Tranches B-A and B-B:		
2004 EMTN Program: Series 1 notes	-	781,720
Privately placed notes	-	121,145
IDB loans	-	426,436
Interests payable	-	52,060
Financial leases (annual interest rate of 7.65%), due through 2008	-	652
Total non-current loans	**1,574,500**	**1,918,524**
Total loans	**1,590,959**	**2,017,587**

[1] Corresponds to notes that were not tendered in the debt exchange made in December 2004 and bear an annual interest rate of 10.375%.

Issuance of notes under the 2007 Global Program:

The Extraordinary Shareholders' meeting held on December 21, 2006 approved the creation of the Global Program for the issuance of new notes of a maximum aggregate amount of US$ 650,000,000. This Program was authorized by the CNV on January 18, 2007.

With the aim of improving the indebtedness profile of the Company and to soften the restrictions of the previous debt, in May and June 2007, TGS succeeded in the process of refinancing its financial debt by means of the issuance of new notes in an amount of US$ 500,000,000 within the 2007 Global Program, and the prepayment of its prior debt by a tender offer, the redemption of those notes not tendered and the prepayment of the IDB loans.

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

The early amortization of the restructured debt generated a Ps. 10,576 gain, which is net of a cost of Ps. 25,222 paid for the prepayment of Tranche B-A (equaled to the 2% of the principal amount), and the Ps. 2,291 premium paid for the equivalent of 0.25% of the residual principal amount of the tendered notes.

The issuance of the US$ 500,000,000 notes within the Global Program 2007, due on May 14, 2017, accrues interest at a fix annual rate of 7.875%, payable semi-annually. The principal amount will be amortized in four equal payments of US$ 125,000,000, which mature on May 14, 2014, 2015, 2016 and 2017. Public trading of these notes was authorized by the *Bolsa de Comercio de Buenos Aires* ("BCBA"), the *Mercado Abierto Electrónico* ("MAE") and the Luxembourg Stock Exchange.

Covenants:

The Company is subject to some restrictive covenants under its outstanding debt obligations which include, among others, some restrictions to incur new debt, dividend payments, the granting of guarantees, assets sales and transactions with related companies.

The Company may incur new debt, under these restrictions, among others:

a. As long as after incurring the new debt, (i) the consolidated coverage ratio (quotient of the consolidated adjusted EBITDA -earnings before financial results, income tax, depreciation and amortization-) and the consolidated interest expense) is equal or higher than 2.0:1; and (ii) the consolidated debt ratio (quotient of the consolidated debt and the consolidated EBITDA) is equal or lower than 3.75:1.

b. For the refinancing of the outstanding financial debt.

c. Provided by advances from customers.

The Company may pay dividends as long as (i) the Company is not in default under the new debt obligations, (ii) immediately after the dividend payment, the Company would be able to incur in additional indebtedness pursuant to a. from the preceding paragraph.

Financial debt restructured in December 2004:

Debt corresponding to Tranches A, B-A and B-B was issued in December 2004 to restructure the terms and conditions of the previous outstanding loans, which payments of principal and interest were suspended in May 2003.

The principal terms of the Company's outstanding debt obligations were as follows:

Description	Tranche A	Tranches B-A y B-B
Principal	US$ 470,306,281, which represented 52% of the total principal amount.	US$ 409,044,874 and US$ 25,083,940, respectively, representing approximately 48% of the principal amount.
Interest	Ranging from an annual rate of 5.3% for the first year to 7.5% in the last year, payable on a quarterly basis.	Ranging from an annual rate of 7% for the first year to 10% in the ninth year, payable on a quarterly basis, The Tranche B-A debt obligations also accrued additional interest from December 15, 2006 onwards at an incremental annual interest rate ranging from 0.75% to 2%, subject to the level of the Company's consolidated adjusted EBITDA (as defined in the new debt obligations) for each applicable fiscal year. The Tranche B-B debt obligations also accrued additional interest at an incremental annual rate starting at 0.60% in the third year and increasing by 5 basis points (0.05%) annually until such annual rate reached 0.90% in the last year.
Principal amortization	Amortization quarterly payments commencing on March 15, 2005 until December 15, 2010.	Amortization quarterly payments commencing on March 15, 2011 until December 15, 2013.

The notes and privately placed notes in a principal amount of US$ 531,870,232 and US$ 82,424,863, respectively, were issued pursuant to the Company's Global Program, which provides for the issuance of notes up to a maximum amount of US$ 800,000,000. The creation of the Global Program was approved by the Annual Shareholders' Meeting held on April 2, 2004 and was authorized by the CNV on October 28, 2004. Public trading of notes was authorized by the BCBA and the MAE.

Derivative financial instruments

In November 2007, the Company entered into a currency forward agreement with a major financial institution, which expiration date was on May 12, 2008. By means of this hedge agreement, the Company ensured the purchase of US$ 9 million at an exchange rate of Ps. 3.227 per U.S. Dollar, in order to afford the interest payment of its financial debt on May 14, 2008. To the purpose of its settlement, the Company took the reference exchange rate informed by the Central Bank of the Argentine Republic ("BCRA") through the Circular A 3,500. As of December 31, 2007, its fair value amounts to approximately (Ps. 90) and was recorded in "Current Loans" with debit to "Other Comprehensive Loss" account.

7. REGULATORY FRAMEWORK

a) General framework and current tariff context:

The Company's natural gas transportation business is regulated by Law No. 24,076 ("the Natural Gas Act"), its regulatory decree No. 1,738/92 and by regulations issued by ENARGAS, which is entitled, among other things, to set the basis for the calculation, monitoring and approval of tariffs (the "Regulatory Framework"). According to the Regulatory Framework, transportation tariffs were to be calculated in US dollars and converted into Argentine pesos at the time the customer was billed using the exchange rate prevailing at that time. The basic gas transportation tariffs charged by TGS had been established at the time of the privatization of GdE and were to be adjusted, subject to prior authorization, in the following cases: (i) semi-annually to reflect changes in the US producer price index ("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 the licensees for future investments which are not repaid through tariffs. Also, subject to ENARGAS approval, tariffs were to be adjusted to reflect non-recurrent circumstances or tax changes, other than income tax.

The terms and conditions as described in the precedent paragraph in connection with tariff adjustments contemplated within the Regulatory Framework are no longer effective since the enactment of the Public Emergency Law in early 2002 (the "Emergency Law"), which, among other provisions, eliminated tariff increases based on US dollar exchange rate fluctuations, foreign price indexes or any other indexing procedure and established a conversion rate of one peso to one US dollar for tariffs. The Emergency Law also granted the Executive Branch power to renegotiate contracts entered into with private utility companies, pursuant to the framework included in the said law as long as it is in force, which will expire in December 31, 2008, after several extensions.

In July 2003, the Unit for Renegotiation and Assessment of Utilities Contracts ("UNIREN") was created under the joint jurisdiction of the Ministry of Economy and Production and the Ministry of Federal Planning, Public Investment and Services. UNIREN conducts the renegotiation process of the contracts related to utilities and public works, and is entitled to enter into total or partial agreements with the licensees and submit projects regulating the transitory adjustment of tariffs and prices, among other things. At the end of 2003, the UNIREN submitted the "Preliminary Renegotiation Guidelines" to TGS including a draft agenda with main issues to be discussed during the renegotiation process such as costs, investment programs and financing, rates of return and tariffs, etc, and a renegotiation schedule which set December 28, 2004 as the deadline for the adjustment of the regulatory framework with the approval of the National Congress.

