

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2005 PRESENTED IN COMPARATIVE FORM**

**FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN  
ARGENTINA**

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

### **FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005 PRESENTED IN COMPARATIVE FORM**

#### **CONTENTS**

Annual Report

Summary of activities

Report of Independent Auditors

Financial statements

Balance sheets

Statements of operations

Statements of changes in shareholders' equity

Statements of cash flows

Notes to the financial statements

Note 1 - Formation of the Company and regulatory framework

Note 2 - Argentina's energy crisis and its impact on the Company

Note 3 - Accounting standards

Note 4 - Breakdown of main captions of balance sheet, statements of operations and cash flows

Note 5 - Balances and transactions with controlling shareholders, related parties and Director's and Management fees

Note 6 - Results per ordinary share

Note 7 - Information by business segment

Note 8 - Restricted assets

Note 9 - Debt

Note 10 - Common stock and dividends

Note 11 - Legal matters

Note 12 - Exports expansion trust

Note 13 - Domestic market expansion trust

Note 14 - Subsequent events

Exhibits A, C, D, E, G, H and I

## ANNUAL REPORT FOR TRANSPORTADORA DE GAS DEL NORTE <sup>(1)</sup> S.A. AS OF DECEMBER 31, 2005

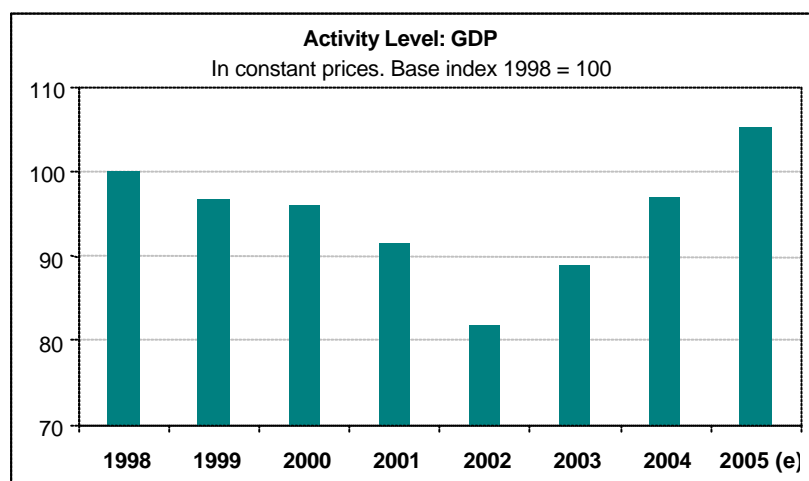
### To the Shareholders:

In compliance with legal and statutory requirements, the Board of Directors of Transportadora de Gas del Norte S.A. ("TGN" or "the Company") submits to the consideration of the shareholders' meeting this annual report, balance sheet, statements of operations, of changes in shareholders equity and cash flows, notes and exhibits corresponding to the fiscal years ended December 31, 2005 and 2004.

The Report of Independent Auditors' in relation to these financial statements are also attached.

- **Macroeconomic context**

During 2005 Argentina continued to recover at a rapid rate, recording GDP growth of slightly over 9% for the year, similar to that recorded in the two previous years. Construction and manufacturing, the two pillars of economic recovery since it began, continued to demonstrate dynamism, although other sectors also posted high rates of growth, such as agriculture, banking and other service sectors, including retail trade and communications.



The international context continued to be favorable to the economies of the region, despite of the interest rate increase in leading economies. Together with the relative stability in the nominal rate of exchange for the peso against the US dollar, high world economic growth levels resulted in a significant increase in local exports (+16%), driven mainly by a record harvest (exports of primary products increased by 26% measured by volume and 16% in terms of value) and a steady rise in sales abroad of manufactured goods of industrial origin (+25%).

*(1) Company which has not adhered to the Optional System for the Mandatory Acquisition of shares in a Public Offering.*

Driven mainly by the purchase of capital and consumer goods, imports continued to grow at a faster rate than exports (+28%), so that the positive trade balance was lower. Even so, the trade surplus (11,322 millions dolar) continued to provide the main source of foreign currency on the exchange markets.

During 2005 there was a moderate increase in foreign capital inflows, encouraged by the restructuring of public debt and an abundance of liquidity on international financial markets.

The restructuring of the sovereign debt in default concluded on February 25, 2005 with a significant discount on principal due, as well as a reduction in interest rates and extension of

payment terms. The exchange offer was accepted by holders of 76.1% of all outstanding debt, and final settlement took place in June 2005.

The Central Bank continued with its policy for acquiring foreign currency surpluses on the exchange market, and the expansive impact of this on money supply was partly offset by the placing of bonds on the primary market, the entering into of repos, and the collection of rediscounts that had been granted during the crisis in 2001.

The increase in money supply, among other factors, did not help to restrain rising levels of inflation, which after two years of moderate increases again returned to a double digit annual rate.

In the area of national accounts, tax receipts once again performed favorably, allowing the Government to reach a primary fiscal surplus in excess of 3.5% of GDP, despite the increase recorded by public spending.

Despite the continued strong recovery in economic activity, the improvement in social variables is still only moderate. Poverty indicators, although improving, are still at a high level, while the unemployment rate is still in double digits.

In the field of politics, parliamentary elections were held on October 23, with a renewal of half the Lower House and one third of the Senate. The government party was the clear winner. At the end of November the Government decided to replace Economy Minister Roberto Lavagna, who had held the job since April 2002, by Felisa Miceli, until then the head of the Banco Nación. Despite the change in the leadership at the Ministry of Economy, there were no changes in the main guidelines of current economic policy, and none are expected.

Towards the middle of December the Government announced its intention to settle in advance all its outstandings with the IMF for approximately US\$9.5 billion. Payment was made on January 3, 2006 using Central Bank reserves, requiring certain changes to be made to Law 23,928 (the Convertibility Act).

Although the outlook for the coming year remains positive as regards the growth expected in economic activity, there are some factors that could impact on the continuity of the recovery process.

As indicated, it is evident that in recent years the region's economies have benefited from a favorable international context, with low rates of interest, relatively high terms of trade, and high world economic growth rates, particularly for the major emerging nations in Asia, where a large portion of the world's population lives. Any change in one or more of these conditions could affect the virtuous circle generated by a combination of the mentioned factors in countries such as ours that are strongly dependant on external conditions. To quote one example, the current rise in international interest rates in leading economies has the potential to affect capital flows, the relative value of the various currencies, and eventually the growth rate of the world economy.

Domestically, it should be noted that several sectors of industry are close to facing restrictions on the availability of installed capacity that could limit their potential for growth. The establishing of a suitable climate for investment would be a required condition to ensure sustained industrial expansion.

In addition, the upward trend recorded by inflation over the last year will require the adoption of appropriate policies by the Government to recover price stability and avoid a decline in the expectations of economic agents.

This latter matter, and the still pending renegotiation of public utility contracts, are essential to the future of the Company.

- **Regulatory aspects**

## **Background to the current situation**

In its capacity as a provider of a national public service, TGN is subject to significant state regulation based on the Gas Act (Law No.24076) exercised by the National Gas Regulatory Entity ("ENARGAS").

In January 2002 the Law on Public Emergency and Reform of the Exchange Rate System (Law 25,561 -"LEP") unilaterally modified the amount of the consideration of the License Contracts entered into in 1992 between the State and the Licensees providing gas transport and distribution services within the legal framework originally established the Gas Act and complementary regulations.

The new law suspended the effect of the adjustment clauses in foreign currency and restatement clauses based on the price indexes of other countries, and setting tariffs in pesos at the exchange rate of ONE PESO (\$ 1) = ONE UNITED STATES DOLLAR (US\$ 1), and also authorized the executive to renegotiate utility service contracts, effectively freezing gas carrying prices for loaders in Argentina since then.<sup>1</sup>

The Emergency Law also established that the breakdown of the contractual framework did not authorize public utility companies to suspend or alter compliance with their obligations.

In February 2002 the Executive issued Decree 293/2002 charging the Ministry of Economy with the re-negotiation of contracts. To this end a Renegotiation Committee, including user representatives, was created to advise the Ministry. The re-negotiation was to be approved by the Executive, and provided for the non-binding participation by the Bicameral Congressional Commission created by Laws 25,561 and 23,696.

Subsequently, Ministry of Economy Resolution 20 approved rules of procedure and a work program. This process, which was to be concluded by June 2002, was extended on several occasions<sup>2</sup>.

In addition, efforts by the Executive in 2002 to introduce limited adjustments of a transitory nature to soften the impact of the changes in the rate of exchange and macroeconomic indicators on the business of the providers of public services for which contracts had to be renegotiated were repeatedly blocked by court orders.

In July 2003, the Kirchner Administration took the decision to replace the Renegotiation Committee created by Decree 293/02, without progress having been made in any aspect of the negotiation, issuing Decree 311/03 setting up a Unit for the Renegotiation and Analysis of Public Utility Contracts (UNIREN) within the scope of the Ministries of Economy and Production and Federal Planning, Public Investment and Services. The purpose of this Unit is to:

- i) Carry out the renegotiation of the contracts for public works and services required by Law 25,561, analyzing the existing situation and level of compliance achieved by the concession and license-holders.
- ii) Sign comprehensive or partial contractual renegotiation accords with the public utility concession holders and licensees, subject to the approval of the Executive Branch;

---

<sup>1</sup> In May 2002, through Decree 689/02, the Executive determined that public utility natural gas carrying services for export made across national territory using gas pipelines were not covered by the emergency legislation.

<sup>2</sup> First until March 2003 (by Decree 1839/02), then until June 2003 (by Ministry of Economy Resolution No.62), until December 2004 (by Law 25,790), again until December 31, 2005 by Law 25,972, and lastly until December 31, 2006 by means of Law 26,077.

- iii) Submit for approval regulations in relation to potential temporary adjustments to prices, tariffs and/or their segmentation; or contractual clauses relating to the public utility services under concession or license.
- iv) Draft a Bill for the General Regulatory Framework for Public Utilities within federal jurisdiction, contemplating generic terms and conditions for all sectors, and
- v) Make recommendations relating to contracts for public works and services and the operation of the corresponding services.

Furthermore, Law 25,790 has laid down that the decisions adopted by the Executive in the course of the renegotiation process *shall not be limited or conditioned by the stipulations contained in the regulatory frameworks governing the concession or license contracts for the respective public services*. This regulation also establishes that the Executive shall submit proposals for contract renegotiation to Congress, which shall have 60 calendar days during which to issue its comments. At the end of that term, if no pronouncement has taken place, the contract shall be deemed to have been approved. If the proposal is rejected, the Executive shall be required to continue with the renegotiation of the corresponding contract.

In December 2003 the UNIREN published its proposed work schedule, planning to complete renegotiation with the Company in July 2004, leaving the rest of the year 2004 for the process of public and legislative consultation and approval by the Executive. This schedule was not complied with.

On July 2, 2004 the UNIREN provided TGN with the proposal by the State, which basically planned for a tariff increase of 7% as from January 2005 through until a comprehensive tariff review scheduled for January 2007. In its response with a justified rejection, TGN requested a return to the working schedule that had been agreed in order to negotiate an equitable solution.

### **Significant events during Fiscal 2005**

The following significant events took place in 2005 in relation to the redesign of the regulatory framework and the rebuilding of the rate schedule that began in January 2002:

- i) A public hearing called by the UNIREN took place on May 18, 2005 to consider the unilateral proposal for adjustment to TGN's license drawn up by the UNIREN in July 2004.
- ii) On November 11, 2005, TGN received a new contract renegotiation proposal drawn up by the UNIREN that although including some of the matters discussed by the two sides, gave rise to a series of observations by the Company. UNIREN informed TGN that the proposal *“represented the limit of the possibilities of the State with the aim of achieving an agreement.”*

At the date of issue of these Financial Statements, no significant progress has been made that would make it possible to consider that an agreement will be signed in the short term. In addition, there is nothing to guarantee that the eventual outcome of the renegotiation will effectively re-establish the equilibrium of the License and provide TGN with fair compensation for the losses suffered as a consequence of the Emergency Law.

In addition, there have been no major developments in the treatment by the legislative branch of the bill on the National Regime for Public Utilities that had been submitted to Congress by the Government in August 2004. This bill modifies and repeals the relevant provisions of the Gas Act and represents an uncertainty factor that could affect the Company, although it is still premature to evaluate the impact it might have on the Company if passed.

Lastly, it should be mentioned that during the course of 2005 the Executive made progress on the introduction of the Electronic Gas Market (“MEG”) that had been created by means of Decree 180/04. Resolution 752/05 issued by the Energy Secretariat established the start of operations for

the purchase and sale of well-head natural gas by certain users (excluding residential users) through the MEG as from September 1, 2005. The Company considers that the start-up of the MEG will have an adverse effect on revenues provided by transported gas sold on that market.

- **The gas industry in Argentina**

The consumption of gas during 2005 continued the strong growth trend of the last four years, although at a lower rate than in 2004. The increase in domestic consumption compared with 2004 was 4.3%.

The most significant increase took place in the power station segment, where growth was 5.2%, mainly due to rising electricity demand and a policy for the use of water resources that assigned priority to thermal generation using gas during the summer period.

CNG consumption continued to grow at a rate of 4%, below the substantial growth in previous years, and even below the average rate for the 1990s.

The residential sector increased its consumption by 6.3% compared with the previous year. The winter of 2005 was slightly colder than in 2004.

Since the privatization of public natural gas services at the end of 1992 there has been an accumulated growth of 59% in domestic consumption, with a notable rise of 316% in the demand for gas in the form of GNC and 46% in demand by industrial customers. The other segment with strong growth in this period was that of power stations, which increased 82%. This was caused by the rise in electricity consumption over the period.

**Natural Gas Consumption – MMMm<sup>3</sup> (billions of m<sup>3</sup>) (3)**

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Residential	7.4	7.0	6.9	6.7	6.7	6.9	6.6	5.9	5.8	5.9	5.8	5.7	5.6
Commercial	1.1	1.1	1.0	1.0	1.0	1.1	1	0.9	1	1.2	1.2	1.4	1.6
Industrial	11.3	11.2	10.7	9.8	9.6	10	9.8	9.9	9.8	9.4	9.1	8.7	7.6
Power plants	10.7	10.1	8.8	7.8	8.9	10.9	10.7	8.5	8.5	8.6	5.9	5.2	5.9
CNG	3.2	3.1	2.6	2.0	1.9	1.7	1.5	1.4	1.2	1.1	1	0.9	0.8
Others	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.5	0.2	0.3	0.3	0.3
<b>Total</b>	<b>34.6</b>	<b>33.3</b>	<b>30.8</b>	<b>28.0</b>	<b>28.8</b>	<b>31.3</b>	<b>30.2</b>	<b>27.2</b>	<b>26.8</b>	<b>26.4</b>	<b>23.3</b>	<b>22.2</b>	<b>21.8</b>
Index	158.7	152.7	141.3	128.4	132.1	143.6	138.5	124.8	122.9	121.1	106.9	101.8	100.0

(<sup>3</sup>) Volumes at 9300 kcal

Source: ENARGAS and own estimates<sup>3</sup>

---

<sup>3</sup> Consumption information for 2005 includes (i) actual data published by the Enargas for 11 months of the year (January-November), and (ii) **December as estimated by TGN.**

## Demand for primary energy by source (2004) [%]

	Oil	Natural gas	Coal	Nuclear	Hydro
USA	40.2	25.0	24.2	8.1	2.6
Canada	32.4	26.2	9.9	6.7	24.8
Mexico	58.6	29.8	6.2	1.4	3.9
<b>Total North America</b>	<b>40.3</b>	<b>25.4</b>	<b>21.7</b>	<b>7.6</b>	<b>5.1</b>
<b>Argentina</b>	30.1	54.9	1.1	2.9	11.0
Brazil	44.9	9.1	6.1	1.4	38.6
Chile	42.0	29.0	9.8	0.0	19.2
Colombia	37.3	21.0	10.0	0.0	31.7
Venezuela	38.8	37.4	0.1	0.0	23.6
Other countries of S and C America	63.3	14.7	1.2	0.0	20.7
<b>Total S. &amp; Cent. America</b>	<b>45.9</b>	<b>22.0</b>	<b>3.9</b>	<b>0.9</b>	<b>27.3</b>

Source: BP Statistical Review of World Energy

Totals of the figures included in the above tables could include rounding differences .

In 2005 annual natural gas production totaled 51.3 million cubic meters, with 59% coming from the Neuquina Basin, 14% from the Noroeste Basin, 8% from the Golfo San Jorge Basin and 19% from the Austral Basin .

In December 2004 Argentina held the third largest volumes of natural gas reserves in South America, behind Venezuela and Bolivia, with proven reserves of 534.2 MMMm<sup>3</sup>. Nevertheless, in recent years there has been a significant reduction. Proven reserves at December 2003 totaled 612.5 MMMm<sup>3</sup>, so there has thus been a drop of 78.3 MMMm<sup>3</sup> in one year, and the proven reserves horizon is now 10.2 years.

The drop in proven reserves is directly related to two matters: growth in demand, accentuated by control of prices within the chain of supply (including a freeze on transport and distribution rates), with a consequent widening of the gap with the price of alternative fuels, and low investment, needed to replace such reserves.

In the last two years, the Argentine Government has signed agreements for the import of natural gas from Bolivia, for an amount in 2004 equivalent to 2% of the total volume injected to the transport system, and 4% in 2005. To some extent these volumes helped to contain the decline in domestic supply.

**Natural Gas- Reserves and production at December 2004 [Millions of cubic meters].**

Basin	Proven Reserves	Probable Reserves	Proven plus +50% Probable	Production in 2004	Horizon in Years
Austral	130,644	88,359	174,824	9,135	19.1
Golfo San Jorge	36,593	18,569	45,878	3,833	12.0
Neuquina	271,071	86,999	314,571	31,774	9.9
Noroeste	95,908	35,236	113,526	7,463	15.2
<b>Total Argentina</b>	<b>534,216</b>	<b>229,163</b>	<b>648,799</b>	<b>52,205</b>	<b>12.4</b>

Source: Energy Secretariat

- **The Company's business**

In the context of the current difficulties it is once again necessary to stress the role played by the Company in the modernization and expansion of one of the most critical energy infrastructure assets in Argentina: the high pressure gas pipelines that form the trunk gas network for the carrying of natural gas. The priority assigned to reinvestment and growth has made it possible to (i) overcome the restrictions that had affected access to natural gas for residential and industrial purposes in the country's urban centers during the winter, providing quality, reliable natural gas



service to a vast sector of the country's economy, and (ii) inaugurate and increase the flow of gas for export, an activity that did not exist at the time of privatization.

Since 1993 TGN has increased its gas carrying capacity by over 158% (33.30 MMm<sup>3</sup>/d)<sup>4</sup>. This policy has required investments for approximately US\$ 1.1 billion, mainly spent on the building of over 1,553 km of pipelines and 5 new compressor plants, adding over 176 thousand HP of installed power.

During this year TGN has continued to successfully develop other activities related to the carrying of gas for export, providing operation and maintenance services for the carrying facilities of third parties. The Company does so directly in Argentina, and through related companies in Chile and Brazil.

**TGN'S TRANSPORT SYSTEM: MAIN INFORMATION AT DECEMBER 31, 2005**

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	Totals
Gas pipelines: km added	231.2	77	0	0	47.5	332.4	20.0	97.7	257.4	246.6	187.1	54.7	1,552.9
Compressors: HP Added	33,410	0	0	0	0	23,900	6,900	83,900	0	0	0	27,840	175,950
Increase in capacity in MMm <sup>3</sup> /d	1.8	0.6	0.2	0.3	0.2	4.1	5.7	6.4	4.1	3.5	1.9	4.5	33.3

**VALUES AT DECEMBER 31, 2005**

	<b>Gasoducto Norte</b>	<b>Gasoducto Centro Oeste</b>	<b>Operations and Maintenance</b>	<b>Total</b>	
<i>Km.</i>		3,568.0	2,148.0	2,598.8	8,314.8
<i>Diameter</i>		24"	30"	-	-
<i>Compressor stations</i>		9	8	1	18
<i>Thousands of HP</i>		164.18	169.40	12.20	345.78
<i>Firm contracts MMm<sup>3</sup>/d</i>		22.57	31.87	NA	54.44
<i>Year built</i>		1960	1981	1996/2000	-

• **Financial situation**

The series of measures adopted by the Government at the beginning of 2002 and the virtual status quo to date have substantially modified the legal and contractual conditions under which the Company carried out its activities until December 2001.

The freezing of tariffs and the devaluation of the Argentine currency to around one third of its value in 2001 in just a few months has provoked a substantial imbalance in the financial and equity structure of TGN that still persists.

The impact was particularly serious as the Company's activity is noted for being highly capital intensive. As described under the previous point, since privatization in 1992 the Company has invested massively on the gas pipeline system, financed in approximately equal parts by means of (i) reinvestment of its cash flows (profits and amortization) and (ii) financial borrowing mainly with

<sup>4</sup> Including 100% of the 1.8MM m<sup>3</sup> /d from the 2005 Gas Trust.

long terms to repayment.

At December 2001 the level of indebtedness was equal to the value of net equity, which meant that the Company maintained a healthy indebtedness ratio compatible with the best international credit ratings for this type of activity and similar to that which ENARGAS calculates as the expected capital structure for Licensees in the natural gas industry subject to its control.

As the debt was obtained in a prudent manner over very long terms with repayment conditions spread in a manner compatible with its fund generation capacity prior to the crisis, avoiding the concentration of maturities on certain dates, it was mostly obtained abroad from multilateral lending agencies, institutional investors and banks, as there were no such funds available in the Argentine financial market in the conditions and amounts required by the Company's business plan, even at times of low country risk.

Consequently, as a result of the measures by the Government at the beginning of 2002 and the accelerated devaluation in the first six months of that year, TGN was forced to opt between continuing to repay principal and interest on its financial debt or ensuring compliance with its contractual obligations as a provider of a public service in its position as a Licensee.

#### COMPARATIVE EQUITY STRUCTURE DURING THE PAST FIVE YEAR

(in millions of pesos)

	Years ended on 31.12.				
	2005	2004	2003	2002	2001
<i>Current assets</i>	577	451	338	252	140
<i>Non-current assets</i>	2,526	2,522	2,520	3,036	2,685
<b>Total Assets</b>	<b>3,103</b>	<b>2,973</b>	<b>2,858</b>	<b>3,288</b>	<b>2,825</b>
<i>Current liabilities</i>	1,533	1,269	946	669	430
<i>Non-current liabilities</i>	729	816	992	1,460	1,039
<b>Sub-total liabilities.</b>	<b>2,262</b>	<b>2,085</b>	<b>1,938</b>	<b>2,129</b>	<b>1,469</b>
<b>Shareholders' equity</b>	<b>841</b>	<b>888</b>	<b>920</b>	<b>1,159</b>	<b>1,356</b>
<b>Total</b>	<b>3,103</b>	<b>2,973</b>	<b>2,858</b>	<b>3,288</b>	<b>2,825</b>

The Company immediately decided to administer its resources so that: it could continue to provide a safe and reliable public gas transportation service for which it is responsible under the terms of the Gas Act and the License and it could continue to operate as a going concern.

As a result, the Company paid the full amount of the interest accrued only until July 31, 2002. Subsequently, interest payments were limited to a maximum amount of 3.5% p.a. on debt balances, paid on a quarterly accrual basis, the last payment taking place in August 2005.

The defaulted debt has been detailed in the attached financial statements.

Since then, although the peso remained relatively stable, the economic equation of the Company did not recover, because of the lack of any tariff increase.

During 2005 the Company reached an initial understanding with its main financial creditors on the economic terms of the debt restructuring, although discussion has continued in relation to other debt-related aspects. On the basis of the planned schedule, the restructuring proposal will be launched during the first half of 2006.

The variations in the Company's results, with effects reflected in its net worth, have been dealt with in the Summary Information, to which readers should refer for details.

- **Future business strategy**

Over the course of its brief history, TGN has been noted for its willingness to reinvest and grow through proactive supply of rising domestic demand, having furthermore developed into one of the leading components of the integration of Argentine energy matrix with that of other countries in the region.

Mainly as a result of the lack of concrete results in the process for the restructuring of the license, at present the economic and financial conditions that would enable TGN to undertake the expansion of existing transport capacity making use of its own resources do not exist.

In view of this situation, the Federal Government has promoted expansion of the system through financial trusts created by Executive Branch Decree 180/04. This mechanism for the expansion of the system will not resolve the problem of long-term supply, but it will provide a pragmatic response to the growth in demand in the short term.

For this reason, TGN has participated actively in the extension of the system in 2005, from the design stage to the management and start-up of the project, contributing all its knowledge and experience, in addition to a relatively marginal financial contribution.

TGN is hopeful that in the near future it will be able to reach a full understanding with the Government so that it can embark on the solutions that will enable the Company to once again take the lead in increasing the assets needed to meet the demands of a growing economy while ensuring long-term viability, that is to say, on the basis of plans that ensure the efficiency of the community resources allocated. TGN continues to work with the national authorities, making its best efforts to adapt the License so as to be able to return to the path to growth as soon as possible.

It should be noted that because of the geographical location of its gas pipeline system, TGN is strategically located to be able to meet the growth in Argentine demand with gas from Bolivia or other alternative sources in the region.

In addition, the Company continues to develop other business segments related to the operation and maintenance of third-party gas pipelines, providing technical assistance and consultancy services in the region.

- **Outstanding events in 2005**

### **System expansion in 2005**

Through Decree 180/04 the Executive created a Trust Fund to perform investments in gas transport and distribution. Subsequently, the Federal Planning Ministry issued Resolution No.185/05, establishing the "Gas Trust - Financial Trusts" Program that served as the framework for the work on the expansion of the Northern System of TGN pipelines.

Nación Fideicomisos S.A. a corporation with a State majority ownership, was established as the Principal, while the Energy Secretariat became the Project Organizer, delegating its role to Enargas.

TGN acted as Project Manager, and in that capacity provided and administered the services for the Contracts for Works, Services and Supplies, Engineering Design and Managements, Project Design, Supplies, Quality Control, Project Control, Safety, Hygiene and Environment, Relations with Property-Owners, Third Parties and Official Bodies, Administration, Planning and Financial Control; SCADA Management and Contractor Communications and Assistance, Approval and Start-up.

The expansion of the Northern System of TGN gas pipelines implied the laying of 8 new pipeline segments, the installation of three new compressor plants, and improvements to existing plants.

The new pipeline was installed in the regions between Tartagal (Salta) and Dean Funes (Córdoba), totaling 231.2 Km, of which 218.6 Km are of 30" diameter pipe and 12.6 of 24". The new plants, construction of which was at an advanced stage at the end of the year, will add 33,410 HP to the System. They are close to the existing compressors at Lumbrera (Salta), Lavalle (Santiago del Estero) and Deán Funes (Córdoba). To increase the reliability of the System the Pichanal Plant has been expanded with the addition of a turbine compressor, and significant changes were made to various other existing installations (Planta Ferreira, Planta Recreo, Torzalito Regularizing Station, etc.). During the period of peak activity, a total of 1700 people worked directly or indirectly on the jobs.

The resulting increase in daily natural gas carrying capacity has been 1.8 MMm<sup>3</sup>/day, from contributions of 0.2 MMm<sup>3</sup>/day in Salta, 0.7 MMm<sup>3</sup>/day in Tucumán and 0.9 MMm<sup>3</sup>/day in Córdoba, basically intended for use by industry.

The total amount of the investment has been in the order of 550 million pesos. The trust financing was provided through contributions from Repsol-YPF, Banco Nación and the BNDES bank, which financed the import of pipes from Brazil. It should be noted that TGN has contributed an amount of approximately 25 million pesos to the project through the construction of a loop segment of some 21 Km.

It should be mentioned that the progress of work in sectors in the province of Salta was affected by demonstrations by special interest groups that blocked roads, demanded jobs, set conditions for allowing the opening up of easements, etc. generating certain increased costs, changes to the original line, and some delays in the performance of the work.

## **Gas transportation**

As a result of the work described, at the end of the first quarter of 2006 the tasks for the 1.8 MMm<sup>3</sup>/day increase in the carrying capacity for customers in the Argentine market will have been completed. At December 31, 2005 a capacity equivalent to 0.8 MMm<sup>3</sup>/day had already been made available, taking the total contracted on the TGN carrying system to a level of 53.44 MMm<sup>3</sup>/d<sup>5</sup>. Of this total, 39.03 MMm<sup>3</sup>/d (73%) is to meet the demand for natural gas from Argentine users, and 14.41 MMm<sup>3</sup>/d (27%) is for use by consumers in Chile, Uruguay and Brazil.

Under the same regulatory framework governing the expansion carried out during 2005, and once again at the request of the Energy Secretariat, in September 2005 TGN issued a call for a new Open Call to Tender for Capacity for the expansion of the Gasoductos Norte System. As a result, applications were received for over 31 MMm<sup>3</sup>/d.

At the date of this Annual Report, the ENARGAS and the Energy Secretariat were analyzing the documentation received and the financing alternatives, to define the project to be implemented.

## ***Operation of the transport system***

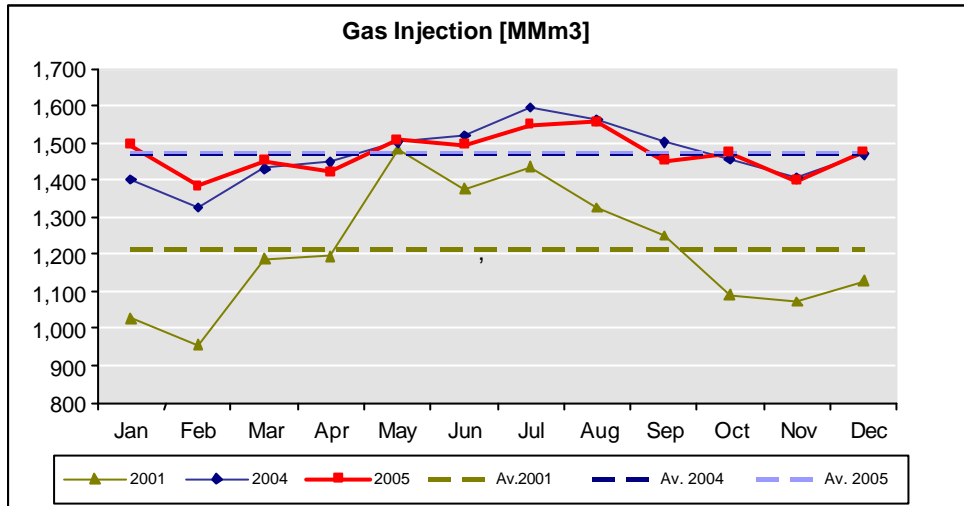
During 2005 the operating conditions required by the Argentine gas pipeline system were maintained at the level of the previous year.

The annual volume of gas carried remained at almost the same level as in the previous year, at a total of 17,624 MMm<sup>3</sup> (only 31 MMm<sup>3</sup> below the level of the previous year) despite the increase in the demand for natural gas.

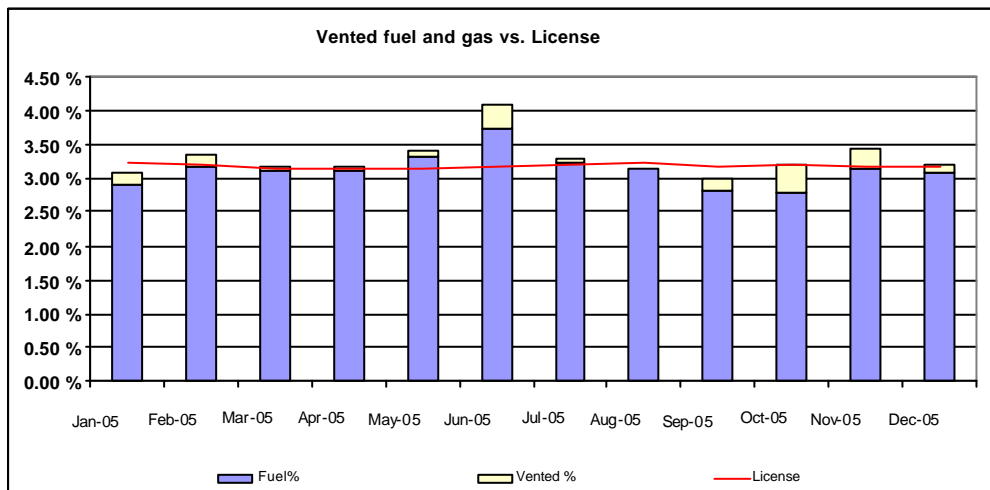
---

<sup>5</sup> Excludes 1,0 MMm<sup>3</sup>/d from the 2005 Gas Trust implemented in February 2006.

As in 2004, the increase in the demand for natural gas caused by the rising level of economic activity and the lag in natural gas prices in relation to the changes in the prices of alternative fuels, particularly in the case of power station consumption, resulted in the use of the gas pipelines throughout the year at the high levels usually associated with the winter season.



In view of the increased use of the compressor system, this situation kept the consumption of gas for fuel at a high level, which even in the summer months exceeded the values allowed under the License as volumes for use free of charge by the company.



The significance of the work on expansion of the Gasoducto Norte undertaken during the year (see following chapter) and the high load factor also led to lower flexibility in the execution of the preventive maintenance programs and increased gas venting compared with previous years.

From the point of view of the administration of the operation, mention should be made of the continued policy of regular intervention by the Energy Secretariat. Under the terms of current regulations, this entity once again issued re-directing orders to ensure priority was assigned to the supply of natural gas to the electricity generating sector, affecting the supply of gas to other users with firm transportation service contracts, especially those located abroad. In addition, distributors

have also requested greater volumes through the ENARGAS, in the face of the lack of formal contracts with producers to guarantee supplies to uninterruptible users.

The volume carried by TGN in accordance with the various resolutions of the Fuels Under-Secretariat, totaled 693 MMm<sup>3</sup>, an increase of almost 50% compared with the volumes carried for similar reasons in the previous year.

Gas cuts as a result of the re-directing of supplies and export quotas reached 880 MMm<sup>3</sup>, representing approximately 20% of the total transport volume nominated by the export loaders.

### ***Services for third party pipelines***

The Operations and Maintenance contracts in force during the previous year remained in effect during 2005. In addition, during the year the Company billed a charge to principal Nación Fideicomisos S.A. for the management services provided for the 2005 expansion program, so that the revenues from managing third party assets during the year accounted for 4.7% of net sales (21 million pesos, an increase of 27% compared with the amount invoiced in the previous year).

### ***Integrity and maintenance management***

Activities to preserve the integrity of pipelines and compressor plants during 2005 represented a substantial portion of the Company's operating activity. Although actions covered all the assets of TGN, it should be noted that the greatest effort was centered on the Gasoducto Norte, because of the specific features of the pipeline and the geographical locations through which it runs, particularly in the sectors between the injection point in the far north, at Campo Duran, and Córdoba.

Work carried out has included:

- 47.5 km of gas pipe re-lagging, initiating a six-year program;
- Chemical cleaning and in-line inspection of the 16" gas pipeline running between Caimancito and Tucumán;
- Digging of 300 inspection holes to verify defects and inspect 456 half-round culverts;
- Repair of river crossings to the south of Tucumán.
- Installation of entry and outflow valves at 9 regulating stations;
- Improvements to safety systems at injection points;
- Re-rating, repair or change of 40 recipients with a lower than expected design pressure;
- Preparation of the engineering for the repair of refrigeration circuits at Compressor Plants
- Monitoring of the River Paraná crossing.

Maintenance activities have included overhauls of 6 motor-driven compressors and 7 turbine-driven compressors.

As part of the activities carried out for the prevention of damage to TGN pipelines by third parties, work continued on the Program that meets and exceeds the requirements of the ENARGAS regulations on the matter.

Actions included 498 informative visits and the sending of 398 notes to the Program Targets, a universe that includes 1,659 entities and companies (municipalities, sundry provincial bodies, commercial businesses close to the pipeline, etc.) and to 3,416 property-owners affected by the system. In addition, the eradication was carried out of 25 constructions within the security zone of the Gasoducto Norte.

- ***Quality, Safety, Hygiene and the Environment***

During 2005 TGN continued to implement its *Quality, Safety, Hygiene and the Environment* policy based on a philosophy of continuous improvement and sustainable development.

As well as carrying out all regular activities, 2005 was noted for the work performed on the expansion of the Northern System. Actions included the preparation of the contract terms and review of the plans submitted by the contractors, through to inspections and monitoring of works improvement plans. Various environmental studies played their part in the line feasibility, work impact and protection plans, and operation and maintenance phases. These activities were carried out under the supervision of ENARGAS, in view of its role in the expansion program, and were submitted for the approval of the appropriate provincial bodies.

A campaign was carried out for training and awareness in relation to workplace safety, aimed mainly at contractors. Held under the banner of "100% Safe Work," it included the handing out of specially prepared informative material.

In addition to the million man-hours normally worked by TGN, a further 4 million man-hours were worked by direct contractors and contractors working on the 2005 Expansion Program.

The Reportable Accident indicator based on the number of people involved in accidents for every million hours worked (6.68) was higher than the target set (5), because the works represented a greater than normal risk and four persons were injured from transit accidents. We must regrettably add that in the month of November there was a fatality during the execution of the Expansion Work.

Traffic accidents per million kilometers traveled totaled 2.24, compared with a target of 2.1.

Another matter of note has been the analysis of the alternatives available for reducing gaseous emissions with a greenhouse effect.

The Company has complied with ENARGAS Resolution 1,192 relating to the measurement of gaseous emissions and noise levels at the Company's facilities.

Various drills were held for the evacuation of the Head Office in the City of Buenos Aires, in addition to exercises for the control of emergencies in the field installations.

TGN continued to participate at various interdisciplinary forums such as the CEADS and the IAPG, contributing to discussions on Health, Occupational Safety and the Environment together with other companies.

- ***Development of our Human Resources***

***Training and development***

During 2005, training programs for our personnel occupied a total of 27,892 man hours. This figure includes 11,100 hours of technical qualifications in Work Health and Safety, and Postgraduate degrees.

Programs were developed on the basis of objectives and designs reflecting the technical demands of each specialty, and were linked to concrete strategies for organizational development.

On this basis, the following programs were carried out with a significant degree of internal development:

- **Program for the Training of new operators for the 2005 Expansion Project**, to prepare personnel assigned to the new compressor stations so that they understood the operation of the system, outlining the matters that they needed to continue to study for their development.

- **Training program for gas controllers** for which a Training Manual was written for use as a tool for the training and development of skills in this job position;
- **Training in Condition Analysis** for the incorporation of predictive techniques in the maintenance chain, with the aim of strengthening and reassigning the team of professionals in the region to achieve a greater operational participation;
- **Training on Cathodic Protection**, providing instruction on cathodic protection for specialists in different areas;
- **Course on gas turbines and centrifugal compressors**, including topics such as vibration analysis, rotating meters and line break valves, addressed to maintenance personnel, delivered by internal instructors who carefully design the instructions as needed for delivery on a regular basis in the regions.
- **First Aid Training**, to strengthen skills for use in controlling critical medical emergency situations.

Courses were also held for Managers to reinforce their ability to design critical performance objectives, and for Young Professionals, focusing on aspects of professional development, behavior in a work environment, and formal communications skills through the writing of papers.

In addition, to promote the professional training of our personnel, activities were held at educational establishments offering technical courses at degree and postgraduate level designed to strengthen specific skills connected to the needs of our organization.

In line with our policies on Safety, Hygiene and the Environment, the Company continued to provide training programs on the driving of dual traction vehicles, handling of dangerous waste, and building safety, with continuous communication of policies for the prevention of damage at plants.

As in previous years, courses were held locally and abroad on turbine and centrifugal compression technology, control systems, gas measurement and quality and updating and qualifying in cathodic protection at its various levels, among other matters.

### **Internal communications**

This year saw the 10th anniversary of the TGN magazine, ***Trabajo, Gente y Noticias***. This internal organ deals with aspects of technical development, training, research, people profiles, etc. It is distributed not only to in-house personnel but also to those in some way connected to TGN (shareholders, customers, suppliers and others), as well as public and private entities.

### **Community relations**

#### **2005 Corporate Social Responsibility Training Project**

A distance training course has been designed for all TGN personnel with the aim of reflecting and learning on the exercise of CSR in our Company, the possibilities of its implementation, and the definition of main guidelines on the matter.