In July 2004, UNIREN submitted to TGS a proposal for the adjustment of the contractual terms and conditions of the License, which among other things provided for a tariff increase of 10% effective as from 2005, an overall tariff review to become effective as from 2007 and required TGS's and its shareholders' abandonment of any claim or lawsuit resulting from the effects of the Public Emergency Law on the License prior to the effectiveness of a renegotiation of the License, and also demanded TGS to hold the Argentine government harmless from any claim or lawsuit filed by its shareholders. As this proposal differed from discussions TGS previously had with UNIREN, the Company rejected it and sought to reach an overall agreement with UNIREN by the end of 2004 (in line with UNIREN's original proposal set forth in the

"Preliminary Renegotiation Guidelines") and to carry out the process of obtaining approval from the National Congress during the first semester of 2005.

During the Public Hearing held on April 27, 2005, with the aim of discussing the above mentioned proposal, UNIREN reaffirmed its 10% tariff increase proposal and suggested to advance the process of the overall tariff revision, so that the resulting tariff adjustments would come into effect during 2006. UNIREN also outlined a first stage that included the postponement of the potential claims from the Company and its shareholders, prior to a renegotiation of the License, and the subsequent abandonment of any such claims from TGS or its shareholders, and the agreement to hold harmless the Argentine Government. Regarding the original proposal, TGS put forward the need to improve certain items of UNIREN's original proposal and expressed its willingness to continue the negotiation.

In June and November 2005, TGS received two proposals from UNIREN which were in line with the previous one. Said proposals also established, as an additional condition, the Company's and its shareholders' abandonment of any future claim or lawsuit regarding the PPI tariff adjustments which were not applied in 2000 and 2001. TGS responded to the proposals, and declared that the original 10% increase was insufficient and committed not to file any administrative, arbitration or judicial claim or lawsuit in Argentina or abroad, as long as a reasonable renegotiation agreement was reached. Moreover, TGS stated that the Company is determined to make its best efforts to obtain similar commitments from its investors.

In November 2005, in response to the requirement made by the UNIREN, CIESA and Petrobras Energía Holding (as CIESA's shareholder) confirmed that they had not initiated or intended to initiate in the future any claim against the Argentine Republic. Furthermore, Ponderosa Assets L.P. ("Ponderosa") as a controlling company of Enron Pipeline Company Argentina S.A. ("EPCA") and Enron Argentina CIESA Holding S.A. ("EACH") (both TGS's shareholders at that time, and in the case of EPCA, currently CIESA's minority shareholder) informed on the existence of a claim which, jointly with Enron Corp., it had initiated against the Argentine Republic before the International Center for the Settlement of Investment Disputes ("ICSID") and that it would only consider waiving its claim if Ponderosa has received fair compensation. In May 2007, the ICSID ordered the Argentine Government to pay US$ 106.2 million to Enron Corp.

During 2006, the UNIREN made two new proposals to TGS with the same guidelines established in the previous proposals, reflecting no significant progress in the tariff renegotiation process as of the date of the issuance of these consolidated financial statements.

The NGL production and commercialization segment is not regulated by the ENARGAS, and as it is provided in the Transfer Agreement, is organized as a separate business unit within the Company, keeping accounting information separately. However, the Federal Energy Bureau regulates the propane and butane sales price for the local market. This organism determines annually a minimum volume of propane and butane to be commercialized in the local market in order to guarantee the domestic supply.

The License establishes, among other restrictions, that the Company will not be able to afford CIESA´s obligations, nor granting loans, real guarantees or of any other sort in favor of the creditors of this company.

b) <u>Gas Electronic Market ("MEG")</u>

The Executive Branch, through Decree No. 180/04, among other measures, established the creation of the MEG with the purpose of improving the transparency of financial and operating performance, the coordination of daily transactions both of the gas spot and the transportation and distribution secondary markets along with the shaping of efficient prices through offer and demand free interaction. To that purpose, all firm transportation capacity non-allocated for the following day shall be marketed through the MEG and the proceeds from that capacity sale will be used at the Energy Bureau's criteria. Non-allocated capacity includes remaining capacity not used in any of the transportation systems or pipelines. This implies that TGS is bound to offer daily non-allocated capacity that complies with this condition in the MEG, which might have a material impact on the Company's interruptible transportation revenues. Notwithstanding the MEG started its operations in August 2005, it has not started yet with respect to the transactions related to natural gas transportation and distribution.

c)

Expansion of the gas transportation system

Due to the lack of expansions of the natural gas transportation system over the last years (as a consequence of the "pesification" of tariffs and the fact that the renegotiation of the license is still pending) and a growing gas demand in certain segments of the Argentine economy, the Argentine Government established - through Executive Branch Decree No. 180/04 and Resolution No. 185/04 issued by the Ministry of Federal Planning, Public Investment and Utilities - the framework for the creation of a trust fund ("the gas trust fund") aimed at financing the expansion of the national gas transportation system.

Within this framework, the first expansion of the San Martín Pipeline ended in August 2005, which increased the transportation capacity by 102 millions of cubic feet per day ("MMcf/d"). This project involved the construction of approximately 316 miles of pipeline and a 30,000 HP compression capacity increase through the construction of a compressor plant and the revamping of some of TGS's existing compressor units. The gas trust fund financed US$ 311 million from a total amount of US$ 351 million, while TGS invested approximately US$ 40 million (including VAT for U$S 7 million).

The gas trust fund repays it investment by means of the 20% of the total net revenues generated by the current tariffs from the additional transportation capacity and collects an specific charge, which is finally paid by industries, power plants and compressed natural gas suppliers for whom gas transportation supply is made under firm contracts. This charge represents an 81.6% increase in the current tariffs. The works financed by these means belong to the gas trust fund and, TGS, as well as being in charge of the management of the works, is responsible for the operation and maintenance of the gas trust assets. The cost of TGS's investment is being recovered through collection of the remaining 80% of current tariff rate. This surplus is also bound for the payment of operation and maintenance expense of these new assets.

In April 2006, the Ministry of Federal Planning and Public Investment and Utilities, the Federal Energy Bureau and natural gas transportation companies, among others, signed a Letter of Intent to carry out the second expansion of the gas pipeline system. This new expansion will increase the transportation capacity by 883 MMcf/d, of which approximately 332 MMcf/d correspond to TGS system. In December 2006, the gas trust fund contracts and the works management agreement were signed; the latter is in charge of TGS.

According to this agreement, TGS will bill Ps. 50 million plus VAT as a consideration for the services to be rendered for the 247 MMcf/d expansion (for the year ended December 31, 2007, the Company recorded a provision of Ps. 9.2 million), and the expansion works management fee for the remaining 85 MMcf/d has not yet been determined. The property of the works will be entitled to a gas trust fund and the investment would be financed by other gas trust funds, whose trustors are the shippers who subscribed the additional capacity. The works will be repaid with a new tariff charge that will be finally paid by the industries, power plants and large and medium-size businesses. It is expected that the first stage, which consists of an expansion of 78 MMcf/d, will be in operation in winter of 2008.

d) 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 the prior authorization of ENARGAS. 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 Government or its designee, the essential assets listed in an updated inventory as of the expiration date, free of any debt, encumbrances or attachments, 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; or

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

ii) the net proceeds of a new competitive bidding.