## **New Projects for 2005-2006**

In 2005 work took place on the setting up of two Social Investment Funds to be able to begin social investment in several regions along our pipeline during 2006:

- A Fund for Sustainable Educational Development -FIDES and TGN, for implementation in 2006 in the Province of Córdoba, designed to provide technical and economic

support for six micro-initiatives of an educational and social nature for young people in the north and south-east of Córdoba, in association with INCIDE and AVINA, and

- A Fund for Business Social Investment (FISE-CEDES) and TGN for implementation in 2006. The aim is to co-finance an educational information technology program in two schools in the Provinces of San Luis and Mendoza in Argentina.

## **Community Development Action Programs**

### **“Hogar Guadalupe” (San Salvador de Jujuy -2003 to date)**

As part of the second stage of this project, the Salir Adelante School was created (2005-2006).

A total of 30 young people have been granted scholarships under the project, providing them with access to various activities generated within the school environment:

- Workshops for training in crafts; Cuzco carving, tailoring, electronics, home construction and electricity, vehicle electrics, party ornaments, regional cooking, carpentry, computers and computer repair, baking.
- Presentation of business plans for feasibility analysis
- Workshops with participants from the public sector.
- Workshops with specialist physicians on sexual education and reproductive health.

**Warmi Sayajsunqo Women’s Association (Abra Pampa, Jujuy -2000 to date.)** Work continued with the institution to ensure the continuity of the development of family and community market gardens. Support was provided for training activities, the reworking of existing gardens and the construction of new units.

## **Institutional Strengthening**

Various activities were designed together with the following entities with the aim of strengthening their performance at institutional level, with the aim of achieving self- assessment before submitting courses of action for 2006

- Centro de Jubilados Tiempo de Vivir (City of Buenos Aires 1996-to date)
- Nazareth Home for Children at Risk (San Pedro – Province of Jujuy 2000-to date)
- Centro de Rehabilitación del Norte (Dean Funes - Province of Córdoba-2002-to date)

## **Educational projects**

In 2005 work continued with the following establishments:

- Lamadrid School (Province of Tucumán/ 1996-to date)
- Jardín Fundamind (City of Buenos Aires - 1996-2005)
- Simon Bolivar School N° 1.258 (City of Santa Fe- 2003-2005)
- Technical Agricultural School San Pedro (San Pedro- Province of Jujuy/ 2004-2005)
- Escuela Barrio La Merced (San Pedro- Province of Jujuy/ 2004-to date)

In addition, the program for the delivery of computers and learning equipment to various schools and social organization located in the areas of the Company’s operations has continued.

- **Remuneration policy**

The Company's remuneration policy for management personnel establishes a fixed basic monthly remuneration and a variable bonus payable annually. While the fixed portion is established according to the level of responsibility inherent to the position, bearing in mind market values, variable remuneration is linked to the objectives defined at the beginning of the year and their compliance during the period.

The Company has no policy establishing options or any other similar plans for its personnel.

- **Decision-taking processes**

A Board made up of thirteen full directors and the same number of alternate directors is responsible for the directing and administration of the Company, with a mandate for one year as from the moment of appointment by the Shareholders' Meeting.

Gasinvest, the controlling shareholder company of TGN, has the right to appoint a majority of the full and alternate directors. The shareholders of Gasinvest have entered into a Shareholders' Agreement with the aim of regulating certain aspects in relation to its indirect interest in TGN.

Under the terms of the Shareholders' Agreement, CGC and Techint have the right to appoint two directors each, while Total and Petronas, acting together, have the right to appoint a further three. In addition, CGC and Techint have the right to appoint one syndic each, and Total and Petronas together have the right to appoint one syndic.

In addition, the agreement lays down that the Chairman of the Board should be designated at the proposal of CGC, the General Manager should be nominated by Techint, and the Operations Manager should be proposed by Total. The Operations Manager reports to the General Manager and is responsible for the operation of the gas carrying assets.

The Shareholders' Agreement establishes that the following actions and decisions must have the unanimous approval of CGC, Techint and Total (which as a whole are called the Managing Companies)

- i.* amendments to the by-laws or other equivalent TGN documents,
- ii.* any consolidation or merger of TGN with another Company,
- iii.* adoption of activity, investment, yearly financial or budgetary plans, and any amendment to them,
- iv.* increase or decrease of TGN's Board of Directors and/or any other committee of the Company,
- v.* issuing or redemption of TGN shares,
- vi.* dissolution, liquidation or bankruptcy proceedings of TGN,
- vii.* declaration or payment of dividends or any other distribution by TGN that is not consistent with the dividend policy established in the activity plan,
- viii.* any TGN investment in another company,
- ix.* entering into any contract in which TGN is party and which involves total payments or the purchase or sale by TGN of assets which, at carrying value, exceed US\$ 3.0 million in one or more transactions within a six-month period,
- x.* any substantial change in TGN management, and
- xi.* selection of TGN's independent auditor.

The Shareholders' Agreement establishes the creation of an Executive Committee made up by the President of the Board, the General Manager and the Manager of Operations. It is the duty of the Executive Committee to first analyze the matters to be resolved by CGC, Techint and Total in line with the Shareholders' Agreement.

The internal control of the governance of the Company is the responsibility of the Surveillance Committee formed by three full syndics and three alternate syndics.

The Surveillance Committee is in session with the presence of an absolute majority of its members, and decisions are taken by the majority vote of those present, regardless of the rights corresponding to the dissident syndic. Surveillance Committee members have the duty and the right to attend the Board and Shareholders' Meetings, summon them, require the inclusion of matters on the agenda, and in general supervise all the Company's affairs and its compliance with Laws and by-laws.

Independent external auditors are appointed by the Shareholders' Annual Meeting and are responsible for auditing and certifying the Company's accounting documentation. Decree 677/01 and National Securities Commission General Resolution 400/02 have set new requirements to be fulfilled by those acting as external auditors of companies under the control of the National Securities Commission and by the companies that appoint them, to guarantee their independence and professional aptitude.

- **Internal Control**

TGN has developed a regulatory framework aimed at ensuring the correct approval and recording of all transactions performed, the safeguarding of assets and compliance with the law by means of a reasonable segregation of duties. There are controls to ensure the validity and integrity of the recording of operations that enable the Company to count on a reliable information system that observes the basic principles of internal control.

The Internal Audit Management reporting to the General Manager of TGN and on a functional basis from its Board, has as its mission the continuous evaluation of the internal control system. All observations made by the Auditors in relation to the safeguarding of assets, compliance with the law, information systems and operating performance count on corrective actions plans and an adequate follow-up, contributing to the updating and continuous improvement of the Company's control environment.

- **Audit Committee**

During 2004 an Audit Committee was formed as required by Decree 677/01 and CNV General Resolution 400/02. It is formed mainly by independent board members as established by current legislation.

During 2005 the Audit Committee performed the tasks required of it following an annual plan that had been informed to the Board and the surveillance body. The results of this work are included in the audit committee report that will be submitted at the time of the presentation and publication of these annual financial statements for TGN. The Company has taken the necessary steps so that its administrators, managers and employees attend such audit committee meetings are may be necessary, providing assistance and access to information for the members of the Audit Committee at all times.

- ***Remuneration of Directors, proposal for the distribution of results by the Board and dividend policy.***

The Shareholder's Meeting is responsible for approving the remuneration of the Board after the end of the fiscal year, in accordance with the Commercial Company's Law and the National Securities Commission.

As laid down by the rules of the National Securities Commission, and in view of the fact that 2005 concluded with a loss, the Board of Directors proposes to the Shareholders that directors' fees for technical and administrative functions be paid for a total of \$983 thousand.

The Board of Directors recommends and submits to the consideration of the Ordinary Shareholders' Meeting for approval the allocation in full to retained earnings (accumulated deficit ) of the loss of \$ 46,104 thousand, being the result recorded by the Company for the year ended December 31, 2005.

In view of the financial situation that the Company is undergoing and the impact caused by the conversion into pesos and freezing of the tariff remunerating the domestic gas carrying service it provides, matters dealt with in detail in both this annual report and the notes to the Financial Statements ended December 31, 2005, the Board has decided not to distribute dividends, making use of the powers allowing it to allocate the reserve set up for that purpose.

Buenos Aires, March 2, 2006

The Board  
Eduardo Ojea Quintana

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

In accordance with the terms of General Resolution 368/01 and its modifications, issued by the National Securities Commission ("CNV"), we detail below an analysis of the results of the operations of Transportadora de Gas del Norte S.A. ("TGN" or "the Company")<sup>(1)</sup> and its financial situation, which should be read together with the attached financial statements.

**I) ANALYSIS OF THE RESULTS AND FINANCIAL SITUATION**

• **Net results for the year ended December 31, 2005**

(in millions of pesos)

	Years ended 12.31					
	2005	2004	Variation \$	2003	2002	2001
<b>Net Revenues</b>						
<b>Gas transportation service</b>	433.7	410.2	23.5	417.1	501.4	-
<b>Allowances for disputed amounts</b>	(2.7)	(3.1)	0.4	(15.7)	(21.1)	-
Benefit on social security contribution Decrees Nos 292/1520/814	(1.6)	(1.6)	-	(1.7)	(2.3)	(5.2)
<b>Subtotal Gas transportation service</b>	<b>429.4</b>	<b>405.5</b>	<b>23.9</b>	<b>399.7</b>	<b>478.0</b>	<b>560.8</b>
Gas pipeline O&M service	17.1	16.5	0.6	18.4	19.0	12.5
Management fees – Gas Trust Program	3.9	-	3.9	-	-	-
<b>Subtotal Gas pipeline operation and maintenance service</b>	<b>21.0</b>	<b>16.5</b>	<b>4.5</b>	<b>18.4</b>	<b>19.0</b>	<b>12.5</b>
<b>Net Revenues</b>	<b>450.4</b>	<b>422.0</b>	<b>28.4</b>	<b>418.1</b>	<b>497.0</b>	<b>573.3</b>
<b>Cost of services</b>						
Operating and maintenance costs	(141.4)	(119.7)	(21.7)	(118.0)	(125.1)	(123.5)
Fixed assets depreciation	(112.2)	(110.0)	(2.2)	(102.0)	(122.0)	(99.8)
Intangible assets amortization	-	(1.2)	1.2	(5.2)	(5.4)	(5.5)
<b>Subtotal</b>	<b>(253.6)</b>	<b>(230.9)</b>	<b>(22.7)</b>	<b>(225.2)</b>	<b>(252.5)</b>	<b>(228.8)</b>
<b>Gross Profit</b>	<b>196.8</b>	<b>191.1</b>	<b>5.7</b>	<b>192.9</b>	<b>244.5</b>	<b>344.5</b>
Administrative and selling expenses	(58.9)	(56.0)	(2.9)	(47.4)	(72.8)	(58.2)
<b>Operating Income</b>	<b>137.9</b>	<b>135.1</b>	<b>2.8</b>	<b>145.5</b>	<b>171.7</b>	<b>286.3</b>
Gain from equity investments, net	0.9	1.3	(0.4)	1.3	1.3	0.3
Financial and holding results (including the result of exposure to changes in the purchasing power of the currency)	(207.5)	(198.4)	(9.1)	(186.1)	(351.9)	(144.8)
Foreing exchange differences capitalized in Fixed Assets-written off	-	-	-	(277.9)	-	-
Other (expense) income, net	(2.9)	3.5	(6.4)	(10.7)	(6.7)	(40.4)
<b>Net income (loss) before income tax</b>	<b>(71.6)</b>	<b>(58.5)</b>	<b>(13.1)</b>	<b>(327.9)</b>	<b>(185.6)</b>	<b>101.4</b>
Income Tax	25.5	26.1	(0.6)	88.5	(11.3)	(86.0)
<b>Net income (loss) for the year</b>	<b>(46.1)</b>	<b>(32.4)</b>	<b>(13.7)</b>	<b>(239.4)</b>	<b>(196.9)</b>	<b>15.4</b>
<b>Income before financial and holding results, foreign exchange differences capitalized in fixed assets written off, depreciation, amortization and income tax.</b>	<b>249.7</b>	<b>252.9</b>	<b>(3.2)</b>	<b>246.0</b>	<b>296.3</b>	<b>353.8</b>

(1) Company which has not adhered to the Optional System for the Mandatory Acquisition of shares in a Public Offering.

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**I) ANALYSIS OF THE RESULTS AND FINANCIAL SITUATION (Contd.)**

(in millions of pesos)

	12.31.2005	12.31.2004	12.31.2003	12.31.2002	12.31.2001
<b>Total Assets</b> (in million of \$)	3,103	2,973	2,858	3,288	2,825
<b>Total Liabilities</b> (in million of \$)	2,262	2,085	1,938	2,129	1,469
<b>Shareholders' Equity</b> (in million of \$)	841	888	920	1,159	1,356
<b>Shareholders' Equity / Total Liabilities</b>	0.37	0.43	0.47	0.54	0.92

The net result for the years ended December 31 2005 and 2004 was \$ 46.1 million and \$ 32.4 million respectively, a loss in both cases.

The following paragraphs describe the reasons for the main variations in TGN's results and also disclose some economic and financial ratios relating to the Company's financial situation.

• **Net Revenues**

The following table summarizes net revenues by type of service for the last five financial years:

(in millions of \$)

Type of service	Years ended 12.31.									
	2005	%	2004	%	2003	%	2002	%	2001	%
Gas transportation	429.4	95.3	405.5	96.1	399.7	95.6	478.0	96.2	560.8	97.8
Pipeline O&M services	21.0	4.7	16.5	3.9	18.4	4.4	19.0	3.8	12.5	2.2
<b>Total net Revenues</b>	<b>450.4</b>	<b>100.0</b>	<b>422.0</b>	<b>100.0</b>	<b>418.1</b>	<b>100.0</b>	<b>497.0</b>	<b>100.0</b>	<b>573.3</b>	<b>100.0</b>

**- Gas transportation service**

The revenues corresponding to the gas transportation service for the year ended December 31, 2005 amounted to \$ 429.4 million, which compared with the \$ 405.5 million of the previous year have implied a net increase of \$ 23.9 million (5.9%). This increase has mainly been the result of the combination of the following significant variations:

- i. An increase of \$ 15.5 million in export revenues due to an increase in the applicable PPI on the rate for such revenues, partially offset by a reduction of \$ 1.2 million as a result of the drop in the exchange rate used to record such invoicing;
- ii. An increase of \$ 5.2 million in invoicing to the customer TermoAndes, due to a change to the gas carrying contract entered into with TGN in January 2005;
- iii. An increase of \$ 3.1 million in the sale of interruptible transport as a result of the application of new regulations with an impact on gas supply and demand;
- iv. An increase of \$ 0.5 million in firm transportation capacity from the addition at the end of 2005 of 600,000 cu.m./day in new carrying capacity, as a result of the expansion of the Gasoducto Norte as described in Note 13 to the Company's financial statements;

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**I) ANALYSIS OF RESULTS AND THE FINANCIAL SITUATION (Contd.)**

• **Net Revenues (Contd.)**

**- Transport of gas service (Contd.)**

- v. A decrease of \$ 1.0 million from one period to another in the invoicing of fines to customers; and
- vi. A decrease of \$ 0.4 million in the allowance for trade receivables in foreign currency, other adjustments and other receivables in dispute.

**- Pipeline O&M and Work management fees´ services**

The revenues corresponding to the pipeline O&M services and Work management services for financial year 2005 amounted to \$ 21.0 million, which compared with the \$ 16.5 million in the preceding year have represented a net increase of \$ 4.5 million (27.3%).

This increase arises mainly from a combination of the following items:

- i. \$ 3.9 million in income accrued in 2005 from the Management service provided by TGN for the expansion works of Gasoducto Norte (Note 13 to the Company's financial statements); and
- ii. \$ 0.8 million of higher income from the pipeline O&M services for the expansions constructed through financial trusts, in which TGN was Technical Operator (Note 12 to the Company's financial statements).

• **Costs of services**

The breakdown of operating costs during the past five years is summarized as follows:

(in millions of pesos)

	Years ended 12.31.									
	2005	%	2004	%	2003	%	2002	%	2001	%
<i>Fees for professional services</i>	2.3	0.9	0.7	0.3	0.8	0.4	0.7	0.3	4.1	1.8
<i>Salaries, wages and other personnel benefits and social security contributions</i>	35.4	14.0	23.0	10.0	20.3	9.0	21.8	8.6	35.7	15.6
<i>Fees for technical operator services</i>	6.0	2.4	5.9	2.6	5.9	2.6	3.3	1.3	4.3	1.9
<i>Inbound personnel expenses</i>	1.7	0.6	2.5	1.1	2.0	0.9	3.7	1.5	3.1	1.4
<i>Spare parts and materials</i>	14.3	5.6	14.0	6.1	10.9	4.8	15.1	6.0	9.7	4.2
<i>Gas imbalance</i>	4.1	1.6	2.3	1.0	0.7	0.3	0.3	0.1	0.4	0.2
<i>Maintenance and repair of fixed assets and third party services</i>	52.3	20.6	50.3	21.8	39.9	17.7	33.4	13.2	35.7	15.6
<i>Communications, freight and transportation, travel expenses</i>	7.4	2.9	6.4	2.8	6.1	2.7	6.0	2.4	8.2	3.6
<i>Insurance</i>	5.2	2.1	6.5	2.8	7.7	3.4	10.1	4.0	5.1	2.2
<i>Rentals and office supplies</i>	1.8	0.7	1.5	0.6	1.4	0.6	1.9	0.8	2.8	1.2
<i>Easements</i>	6.3	2.5	5.2	2.3	11.9	5.3	2.3	0.9	4.5	2.0
<i>Taxes, rates and contributions</i>	0.5	0.2	0.4	0.2	0.4	0.2	0.6	0.2	1.1	0.5
<i>Fixed assets depreciation</i>	112.2	44.2	110.0	47.6	102.0	45.3	122.1	48.4	99.8	43.6
<i>Intangible assets amortization</i>	-	-	1.2	0.5	5.2	2.3	5.4	2.1	5.5	2.4
<i>Slow-moving consumption materials and obsolescence</i>	3.1	1.2	-	-	9.2	4.1	25.3	10.0	7.4	3.2
<i>Others</i>	1.0	0.5	1.0	0.3	0.8	0.4	0.5	0.2	1.4	0.6
<b>Total</b>	<b>253.6</b>	<b>100.0</b>	<b>230.9</b>	<b>100.0</b>	<b>225.2</b>	<b>100.0</b>	<b>252.5</b>	<b>100.0</b>	<b>228.8</b>	<b>100.0</b>
<b>% of Operating costs on net revenues</b>	<b>56.3%</b>		<b>54.7%</b>		<b>53.9%</b>		<b>50.8%</b>		<b>39.9%</b>	

TRANSPORTADORA DE GAS DEL NORTE S.A.

SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

• **Operating costs (Contd.)**

Operating costs increased by \$ 22.7 million (9.8%) between 2004 and 2005, mainly because of the following items:

- i. An increase of \$ 12.4 million in *Salaries, wages and other personnel benefits and social security contributions* mainly due to: (i) salary increases granted by the Company, including the increases established by the Executive Branch for \$ 7.2 million; (ii) the higher number of personnel assigned to the management of the expansion of Gasoducto Norte that meant additional costs of \$ 3.9 million (iii) larger number of temporary personnel and overtime amounting to \$ 1.0 million and (iv) recording of severance payment to personnel amounting to \$ 0.3 million;
- ii. An increase of \$ 3.1 million in *Slow-moving consumption materials and spare parts* from the effect of the development of turnover indicators that the Company takes into account in estimating obsolescence;
- iii. An increase of \$ 2.2 million in *Fixed assets depreciation* for the effect of the additions of fixed assets incorporated during financial year 2004 and 2005;
- iv. An increase of \$ 2.0 million in *Maintenance and repair of fixed assets and third party services and supplies* arising mainly from (i) \$ 0.8 million in higher costs during 2005 for programmed, corrective and emergency maintenance; and (ii) higher costs in the security service amounting to \$ 0.7 million;
- v. An increase of \$ 1.8 million in *Gas Imbalance* due to the higher consumption of gas in excess of the Company's authorized caps in February, May, June, July and November 2005;
- vi. An increase of \$ 1.6 million in *Fees for professional services* due mainly to the performance of project engineering work and the review of processes, professional services in relation to the Electronic Gas Market, costs related to the signing of easement agreements and fees incurred in relation to the expansion of Gasoducto Norte, obtaining of permits, review of engineering and its budgeting;
- vii. An increase of \$1.1 million in the charge for *Easements*, due to the adjustment of the corresponding provision in the light of new information considered by the Company;
- viii. An increase of \$ 1.0 million in *Communications, freight and transportation travel expenses* arising mainly in the Travel and agency expenses caption relating to the management of Gasoducto Norte expansion;
- ix. A decrease of \$ 1.3 million in *Insurance* due to the renegotiation of the coverage for the Company's fixed assets in different terms as those of the comparative financial year;
- x. A decrease of \$ 1.2 million in *Intangible assets amortization*, due to the depletion of the net book value;
- xi. A decrease of \$ 0.8 million in *Inbound personnel expenses* because since April 2005 the number of ex-patriates dropped.



TRANSPORTADORA DE GAS DEL NORTE S.A.

SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

• **Administrative and Selling Expenses**

(in millions of pesos)

	Years ended 12.31.									
	2005	%	2004	%	2003	%	2002	%	2001	%
Salaries, wages and other personnel benefits and social security contributions	15.0	25.5	12.2	21.8	11.8	24.9	11.2	15.4	18.6	32.0
Fixed assets depreciation	1.6	2.7	1.6	2.9	1.6	3.4	1.5	2.1	1.2	2.1
Fees for professional services	2.2	3.7	2.6	4.6	2.9	6.1	2.4	3.3	3.8	6.5
Taxes, rates and contributions	18.2	30.9	14.9	26.6	15.5	32.7	17.7	24.3	23.7	40.7
Communications, freight and transportation, travel expenses	1.2	2.0	1.0	1.8	1.0	2.1	1.1	1.5	1.7	2.9
Maintenance and repair of fixed assets and third party services	1.9	3.2	1.9	3.4	1.4	3.0	1.6	2.2	2.6	4.5
Rentals and office supplies	0.7	1.2	0.7	1.3	0.8	1.7	1.0	1.4	2.1	3.6
Intangible assets amortization	-	-	0.2	0.4	1.1	2.3	1.1	1.5	1.1	1.9
Doubtful accounts	2.0	3.4	3.2	5.7	0.7	1.5	1.8	2.5	0.7	1.2
Provision for contingencies	13.8	23.4	16.0	28.5	9.5	20.0	32.5	44.6	0.5	0.9
Directors' Fees	-	-	-	-	-	-	0.1	0.1	0.2	0.3
Fees for technical and administrative tasks	1.0	1.7	0.7	1.2	0.3	0.6	-	-	-	-
Others	1.3	2.3	1.0	1.8	0.8	1.7	0.8	1.1	2.0	3.4
<b>Total</b>	<b>58.9</b>	<b>100.0</b>	<b>56.0</b>	<b>100.0</b>	<b>47.4</b>	<b>100.0</b>	<b>72.8</b>	<b>100.0</b>	<b>58.2</b>	<b>100.0</b>
<b>% of Administrative and Selling expenses on net revenues</b>	<b>13.1</b>		<b>13.3</b>		<b>11.3</b>		<b>14.6</b>		<b>10.2</b>	

Administrative and selling costs increased \$ 2.9 million between 2005 and 2004 mainly under the following headings:

- i. An increase in *Salaries, wages and other personnel benefits and social security contributions* of \$ 2.8 million due to salary increases granted by the Company, including the increases established by the Executive Branch and payments of special bonuses;
- ii. An increase in *Taxes, Rates and Contributions* of \$ 3.3 million, of which \$ 1.9 million arises from the registration of the court fee in relation to the claim by the AFIP described in Note 11.6 to these financial statements; \$ 0.5 million correspond to the increase in the inspection and control fee accrued in favor of ENARGAS; and \$ 0.8 million correspond to the increase in turnover tax as a consequence of the higher sales;
- iii. A net decrease of \$ 2.2 million under *Lawsuits and sundry expenses* mainly due to changes in the provision for contingencies according to the estimates on the resolution of the claims faced by TGN as explained in Note 11 to the Company's financial statements; and
- iv. A net decrease in *Doubtful accounts* for \$1.2 million due to changes to the reserve for receivables in litigation and/or aged receivables of doubtful recovery.

TRANSPORTADORA DE GAS DEL NORTE S.A.

SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

• **Financial and holding results**

The composition of the Financial and holding results caption in the last five financial years was as follows:

	(in millions of pesos)				
	Years ended 12.31.				
	2005	2004	2003	2002	2001
<b>Interests and restatements generated by liabilities (including the penalties for non-compliance mentioned in Note 9.5. to the Company's financial statements)</b>	(185.3)	(177.3)	(164.2)	(133.8)	(128.8)
Incomes from restructuring of debt	3.8	9.9	-	-	-
Bank and financial commissions, charges and taxes.	(10.6)	(8.3)	(7.7)	(11.3)	(13.4)
Intangible asset amortization - programs of negotiable obligations	-	-	(25.0)	(4.2)	(4.1)
Reimbursement agreement fee	(3.0)	(3.4)	(4.0)	(3.4)	(2.2)
<b>Subtotal financial result generated by liabilities before exchange differences</b>	<b>(195.1)</b>	<b>(179.1)</b>	<b>(200.9)</b>	<b>(152.7)</b>	<b>(148.5)</b>
Interests, restatements and expenses generated by assets	13.0	3.6	0.6	2.3	3.7
Holding results generated by assets	5.3	5.4	(0.8)	(9.5)	-
Discounts earned	(0.4)	-	-	-	-
Result of discount of non-current assets at present value	(0.4)	(1.7)	(5.1)	(8.3)	-
<b>Subtotal financial result generated by assets before exchange differences</b>	<b>17.5</b>	<b>7.3</b>	<b>(5.3)</b>	<b>(15.5)</b>	<b>3.7</b>
<b>Exchange rate differences:</b>					
<b>Generated by liabilities</b>	(36.3)	(31.0)	45.7	(675.6)	-
Generated by assets	6.4	4.4	(25.6)	(25.4)	-
Capitalized in Fixed Assets	-	-	-	507.8	-
<b>Subtotal exchange differences</b>	<b>(29.9)</b>	<b>(26.6)</b>	<b>20.1</b>	<b>(193.2)</b>	<b>-</b>
<b>Result from exposure to changes in the purchasing power of the currency</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9.5</b>	<b>-</b>
<b>Total</b>	<b>(207.5)</b>	<b>(198.4)</b>	<b>(186.1)</b>	<b>(351.9)</b>	<b>(144.8)</b>

The most outstanding aspects of the variation in the financial results in 2005 and 2004 were:

- i. In 2005 it was registered a \$ 36.3 million loss arising from *Exchange rate differences generated by liabilities* due to the increase in the dollar rate of exchange in comparison with the values at closing of 2004 on the liability balances in that currency (\$ 3.032 at December 31, 2005 versus \$ 2.979 at December 31, 2004). For the same reason, a \$ 6.4 million *Exchange rate differences generated by assets* was registered for 2005 (\$ 2.992 at December 31, 2005 versus \$ 2.939 at December 31, 2004) calculated on the asset positions in that currency.

At the closing of 2004 an increase in the rate of exchange had been recorded in comparison with December 2003 (\$ 2.939 and \$ 2.979, buying and selling at December 31, 2004 versus \$ 2.880 and \$ 2.930, buying and selling at December 31, 2003). This variation in the rate of exchange generated exchange losses of \$ 31.0 million and exchange gains of \$ 4.4 million.

The breakdown of the balances in foreign currency at December 31, 2005 and 2004 is disclosed in Exhibit G to the Company's financial statements.

- ii. The caption *Interests and restatements generated by liabilities* disclosed a net increase of \$ 8.0 million between 2005 and 2004. This net change has mainly been explained by:

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

• **Financial and holding results (Contd.)**

- An increase of \$ 15 million in fines for non-compliance with the loans mentioned in Note 9 to the company's financial statements. These penalties have been calculated on the amount of the debt past due and unpaid at the end of the year. In addition, this variation includes the changes in the exchange rates applied;
- A decrease of \$ 7.0 million for interest and references stabilization index (CER) on loan balances, because of the settlement at the end of 2004 and the beginning of 2005 of certain short-term bilateral debts as described in Note 9.5. to the Company's financial statements. In addition, this variation includes the changes in the exchange rates applied;
- iii. At the end of 2005 recognition was given to a gain of \$ 3.8 million under Income from restructuring of debt as a result of the repayments made as mentioned in the previous point. In 2004 this result had amounted to \$ 9.9 million (Note 9.5.);
- iv. A lower amount by \$ 0.4 million was recorded under *Reimbursement agreement fee* as a reduction in the cost of the guarantee was negotiated this year;
- v. *The Interests, restatements and expenses generated by assets heading* recorded a net increase of \$9.4 million because of the increase in short-term investments of cash and banks surpluses;
- vi. Losses of \$ 0.4 million and \$ 1.7 million were recorded in 2005 and 2004, respectively, arising from the valuation of certain long-term assets at their discounted values, in accordance with current accounting regulations.

• **Summary of the Statement of Cash Flows**

(in millions of pesos)

	<b>Financial years ended 12.31.</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Net loss for the year</b>	(46.1)	(32.4)	(239.4)	(196.9)	15.4
Adjustments to arrive to cash net flow arising from operating activities	330.3	275.9	498.8	535.1	331.0
Subtotal	284.2	243.5	259.4	338.2	346.4
<b>Net changes in assets and liabilities</b>	(2.0)	12.2	(40.7)	(63.6)	(4.1)
<b>Net cash flows provided by operating activities</b>	<b>282.2</b>	<b>255.7</b>	<b>218.7</b>	<b>274.6</b>	<b>342.3</b>
<b>Purchase of fixed assets</b>	(90.6)	(68.5)	(62.4)	(40.0)	(81.1)
<b>Dividends collected</b>	0.5	-	-	-	-
<b>Decrease (increase) of other investments</b>	-	187.3	(186.7)	0.5	(4.4)
<b>Net cash (used in) / provided by investing</b>	<b>(90.1)</b>	<b>118.8</b>	<b>(249.1)</b>	<b>(39.5)</b>	<b>(85.5)</b>
New loans	-	-	6.9	41.6	1,381.7
Payment of debt	(39.4)	(12.5)	-	(7.0)	(1,439.9)
Interest paid	(47.4)	(59.8)	(76.7)	(146.5)	(131.2)
Deposit in escrow	(4.3)	-	-	-	-
Net (decrease) increase in customer advances	(3.1)	4.4	(1.6)	(5.7)	-
Increase of intangible assets	-	-	-	-	(0.4)
Payment of cash dividends	-	-	-	-	(19.8)
Payment of the profit sharing bonus to personnel	-	-	-	-	(0.1)
<b>Net cash (used in) / generated by financing activities</b>	<b>(94.2)</b>	<b>(67.9)</b>	<b>(71.4)</b>	<b>(117.6)</b>	<b>(209.7)</b>
<b>Net increase (decrease) in cash</b>	<b>97.9</b>	<b>306.6</b>	<b>(101.8)</b>	<b>117.5</b>	<b>47.1</b>
<b>Cash and cash equivalents as of beginning of year</b>	<b>375.0</b>	<b>68.4</b>	<b>170.2</b>	<b>52.7</b>	<b>5.6</b>
<b>Cash and cash equivalents as of end of year</b>	<b>472.9</b>	<b>375.0</b>	<b>68.4</b>	<b>170.2</b>	<b>52.7</b>

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**II) BUSINESS PROSPECTS**

The Yearly Report at December 31, 2005 describes the current macroeconomic and legal framework that shapes TGN's future commercial strategy and business prospects, mainly relating to the renegotiation of the License, the Company's financial debt and the resolution of the energy crisis.

- i.* At the date of issuing these financial statements no substantial progress had been made in the process of renegotiating the License that would ensure that the objective of signing an agreement in the short term will be achieved. Additionally, nothing ensures that the possible outcome of the negotiation will effectively re-establish the equilibrium of the License and assure TGN a fair compensation for the damage suffered as a result of the Public Emergency Law. In spite of the lack of results the Company continues to participate proactively in the process begun by UNIREN, ENARGAS and the Energy Secretariat. The new regulatory framework must contain minimum tariff and extra-tariff conditions to permit reinvestment, to assist the reactivation of the flow of investments that in the past assisted the rapid resolution of supply bottlenecks and at the same time should pave the way to the integration of the energy markets in the region.
- ii.* Additionally, there was no major news on the consideration by Congress of the bill on the National Régime for Public Utilities that had been sent by the Executive Branch to Congress in August 2004. This bill modifies and repeals provisions that are important to the Gas Law and represents an uncertainty that affects the Company although it is premature to evaluate its impact on TGN if it should be enacted.
- iii.* Lastly, it should be mentioned that during the course of 2005 the Government made progress on the setting up of the Electronic Gas Market ("MEG") that had been created by Decree No.180/04. Energy Secretariat Resolution No.752/05 established the start of well-head gas purchase and sale operations through the MEG for certain users (excluding residential consumers) as from September 1, 2005. The Company considers that the introduction of the MEG will have an adverse effect on the income related with the gas transported and sold on that market.
- iv.* With the enactment of Decree No. 185/04, and within the framework of the "Gas Trusts" Financial Trusts Program, set up in the area of the Ministry of Federal Planning, Public Investment and Services, the Secretariat of Energy commissioned TGN the expansion of its transport system by 1.8 MM cu.m./day from the North basin. (Note 13 to the Company's financial statements).

This project required the creation of a public trust and financial contributions by the future beneficiaries, producers and third parties involved. In February 2006 the work was concluded to increase the capacity of transport to customers in the Argentine market by an additional 1.8 MM cu.m./day.

Contracts for the carrying system operated by TGN at December 31, 2005 totaled 53.44 MM cu.m./day. (excluding 1.0 MM cu.m./day for the 2005 Gas Trust approved in February 2006). Of this total, 39.03 MM cu.m./day (73%) is used to meet demand for natural gas by Argentine customers, and 14.41 MM cu.m./day (27%) are intended for consumption in Chile, Uruguay and Brazil.

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**II) BUSINESS PROSPECTS (Contd.)**

Within the same regulatory framework that governed the above expansion and again at the request of the Secretariat of Energy, in September 2005, TGN issued a new Tender for Capacity for the expansion of the Gasoductos Norte System. As a result of this call to tender, bids for over 31 MM cu.m./day were received. At the time of issuing these financial statements, ENARGAS and the Secretariat of Energy were analyzing the documentation received and the financing alternatives in order to define the project to be implemented.

- v. In the context of the process of restructuring of the Company's financial debt, the Extraordinary Shareholders' Meeting on January 26, 2006 gave its approval to the granting -as one of the components of the future debt restructuring- of new corporate bonds to be issued by the Company in exchange for existing debt, reflecting the new terms and conditions. On this basis, approval was granted for the setting up of a global program for the issue of ordinary non-convertible corporate bonds denominated in US dollars or any other currency, with ordinary guarantee, in different classes and/or series and/or segments, qualifying as "negotiable obligations" under the terms of Law 23576 (text as per Law 23962), for a maximum outstanding amount during the term of the program of up to five hundred million US dollars (US\$ 500,000,000) or its equivalent in other currencies (the "Program"), the duration of the Program being five years as from the date of its original authorization. In addition to the cases of exchange for corporate bonds or other debt, liabilities or bonds, the funds resulting from the placement shall be applied exclusively to one or more of the purposes foreseen by section 36 of Law 23576 (text as per Law 23962).

In addition, during the course of 2005 the Company carried out intensive negotiations with a committee of creditors formed for the purpose, and although it is not possible to assure that the process will be completed successfully, it has begun to take certain preparatory steps with a view to the future launch of a voluntary exchange offer.

In addition, and in view of the need to obtain results making it possible for a timely successful restructuring of the Company's financial debt, that same Shareholders' Meeting resolved to issue Corporate Bonds for an amount of US\$175,000,000, mainly to be used in exchange for trust debt securities known as 10.875% Convertibility Insured Bonds (CRIBs) falling due on July 15, 2012, and/or to be offered by subscription, whether in cash and/or by means of the delivery of CRIBs and/or any other form that the Board might determine.

**III) ALLOCATION OF THE RESULTS OF YEAR 2004**

The Shareholders' Meeting held on April 14, 2005 resolved the destination of the results of the financial year ended December 31, 2004 approving: (i) the transfer of the loss in financial year 2004, amounting to \$ 32.4 million to Retained earnings (accumulated deficit); (ii) not to declare dividends; and (iii) maintaining the responsibility delegated by the Shareholders' Meeting held on April 4, 2003 to the Board of Directors of the Company regarding the Voluntary Reserve for Future Dividends.

TRANSPORTADORA DE GAS DEL NORTE S.A.

SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

IV) COMPARATIVE BALANCE SHEET STRUCTURE AT December 31, 2005, 2004, 2003, 2002 and 2001

(in millions of pesos)

	Financial years ended 12.31				
	2005	2004	2003	2002	2001
Current Assets	577	451	338	252	140
Non-current Assets	2,526	2,522	2,520	3,036	2,685
<b>Total</b>	<b>3,103</b>	<b>2,973</b>	<b>2,858</b>	<b>3,288</b>	<b>2,825</b>
Current Liabilities	1,533	1,269	946	669	430
Non-current liabilities	729	816	992	1,460	1,039
Subtotal	2,262	2,085	1,938	2,129	1,469
Shareholders' Equity	841	888	920	1,159	1,356
<b>Total</b>	<b>3,103</b>	<b>2,973</b>	<b>2,858</b>	<b>3,288</b>	<b>2,825</b>

V) COMPARATIVE INCOME STRUCTURE FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2005, 2004, 2003, 2002 AND 2001

(in millions of pesos)

	Financial years ended 12.31.				
	2005	2004	2003	2002	2001
Ordinary operating income	137.9	135.1	145.5	171.7	286.3
Financial and holding results	(207.5)	(198.4)	(186.1)	(351.9)	(144.8)
Foreign exchange differences capitalized in fixed assets – written off	-	-	(277.9)	-	-
Gain from equity investments	0.9	1.3	1.3	1.3	0.3
Other (expenses) income net	(2.9)	3.5	(10.7)	(6.7)	(40.4)
Loss before income tax	(71.6)	(58.5)	(327.9)	(185.6)	101.4
Income Tax	25.5	26.1	88.5	(11.3)	(86.0)
<b>Net results of the year</b>	<b>(46.1)</b>	<b>(32.4)</b>	<b>(239.4)</b>	<b>(196.9)</b>	<b>15.4</b>

VI) COMPARATIVE STATISTICAL DATA CORRESPONDING TO THE FINANCIAL YEARS ENDED DECEMBER 31, 2005, 2004, 2003, 2002 AND 2001

Volume invoiced in millions of cubic meters:

According to the type of carrying agreement

	Financial years ended 12.31.				
	2005	2004	2003	2002	2001
Firm transportation	15,846	16,382	15,688	14,104	13,997
Interruptible transportation and exchange and shifting	2,241	1,791	1,286	733	429
<b>Total</b>	<b>18,087</b>	<b>18,173</b>	<b>16,974</b>	<b>14,837</b>	<b>14,426</b>

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**VI) COMPARATIVE STATISTICAL DATA CORRESPONDING TO THE FINANCIAL YEARS ENDED DECEMBER 31, 2005, 2004, 2003, 2002 AND 2001 (CONTD.)**

*Volume invoiced in millions of cubic meters:*

	<i>According to the type of source</i>				
	<b>Financial years ended 12.31.</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Norte Gas pipeline	7,823	7,300	6,757	6,368	6,286
Centro-Oeste Gas pipeline	10,264	10,873	10,217	8,469	8,140
<b>Total</b>	<b>18,087</b>	<b>18,173</b>	<b>16,974</b>	<b>14,837</b>	<b>14,426</b>

**VII) COMPARATIVE INDICES AT DECEMBER 31, 2005, 2004, 2003, 2002 AND 2001**

	<b>Financial years ended 12.31.</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Current liquidity (1)	0.38	0.36	0.36	0.38	0.33
Solvency (2)	0.37	0.43	0.47	0.54	0.92
Ordinary profits before income tax (3)	(0.05)	(0.04)	(0.23)	(0.16)	0.01
Freezing Capital (4)	0.81	0.85	0.88	0.92	0.95

- (1) Current assets over current liabilities
- (2) Shareholder's equity over total liabilities
- (3) Result for the year over average shareholder's equity
- (4) Non-current assets over total assets

Buenos Aires, March 2, 2006

For Syndic's Committee  
Syndic

The Board of Directors  
Eduardo Ojea Quintana  
President

The Auditors' report dated March 2, 2006 is issued as a separate document

DELOITTE & CO. S.R.L.