8. COMMON STOCK AND DIVIDENDS

a) Common stock structure and shares' public offer

As of December 31, 2007, 2006 and 2005 the Company's common stock was as follows:

Common Shares Class (Face value $ 1, 1 vote)	Amount of common stock, subscribed, issued, paid in, and authorized for public offer
Class "A"	405,192,594
Class "B"	389,302,689
	794,495,283

TGS's shares are traded on the BCBA and under the form of the American Depositary Shares ("ADS") (registered in the SEC and representing 5 shares each) on the New York Stock Exchange.

The Company is required to have in force the authorization of the public offer of its common stock and the corresponding authorization to trade in the different official stock markets in Argentina until 2009.

b) Limitation on 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 common stock). The Bid Package states that approval of ENARGAS will be granted provided that:

- The sale covers 51% of common stock or, if the proposed transaction is not a sale, the transaction that reduces the shareholding will result in the acquisition of a shareholding of not less than 51% by another investment company; and

- The applicant provides evidence to the effect that the transaction will not impair the operating quality of the licensed service.

In the case of shareholders of CIESA who have qualified to obtain such condition 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 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 payment of dividends, in accordance with the provisions of the Argentine Business Associations Law, it requires prior authorization from ENARGAS.

c) Restrictions on distribution of retained earnings

Under current Argentine legal requirements and CNV standards, 5% of each fiscal year net income must be appropriated into a legal reserve, provided that there is no unappropriated retained deficit. In such case, the 5% should be calculated on any excess of the net income over the unappropriated retained deficit. This appropriation is legally binding until such reserve equals 20% of the amount which results from the sum of the "Common stock nominal value" and the balance of "Inflation adjustment to common stock".

In addition, the by-laws provide for the issuance of Profit Sharing Vouchers, as defined in Article 230 of the Argentine Business Associations Law, which Vouchers entitle all regular employees to share in 0.25% of the Company's net income for each year.

According to law No. 25,063, the dividends paid in cash or in kind, in excess of the tax profit**,** will be subject to a 35% withholding tax of the income tax, as sole and only payment.

Furthermore, the Company is subject to certain restrictions for the payment of dividends, which were contemplated in the outstanding debt agreements (Note 6 - "Covenants").

9. LEGAL AND REGULATORY MATTERS

a) In the framework of the Tax Agreement subscribed by the Argentine Government and the Provinces in 1993, and as from the enactment of provincial Law No. 11,490, NGL sales were exempted from the turnover tax in the province of Buenos Aires. In September 2003, the Tax Bureau of the Province of Buenos Aires, through overruling Resolution No. 4,560/03, denied the exemption and claimed unpaid taxes on accrued NGL sales as from 2002. In October 2003, the Company filed an administrative appeal with the Tax Court of the Province of Buenos Aires.

In February 2007, the Tax Court partially upheld TGS complaint. In its pronouncement, the Tax Court stated that ethane sales were within the scope of the turnover tax exemption but that neither propane nor butane sales qualified for the exemption, because they were not raw materials for an industrial process.

In May 2007, TGS appealed the unfavorable portion of this ruling in the Province of Buenos Aires Court alleging that propane and butane sales might be utilized for other uses different from petrochemical industry.

Moreover, in November 2004, TGS received a notice from the Tax Bureau of the province of Buenos Aires starting thus a tax assessment process regarding the claim mentioned above. On September 26, 2005, TGS was notified of the results of the tax assessment process for the period from January 2002 to July 2003, which amounted to Ps. 4.4 million plus interest. On October 18, 2005, TGS filed a motion to dismiss on its belief that the NGL sales activity was conducted under the tax exemption regime discussed above. On April 12, 2006 the motion to dismiss was rejected and therefore, the Company filed an appeal with the Tax Bureau of this province.

As of December 31, 2007, TGS recorded a provision of Ps. 15.9 million, having partially reversed in this year the provision related to ethane sales recorded under the line Other expenses, net, pursuant to the sentence pronounced in February 2007 mentioned before.

b) In February 2005, the Company was served notice by the CNV that certain notes issued in December 2004 by US$178 million did not fulfil the requirements provided by Article 56 of Chapter VI of the CNV Standards and in Resolution No. 470. Therefore, if CNV´s interpretation prospers, those notes would not be entitled to the benefits of the tax exemption provided by the law No. 23,576, thus the Company would be exposed to a contingency due to the payment of the withholding income tax on interest payments.

On February 18, 2005, TGS filed an appeal with the CNV, alleging sufficient grounds to support the applicability of Article 56, Chapter VI of CNV Standards and Resolution N°470/04. However, the CNV denied the Company's appeal and on July 8, 2005, TGS filed an appeal with the Ministry of Economy and Production which was subsequently rejected in November 2006. In December 2006, TGS filed a second appeal with said Ministry seeking reconsideration of the rejection, which was rejected in June 2007. In November 2007, TGS challenged said resolution before the Federal Administrative Court.

As of December 31, 2007, the amount of this contingency ranges between US$ 6 million and US$ 17 million (including interests as of this date), depending on the applicable withholding tax rates determined on payments of interest by Argentine obligors, by the country of residence of the note holders at the date of each interest payment. The Company does not have available information that permits the identification of the country of residence of each note holder on each interest payment date.

The Company believes that it has sufficient grounds and other legal instances to defend its position and thus, as of December 31, 2007, TGS has not recorded any provision in connection with this matter.

c) In November 2002, the Tax Bureau of the Province of Santa Cruz sent TGS a formal assessment notice for the payment of the turnover tax calculated on the value of the natural gas used by TGS as fuel to render its transportation services. This assessment corresponds to the fiscal period from January 1998 to October 2002. In August 2005, the Company paid the amount claimed of Ps. 1.6 million (including interests to December 4, 2002) and started a tax recovery process, first exhausting all other procedural steps, with the Tax Bureau of the province and then initiationg a proceeding in the provincial Tax Court..

In November 2005, TGS received a notice from the Tax Bureau of the province of Río Negro, claiming the payment of Ps. 0.2 million, on the same grounds as those of the Province of Santa Cruz, for the period from January 1999 to May 2005. On February 1, 2008, TGS initiated a tax recovery process with the Tax Court of the province of Río Negro to obtain the refund of Ps. 0.5 million paid in November 2007, after exhausting the same procedural steps followed in the case of province of Santa Cruz.

As of December 31, 2007, the Company recorded a provision of Ps. 20.1 million under the line item "Provisions for contingencies", determined according with the estimations of tax and interests to be paid as of such date, as an estimate of contingency which could be unfavourable to the Company.

The Company's management believes that, in case the Company's position fails and the turnover tax has to be paid, TGS has a right to recover it by a transportation tariff increase as set forth in the License.

d) In 1996, GdE filed a legal action against the Company for the reimbursement for the cost of construction of two compressor plants. After a long litigation process, in 2003, the Supreme Court of Justice sustained GdE's claim and sentenced TGS to pay the market price of the compressor plants at the date of the addition to TGS assets plus interest and litigation expenses. As of December 31, 2007, the remaining balance of the sentence amounted to Ps. 46.4 million.