PRICE WATERHOUSE & CO. S.R.L.

(Partner)

(Partner)

R.S.C.C.P.C.E.C.A.B.A. T° 1 F° 3  
Dr. Miguel García Haymes  
Public Accountant (UBA)  
C.P.C.E.C.A.B.A.  
Tomo LXVIII – Folio 122

C.P.C.E.C.A.B.A. T° 1 F° 17  
Dr. Daniel A. López Lado  
Public Accountant (UBA)  
C.P.C.E.C.A.B.A. Tomo 148 - Folio 91

## INDEPENDENT AUDITORS' REPORT

To the President and Directors of  
Transportadora de Gas del Norte S.A.  
Don Bosco 3672 – 3<sup>rd</sup> floor  
Buenos Aires

### 1. Identification of the financial statements subject to examination

We have examined the balance sheets of Transportadora de Gas del Norte S.A. ("TGN" or "the Company") at December 31, 2005 and 2004, and the related statements of operations, of changes in shareholders' equity and of cash flows for the years then ended with the complementary notes and exhibits.

The preparation and issuance of the mention financial statements are the responsibility of the Company's Board of Directors in exercising their exclusive functions. Our responsibility is to issue a report on such financial statements based on our audit with the scope indicated in point 2.

### 2. Scope of our work

We conducted our audits in accordance with auditing standards in effect in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and to form an opinion about the reasonableness of the relevant information contained in those financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

### 3. Comments prior to our opinion

- a) The Company has prepared its financial statements applying valuation and restatement criteria established by the National Securities Commission which, as explained in Note 3.1, differ in certain aspects from the accounting standards in effect in the Autonomous City of Buenos Aires, in connection with the discount of the value of assets and liabilities generated by application of the deferred tax method, which effects are shown in the mentioned notes.

Our report of independent accountants dated March 9, 2005 on the financial statements at December 31, 2004 and 2003 included a qualification related to the deviation from professional accounting standards in force due to the lack of accounting recognition of the effects of changes in the purchasing power of the currency between March 1 and September 30, 2003, which has ceased to have a significant effect on the results of TGN.

- b) As mentioned in Note 1 to the financial statements, as a result of the economic crisis in Argentina, the Government issued some measures which had an effect mainly in the year 2002. The events related to changes in the economic context and the legal and contractual conditions under which the Company's business is developed have had a significant adverse effect on its financial and equity position and on its results. The impact generated by all these measures adopted to date by the National Government on the financial situation of the Company at December 31, 2005 was calculated according to the evaluations and estimates made by Company's Management at the date of preparing the financial statements, which could differ from actual future results, and those differences could be significant. Furthermore, the impacts generated by the Argentina's energy crisis, which are described in Note 2 to the financial statements, and changes in current regulations and laws may imply that actual future



results could differ from the evaluations and estimates made at the date of preparation of the financial statements, and those differences, whether positive or negative, could be significant. In addition, as the Law on Public Emergency and Exchange System Reform authorizes the Executive Branch to renegotiate rates and the contracts for public works and services and since at the date of issue of this report, the result of that renegotiation is unknown, there is uncertainty as to the generation of future cash flows enabling settlement of liabilities and recovery of non-current assets value amounting to \$ 2,505.3 million. Furthermore, as indicated in Note 11 to the financial statements, the Company has brought legal actions and initiated contractual controversies for significant amounts, the outcome of which cannot be determined so far due to its complexity and progress achieved. Consequently, the financial statements of the Company may not include all adjustments and/or reclassifications that might be generated if the situations described above are not resolved in favor of continuing the Company's operations as going concern. In addition, the future evolution of the Argentina's economic and energy crisis might require that the Government modify some measures adopted or issue additional regulations. Therefore, the financial statements of the Company must be read in the light of these uncertain circumstances.

- c) As mentioned in Note 9.5 to the financial statements, at December 31, 2005, the Company holds financial debts in US dollars amounting to US\$ 675.5 million and in Argentine pesos amounting to \$ 45.8 million (at December 31, 2004 amounting to US\$ 642.0 million and \$ 50.1 million); of which US\$ 436.9 million and \$ 45.8 million were recognized as current and US\$ 238.6 million as non-current (at December 31, 2004, US\$ 371.3 million and \$ 50.1 million as current and US\$ 270.7 million as non-current).

As mentioned in Note 1, the Company's Board of Directors decided to suspend payments of principal on its financial debt and part of the payments corresponding to interest. Furthermore, the Company failed to comply with covenants in relation to certain financial liabilities.

At December 31, 2005, the Company had not met the principal payments for US\$ 272.4 million and \$ 38.6 million, and the interest payments for US\$ 93.6 million and \$ 7.2 million. As a result, creditors are in a position to demand the lapsing of all the maturities laid down, requesting the early settlement of all their claims, which the Company discloses on the attached financial statements as current or non-current on the basis of the terms originally agreed. Furthermore, as indicated in Note 8 to the attached financial statements, holders of negotiable obligations have applied for and obtained pre-judgment attachments to ensure the collection of the amounts due from the Company for principal and interest, plus corresponding costs; and in addition these bondholders brought claims for enforcement for a total of US\$ 1.2 million in principal, plus a provisionally-estimated \$ 0.7 to cover interest and court costs.

#### **4. Opinion**

In our opinion, except for the deviation from the professional accounting standards mentioned in point 3. clause a) and the disclosure of non-current liabilities mentioned in point 3. clause c) and subject to the effect on the financial statements from possible adjustments and reclassification, if any, that might be required upon the resolution of the situations described in point 3. clauses b) and c), the financial statements of TGN present fairly in all material respects its financial position at December 31, 2005 and 2004, the results of its operations, the changes in its shareholders' equity and its cash flows for the years then ended in conformity with professional accounting standards in effect in Argentina approved by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires.

#### **5. Special information required by current regulations (for the year ended on December 31, 2005)**

- a) The financial statements of TGN are recorded in the "Inventory and Balance Sheet" book and comply, in matters within our field of competence, with the rulings of the Corporate Companies Law and the corresponding resolutions of the National Securities Commission.
- b) The financial statements of TGN arise from accounting records carried in all formal respects in conformity with legal requirements, which maintain the security and integrity conditions based on which they were authorized by the National Securities Commission.
- c) As part of our examination, we have read the summary of activities and the additional information to the notes to the financial statements required by section 68 of the Buenos Aires Stock Exchange Regulations on which, as regards those matters that are within our competence, we have no observations to make.
- d) At December 31, 2005 the debt accrued in favor of the Integrated Retirement and Survivors' Benefit System according to the accounting records amounted to \$ 1,196,238, none of which was claimable at that date.

Autonomous City of Buenos Aires, March 2, 2006

DELOITTE & Co. S.R.L.

(Socio)

---

R.S.C. C.P.C.E.C.F. T°1 F°3  
Dr. Miguel García Haymes  
Contador Público (UBA)  
C.P.C.E.C.A.B.A.  
Tomo LXVIII – Folio 122

PRICE WATERHOUSE & CO.  
S.R.L.

(Socio)

---

C.P.C.E.C.A.B.A. T°1 F°17  
Dr. Daniel A. Lopez Lado  
Contador Público (UBA)  
C.P.C.E.C.A.B.A.  
Tomo 148 - Folio 91

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTES.A.**

**BALANCE SHEETS** as of December 31, 2005 and 2004 (Note 3)  
(in thousands of pesos)

	<b>12.31.05</b>	<b>12.31.04</b>
	in thousands of \$	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and banks	4,694	12,675
Short-term investments (Exhibit D)	470,357	363,976
Accounts receivable, net (Note 4.a))	54,146	49,631
Other receivables, net (Note 4.b)i))	39,705	18,867
Materials and spare parts, net (Note 4.c)i))	8,619	5,777
Total current assets	<u>577,521</u>	<u>450,926</u>
<b>NON-CURRENT ASSETS</b>		
Other receivables (Note 4.b)ii))	156,369	126,718
Materials and spare parts, net (Note 4.c)ii))	32,564	31,915
Fixed assets, net (Exhibit A)	2,316,373	2,343,385
Investments (Exhibit C)	4,899	4,445
Other assets	15,355	15,344
Total Non-Current Assets	<u>2,525,560</u>	<u>2,521,807</u>
<b>Total Assets</b>	<b><u>3,103,081</u></b>	<b><u>2,972,733</u></b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable (Note 4.d))	58,345	31,690
Debt (Note 9.i))	1,370,635	1,156,319
Salaries and social security payable	7,176	3,893
Taxes payable (Note 4.e))	13,521	9,353
Customer advances	1,318	3,027
Others (Note 4.f)i))	8,962	5,857
Subtotal	<u>1,459,957</u>	<u>1,210,139</u>
Contingencies (Note 11 and Exhibit E)	72,611	59,321
Total Current Liabilities	<u>1,532,568</u>	<u>1,269,460</u>
<b>NON-CURRENT LIABILITIES</b>		
Debt (Note 9.ii))	723,506	806,253
Customer advances	-	1,440
Others (Note 4.f)ii))	5,533	8,002
Total Non-Current Liabilities	<u>729,039</u>	<u>815,695</u>
<b>Total Liabilities</b>	<b><u>2,261,607</u></b>	<b><u>2,085,155</u></b>
<b>SHAREHOLDERS' EQUITY</b> (as respective statements)	<b><u>841,474</u></b>	<b><u>887,578</u></b>
<b>Total Liabilities and Shareholder's Equity</b>	<b><u>3,103,081</u></b>	<b><u>2,972,733</u></b>

The accompanying Notes 1 to 14 and Exhibits A, C, D, E, G, H and I are an integral part of these statements.

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

**TRANSPORTADORA DE GAS DEL NORTE S.A.****STATEMENTS OF OPERATIONS** for the year ended December 31, 2005 and 2004 (Note 3)  
(in thousands of pesos)

	<b>12.31.05</b>	<b>12.31.04</b>
	in thousands of \$	
Net revenues (Note 4.g))	450,351	422,029
Cost of services (Exhibit H)	(253,561)	(230,948)
<b>Gross Profit</b>	<b>196,790</b>	<b>191,081</b>
Selling expenses (Exhibit H)	(16,776)	(17,356)
Administrative expenses (Exhibit H)	(42,169)	(38,648)
<b>Operating income</b>	<b>137,845</b>	<b>135,077</b>
Gain from equity investments, net	947	1,254
Financial and holding result, net		
Generated by assets:		
Interests and indexing	13,364	4,181
Exchange rate differences	6,368	4,357
Others (Note 4.h)i))	4,137	3,031
Subtotal	<b>23,869</b>	<b>11,569</b>
Generated by liabilities:		
Interests and indexing	(185,342)	(177,263)
Exchange rate differences	(36,292)	(30,995)
Others (Note 4.h)ii))	(9,710)	(1,699)
Subtotal	<b>(231,344)</b>	<b>(209,957)</b>
Other (expense) income, net (Note 4.i))	(2,882)	3,521
<b>Loss before income tax</b>	<b>(71,565)</b>	<b>(58,536)</b>
Income tax benefit (Note 3.4.l))	25,461	26,147
<b>Net loss for the year</b>	<b>(46,104)</b>	<b>(32,389)</b>
<b>Loss per share:</b>		
Basic (Note 6)	(0.1312)	(0.0921)
Diluted (Note 6)	(0.1111)	(0.0734)

The accompanying Notes 1 to 14 and Exhibits A, C, D, E, G, H and I are an integral part of these statements.

Eduardo Ojea Quintana  
Chairman

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY** for the year ended December 31, 2005 and 2004 (Note 3)  
(in thousands of pesos)

Caption	Shareholders' contributions			Legal reserve	Voluntary reserve	Retained earnings (accumulated deficit)	Total shareholders' equity
	Common stock	Inflation adjustments of common stock	Total				
<b>Balances as of December 31, 2003</b>	351,499	506,053	857,552	46,205	125,588	(99,558)	929,787
Modification of Balances (Note 3.4.d))	-	-	-	-	-	(9,820)	(9,820)
<b>Balances as of December 31, 2003 (modified)</b>	351,499	506,053	857,552	46,205	125,588	(109,378)	919,967
Loss for the year	-	-	-	-	-	(32,389)	(32,389)
<b>Balances as of December 31, 2004</b>	351,499	506,053	857,552	46,205	125,588	(141,767)	887,578
Loss for the year	-	-	-	-	-	(46,104)	(46,104)
<b>Balances as of December 31, 2005</b>	351,499	506,053	857,552	46,205	125,588	(187,871)	841,474

The accompanying Notes 1 to 14 and Exhibits A, C, D, E, G, H and I are an integral part of these statements.

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

**TRANSPORTADORA DE GAS DEL NORTE S.A.****STATEMENTS OF CASH FLOWS** for the year ended December 31, 2005 and 2004 (Note 3)  
(in thousands of pesos)

<b>CHANGES IN CASH</b>	<b>12.31.05</b>	<b>12.31.04</b>
	<b>in thousands of \$</b>	
Cash and cash equivalents as of beginning of year	375,082	68,458
Cash and cash equivalents as of end of year (Note 4.))	472,989	375,082
<b>Net increase in cash</b>	<b>97,907</b>	<b>306,624</b>
<b>CAUSES OF CHANGES IN CASH</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	(46,104)	(32,389)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Income tax	(25,461)	(26,147)
Depreciation of fixed assets	113,793	111,563
Amortization of intangible assets	-	1,454
Net book value of fixed assets written off	3,837	5,259
Increase in allowances and provisions, net	16,574	9,140
Accrued interests and restatements on loans	185,342	177,263
Financial and holding results, net	37,206	(1,354)
Gain on equity investments	(947)	(1,254)
Subtotal	284,240	243,535
Net Changes in certain assets and liabilities:		
(Increase) decrease in accounts receivable	(8,565)	28,173
Increase in other receivables	(21,537)	(17,666)
(Increase) decrease in materials and spare parts and other assets	(6,606)	(3,925)
Increase in accounts payable	26,655	4,713
Increase in salaries and social security payable	3,283	903
Increase (decrease) in taxes payable	4,168	(979)
Increase in other payables	636	1,062
Decrease in contingencies	(39)	(120)
<b>Net cash flows provided by operating activities</b>	<b>282,235</b>	<b>255,696</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividends received	493	-
Purchase of fixed assets	(90,618)	(68,528)
Increases (decrease) in other investments	-	187,316
<b>Net cash flows (used in) provided by investing activities</b>	<b>(90,125)</b>	<b>118,788</b>
Carried forward	192,110	374,484

**TRANSPORTADORA DE GAS DEL NORTE S.A.****STATEMENTS OF CASH FLOWS** for the year ended December 31, 2005 and 2004 (Note 3)

(Contd.)

(in thousands of pesos)

	<b>12.31.05</b>	<b>12.31.04</b>
	<b>In thousands of \$</b>	
Brought forward	192,110	374,484
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of debt	(39,395)	(12,500)
Deposit in escrow (Note 8. iii)	(4,290)	-
Interest paid	(47,369)	(59,826)
(Decrease) Increase in customer advances	(3,149)	4,466
<b>Net cash flows used in financing activities</b>	<b>(94,203)</b>	<b>(67,860)</b>
<b>Net increase in cash and cash equivalents</b>	<b>97,907</b>	<b>306,624</b>

The accompanying Notes 1 to 14 and Exhibits A, C, D, E, G, H and I are an integral part of these statements.

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March , 2006 is issued as a separate document.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 1 - FORMATION OF THE COMPANY AND REGULATORY FRAMEWORK**

#### **1.1. Formation of the Company**

Transportadora de Gas del Norte S.A. (the "Company" or "TGN") was incorporated on November 24, 1992 following the introduction of Laws No. 23696 and No. 24076 ("The Gas Act") and Decree No. 1189/92 of the National Executive Branch ("PEN") which established the privatization of gas transport and distribution services and the creation of companies that were to receive licenses to operate such services.

TGN is the holder of a license ("the License") for the providing of the public service for the carrying of natural gas, under which it is granted the exclusive right to exploit the two gas pipelines it owns in the North and Center-West of Argentina.

The Company's gas pipeline system is directly connected to the two principal gas producing basins in the Northern and Central-Western regions in Argentina, to the Northwestern and Neuquina basins and indirectly to gas fields located in Bolivia.

The transfer of assets from Gas del Estado Sociedad del Estado ("GdE") to TGN and commencement of operations took place on December 28, 1992, based on an agreement for the transfer of shares (the "Transfer Agreement") between the National Government, GdE and the investment company Gasinvest S.A. ("Gasinvest" or "Controlling Shareholders").

#### **1.2. Argentine economic context and its impact on the Company's economic and financial position**

In view of the major changes in the main macroeconomic variables Argentina has recorded since the end of 2001, as from January 2002 the National Government issued laws, executive orders and regulations that involved a profound change to the then prevailing economic model, which had the following material effects on the Company:

- i) The Law on Public Emergency No. 25.561 established the pesification of the tariffs of natural gas transportation for the local market at the rate of exchange of \$ 1 = US\$ 1, determining that the peso values will prevail on the date of enforcement of the Law and the revocation of the six-monthly adjustment mechanism based on the Producer Price Index ("PPI"). Additionally, this law authorizes the PEN to negotiate the rates and contracts of public works and utilities.

In Note 1.3. are the issues relating to rates, the License and the implications of the modifications made by this law to the regulatory framework of the Company. Additionally, Note 2 describes the effects of the energy crisis in Argentina and the change in certain Government legislation to minimize its effects and their impact on the company.

- ii) The change in the economic context and the legal and contractual conditions in which the Company has been acting, as well as the state of the renegotiation of its License, give rise to uncertainty as to the generation of future cash flows that will enable it to repay its liabilities, recover non-current assets, ensure the future development of its business and the preservation of the Company as a going concern.



## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 1 - FORMATION OF THE COMPANY AND REGULATORY FRAMEWORK (Contd.)**

#### **1.2. Argentine economic context and its impact on the Company's economic and financial position (Contd.)**

- iii) As a result of the financial imbalance created by the prevailing economic measures as from January 2002, the Board of the Company decided to administer its resources so that it could continue to provide a safe and reliable public gas transportation service for which it is responsible under the terms of the Gas Act No. 24076 and section 10 of Law No. 25561 and could continue to operate as a going concern.
- iv) In line with the objectives commented in the preceding point, and as indicated in Note 9.5, as from 2002 the Company has been obliged to postpone the payment of certain financial obligations, amounting to \$ 1,155.5 million (including principal, interest and commissions) and has failed to meet a series of indicators that it had committed to maintain with respect to those financial liabilities.

Therefore, as indicated in the same Note 9, the Company's financial creditors could invoke the expiry of all due dates established and request early payment of their loans, which the Company discloses in the financial statements as current and non-current, according to the original terms agreed.

The impact generated by all the measures adopted so far by the National Government on the balance sheet and financial position of the Company at December 31, 2005 was calculated on the basis of evaluations and estimates made by the Company's Board of Directors at the date its financial statements were prepared.

The future development of the economic crisis might require that the Government modify some measures adopted or issue additional regulations. However, it is important to remark that actual future results could differ from the evaluations and estimates made at the date preparing these financial statements and these differences could be significant.

#### **1.3. Regulatory framework**

##### **a) General matters**

The Gas Act and its regulations, together with the License, the Transfer Agreement, the Bid Document for the privatization of GdE (the "Pliego"), and the resolutions issued by ENARGAS, establish the legal framework for the Company's business.

The License was granted for an initial period of thirty-five years. However, both the Gas Act and the License establish that the Company will be able to apply to ENARGAS for a renewal for a further ten-year period. At that time, ENARGAS is required to evaluate the performance of TGN and submit a recommendation to the PEN.

However, the circumstances mentioned in Note 1.2 and 2 cannot determine that Regulatory framework of gas industry is not going to experience additional changes to those already implemented by article 8° of the Law No. 25561.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 1 - FORMATION OF THE COMPANY AND REGULATORY FRAMEWORK (Contd.)**

#### **1.3. Regulatory framework (Contd.)**

##### **b) Rates**

The rates corresponding to the natural gas transportation service were established in the License and are regulated by ENARGAS.

The Gas Law establishes that the rates must cover reasonable costs of services, taxes and depreciation charges, while providing profit margins similar to those obtained from other activities subject to comparable or similar risks, and being in proportion to the level of efficiency in providing of the services.