On January 14, 2004, TGS signed an agreement with the UNIREN, which was subsequently ratified by the Argentine government through the Decree No. 959/04 through which TGS will carry out the expansion of the Cordillerano Pipeline. The cost of the expansion will be taken as a payment on account of the final amount to be paid as a consequence of the outcome of the lawsuit described above. The Argentine Government owns such assets and granted their right of use to TGS, who will have to operate and maintain such assets. Therefore, the cost of the works was recorded under "Other liabilities", offsetting the provision mentioned above. As of December 31, 2007, the net provision amounted to Ps. 12.0 million.

e) On February 1, 2008, TGS filed an arbitration claim against the Bank of America in order to obtain the refund of US$ 9 million corresponding to the annulment made by the mentioned bank of the transfer of funds to TGS account that the Company had instructed the bank to execute on December 6, 2007. The arbitration is conducted under the provisions of the Federal Arbitration Act and the rules of the Judicial Arbitration and Mediation Services, Inc. in the United States of America (Note 4.b.).

f) On November 30, 2007, TGS was served notice of the summary proceedings initiated against the Company by the BCRA. This entity charges TGS with the late settlement of foreign currencies for an approximate amount of US$ 14.7 million. The questioned transactions were conducted between January 2002 and February 2003, period in which the applicable exchange regulations were subject to frequent changes and the terms for the settlement of foreign currencies were shorter than the current ones.

The Company believes that it has several legal instances to defend its position, and accordingly, as of December 31, 2007, TGS has not recorded any provision in respect of this proceeding. Based on the opinion of our legal advisors, the amount of the fine that may result from an eventual adverse sentence will not be greater than US$ 7.3 million.

g) 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.

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

10. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

TGS sells propane, butane, and natural gasoline to PIFC, at international prices minus a fixed discount per ton, according to common market practices for this type of transactions.

Petrobras Energía is TGS´s technical operator, according to the approval of ENARGAS in June 2004, and subject to the terms and conditions of the Technical Assistance Agreement which provides that Petrobras Energía is in charge of providing services related to the operation and maintenance of the gas transportation system and related facilities and equipment, to ensure that the performance of the system is in conformity with international standards and in compliance with certain environmental standards. For these services, the Company pays a monthly fee based on a percentage of the operating income of the Company.

Additionally, TGS renders natural gas transportation services to Petrobras Energía, for a 106 MMcf/d firm capacity by means of two contracts which expire in 2013 and 2014. Moreover the Company, under certain agreements, processes the natural gas in Cerri Complex and commercializes the NGL for Petrobras Energía's account and on behalf of it. For consideration, TGS collects a commission which is calculated over the NGL selling price. This service is regulated by a contract which is due in December 2010.

As of December 31, 2007 and 2006, the outstanding balances corresponding to the Board of Directors´ compensations amounted to Ps. 78 and Ps. 97, respectively. The accrued amounts for such compensation for the years ended December 31, 2007, 2006 and 2005 were Ps. 751, Ps. 395 and Ps. 261, respectively.

The detail of significant outstanding balances for transactions entered into by TGS and its related parties as of December 31, 2007 and 2006 is as follows:

	2007		**2006**	
Company	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Controlling shareholders:				
CIESA	111	-	37	-
Petrobras Energía	4,558	8,761	9,590	2,451
Affiliates with significant influence:				
Link	101	-	193	-
TGU	210	-	147	-
EGS	21	-	20	-
Other related companies:				
PIFC	47,332	-	50,518	-
Área Santa Cruz II U.T.E.	307	-	311	-
Refinor S.A.	730	-	1,327	-
WEB S.A.	643	-	218	-
Total	**54,013**	**8,761**	**62,361**	**2,451**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts stated in thousands of Argentine pesos as described in Note 2.b., except for per share and per ADS amounts in Argentine pesos or unless otherwise indicated)

The detail of significant transactions with related parties for the years ended December 31, 2007, 2006 and 2005 is as follows:

For the year ended December 31, 2007

Company	Revenues: Gas transportation	Revenues: NGL production and commercialization	Revenues: Other services	Purchase of gas and others	Compensation for technical assistance	Revenues for administrative services
Controlling shareholders:						
EPCA	-	-	-	-	-	13
Petrobras Energía	28,500	25,562	16,741	8,691	34,747	-
CIESA	-	-	-	-	-	122
Affiliates with significant influence:						
Link	-	-	995	-	-	-
TGU	-	-	207	-	-	-
Other related companies:						
PIFC	-	476,551	-	-	-	-
Refinor S.A.	-	-	1,614	-	-	-
WEB S.A.	2,793	-	-	-	-	-
Área Santa Cruz II U.T.E.	-	-	3,079	-	-	-
Total	**31,293**	**502,113**	**22,636**	**8,691**	**34,747**	**135**

For the year ended December 31, 2006

Company	Revenues: Gas transportation	Revenues: NGL production and commercialization	Revenues: Other services	Purchase of gas and others	Compensation for technical assistance	Revenues for administrative services
Controlling shareholders:						
EPCA	-	-	-	-	-	80
CIESA	-	-	-	-	-	122
Petrobras Energía	26,635	28,411	27,273	9,128	42,631	-
Affiliates with significant influence:						
Link	-	-	947	-	-	-
TGU	-	-	307	-	-	-
EGS	-	-	49	-	-	-
Other related companies:						
PIFC	-	530,312	-	-	-	-
Refinor S.A.	-	-	2,356	-	-	-
Quintana y Otros U.T.E.	1,820	-	-	-	-	-
WEB S.A.	3,044	-	-	-	-	-
Área Santa Cruz II U.T.E.	-	-	2,069	-	-	-
Total	**31,499**	**558,723**	**33,001**	**9,128**	**42,631**	**202**

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FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts stated in thousands of Argentine pesos as described in Note 2.b., except for per share and per ADS amounts in Argentine pesos or unless otherwise indicated)

For the year ended December 31, 2005

Company	Revenues: Gas transportation	Revenues: NGL production and commercialization	Revenues: Other services	Purchase of gas and others	Salaries and wages	Compensation for technical assistance	Revenues for administrative services
Controlling shareholders:							
EPCA	-	-	-	-	-	-	84
CIESA	-	-	-	-	-	-	122
Petrobras Energía	25,173	21,189	16,019	3,643	210	32,880	-
Affiliates with significant influence:							
Link	-	-	876	-	-	-	-
TGU	-	-	614	-	-	-	-
EGS	-	-	323	-	-	-	-
Other related companies:							
PIFC	-	383,871	-	-	-	-	-
Petrolera Santa Fe S.A.	-	-	-	2,879	-	-	-
Refinor S.A.	-	-	2,157	-	-	-	-
Quintana y Otros U.T.E.	3,107	-	-	-	-	-	-
WEB S.A.	3,003	-	-	-	-	-	-
Area Santa Cruz II U.T.E.	-	-	1,472	-	-	-	-
Total	**31,283**	**405,060**	**21,461**	**6,522**	**210**	**32,880**	**206**

11. SUBSIDIARY AND AFFILIATES

Telcosur:

The corporate purpose of Telcosur is to render telecommunication services. Telcosur was created to assure the optimal utilization of TGS’s telecommunication system. TGS’s equity interest in the company is 99.98% and the remaining 0.02% is held by Petrobras Energía Internacional S.A.

Link:

Link was created in February 2001, with the purpose of the operation of a natural gas transportation system, which links TGS’s gas transportation system with Gasoducto Cruz del Sur S.A. pipeline. The connection pipeline extends from Buchanan, located in the high-pressure ring that surrounds the city of Buenos Aires, which is part of TGS’s pipeline system, to Punta Lara. TGS’s ownership interest in such company is 49% and Dinarel S.A. holds the remaining 51%.

TGU:

TGU is a company incorporated in Uruguay. This company renders operation and maintenance services to Gasoducto Cruz del Sur S.A. pipeline in the Uruguayan pipeline tranche. TGS holds the 49% of its common stock.

EGS:

In September 2003, EGS, a company registered in Argentina, was incorporated. The ownership is distributed between TGS (49%) and TGU (51%). EGS operates its own pipeline which connects TGS’s main pipeline system in the Province of Santa Cruz with a delivery point on the border with Chile.

Transportadora de Gás e Serviços do Brasil S.A.:

In January 2007, TGS and TGU entrusted their legal attorneys in Brazil the incorporation of a Brazilian company with the aim to set up new businesses in this country. At the date of the issuance of these financial statements, its shareholders have made no capital contributions to this subsidiary. The corporate name is Transportadora de Gás e Serviços do Brasil S.A.

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

12. DIFFERENCES BETWEEN ARGENTINE GAAP AND US GAAP

The accompanying consolidated financial statements have been prepared in accordance with Argentine GAAP, which differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the SEC.

I. Differences in measurement methods

The following reconciliation to US GAAP does not include an elimination of the adjustments to the consolidated financial statements to account for the effects of inflation required under Argentine TR No. 6, (as amended by TR No. 19), as permitted by Regulation S-X of the SEC.

The principal differences, other than inflation accounting, between Argentine GAAP and US GAAP as they relate to the Company are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

	Year ended December 31,		
	2007	**2006**	**2005**
Reconciliation of net income:			
Net income under Argentine GAAP	147,508	358,022	217,507
US GAAP adjustments:			
Capitalization of interest cost, net (Note 12.a)	(1,774)	(425)	(2,902)
Intangible assets (Note 12.b and g)	(3,661)	(1,309)	9,635
Interest rate lock agreements (Note 12.g)	(5,322)	(1,903)	(1,035)
Deferred income tax under US GAAP (Note 12.c)	15,934	24,828	26,560
Non-current investment in unconsolidated affiliated companies (Note 12.d)	(2,349)	199	35
Capitalized foreign exchange differences (Note 12.e)	7,524	7,522	7,521
Discounted value of certain receivables (Note 12.f)	-	(2,003)	(102)
Troubled debt restructuring (Note 12.g)	61,696	22,060	11,992
Accounting for current investments (Note 12.h)	-	(1,409)	1,409
Net income under US GAAP	**219,556**	**405,582**	**270,620**

Earnings per share:	**2007**	**2006**	**2005**
Amounts under US GAAP	0.28	0.51	0.34
Earnings per ADS:			
Amounts under US GAAP	1.38	2.55	1.70

	As of December 31,	
	2007	**2006**
Reconciliation of shareholders' equity:		
Shareholders' equity under Argentine GAAP	2,929,547	2,782,129
US GAAP adjustments:		
Capitalization of interest cost (Note 12.a)	8,094	9,868
Intangible assets (Note 12.b and g)	-	3,661
Deferred income tax under US GAAP (Note 12.c)	(644,751)	(658,822)
Non-current investments in unconsolidated affiliated companies (Note 12.d)	(3,307)	(958)
Capitalized foreign exchange differences (Note 12.e)	(131,160)	(138,684)
Troubled debt restructuring (Note 12.g)	-	(61,696)
Shareholders' equity under US GAAP	**2,158,423**	**1,935,498**

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

Description of changes in shareholders' equity under US GAAP:

	For the years ended December 31,	
	2007	**2006**
Shareholders' equity under US GAAP as of the beginning of the year	1,935,498	1,527,763
Other comprehensive income	3,369	2,153
Net income under US GAAP	219,556	405,582
Shareholders' equity under US GAAP as of the end of the year	**2,158,423**	**1,935,498**

a) Capitalization of interest cost

Under Argentine GAAP, the Company capitalized financial costs comprising of interest and exchange differences amounting to Ps. 5,053, Ps. 2,622 and Ps. 6,294 for the years ended December 31, 2007, 2006 and 2005, respectively.

Under US GAAP, the Company applied the provisions of Statement of Financial Accounting Standards ("SFAS") No. 34, "Capitalization of Interest Cost", which requires interest capitalization on assets which have a period of time to get them ready for their intended use. Capitalization of foreign exchange differences is not allowed under SFAS No. 34.

The US GAAP reconciling item represents the net effect of (i) reversing the total financial costs capitalized under Argentine GAAP net of its corresponding accumulated depreciation (Ps. 12,825 and Ps. 8,320 for the years ended December 31, 2007 and 2006, respectively) and (ii) computing interest capitalization in accordance with SFAS No. 34. net of its corresponding accumulated depreciation (Ps. 20,919 and Ps. 18,188 for the years ended December 31, 2007 and 2006, respectively).

b) Intangible assets

Under Argentine GAAP, the Company capitalized cancellation costs of assumed commitments, organization and pre-operating costs (including costs associated with voluntary retirement programs) incurred in the start-up of the Company. These costs were being amortized under the straight-line basis over 35 years until December 31, 2000. As from January 1, 2001, the unamortized deferred costs were amortized under the straight-line basis over a 5-year period. Consequently, as of December 31, 2005, these costs were fully amortized. Under US GAAP, these costs were expensed as incurred.

Additionally, under Argentine GAAP and US GAAP, issuance costs of debts which were restructured in December 2004 were capitalized when they were incurred. Under Argentine GAAP, the unamortized issuance costs as of date of the debt restructuring were charged to expense. Under US GAAP, these unamortized costs were amortized during the term of the restructured debt until it was cancelled in June 2007, following the provisions contained in SFAS No. 15. The unamortized costs as of June 2007, were expensed.

c) Deferred income tax

During the years ended December 31, 2007, 2006 and 2005, under Argentine GAAP, the Company has calculated income taxes using the deferred tax method, which requires the recognition of the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. This standard is similar to the principles of US GAAP set forth in SFAS No. 109, "Accounting for Income Taxes".

However, under Argentine GAAP, the Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes in accordance with Resolution MD No.11/2003 issued by the CPCECABA. Under US GAAP, the Company applies EITF 93-9, "Application of FASB Statement No. 109 in Foreign Financial Statements Restated for General Price-Level Changes", which requires such differences to be treated as temporary differences in calculating deferred income taxes.

As discussed in note 2.c), effective January 1, 2006 the Company applied the new accounting standards issued by the CPCECABA and adopted by the CNV. The new standards provide for the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements. The new accounting mandates companies to treat these differences as temporary differences. However, the standard allows a one-time accommodation to continue treating the differences between the tax basis and indexed book basis of non-monetary items as permanent at the time of adoption of the standard. As such, the Company elected to continue treating differences as permanent.