According to the conditions originally agreed, rates were subject through to the expiry of the License to:

- i) adjustments derived from the five-yearly review to be performed by ENARGAS affecting, as far as possible, the "X" efficiency and "K" investments factors, where "X" reduces the rate as counterpart of efficiency increases and "K" increases it to encourage unprofitable investments;
- ii) non-recurrent adjustments to reflect variations in the costs resulting from changes to tax regulations (except in the case of changes in income tax); and
- iii) unscheduled adjustments as a result of other objective and justifiable causes at the discretion of ENARGAS.

With respect to the mechanism for setting rates and regardless of the provisions in the original contractual framework, the Law on Public Emergency N° 25.561 established the pesification of the rates of natural gas transportation for the local market at the exchange of \$ 1 = U\$S 1, determining that the peso values will prevail on the date of inforcement of the Law and the revocation of the six-monthly adjustment mechanism based on the PPI.

It is important to highlight that this situation has led to the suspension of the process of the Second Five-yearly Rate Review which was being carried out in 2001 and according to which the new rates for the five-year period 2003-2007 were to be determined.

##### **c) The License**

The Law No. 25561 authorize the PEN to renegotiate the contracts for public works and services taking into account (i) the impact of rates on the competitiveness of the economy and the distribution of income, (ii) the quality of the services and the investment plans contemplated in the contracts, (iii) users' interests and service accessibility, (iv) the safety of the systems and (v) the companies' utilities.

The Unit for the Renegotiation and Analysis of Public Services Contracts ("UNIREN"), an entity created in July 2003 in the environment of the Ministries of Economy and Production ("MEP") and Federal Planning, Public Investments and Services ("MPFIPyS"), is currently in charge of the renegotiation process.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 1 - FORMATION OF THE COMPANY AND REGULATORY FRAMEWORK (Contd.)**

#### **1.3. Regulatory framework (Contd.)**

##### **c) The License (Contd.)**

The objective of UNIREN is to counsel and assist in the process of renegotiation of contracts for public works and utilities established by Law No. 25561. Among its functions is that of *“submitting drafts of bills relating to possible temporary adjustments to prices, rates and/or their segmentation, or contractual clauses relating to public services through concessions or licenses”*, and to *“prepare a draft of the General Regulatory Framework for Public Services corresponding to National Jurisdiction, that encompasses the basic generic conditions for all sectors.”*

On August 24, 2004 the PEN presented a Public Utilities Regime Bill (“Bill”) to the Chamber of Deputies, the drafting of which had been commissioned to the UNIREN.

The Bill is characterized by the great discretionary powers retained by the State, the modification of basic aspects of the Gas Law and the restriction in many fundamental aspects of the business decision-making capacity of providers under the current regulatory framework.

It also establishes that in the event of irreconcilable inconsistencies between the bill and pre-existing regulatory frameworks, the former will prevail over the latter.

Law No. 25790, published on October 22, 2003, which extended the period for renegotiating the contracts for public services until December 2004, also established that the decisions made by the PEN in the course of the process of renegotiation process will not be limited or subject to the specifications contained in the regulatory frameworks that govern the contracts covering concessions or license of the corresponding public services.

In spite of the above, to date no significant progress can be observed in the process of renegotiation of the License, so the Company cannot determine exactly how the process will develop or the time it will incur. The renegotiation was extended for two more terms, firstly up to December 31, 2005 through Law No. 25972, and subsequently up to December 31, 2006 through Law No. 26077.

Joint Resolutions No. 123/05 issued by the MEP and No. 237/05 issued by the MPFIPyS were published in the Official Gazette on March 7, 2005, summoning to several public hearings to deal with the proposals for adjustment submitted by the UNIREN, or as applicable, the preliminary agreements reached by the companies and UNIREN. TGN’s hearing took place on May 18, 2005 but it was only to analyze a unilateral proposal submitted by UNIREN in July 2004, which TGN considers to be unsatisfactory. As of today, the Company has not been able to negotiate a reasonable agreement with the UNIREN.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 2 – ARGENTINA’S ENERGY CRISIS AND ITS IMPACT ON THE COMPANY**

As a result of the “de facto” freezing of the casing-head natural gas price and the “de iure” freezing of the regulated transport and distribution rates at the beginning of 2002, there was an imbalance between supply and demand that brought about a significant supply deficit in early winter of 2004.

Unlike the developments that took place in the production segment, no decrease was recorded in the gas transportation supply. However, as consequence of the changes in regulations which have affected the Company’s license and the absence of a fair and reasonable rate, in opinion of the board of the Company, TGN has been unable to meet increasing demand through the expansion of its transportation system.

To this scenario was added the electricity industry problem, which was also affected by a price control which led to imbalances between supply and demand. This situation had an impact on the gas industry because of the government’s decision to partially resolve the lack of interruptible gas supply for the electricity industry by affecting firm natural gas contract industrial users.

In view of this situation, the Government decided to adopt various measures to counteract the effects of this crisis in the short term. Although the Regulatory Framework foresees certain procedures to be applied in order to prevent exhaustion of uninterruptible gas supply<sup>(1)</sup>, the Government introduced new schedules for the redistribution of the shortage. Those measures basically consisted in restricting exports, reassigning the gas and transport capacity on a discretionary basis without affecting uninterruptible users for whom supply is guaranteed under the Regulatory Framework.

On February 16, 2004, PEN Decree No. 180/04 was published, establishing the creation of the Gas Electronic Market (Mercado Electrónico del Gas -"MEG") in order to improve the allocation of available gas according to market demands. Under this Decree, any natural gas *spot* sale (overnight sales, or those consummated in less than one day) and any sale of remaining transport capacity (both for available firm capacity according to the daily programming of carrier, not being nominated by the charger under the respective transportation agreement, and for resales decided by the parties to the firm transportation agreement) is to be made on the MEG. In addition, the MEG will coordinate the transactions to be conducted on the secondary distribution market.

Furthermore, Decree No. 180/04 also established the creation of a trust fund to finance investments in the extension of the natural gas transport and distribution systems with rate charges, loans from national and international entities and specific contributions from direct beneficiaries (Note 13).

Another important aspect of Decree No. 180/04 is the power conferred on the Energy Secretariat to take any measure considered necessary to maintain a proper level of services, in the event that the natural gas system enters into a supply crisis or generates this type of situation in another public utility.

The regulation also provides that these mechanisms will be applied only in emergencies or supply crisis situations and cannot be prolonged beyond the situation that generated them.

(1) Includes residential users, small commercial establishment and industries, subdistributors and CNG.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 2 – ARGENTINA’S ENERGY CRISIS AND ITS IMPACT ON THE COMPANY (Contd.)**

On that date, PEN Decree No. 181/04 was published, authorizing the Energy Secretariat to negotiate with natural gas producers a regularization of the gas price until December 31, 2006. This Decree provides for methods of protection of residential customers, and tends large users to hire the gas supply directly with producers. Decree No. 181/04 contemplates no adjustment to regulated gas transport and distribution rates.

On the basis of Decree No. 180/04, the Energy Secretariat, the Under-Secretariat of Fuels and ENARGAS issued a number of regulations, establishing steps to avoid a crisis in the internal supply of natural gas and its consequences on the wholesale supply of electricity, including the suspension of exports of surplus natural gas which would be useful for internal supply, the preparation of a schedule of cuts in the volumes of gas destined to export and the generation of electricity for export, as well as transport services linked to exports.

The Company cannot guarantee that these government measures will not give rise to adverse results in the future on its firm export transport contracts. Furthermore, the Company considers that the start-up of the MEG will have an adverse effect on income provided by transported gas sold on that market.

### **NOTE 3 - ACCOUNTING STANDARDS**

Below are the most relevant accounting standards used by the Company to prepare these financial statements, which were applied on a consistent basis with those for the previous year.

#### **3.1. Preparation and presentation of the financial statements**

##### **i) Accounting Standarts**

The financial statements are stated in thousands of Argentine pesos and were prepared in accordance with accounting disclosure and valuation standards contained in the Technical Pronouncements issued by the Argentine Federation of Professional Councils in Economic Sciences ("F.A.C.P.C.E."), approved with certain amendments by the Professional Council in Economic Sciences of the City of Buenos Aires ("C.P.C.E.C.A.B.A.") and according to the Resolutions issued by the National Securities Commission ("CNV").

In addition, ENARGAS Resolution No. 1660/00, amended by Resolution No. 1903/00, establishing certain disclosure and valuation criteria for the regulated activity of natural gas transportation and distribution have been applied. These criteria are similar to those established by the prevailing accounting standards.

##### **ii) Accounting Standarts recently issued**

The CNV has issued General Resolutions No. 485 and 487 on December 29, 2005 and January 26, 2006, respectively.

Those resolutions adopted the new accounting standards issued by the C.P.C.E.C.A.B.A. through its Resolution C.D. No. 93/05 with certain amendments. These accounting standards are of compulsory application to interim years or periods beginning as from January 1, 2006.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 3 - ACCOUNTING STANDARDS (Contd.)**

#### **3.1. Preparation and presentation of the financial statements (Contd.)**

The main changes incorporated by the above standards and the effect on the accounting standards currently applied by the Company, are as follows:

- a) As established by the new accounting standards and as mentioned in Note 3.4.I), the Company has decided not to recognize the deferred liability arising from the impact of the adjustment for inflation on fixed assets and other non-monetary assets amounting to approximately \$ 412 million at December 31, 2005.
- b) So far, accounting standards required the comparison between assets book value and the cash flows they will generate at nominal values in order to determine whether there was any asset impairment. The recently adopted standards require this comparison to be made against cash flows at discount values. The Company estimates that the impact of this change at the date of issue of these financial statements is not material.

#### **3.2. Accounting estimates**

The preparation of financial statements in accordance with professional accounting standards in Argentina requires that the Company's Board of Chairmen make estimates affecting the amount of assets and liabilities recorded and if applicable, the disclosure of contingencies at the date of filing of these financial statements. Actual results might differ from the estimates made at the date of preparation of these financial statements.

Those estimates are influenced by the changes in the economic context and in the legal and contractual conditions in which the Company operates, as well as by the License renegotiation process and the Company's financial debt; therefore there is uncertainty regarding the generation of future cash flows to enable the repayment of liabilities, the recovery of non-current assets, the future development of its business and the preservation of the Company as a going concern.

#### **3.3. Recognition of the effects of inflation**

The financial statements have been prepared in constant of currency units, reflecting the overall effects of inflation until August 31, 1995. As from that date restatement of the financial statements has been discontinued until December 31, 2001, as a result of a period of monetary stability. As from January 1, 2002 and up to March 1, 2003 the effects of inflation were recognized to reflect the inflation recorded during that period.

#### **3.4. Principal valuation criteria**

##### **a) Items denominated in Argentine currency**

*Cash and banks, investments, receivables, liabilities and contingencies*

They have been maintained at their nominal values plus interest accrued, according to what corresponds, through the end of the year.

Temporary investments in pesos in Government bonds and stocks market pledged in collateral have been valued at their respective list prices at the closing of each financial year (Exhibit D).

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 3 - ACCOUNTING STANDARDS (Contd.)**

**3.4. Principal valuation criteria (Contd.)**

**a) Items denominated in Argentine currency (Contd.)**

In the case of long-term accounts receivable not subject to a rate of interest, or for which there is no financial compensation contemplated, the current values were established on the basis of the instructions of RT No.17. This criterion was not applied to current headings, as the low level of variation in the domestic wholesale price index allows the period to be viewed as one of monetary stability.

The Company set up an allowance for certain Accounts Receivable invoiced with indexation clauses, the collection of which is in dispute with the debtor (Exhibit E).

**b) Items denominated in foreign currency**

*Cash and banks, investments, receivables, liabilities, customer advances and contingencies*

They have been valued at the corresponding exchange rate plus interest accrued, in case of corresponding through the end of the year. The balances are shown in Exhibit G. The resulting exchange rate differences were charged to the financial results of each year.

The Company has set up a provision for certain trade receivables billed in US dollars with index-adjustment clauses, the collection of which in that currency has given rise to controversy with the debtor (Exhibit E).

On February 23, 2005, the Company adhered to the Public debt exchange plan and exchanged the Bonds it had acquired in April 2001 under the Argentine Republic Medium-term External Bills Program for US\$ 2 million, for "Discount Bonds in US dollars", representing approximately 31% of the above-mentioned amount. At December 31, 2005 the investment was valued at its estimated net realizable value. At December 31, 2004, the investment had been valued at its estimated market value, which did not differ significantly from the value resulting from joining the above exchange.

**c) Materials and spare parts, net**

At December 31, 2005 and 2004 they have been valued at replacement cost, net of the allowance for spare parts and slow moving and obsolete materials for consumption.

Inventories have been broken down into current and non-current on the basis of the estimated consumption plan approved by the Company's Board of Directors.

Considering the economic and financial forecasts prepared by the Company on the basis of its best estimates according to the guidelines indicated in Note 3.2 and the resolution of uncertainties mentioned in Notes 1.3. and 2, the carrying value of spares and material for consumption does not exceed their recovery value.

**d) Fixed assets, net**

The original global value adopted in relation to assets transferred at the beginning of the Company operations is that assigned to them under the Transfer Agreement.

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 3 - ACCOUNTING STANDARDS (Contd.)**

**3.4. Principal valuation criteria (Contd.)**

**d) Fixed assets, net (Contd.)**

Assets acquired or constructed after take-over were valued at acquisition or construction cost, including material, labor and indirect costs, and are shown net of the corresponding accumulated depreciation.

The Company has included as part of the value of fixed assets, the net cost generated by the financing by third parties during the construction period of which is extended over time, until start-up.

The above-mentioned values are stated in constant currency as indicated in Note 3.3 and their evolution is shown in Exhibit A.

Accounting and tax depreciation is calculated by the straight-line method applying amortization rates sufficient to extinguish original values at the end of reasonable useful lives.

At the end of the year ended on December 31, 2005, the Company adjusted the residual values of its compressors and wrote off \$ 11.7 million against retained earnings (accumulated deficit) at the beginning of 2004 which, net of its tax impact, amounted to \$ 9.8 million (Note 3.4.I). This adjustment corresponds to the estimate of the value of spares replaced during the first scheduled overhaul for each compressor in operation.

Furthermore, in 2005 a pipeline relining campaign was carried out over a length of 49.55 km. In accordance with ENARGAS Resolutions Nos. 1660 and 1903, \$ 17.6 million were capitalized, becoming part of the Company's Essential Fixed Assets and, consequently, of its tariff base.

Considering the economic and financial projections prepared by the Company on the basis of its best estimate according to the guidelines set out in Note 3.2. and the resolution of the uncertainties mentioned in Notes 1.3 and 2, the carrying value of the fixed assets, taken as a whole, does not exceed its recovery value.

**e) Investments**

The investments in foreign related parties Comgas Andina S.A. ("COMGAS") and Companhia Opeadora de Rido Grande do Sul ("COPERG") are recorded using the equity method of accounting based on their financial statements as December 31, 2005 and 2004 (Exhibit C).

The accounting standards used by the foreign related parties to prepare its financial statements are similar, in all significant aspects, to those used by the the Company.

The Company has decided to fully provide for its investment in the Brazilian company COPERG as the development of the business has not been in line with expectations. The original aim was to render of operation and maintenance services to the gas pipeline from Uruguayana to Porto Alegre. The construction of that pipeline has been delayed and it is unknown whether this infrastructure work will be carried out or not. The service rendered by



**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 3 - ACCOUNTING STANDARDS (Contd.)**

**3.4. Principal valuation criteria (Contd.)**

**e) Investments (Contd.)**

COPERG is currently limited to an area near the Argentine border. Consequently, the reduced level of activity of that Company will not enable the recovery of the investment.

The Company is not aware of any events that modify the equity or financial situation or the results of these companies at December 31, 2005 as from the date of approval of the corresponding financial statements, which had a significant impact on the valuation of the investments at that date and were not taken into consideration.

**f) Others Assets**

Gas in pipelines has been valued at the replacement value of the cubic meter of gas plus average transportation cost. The results from the variation in these prices are recorded under financial results arising from assets - holding results.

The book value of this asset does not exceed recoverable value.

**g) Capital stock and inflation adjustments of common capital**

Stated in constant currency as indicated in Note 3.3.

The account "Common stock" is shown at its historical nominal value.

The difference between common stock stated in constant currency and the historical nominal capital stock is shown under "Inflation Adjustments of common capital", making up the shareholders' equity.

**h) Legal reserve**

Stated in constant currency as indicated in Note 3.3.

**i) Voluntary reserve**

The amounts included under this caption were set up by the Shareholders' meetings approving the corresponding annual financial statements.

This reserve can be released by the Board of Chairmans, which, through delegation of the Shareholders' Meeting, is empowered to decide its total or partial distribution, at the time considered advisable for corporate purposes, in proportion to the respective shareholdings. This reserve has been stated in constant currency as indicated in Note 3.3.

**j) Retained earnings (accumulated deficit)**

Stated in constant currency as indicated in Note 3.3.

**k) Profit and loss accounts**

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

Income statement accounts have been stated in nominal currency except for: (i) charges for used assets (fixed assets depreciation and disposals and intangibles assets amortization of intangible assets, calculated according to the values of those assets; (ii) the participation in

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 3 - ACCOUNTING STANDARDS (Contd.)**

**3.4. Principal valuation criteria (Contd.)**

**k) Profit and loss accounts (Contd.)**

the results of foreign related parties, calculated by the equity method of accounting based on the financial statements of those companies, as indicated in Note 3.4.e) and (iii) the use of inventories and the charge for obsolete and slow-moving spares and consumption materials determined based on the value of those assets.

**l) Income tax**

The prevailing accounting standards require the recording of Income Tax through the deferred tax method. This means the recognition in the balance sheet, under the form of net assets and liabilities for "deferred tax", of the temporary differences that arise between the accounting and tax valuation in those accounts that have different criteria, and also the recoverable tax loss.

Furthermore, the differences between initial and closing net deferred tax asset balances gave rise to the charge included under "income tax" in the statement of income.

The actual realization of the deferred tax assets and liabilities over time will depend on the existence of taxable profits during the years in which the temporary differences become deductible.

Due to a specific situation in the Company, characterized by (i) the tax loss carry-forward generated in 2002 (which represents a deferred tax asset of considerable significance) and (ii) the uncertainty regarding the generation of profits in the coming years, in the calculation of deferred tax, the projections of future taxable gains have been taken into consideration, thereby setting up an allowance for the impossibility of using part of the tax loss carry-forward prior to its statute of limitation. The projections have become the basis for the best estimate, according to the guidelines set out in Note 3.2., and considering the resolution of the uncertainties mentioned in Notes 1.3 and 2. referring to the changes in the Argentine economic context and the legal and contractual conditions of the Company. On the basis of its best estimates, the carrying value of the assets for deferred tax does not exceed its recovery value.

Furthermore, as established by CNV regulations, deferred tax assets and liabilities are to be stated in nominal values. This criterion does not conform to accounting professional standards applicable in the Autonomous City of Buenos Aires, under which those balances are to be stated at discounted net present values with representative interest rates. Had that discount been applied, the deferred tax asset balance at December 31, 2005 and 2004 would have amounted to approximately \$ 94.3 million and \$ 79.1 million, respectively.

In accordance with prevailing accounting standards, the Company has considered the adjustment for inflation included in the fixed assets accounting valuation as a permanent difference for deferred tax calculation purposes. However, due to the application of the new standards described in Note 3.1.ii), the Company can decide whether to recognize that adjustment for inflation as a temporary difference, and therefore record the deferred liability, or maintain it as a permanent difference and disclose the impact of that option in a Note to the financial statements. The Company has decided not to recognize the deferred liability. If it

**TRANSPORTADORA DE GAS DEL NORTE S.A.****NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)**NOTE 3 - ACCOUNTING STANDARDS (Contd.)****3.4. Principal valuation criteria (Contd.)****I) Income tax (Contd.)**

had been recorded, the estimated effect of the application of this new criterion would have been an increase of \$ 412 million in deferred tax liabilities.