In addition, the US GAAP adjustment includes the effect on deferred income taxes of the reconciling items, as appropriate.

On January 1, 2007, the Company has adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109," ("FIN 48"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of the date of the adoption of FIN 48, the Company has no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods and do not believe there will be any significant increases or decreases within the next twelve months. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of operations. No interest or penalties have been accrued at the date of adoption.

Additionally, effective January 1, 2007, the Company has adopted FSP No. FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48," (FSP FIN 48-1), which was issued on May 2, 2007. FSP FIN 48-1 amends FIN 48 to provide guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The adoption of FSP FIN 48-1 did not have an impact on TGS's consolidated financial statements.

The Company and its subsidiary file income tax returns only in Argentina due to the fact that Taxable income was generated from argente companies TGS is no longer subject to income tax examinations by tax authorities for years prior to 2002.

d) <u>Non-current investments in unconsolidated affiliated companies</u>

The Company has assessed the impact of US GAAP adjustments for its equity investees. As a consequence of this assessment, the Company recognized a net (loss) / gain of (Ps. 2.3 million), Ps. 0.2 million and Ps. nil for the years ended December 31, 2007, 2006 and 2005, respectively. This adjustment relates to the reversal, under US GAAP, of capitalized foreign exchange differences, the discount of certain receivables and the impairment of long-lived assets, as well as the application of SFAS No.109 for the recognition of income taxes.

e) <u>Capitalized foreign exchange differences</u>

As discussed in Note 2.j), under Argentine GAAP, the Company capitalized the foreign exchange loss derived from the devaluation of the peso as from January 6, 2002 to July 28, 2003, amounting to Ps. 177.3 million. The amortization expense amounted to Ps. 7.5 million for each year ended December 31, 2007, 2006 and 2005. Under US GAAP, such foreign exchange loss was charged to income every year.

f) <u>Discounted value of certain receivables</u>

Argentine GAAP requires that long term receivables and liabilities (except for deferred tax assets and liabilities and asset tax credit) be valued based on the best estimate of the discounted value of amounts expected to be collected or paid, as applicable. Accordingly, the Company recorded an adjustment for Ps. 2.0 million and Ps. 0.1 million in fiscal years 2006 and 2005, respectively, over the nominal value of long term tax credits. Those adjustments were reversed for US GAAP purposes. In fiscal year 2006, under Argentine GAAP, the asset tax credit discount was reversed, in accordance with an accounting rule interpretation issued in 2006.

g) Troubled debt restructuring

As mentioned in Note 6, on December 15, 2004, TGS concluded its debt restructuring process. Under Argentine GAAP the Company followed the provisions contained in TR No. 17 and, accordingly, recorded a Ps. 76.5 million gain on restructuring due to the forgiveness of default interest and a Ps. 20.1 million gain related to a decrease in interest rates applied retroactively as from January 1, 2004. In addition, the unamortized arrangement costs for the issuance of debt associated with Global Programs and debt issuance costs as of December 15, 2004 (amounted to Ps. 5.7 million) were expensed to statement of income, as well as the unamortized losses related to interest rate lock agreement as of this date (Ps. 8.3 million).

Under US GAAP, the Company followed the provisions contained in SFAS No. 15 which states that in the case of a troubled debt restructuring (as this term is defined by SFAS No. 15) involving a cash payment and a modification of terms, a debtor shall reduce the carrying amount of the payable by the total fair value of the assets transferred and no gain on restructuring of payables shall be recognized unless the remaining carrying amount of the payable exceeds the total future cash payments (including amounts contingently payable) specified by the terms of the debt remaining unsettled after the restructuring. Future interest expense, if any, shall be determined by applying the interest rate that equates the present value of the future cash payments specified by the new terms (excluding amounts contingently payable) with the carrying amount of the payable. Based on the above, as of December 31, 2004, no gain and loss on restructuring had been recorded by the Company under US GAAP and those gains and losses recorded under Argentine GAAP were amortized as adjustments to interest expensed during the term of the restructured debt until it was cancelled in June 2007, when the unamortized amounts were recorded in the Statement of Income.

h) Accounting for current investments

As of December 31, 2005, the Company had government bonds which were sold in 2006. Under Argentine GAAP, these investments were valued at fair value with unrealized losses of Ps. 1.4 million charged to income.

Under US GAAP, the Company classified these investments as available-for-sale and valued them at market value with unrealized losses recorded in accumulated other comprehensive loss, in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities". In 2006, the unrealized losses as of December 31, 2005, were expensed.

The Company has classified its mutual funds investments as trading securities which are reported at fair value with gains and losses reported in earnings.

i) Valuation of property, plant and equipment

Under Argentine GAAP, assets transferred through the privatization of GdE were valued as described in Note 2.j). Under US GAAP, Accounting Principles Board Opinion No. 16 "Business Combinations" provides guidance for the valuation of property, plant and equipment in connection with an acquisition. As CIESA acquired 70% of the common stock of TGS, the fixed assets transferred should have been valued at the price effectively paid for that 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 related to the valuation of property, plant and equipment.

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the Company periodically evaluates the carrying value of its long-lived assets for impairment. The carrying value of a long-lived asset is considered impaired by the Company when the expected undiscounted cash flows from such asset is separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved or based on independent appraisals.

As of December 31, 2007, under Argentine GAAP and US GAAP, the Company has recorded an impairment of Ps. 19.6 million in order to expense the total carrying amount of certain turbines as they became obsolete. No impairment losses have been recognized for 2006 and 2005.

II. Additional disclosure requirements

a) Balance sheet classification differences:

Under Argentine GAAP, in accordance with the provisions contained in TR No. 9, net deferred tax assets (liabilities) are to be classified as non-current assets (liabilities). Under US GAAP, the Company applied the provisions contained in SFAS No. 109, which states that in a classified statement of financial position, an enterprise shall separate deferred tax liabilities and assets into a current amount and a non-current amount. Deferred tax liabilities and assets shall be classified as current or non-current based on the classification of the related asset or liability for financial reporting.

b) Statement of income classification differences:

Argentine GAAP provides that only returns and other allowances are deducted from net revenues, while direct taxes and other costs directly associated with revenues should be presented as operating costs, i.e. gross revenue taxes. Under US GAAP, direct taxes and other costs directly associated with revenues are deducted from revenues.

In 2007, TGS recorded a long-lived asset impairment of Ps. 19.6 million to reflect the obsolescence of some turbines. Under Argentine GAAP, in accordance with the provisions contained in TR No. 9, this loss was charged to "Net financial results". Under US GAAP, the long-lived asset impairment is presented as operating costs.

c) Comprehensive income:

SFAS No. 130, “Reporting Comprehensive Income” establishes guidelines for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income represents the change in shareholders’ equity of the Company during the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

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

The following table summarizes the components of comprehensive income for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Net income under US GAAP	219,556	405,582	270,620
Other comprehensive income: Amortization of costs on interest rate lock agreements accounted for as cash flow hedges (net of income taxes of Ps. 1,863, Ps. 666 and Ps. 362 at December 31, 2007, 2006 and 2005, respectively)	3,369	1,237	673
Unrealized gains and losses – Available for sale securities - (net of income taxes of Ps. 493 and Ps. 493 at December 31, 2006 and 2005 respectively)	-	916	(916)
Comprehensive income	**222,925**	**407,735**	**270,377**

Accumulated other comprehensive loss at December 31, 2007, 2006 and 2005, was as follows:

	2007	2006	2005
Deferred costs on interest rate lock agreements accounted for as cash flow hedges	(90)	(3,459)	(4,696)
Unrealized gains and losses - Available for sale securities -	-	-	(916)
Accumulated other comprehensive loss	**(90)**	**(3,459)**	**(5,612)**

d) Separate presentation of Shareholders' equity components:

The following table presents the shareholder's equity components under US GAAP.

	Year ended December 31,		
	2007	2006	2005
Common Stock - Class "A" 405,192,594 shares issued and outstanding, Ps.1 par value	405,192	405,192	405,192
Common Stock - Class "B" 389,302,689 shares issued and outstanding, Ps.1 par value.	389,303	389,303	389,303
Total Common Stock	**794,495**	**794,495**	**794,495**
Inflation adjustment to common stock	1,145,012	1,145,012	1,145,012
Legal reserve	183,222	165,321	154,446
Accumulated retained earnings / (deficit)	35,784	(165,871)	(560,578)
Accumulated other comprehensive loss	(90)	(3,459)	(5,612)
Shareholders' equity under US GAAP	**2,158,423**	**1,935,498**	**1,527,763**

e)

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

Deferred income taxes:

The components of the net deferred tax liability under US GAAP as of December 31, 2007 and 2006, are the following:

	2007	2006
Deferred tax assets		
Allowance for doubtful accounts	27	98
Present value other receivables	38	5,769
Present value advanced payments from clients	-	451
Provision for contingencies	16,838	17,547
Other provisions	869	835
Accrued interest from loans	-	18,221
Labor provisions	3,120	1,532
Deferred income for troubled debt restructuring and long term debt valuation	-	21,593
Tax loss carryforwards	-	110,750
Foreign exchange loss generated by current investments	177	651
	21,069	**177,447**
Deferred tax liabilities		
Property, plant and equipment, net	722,446	760,746
Intangible assets	-	1,281
Deferred revenues	683	744
	723,129	**762,771**
Net deferred tax liability	**(702,060)**	**(585,324)**

As of December 31, 2007 and 2006, Ps. 4,204 and Ps. 119,536, respectively, were classified as current assets, and Ps. 723,129 and Ps. 762,751, respectively, were classified as non-current liabilities.

Income tax expense for the years ended December 31, 2007, 2006 and 2005 consist of the following:

	2007	2006	2005
Current income tax expense	16,205	1,714	611
Deferred income tax expense / (benefit)	114,873	(4,651)	(14,356)
Income tax expense / (benefit)	**131,078**	**(2,937)**	**(13,745)**

Income tax benefit computed at the statutory tax rate (35%) on pre-tax income differs from the income tax benefit for the years ended December 31, 2007, 2006 and 2005 computed in accordance with US GAAP as follows:

	2007	2006	2005
Income tax expense at statutory tax rate on pre-tax income in accordance with US GAAP	122,722	140,926	89,906
Permanent differences:			
Change in valuation allowance	-	(144,549)	(101,362)
Tax adjustments and others, net	8,356	686	(2,289)
Income tax expense / (benefit)	**131,078**	**(2,937)**	**(13,745)**

f) Summarized financial information under US GAAP

Presented below is the summarized consolidated balance sheet and consolidated statement of income information of the Company as of and for the years ended December 31, 2007 and 2006, prepared in accordance with US GAAP, giving effect to differences in measurement methods and disclosures as previously discussed.

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

	2007	2006
Current assets	687,377	831,378
Non-current assets	4,209,003	4,285,701
Total assets	**4,896,380**	**5,117,079**
Current liabilities	312,741	378,768
Non-current liabilities	2,425,215	2,802,811
Total liabilities	**2,737,956**	**3,181,579**
Minority interest	1	2
Shareholders' equity under US GAAP	**2,158,423**	**1,935,498**

	2007	2006	2005
Net revenues	1,178,558	1,238,764	1,003,506
Cost of sales	(651,701)	(616,774)	(509,950)
Gross profits	**526,857**	**621,990**	**493,556**
Administrative expenses	(42,825)	(38,263)	(28,645)
Selling expenses	(7,059)	(6,439)	(4,858)
Operating Income	**476,973**	**577,288**	**460,053**
Other expenses, net	(2,594)	(731)	(6,110)
(Loss) / gain on related companies	(1,759)	(243)	2,642
Net financial results	(121,986)	(173,668)	(199,710)
Income before income tax	**350,634**	**402,646**	**256,875**
Income tax (expense) / benefit	(131,078)	2,937	13,745
Minority interest	-	(1)	-
Net income	**219,556**	**405,582**	**270,620**

g) Disclosure about fair value of financial instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Financial instruments include such items as cash and cash equivalents and accounts receivable and other instruments. SFAS No. 107 excludes from its disclosure requirements certain significant assets and liabilities that are not considered to be financial instruments. SFAS No. 133, which is effective January 1, 2001, amends SFAS No. 107 to include within the scope of such statement certain disclosure requirements regarding credit risk concentrations.

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. When available, quoted market prices are used. In other cases, fair values are based on estimates using other valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgements made regarding risk characteristics of various financial instruments, prepayments, discount rates, estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company's fair values should not be compared to those of other companies.

Under SFAS No. 107, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amount presented does not represent the underlying value of the Company. For certain assets and liabilities, the information required under the SFAS No. 107 is supplemental with additional information relevant to an understanding of the fair value.

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

As of December 31, 2007 and 2006, the carrying amount of certain financial instruments used by the Company including cash, cash equivalents, receivables, payables and short term loans are representative of fair value because of the short-term nature of these instruments. The estimated fair value of other non-current assets does not differ significantly from the carrying amount. The estimated fair value of long-term debt is based on their quoted market prices.

The following table reflects the carrying amount and estimated fair value of the Company´s financial debt at December 31, 2007 and 2006:

	2007		**2006**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	(in million of Pesos)			
Long term debt	1,590	1,370	2,013	1,988

h) Disclosure of capital lease information

The Company leases telecommunication equipment under capital lease agreements with a lease term of 60 months. Following is a summary of the assets under capital leases:

	As of December 31, 2007
Original cost	23,152
Less:	
Accumulated depreciation	(13,837)
Net leased property	**9,315**

Future minimum lease payments for the above assets under capital leases as of December 31, 2007 are as follows:

	2007
2008	734
Total minimum obligations	**734**
Interest	(5)
Present value of minimum obligations	**729**
Current portion	(729)
Non-current portion as of December 31, 2007	-

i) Earnings per share

In accordance with the disclosure requirements established by Argentine GAAP, the Company is required to disclose earnings per share information for each year for which a statement of income is presented. However, the information disclosed by the Company in its primary financial statements derives from figures calculated in accordance with the valuation criteria established by Argentine GAAP. Under US GAAP, basic and diluted earnings per share are presented in conformity with SFAS No. 128 “Earnings per Share” for all periods presented.