The following table details the breakdown of assets and liabilities temporary differences at December 31, 2005 and 2004:

	12.31.05	12.31.04
<b>Deferred tax assets (liabilities):</b>		
Short term investments (valuation)	(220)	-
Accounts receivable (doubtful accounts)	7,105	5,937
Other receivable (doubtful accounts and discount at present value)	5,742	5,363
Fixed assets (useful life) (1)	(15,979)	(14,971)
Materials and spare parts (valuation)	13,753	(1,418)
Other assets (valuation)	(3,722)	(3,650)
Contingencies (lawsuits)	27,056	22,244
Debt (payments with discounts)	-	(1,060)
Other liabilities	118	223
Foreign currency exchange losses (for devaluation January 2002)	15,639	31,278
Tax loss carry forward	297,132	296,772
Valuation allowance	(236,577)	(256,132)
<b>Net total deferred tax assets (Note 4.b.ii)</b>	<b>110,047</b>	<b>84,586</b>

(1) Includes the tax effect amounting to \$ 1.9 million corresponding to the adjustment of prior years' results affecting the Fixed Assets caption, which is detailed in Note 3.4.d).

Below are the changes in the deferred income tax for the periods ended December 31, 2005 and 2004, which produced the corresponding effects on the results for each year and the evolution of the provision on tax loss carry-forward:

<b>Evolution of the deferred tax:</b>	12.31.05	12.31.04
Balances at the beginning of the year-deferred tax assets (Note 3.4 d))	84,586	58,439
Income tax benefit	25,461	26,147
<b>Balances at the end of the year -deferred tax asset</b>	<b>110,047</b>	<b>84,586</b>

<b>Evolution of the Provision on tax loss carry-forward:</b>	12.31.05	12.31.04
Balances at the beginning of the year	(256,132)	(292,652)
Evolution of the year	19,555	36,520
<b>Balances at the end of the year</b>	<b>(236,577)</b>	<b>(256,132)</b>

The reconciliation between the tax determined by applying the tax rate to the accounting results against the deferred tax is disclosed in the following table:

	31.12.05	31.12.04
Net loss before income tax	(71,565)	(58,536)
Income tax rate	35%	35%
<b>Income tax benefit at statutory tax rate</b>	<b>25,048</b>	<b>20,488</b>
<b>Permanent differences:</b>		
- Inflation adjustment	(20,672)	(31,006)
-Donations and non deductible expenses	(653)	(543)
-Change in valuation allowance	19,555	36,520
-Gain from equity investees, net	331	439
-Others	1,852	249
<b>Income tax benefit</b>	<b>25,461</b>	<b>26,147</b>

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 3 - ACCOUNTING STANDARDS (Contd.)****3.4. Principal valuation criteria (Contd.)****l) Income tax (Contd.)**

The accumulated tax loss carry-forwards held by the Company that are pending to be used at the end of the year can be offset against taxes payable in future years according to the following detail:

Year	Amount	Year of expiry
Tax loss carry-forward for year 2002	1,032,919	2007
Used during year 2003	(236,074)	
Tax loss carry-forward for year 2004	38,447	2009
Tax loss carry-forward for year 2005 (estimated)	13,658	2010
<b>Total accumulated tax loss carry-forward as of December 31, 2005</b>	<b>848,950</b>	

**m) Minimum presumed income tax**

The Company calculates minimum presumed income tax by applying the current 1% rate on computable assets at the end of the fiscal year. This tax complements income tax. The Company's tax obligation for each year will agree with the higher of the two taxes. However, if minimum presumed income tax exceeds income tax in a given year, that amount in excess can be computed on account of income tax arising in any of the following ten years.

The Company recognized minimum presumed income tax accrued for the year ended December 31, 2005 and the one paid in previous years as a credit since it estimates it can be computed as payment on account of income tax.

The mentioned credit has been computed at its discounted value as indicated in Note 3.4.a).

Considering the economic and financial projections prepared by the Company on the basis of its best estimate according to the guidelines set out in Note 3.2. and the resolution of the uncertainties mentioned in Notes 1.3. and 2., the carrying value of the minimum presumed income tax does not exceed its recovery value.

The breakdown of the credit for minimum presumed income tax at December 31, 2005 is set out below:

Year	Amount	Year of expiry
2002	12,959	2012
2003	14,097	2013
2004	15,366	2014
2005	16,744	2015
Subtotal of the credit for minimum presumed income tax at nominal values	59,166	
Discount at present net value	(15,388)	
<b>Balance at the end of the year (Note 4.b)ii)</b>	<b>43,778</b>	

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 3 - ACCOUNTING STANDARDS (Contd.)**

**3.4. Principal valuation criteria (Contd.)**

**3.5 Comparative information**

Balances at December 31, 2004 shown in these financial statements for comparative purposes arise from the financial statements at that date and include the impact of prior years' adjustments described in Note 3.4.d).

Furthermore, certain changes and reclassifications were made to balances at December 31, 2004 to disclose that information consistently with that for the current year.

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 4 - BREAKDOWN OF MAIN CAPTIONS OF BALANCE SHEET, STATEMENTS OF OPERATIONS AND CASH FLOWS**

CAPTIONS	12.31.05	12.31.04
	in thousands of \$	
<b>a) Accounts receivable, net</b>		
<b>Gas transportation service</b>		
• Billed		
-Distributors	9,983	7,681
-Industrial	15,741	9,867
-Generators	12,522	8,568
• Unbilled	34,634	35,265
Subtotal	72,880	61,381
<b>Other services</b>		
• Billed	671	2,032
• Un billed	1,607	3,180
Subtotal	2,278	5,212
Allowance for doubtful accounts (Exhibit E)	(5,552)	(4,961)
Allowance for disputed amounts (Exhibit E)	(15,460)	(12,001)
<b>Total</b>	<b>54,146</b>	<b>49,631</b>
<b>b) Other receivables, net</b>		
i) Current		
<b>Gas transportation service</b>		
Tax credits	1,518	1,496
VAT, net	-	1,792
Directors´ and management fees (Note 5.i))	773	618
Advanced to employees	156	192
Deposit in escrow	5,792	-
Prepaid expenses	23,249	4,863
Receivables from transactions on behalf of third parties	4,754	4,286
Sundry	780	219
Subtotal	37,022	13,466
<b>Other services</b>		
Management fees - Gas Trusts Program -(Note 13)	917	-
Receivable with controlling shareholders (Note 5.i))	8	8
Receivables with equity investees (Note 5.i))	330	398
Other related parties (Note 5.i))	352	304
Expenses paid on behalf of third parties	-	294
Sundry	1,694	4,675
Subtotal	3,301	5,679
Allowance for doubtful accounts (Exhibit E)	(618)	(278)
<b>Total</b>	<b>39,705</b>	<b>18,867</b>
ii) Non Current		
<b>Gas transportation service</b>		
Deferred tax asset, net (Note 3.4.l))	110,047	84,586
Minimum presumed income tax (Note 3.4.m))	43,778	26,699
Gross revenue tax withholding	812	812
Prepaid expenses	242	10,700
Deposit in escrow and disputed tax payments	4,693	7,630
Allowance for deposits in escrow and disputed tax payments (Exhibit E)	(4,693)	(4,234)
Subtotal	154,879	126,193

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 4 - BREAKDOWN OF MAIN CAPTIONS OF BALANCE SHEET, STATEMENTS OF OPERATIONS AND CASH FLOWS (Contd.)**

CAPTIONS	12.31.05	12.31.04
	in thousands of \$	
<b>Other services</b>		
Other related parties (Note 5.i))	865	-
Guarantee deposits	625	525
Subtotal	1,490	525
<b>Total</b>	<b>156,369</b>	<b>126,718</b>
<b>c) Materials and spare parts, net</b>		
i) Current		
Materials and spare parts	8,619	5,777
<b>Total</b>	<b>8,619</b>	<b>5,777</b>
ii) Non-current		
Materials and spare parts	71,700	67,947
Allowance for slow-moving and obsolescence (Exhibit E)	(39,136)	(36,032)
<b>Total</b>	<b>32,564</b>	<b>31,915</b>
<b>d) Accounts payable</b>		
<b>Gas transportation service</b>		
Suppliers	11,268	10,971
Unbilled services	47,077	20,719
<b>Total</b>	<b>58,345</b>	<b>31,690</b>
<b>e) Taxes payable</b>		
VAT, net	1,017	-
Gross revenue tax	708	662
Minimum presumed income tax	6,613	5,645
VAT withholdings	826	617
Income tax withholdings	4,243	2,283
Gross revenue tax withholdings	114	130
Sundry	-	16
<b>Total</b>	<b>13,521</b>	<b>9,353</b>
<b>f) Others</b>		
i) Current		
Easement	7,821	4,900
Directors' and management fees (Note 5.i))	982	800
Others	159	157
<b>Total</b>	<b>8,962</b>	<b>5,857</b>
ii) Non current		
Easement	5,533	8,002
<b>Total</b>	<b>5,533</b>	<b>8,002</b>
<b>g) Net revenues</b>		
<b>Gas transportation service</b>		
Gas transportation service	433,742	410,263
Benefit on social security contributions Decrees No. 292/1520/814	(1,651)	(1,626)
Allowances for disputed amounts	(2,697)	(3,083)
Subtotal gas transportation service	429,394	405,554
<b>Other services</b>		
Gas Pipeline O & M services	17,097	16,475
Management fees – Gas Trusts Program (Note 13)	3,860	-
Subtotal other services	20,957	16,475
<b>Total</b>	<b>450,351</b>	<b>422,029</b>
<b>h) Financial and holding result, net</b>		
i) Generated by assets:		
Bank commissions and expenses	(361)	(628)
Discount granted	(352)	-



**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 4 - BREAKDOWN OF MAIN CAPTIONS OF BALANCE SHEET, STATEMENTS OF OPERATIONS AND CASH FLOWS (Contd.)**

CAPTIONS	12.31.05	12.31.04
	in thousands of \$	
Holding results	5,255	5,387
Loss on discounting of non-current assets	(405)	(1,728)
<b>Total</b>	<b>4,137</b>	<b>3,031</b>
ii) Generated by liabilities:		
Bank commissions, expenses and taxes on banking and financial operations	(10,555)	(8,312)
Gain on extinguishment of debt (Note 9.5))	3,844	9,942
Fees for guarantee of loan agreement (Note 5.ii))	(3,085)	(3,411)
Discounts obtained	86	82
<b>Total</b>	<b>(9,710)</b>	<b>(1,699)</b>
<b>i) Other (expense) income, net</b>		
Gain (loss) on disposal of fixed assets and other expenses	(1,512)	5,294
Recovery of contingencies	249	4
Donations	(1,619)	(1,777)
<b>Total</b>	<b>(2,882)</b>	<b>3,521</b>
<b>j) Cash and cash equivalents:</b>		
Cash and banks	4,694	12,675
Mutual funds in foreign currency (Exhibit D)	309,920	174,378
Time deposits in foreign financial institutions in (Exhibit D)	131,315	166,333
Mutual funds in \$ (Exhibit D)	27,044	18,686
Stock exchange securities in \$ (Exhibit D)	16	3,010
<b>Cash and cash equivalents as shown in the statement of cash flows</b>	<b>472,989</b>	<b>375,082</b>

**NOTE 5 – BALANCES AND TRANSACTIONS WITH CONTROLLING SHAREHOLDERS, RELATED PARTIES AND DIRECTOR'S AND MANAGEMENT FEES**

CAPTIONS	31.12.05	31.12.04
	miles de \$	
<b>i) Balances with related parties:</b>		
<b>Accounts receivable:</b>		
-Receivables with equity investees	-	691
-Other	6,911	6,063
<b>Other receivables:</b>		
Current:		
-Receivables with controlling shareholders (Note 4.b)i)	8	8
-Receivables with equity investees (Note 4.b)i)	330	398
-Other (Note 4.b)i)	352	304
-Director's and management fees (Note 4.b)i)	773	618
Non-Current:		
-Other (Note 4.b)ii)	865	-
<b>Accounts payable:</b>		
- Other related parties	10,183	6,782
<b>Other:</b>		
- Directors' and management fees (Note 4.f)i)	982	800

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 5 – BALANCES AND TRANSACTIONS WITH CONTROLLING SHAREHOLDERS, RELATED PARTIES AND DIRECTOR'S AND MANAGEMENT FEES (Contd.)**

CAPTIONS	12.31.05	12.31.04
	miles de \$	
<b>ii) Transactions with related parties</b>		
<b>Controlling shareholders:</b>		
-Other income	25	25
<b>Equity investees:</b>		
- Net revenues	151	699
- Other income	28	-
<b>Other:</b>		
- Net revenues	64,414	68,704
-Cost of service	(8,102)	(8,854)
-Fees for guarantee of loans agreements (Note 4.h ii)	(3,085)	(3,411)
-Other income	98	167
-Purchase Fixed assets	15,342	15,188
-Acquisition of materials and spare part and other assets	1,370	353
-Prepaid expenses an behalf of third parties	194	251
<b>Directors´ and management fees:</b>		
-Fee related to administrative task (Exhibit H)	(983)	(638)
-Fee related to professional services	(125)	(744)

**NOTE 6- RESULTS PER ORDINARY SHARE**

Below is the reconciliation between the weighted average shares outstanding and the weighted average of diluted shares. The latter average was determined considering the possibility of the holders of convertible negotiable obligations described in Note 9.2 exercising their right to convert the securities held by them into shares:

	12.31.05	12.31.04
	in thousands of \$	
Weighted average shares outstanding (Note 10.1.)	351,499	351,499
Diluted effect on potential common shares (1)	13,336	13,336
Adjusted weighted average shares outstanding assuming conversion of potential common shares	364,835	364,835

(1) US\$ 20 million converted under the conditions of the original contract (Note 9.2).

Below is a reconciliation between the net result for the period and the result used as basis for calculation of the result per basic and diluted share:

	12.31.05	12.31.04
	in thousands of \$	
Net loss	(46,104)	(32,389)
Net loss for calculation of the result per basic share	(46,104)	(32,389)
Plus accrued interest on convertible debt	5,569	5,605
Adjusted net loss, assuming conversion of potential common shares	(40,535)	(26,784)
<b>Basic net loss per share</b>	<b>(0.1312)</b>	<b>(0.0921)</b>
<b>Diluted net loss per share</b>	<b>(0.1111)</b>	<b>(0.0734)</b>

**TRANSPORTADORA DE GAS DEL NORTE S.A.****NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)**NOTE 7 - INFORMATION BY BUSINESS SEGMENT**

The following table shows additional information on the statement of operations of the Company and main balance sheet items at December 31, 2005 and 2004, segregated by business segment:

(in thousands of pesos)

Result for the year ended December 31, 2005	Gas transportation services		Others	Total
	Domestic market	Export market		
Net revenues	225,707	203,687	20,957	450,351
Cost of services, selling and administrative expenses (before depreciation and amortization)	(163,150)	(23,306)	(12,257)	(198,713)
Depreciation and amortization	(99,469)	(14,210)	(114)	(113,793)
Other expenses	(2,306)	(576)	-	(2,882)
Gain from equity investments, net	-	-	947	947
Financial and holding results, net	(165,981)	(41,287)	(207)	(207,475)
Income tax benefit	20,369	5,067	25	25,461
<b>Net loss for the year</b>	<b>(184,830)</b>	<b>129,375</b>	<b>9,351</b>	<b>(46,104)</b>
<b>As of December 31, 2005</b>				
Fixed assets, net	1,853,098	460,959	2,316	2,316,373
Accounts receivable, net	24,586	27,281	2,279	54,146
Debt	1,675,313	416,734	2,094	2,094,141
Other net assets	452,077	112,454	565	565,096
Shareholders' equity	654,448	183,960	3,066	841,474
Purchase of fixed assets	72,494	18,033	91	90,618

Result for the year ended December 31, 2004	Gas transportation services		Others	Total
	Domestic market	Export market		
Net revenues	219,141	187,538	15,350	422,029
Cost of services, selling and administrative expenses (before depreciation and amortization)	(147,321)	(21,044)	(5,570)	(173,935)
Depreciation and amortization	(98,689)	(14,099)	(229)	(113,017)
Other expenses	2,845	676	-	3,521
Gain from equity investments, net	-	-	1,254	1,254
Financial and holding results, net	(158,711)	(39,479)	(198)	(198,388)
Income tax benefit	20,918	5,203	26	26,147
<b>Net loss for the year</b>	<b>(161,817)</b>	<b>118,795</b>	<b>10,633</b>	<b>(32,389)</b>
<b>As of December 31, 2004</b>				
Fixed assets, net	1,874,708	466,334	2,343	2,343,385
Accounts receivable, net	20,316	24,102	5,213	49,631
Debt	1,570,057	390,552	1,963	1,962,572
Other net assets	365,707	90,970	457	457,134
Shareholders' equity	690,674	190,854	6,050	887,578
Purchase of fixed assets	54,822	13,637	69	68,528

**NOTE 8 – RESTRICTED ASSETS**

- i The large majority of the assets transferred by GdE, mainly those included in the Gas pipelines, High Pressure Branches, Compressor Plants and high pressure control and/or Measurement Stations (Exhibit A) captions, have been defined by the License as “essential for providing the service licensed”. In line with the License, the Company must repair and maintain the essential assets, together with their improvements and expansion, according to certain standards set out in the License. The Company cannot in

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 8 – RESTRICTED ASSETS (Contd.)**

any way dispose of essential assets, pledge them, lease or loan them, or give them any use other than the providing of carrying services, without the prior approval of ENARGAS.

- ii* In May 1999, TGN lodged legal action against the Under Secretariat of Equity Normalization and the Notary General of the Government, for the purpose of obtaining the title deeds of certain property that was transferred to TGN by GdE. The claim is intended to legally determine the terms within which the defendants must notarize the property transferred, and to ensure that in the event of non-compliance, the intervening Judge can issue the conveyance deeds for them. A ruling issued in the court of original jurisdiction was adverse to TGN to the May 27, 2005, which appealed before the National Court of Appeals in Federal Administrative Litigation.

According to the Transfer Contract, GdE must make reasonable efforts to ensure that all the property transferred is registered in the name of TGN within two years of takeover.

- iii* In April 2005 the Company acquiesced to a decision by the National Court of Appeals in Commercial Matters confirming a ruling by a court in the first instance on a claim for enforcement brought in July 2003 by two holders of corporate bonds issued by the Company for an amount of US\$ 0.6 million in principal plus US\$ 0.1 million in interest and costs. During the year ended December 31, 2005 the final determination of the Deposit in escrow was approved in favor of the creditor, and placed at its disposal.

On March 7, 2005, TGN was notified of an increase in the claim brought by those holders for US\$ 0.6 million for principal. In addition, on June 27, 2005 TGN was notified of a further claim for an additional amount of US\$ 0.6 million for principal. In August 2005, a Deposit in escrow on the Company's bank accounts was levied for the amounts of both complaints. Principal subject to the Deposit in escrow plus interest were charged to Other current receivables for \$ 4.3 million and the debt giving rise to that Deposit in escrow was charged to Current Loans at December 31, 2005.

The Company plans to act with the greatest diligence in this situation, and in response to any legal action that may be brought in future, to safeguard the interest of the financial creditors as a whole, preventing such steps from hindering the negotiations that are currently under way with them. The Company has proposed to make full use of its right of defense, so that the normal performance of its business is not affected.

- iv* Additionally, in the caption Other non-current receivables are included the attachments and legal deposits arising from several legal actions (Note 11).