Basic earnings per share is computed by dividing the net income available to common shareholders for the period by the weighted average shares of common stock outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common and dilutive potential common shares outstanding during the period. Pursuant to SAB No. 98, ordinary shares and convertible preferred shares issued or granted for nominal consideration prior to the anticipated effective date of an initial public offering must be included in the calculation of basic and diluted net income per share as if they had been outstanding for all periods presented. To date, the Company has not had any issuance or grants for nominal consideration.

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

Since the Company has no dilutive potential common stock outstanding, there are no dilutive earnings per share amounts as described in SFAS No. 128.

j) Statement of cash flows classification differences

The statements of cash flows presented in the primary financial statements are prepared based on Argentine GAAP amounts.

Under Argentine GAAP, the Company considers all short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less to be cash equivalents. Under Argentine GAAP, mutual funds are considered to be cash equivalents since original maturity is determined by reference to the frequency with which liquidity is available according to current Argentine GAAP guidance and practice. However, under SFAS No. 95 “Statement of Cash Flows”, the original maturity is determined by reference to the stated term of the security or the timeframe for exercising any put features to the issuer, not by reference to the frequency with which liquidity may be available through an auction, a put feature to a third party, or otherwise.

As a result, differences exist between the total amount of the increase or decrease in cash and cash equivalents reported in the primary financial statements and the same totals that would be reported in a statement of cash flows prepared based on US GAAP amounts.

Under US GAAP, the total amounts of cash and cash equivalents at the beginning and end of the years shown in the statement of cash flows are required to be the same amounts as similarly titled line items shown in the balance sheets as of those dates. The following tables set forth the amounts of cash and cash equivalents at the beginning and end of each year and corresponding increases and/or decreases that would be reported in a statement of cash flows prepared in accordance with US GAAP:

	For the year ended December 31,		
	2007	**2006**	**2005**
Cash and banks	2,816	6,583	2,418
Current investments	421,102	471,673	510,526
Less:			
Mutual funds and other current investments	(150,826)	(230,425)	(153,709)
Cash and cash equivalents at the end of the year under US GAAP	**273,092**	**247,831**	**359,235**

	Years ended December 31,		
	2007	**2006**	**2005**
(Decrease) Increase in cash and cash equivalents under US GAAP	25,261	(111,404)	339,687
Cash and cash equivalents at the beginning of the year	247,831	359,235	19,548
Cash and cash equivalents at the end of the year	**273,092**	**247,831**	**359,235**

In addition, differences exist between cash flows from operating, investing and financing activities reported in the primary financial statements and the cash flows from operating, investing and financing activities that would be reported under SFAS No. 95.

Under Argentine GAAP, advance payments from customers were reported as financing activities whereas these transactions would be classified as cash flows from operating activities for US GAAP purposes. Additionally, due to the difference in the definition of cash and cash equivalents, cash flows from purchasing and selling of mutual funds and other current investments would be reported as cash flows from operating and investing activities, respectively, under US GAAP.
In addition, under Argentine GAAP the effect of inflation and exchange rate changes on cash and cash equivalents were not disclosed by presenting a fourth cash flow statement category as required by US GAAP.

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

The following tables set forth the condensed statements of cash flows prepared in accordance with US GAAP:

	For the year ended December 31,		
	2007	**2006**	**2005**
Cash flows provided by operating activities	721,474	568,830	756,780
Cash flows used in investing activities	(231,951)	(117,057)	(175,212)
Cash flows used in financing activities	(463,606)	(562,309)	(254,961)
Effect of foreign exchange rate changes on cash and cash equivalents	(656)	(868)	13,080
Increase / (decrease) in cash and cash equivalents	**25,261**	**(111,404)**	**339,687**
Cash and cash equivalents at the beginning of the year	247,831	359,235	19,548
Cash and cash equivalents at the end of the year	**273,092**	**247,831**	**359,235**

k) Capitalization of interest cost

Details regarding the amount of the total interest and the effect of capitalized interest for the years ended December 31, 2007, 2006 and 2005 are as follows:

	December 31,		
	2007	**2006**	**2005**
Total interest under US GAAP	161,166	177,448	180,469
- Capitalized interest under US GAAP	(3,701)	(2,561)	(3,392)
Total Interest charged to net income under US GAAP	**157,465**	**174,887**	**177,077**

l) Accounting pronouncements issued but not yet adopted

1. Fair value measurements

In September 2006, the FASB issued SFAS No. 157 “Fair value measurements” establishing a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. A single definition of fair value, together with a framework for measuring fair value, should result in increased consistency and comparability in fair value measurements. The expanded disclosures about the use of fair value to measure assets and liabilities should provide users of financial statements with better information about the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB approved FSP FAS 157-2, which grants a one-year deferral of SFAS No. 157 fair value measurement requirements for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis.The Company is currently evaluating the impact of SFAS No. 157 on its financial position and result of operations.

2. Fair value option for financial assets and financial liabilities

In February 2007, the FASB issued SFAS No. 159, "The fair value option for financial assets and financial liabilities". SFAS No. 159 establishes a fair value option under which entities can irrevocably elect to report certain financial asset and liabilities at fair value, with changes in fair value recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will evaluate the impact of SFAS No. 159 on its financial statements.

3. Noncontrolling interest in consolidated financial statements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling interest in consolidated financial statements". This statement amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" to establish accounting and reporting standards for the noncontrolling interest in subsidiaries and requires non-controlling interest to be treated as a separate component of equity. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. This statement shall be applied prospectively as of the beginning of the fiscal year in which it is initially adopted, except for the presentation and disclosure requirements which shall be applied retrospectively. The Company will evaluate the impact of SFAS No. 160 on its financial statements.

4. Disclosures about derivative instruments and hedging activities an amendment of SFAS No. 133

In March 2008, the FASB issued SFAS No. 161, "Disclosures about derivative instruments and hedging activities an amendment of SFAS No. 133". This Statement requires enhanced disclosures about an entity's derivative and hedging activities to provide information about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretation, and (c) how derivative instruments and related hedged items affected an entity's financial position, financial performance, and cash flows. This Statement is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company will evaluate the impact of SFAS No. 161 on its financial statements.

5. The hierarchy of generally accepted accounting principles

In May 2008, SFAS No. 162 "The hierarchy of generally accepted accounting principles" was issued by the FASB. This sets out the framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP. Up to now, the US GAAP hierarchy has been defined in the US auditing literature. Because of the interrelationship with the auditing literature, SFAS 162 will be effective 60 days following the SEC's approval of the PCAOB's amendments to their auditing standards. The Company will evaluate the impact of SFAS No. 162 on its financial statements.

13. SUBSEQUENT EVENT

The Ordinary Shareholders' Meeting held on April 10, 2008 approved a Ps. 32 million dividend payment (Ps. 0.040 per share or Ps. 0.201 per ADS) which was paid on May 7, 2008.

Regarding Note 9.f), on February 25, 2008, TGS filed a motion to dismiss before the BCRA requesting the dismissal of the summary proceedings on the grounds of lack of foreign exchange violation.

14. OTHER CONSOLIDATED FINANCIAL STATEMENTS INFORMATION

The following tables present additional consolidated financial statement disclosures required by Argentine GAAP:

a) Property, plant and equipment, net
b) Intangible assets, net
c) Non-current investments
d) Current investments
e) Allowances and provisions
f) Cost of sales
g) Foreign currency assets and liabilities
h) Expenses incurred
i) Detail of maturities of investments, receivables and liabilities.