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 9 – DEBT**

	<b>Interest rate</b>	<b>12.31.05</b>	<b>12.31.04</b>
	%	In thousands of \$	
i) Current			
Global Program of Negotiable Obligations - US\$ 300 MM			
Serie III	(1)	124,278	118,813
Serie IV	(2)	38,381	36,600
Serie V	(3)	77,392	73,700
Serie VII	(4)	19,489	18,684
Global Program of Negotiable Obligations - US\$ 320 MM			
Debt with IFC			
Serie I	(5)	42,933	30,565
Serie II	(6)	345,006	247,063
Serie III	(7)	33,099	23,601
Serie IV	(8)	28,526	20,362
Serie VI	(9)	135,099	96,857
Interest payable on Cribs	(10)	160,974	104,867
Loan agreements	(11)	362,411	382,310
Import finance	(12)	3,047	2,897
<b>Total current debt</b>		<b>1,370,635</b>	<b>1,156,319</b>
ii) Non current			
Global Program of Negotiable Obligations of US\$ 320 MM			
Debt with IFC			
Serie I	(5)	21,401	27,880
Serie II	(6)	106,353	162,903
Serie III	(7)	12,618	16,355
Serie IV	(8)	10,887	14,111
Serie VI	(9)	41,647	63,679
Cribs	(10)	530,600	521,325
<b>Total non-current debt</b>		<b>723,506</b>	<b>806,253</b>
<b>Total debt</b>		<b>2,094,141</b>	<b>1,962,572</b>

The Company is accruing interest at the following rates (nominal annual):

(1) Interest Rate 2005 and 2004 = 4.47%  
(2) Interest Rate 2005 and 2004 = 2.73%  
(3) Interest Rate 2005 and 2004 = 2.93%  
(4) Interest Rate 2005 and 2004 = 3.29%

(5) Interest Rate 2005 and 2004 = 9.52%  
(6) Interest Rate 2005 and 2004 = 9.45%  
(7) Interest Rate 2005 and 2004 = 10.66%  
(8) Interest Rate 2005 and 2004 = 10.66%

(9) Interest Rate 2005 and 2004 = 9.45%  
(10) Weighted average interest rate 2005 = 10.88% and 2004 = 10.88%  
(11) Weighted average interest rate 2005 = 5.40% and 2004 = 6.31%  
(12) Weighted average interest rate 2005 = 4.67% and 2004 = 2.59%

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 9 – DEBT (Contd.)****9.1. Global Program of Medium Term Negotiable Corporate Bonds -US\$ 300 million**

On March 3, 1994, through Resolution No. 10450, the CNV approved the entering of the Company to the Public Offering System and the set up of the Negotiable Obligations Global Program for an outstanding amount of up to US\$ 150 million later increased to US\$ 300 million. At its expiry, the Program was renewed through a Shareholders' Meeting resolution dated January 1999. On December 2, 1999, through Resolution No. 13135, the CNV authorized the Company to establish that program.

The net proceeds of these loans were appropriated to financing investments in fixed assets.

The amounts and conditions of the series issued under this Global Program are as follows:

Series	Date of Issue	Placing agent	Amount in US\$ million	Principal Payments	Interest payments	Annual interest Rate
III	10.31.1996	Santander	50.0	4 annual installments of US\$ 12.5 million each as from fifth year	Semi-annually on outstanding principal	180 days LIBO plus 3.125%
IV	06.26.1997	Santander	46.0	4 annual installments of US\$ 11.5 million each as from second year	Semi-annually on outstanding principal	180 days LIBO plus 1% per 1 and 2 years; plus 1.25% per 3 and 4 years; plus 1.50% per 5 year
V	06.26.1997	Santander	24.0	2 annual installments of US\$ 12.0 million each as from sixth year	Semi-annually on outstanding principal	Same as above plus 180 days LIBO plus 1.70% per 6 and 7 years
VI	03.04.1998	Nassau Branch of BankBoston N.A., Supervielle Société Générale y BEAL	40.0	A single payment due on third year	Semi-annually on outstanding principal	180 days LIBO plus spread ranging between 0.75% through 1.50%
VII	03.04.1998	Nassau Branch of BankBoston N.A., Supervielle Société Générale y BEAL	20.0	10 equal semi-annually installments	Semi-annually on outstanding principal	180 days LIBO plus spread ranging between 0.75% through 1.50%
<b>Total</b>			<b>180.0</b>			

**9.2. Global Program of Negotiable Obligations either Non-convertible or convertible into ordinary shares in the medium term -US\$ 320 million**

On February, 1996, the Shareholders' Ordinary and Extraordinary Meeting decided to set up a Global Program for the issue of simple obligations or obligations convertible into ordinary shares, for up to a maximum outstanding amount equivalent to US\$ 250 million, establishing that the issue of convertible negotiable obligations under this Global Program was not to exceed 21,052,632 notes. The maximum outstanding amount under the authorized Global Program was subsequently increased up to US\$ 320 million. This Program was authorized through Certificate No. 120/96 issued by the Board of Issuing Companies of the CNV.

Within the framework of this Global Program, on August, 1996 the Company entered into a Negotiable Obligation Purchase agreement with the International Finance Corporation ("IFC"), a World Bank organization, whereby IFC acquired ordinary negotiable obligations for US\$ 235 million par value and negotiable obligations convertible into Class A and B shares

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 9 – DEBT (Contd.)****9.2. Global Program of Negotiable Obligations either Non-convertible or convertible into ordinary shares in the medium term -US\$ 320 million (Contd.)**

for US\$ 20 million par value. The net proceeds were appropriated to financing the Company's Investment Plan for the 1995-1997 three-year period.

The main characteristics of the series issued and paid-in under that Program are as follows:

Series	Date	Type of negotiable bonds	Subscriber	Amount in US\$ millions	Years		Annual nominal rate %
					Term	Grace on principal	
I	08.01.96	Ordinary	IFC	20.0	13	3	9.52
II	08.01.96	Ordinary	IFC	154.5	12	2	9.45
III	08.01.96	Convertible into Class A shares	IFC	10.7	13	4	10.66
IV	08.01.96	Convertible into Class B shares	IFC	9.3	13	4	10.66
VI	09.18.96	Ordinary	IFC	60.5	12	2	9.45
		<b>Total</b>		255.0			

**9.3. Convertibility Risk Insured Bonds (CRIBS)**

In May 11, 2000, the Ordinary Shareholders' Meeting approved the issue of Ordinary non-convertible secured Corporate Bonds qualifying as "*negotiable bonds*" under the terms of Law No. 23576 and its regulatory decree for a principal value of up to US\$ 200 million nominal value.

Consequently, in July 2000 the Company placed bonds for US\$ 175 million at a market value of US\$ 99.64 per US\$ 100, representing a net value of US\$ 174.4 million to be amortized over 12 years, with eight grace years for principal at a fixed rate of 10.875% p.a. payable half-yearly, plus 0.325% p.a. for political risk insurance.

Merrill Lynch Capital Services purchased the bond and transferred it to a financial trust that issued CRIBs (*Convertibility Risk Insured Bonds*), i.e. bonds insured against unconvertibility and untransferability risk. That policy has been issued by Overseas Private Investment Corporation ("OPIC"), an agency of the U.S. government. The Company has suspended the payment of that insurance as from July 2004 transferring interest payments during the year as mentioned in Note 9.6. The Company has been informed of the termination of the contract entered with OPIC as from July 2004.

The purchasers of CRIBs were mostly U.S. insurance companies and Argentine Pension Fund Administrators.

The funds produced by this loan were used to cover the due dates of short and long-term loan contracts entered into during fiscal year 2000, and applied to financing investments in assets relating to the gas transportation system.

As explained in Note 14.iii) to these financial statements, the Company started to adopt certain actions for the future launch of a voluntary exchange offer, which basically imply changes to the contractual terms for these bonds.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 9 – DEBT (Contd.)**

#### **9.4. Others loan agreements**

On December, 2000, the Company entered into a syndicated loan agreement with a group of banks led by Bank of America, BankBoston and Banco Francés-BBV subject to the following basic terms and conditions: (i) Amount: US\$ 70 million, in two tranches of US\$ 35 million each; (ii) Maturities: one tranche in January 4, 2004 and the other in January 4, 2005; (iii) Interest: Libor + 2.5% annually for the first tranche and Libor + 3.0% annually for the second tranche, payable quarterly. In addition they accrued 1.3% annually for politic risk insurance to be paid along with such interests. The funds provided by this loan were applied to financing investments in assets exclusively related to gas transportation.

The Company carries other peso and US dollar-denominated loans for \$ 45.8 million and US\$ 28.1 million, respectively, from domestic and foreign banks, which have been disclosed as current loans at December 31, 2005.

#### **9.5. Defaulted Obligations**

As mentioned in Note 1.2., as from 2002 the Company has found itself obliged to postpone the payment of certain financial obligations, which at December 31, 2005 amount to US\$ 272.4 million in principal and US\$ 93.6 million in interest and \$ 38.6 million in principal and \$ 7.2 million in interest.

At December 31, 2005, the total financial debts in US dollars amounting to US\$ 675.5 million and in Argentine pesos amounting to \$ 45.8 million (of which US\$ 436.9 million and \$ 45.8 million were recognized as current and US\$ 238.6 million as non-current).

Additionally, the penalties corresponding to the above non-compliance have been estimated in the amount of US\$ 30.5 million (US\$ 15.2 million accrued in the year ended December 31, 2005, US\$ 10.1 million in financial year 2004 and US\$ 5.2 million in financial year 2003) which have been recorded as financial and holding results generated by liabilities – interest and updating, and are included in the balances described in the preceding paragraph.

Additionally, the Company has failed to meet a series of indicators that it had committed to maintain with respect to certain financial liabilities.

Due to such failure to comply, the Company's financial creditors could invoke the expiry of all due dates established and request early payment of their loans, which the Company discloses in the financial statements as current and non-current, according to the original terms agreed.

During 2002 the Company made contact with the creditors of these liabilities to agree on the terms of a standstill to prevent the enforcement of the acceleration clauses, allowing the Company to begin negotiations with the Government to rebuild its cash flow, in order to ensure the normal fulfillment of its financial liabilities. Although the agreement was not formally entered into, the standstill has effectively taken place.

However, one of the largest financial creditors of the Company, the IFC, objected on October 1, 2004 to the TGN regarding the situation with its financial creditors as an "effective forbearance". This creditor has explicitly informed that it has not waived any of the rights granted to it under the terms of the obligations originally assumed by the Company.

Considering the mentioned *default situation*, in order to avoid legal action that could complicate negotiations with the most important creditors, the Company resolved to cancel



**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 9 – DEBT (Contd.)**

**9.5. Overdue and unpaid obligations (Contd.)**

with a debt reduction, short-term bilateral debts it had with certain financial creditors. From December 2004 to January 2006 loans were settled by means of a \$ 55.2 million payment. The results for these payments were posted to financial results arising from liabilities for \$ 9.9 million in 2004, \$ 3.8 million in 2005 and \$ 0.5 million to be allocated in 2006.

**9.6. Interest payment**

To maintain its position as a going concern, the Company has initially started a process of dialogue with its financial creditors with the aim at reaching an interim agreement until the right conditions for a final proposal for its financing structure.

The Company made quarterly partial payments of accrued interest August 2005. In all these mentioned payments of interest, TGN unilaterally applied a temporary cap of 3.5% on the annual interest rate.

The payment terms of future interest will be established according to the financial restructuring agreement that the Company hopes to reach during the next months.

**9.7. Progress in the restructuring of the financial debt**

In 2005, the Company reached an agreement with its main financial creditors on the economic terms for the restructuring of its financial debt, although other matters are still under discussion. According to the schedule agreed, the restructuring proposal would be launched during the first half of 2006.

During the year, the Company carried out negotiations with an *ad hoc* creditor committee and, although there is no assurance that that process will be successfully completed, certain actions started to be adopted for the future launch of a voluntary exchange offer.

Note 14 Subsequent Events details the decisions adopted by TGN's Extraordinary Shareholder Meeting referred to certain measures related to the Company's financial debt restructuring proposal.

**NOTE 10 - COMMON STOCK AND DIVIDENDS**

**10.1. Common stock**

Common stock transactions as from commencement of operations are summarized as follows:

	Date	Thousands of \$	Registration in the Superintendency of Corporations			
			Date	No.	Book	Volume
Incorporation of the Company Capitalizations of irrevocable contributions:	11.24.92	12	12.01.92	11667	112	A
	12.28.92	267,255	03.07.94	1894	114	A
	03.25.94	84,232	06.09.94	5589	115	A
<b>Total</b>		<b>351,499</b>				

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 10 - COMMON STOCK AND DIVIDENDS (Contd.)**

#### **10.2. Limitation on the transferring of the Company's shares**

The "Pliego" Terms and Conditions and the Transfer Agreement impose certain restrictions on the transfer of Company's shares held by Gasinvest and the transfer of shares of the latter held by its shareholders.

In accordance with such restrictions, Gasinvest S.A. shall not reduce its participation in the Company's capital and votes to less than 51% ("Control Package") without prior approval by ENARGAS.

ENARGAS shall approve the transfer of the Control Package only if such transfer: (i) is made in block or if as a result there from, the new owner holds all Class A ordinary shares outstanding; (ii) does not affect the quality of gas transportation services provided by the Company; (iii) the Technical Operator, or any substitute therefore which may be accepted by ENARGAS, holds at least 10% of ordinary shares outstanding of the new owner and has entered into a Technical Assistance Agreement with the Company.

Any transfer or assignment or any other act leading to a decrease below 51% in the participation of original ordinary shareholders in the capital of Gasinvest S.A., including any shortfall in the subscription by those shareholders of any capital increase in Gasinvest S.A., requires prior approval by ENARGAS.

The foregoing restrictions do not apply to transfers between parties belonging to the same economic group as specified in the "Pliego".

#### **10.3. Restrictions on distribution of profits**

In accordance with Argentine Law No. 19550, the by-laws and Resolution No. 195 of the CNV, 5% of the net income for the year must be transferred to the Company's Legal reserve, until it reaches 20% of subscribed capital and integral adjustment to capital.

As originally established in certain long-term financing contracts, the Company must not declare or pay dividends, distribute shares, redeem or acquire its own capital or options on it if: (i) there is a case of non-compliance or potential case of non-compliance, (ii) the coefficient of coverage of payment of the long-term debt is lower than 1.2 or (iii) if total liabilities-shareholders' equity ratio is lower than 1.2.

Furthermore, should any of the events summarized in points (i), (ii) or (iii) above occur, the Company would be precluded from paying the annual Technical Assistance Fees under the Technical Assistant contract entered into with the Technical Operator, for any amount in excess of US\$ 1 million. This restriction also affects the contract mentioned in Note 14.i).

### **NOTE 11 - LEGAL MATTERS**

There are several lawsuits and claims filed against the Company as a result of its activities. Although the amount of the obligations arising from those claims cannot be adequately estimated due to their complexity and current status, according to the opinion of the Company's Board of Directors and its legal advisors, based on the estimates described in Note 3.2., those claims, individually or as a whole, would not have a significant impact on TGN shareholders' equity or on the result of its operations in excess of the amounts recorded as reserves. However, actual future results might differ from the estimates and evaluations made at the date of preparation of these financial statements.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 11 - LEGAL MATTERS (Contd.)**

The main legal matters of the Company are described below. The provision for contingencies set up by the Company up to December 31, 2005 amounts to \$ 72,611 (Exhibit E).

#### **11.1. Provincial stamp duty**

On April 15, 2004, the Supreme Court of Justice rendered judgment in the case entitled: *"Transportadora de Gas del Sur S.A. v. Province of Santa Cruz, declaratory and legal certainty action"* rejecting the fiscal claim of the defendant province, in relation to certain gas transportation contracts executed before and after the Takeover Date. This precedent, which is important because of its similarity with other claims filed against TGN by other provinces, was ratified by means of a judgment entered by the Supreme Court of Justice on August 22, 2005 in the case entitled: *"Transportadora de Gas del Norte S.A. v. Province of Salta, declaratory and legal certainty action"*.

There is a claim filed by the Province of Santiago del Estero against the Company for \$ 2.8 million (including fines but not interest).

There were other claims filed against TGN by the Province of Neuquén for \$ 143.5 million. On November 7, 2005, the Revenue Board of that province issued Resolution No. 709, through which the administrative acts giving rise to the above claims have been annulled.

#### **11.2. Tax on Economic Activities (Gross Revenue Tax) - Province of Salta**

On April 26, 2002 the General Tax Bureau of Salta determined through administrative procedure and according to its vested powers, an obligation for this tax for financial years 1996 to 2001 in the amount of \$ 1.3 million in principal, plus \$ 1.4 million in interest calculated up to May 31, 2002. This obligation was determined on the market value of "retained gas". After several administrative proceedings, on January 18, 2004 the Provincial Executive Branch issued Decree No. 118 that confirmed the tax assessment and ended the administrative proceedings. TGN initiated litigation for recovery of monies paid in error after paying the assessed amount that totaled \$ 3.7 million for the tax and related items. The presiding judge issued a ruling in favor of TGN. Additionally, TGN has appealed the fine levied by the Tax Authorities, equivalent to 50% of the tax assessed, before administrative authorities even though it is forecast that the outcome of this matter will be unfavorable. Meanwhile the Company is temporarily paying the accrued taxes. Because the outcome of this matter is unclear, since April 2004 the Company is paying the accrued tax.

#### **11.3. Las Mesitas accident**

ENARGAS imposed twelve fines on TGN in October 1999 for an accumulated total of \$ 5.6 million, as it considered that the Company had incurred in an incorrect operation of the parallel pipe of 16" that cause a serious accident in Las Mesitas province of Salta. TGN contends that the accident, which was an isolated case, was entirely due to an event beyond its control since the parallel pipe was being operated below the approved and prudent operating limits of resistance according to information held by TGN.

Following the administrative proceedings failed by TGN in October, 2002, the Economy Ministry confirmed ten of the fines, amounting to \$ 5.1 million, that had been imposed. The Company has filed an appeal against that ruling.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 11 - LEGAL MATTERS (Contd.)**

#### **11.4. Rescission the firm gas transportation contract with AES Paraná S.C.A**

In July 1999 TGN signed a contract with AES Paraná for firm transportation of up to 1.81 M<sup>3</sup>/day of natural gas for a term of 20 years, at the rate regulated by ENARGAS (Loma La Lata - Litoral area) plus an additional contribution equivalent to 5.6% of that rate. A significant expansion of the transportation system would be required for contract execution. As a result of the public events taking place in Argentina as from December 2001, which led to the conversion into "pesos" and the freezing of transportation rates in January, 2002, TGN notified AES Paraná about the need to review the transportation contract due to excessive onerousness.

In February 2003, after a fruitless attempt to gain a restructuring of the interests in play on an equitable basis, the Company found itself obliged to call for the rescinding of the transport contract. The application was filed with the ENARGAS under the jurisdiction granted by section 66° of Law No. 24.076 to that regulatory authority.

TGN requested suspension of its effects as long as the causes of major force preventing fulfillment of Company obligations under that contract continue to exist. AES Paraná answered the claim in May 2003, opposing its advancement, arguing that TGN has acted negligently by omitting to take the required steps to ensure the availability of the necessary resources to face the obligations TGN assumed in the transportation contract.

AES Paraná appears to have cross-claimed for the damages incurred due to the lack of transportation. It also questions the competence of ENARGAS to have jurisdiction over the case. TGN was notified on August 5, 2003 and replied to the motion to dismiss based on incompetence alleging ENARGAS attributes under Law 24.076, Section 66 to hear the case under dispute. In May 2004 the ENARGAS issued a resolution dismissing the defense based on lack of competence filed by AES Paraná.

In December 2005, the ENARGAS issued Resolution MJ No. 681, through which TGN and AES Paraná were requested to negotiate the terms for the continuity of the contract within thirty days after notification, ensuring compliance with commitments taken. In addition, the ENARGAS established that after that period the parties should inform the outcome of the negotiations, and if no agreement is reached, they should submit proposals to ensure compliance with the purpose of the contract, which will not have a binding effect. Resolution MJ No. 681 was issued as a result of a request filed by AES Paraná in February 2005 - dismissed by the ENARGAS- for the regulatory entity to decree a precautionary measure to oblige TGN to provide AES Paraná the service of firm transportation, or otherwise compensate the latter for the cost of the alternative fuel (gas oil).

When the original thirty-day term mentioned above expired, the Company requested the ENARGAS an extension of thirty additional days.

#### **11.5. Aguaray and General Mosconi Municipalities – Rate on commercial, industrial and service activities.**

In July 2003, the Municipality of Aguaray, Province of Salta, demanded that TGN pay \$ 4.6 million for the "Contribution that is levied on Commercial, Industrial and Services Activities" and interest, plus \$ 3.3 million in fines for alleged tax fraud. Notwithstanding the

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 11 - LEGAL MATTERS (Contd.)**

#### **11.5. Aguaray and General Mosconi Municipalities – Contribution on the commercial, industrial and service activity – (Contd.)**

administrative appeal for reversal of decision lodged on September 29, 2003 TGN initiated a legal certainty action with the Federal Court No. 1 of Salta, arguing the legality of the rate.

Additionally, the Company requested a provisional remedy that was granted on October 1, 2004. The case is ready for resolution.

On February 1, 2006, General Mosconi Municipality, in the Province of Salta, notified TGN of the payment of \$ 34.8 million for the same tax (including interest, adjustments and expenses) for the period between January 1995 and July 2005.

TGN filed the corresponding administrative claim for reversal of ruling and an appeal for the calculation to the Arbitration Commission on the understanding that it violates the Multilateral Agreement.

#### **11.6. Global Negotiable Obligation Programs official assessment**

In December 2004, the Company was notified of two resolutions, through which the Tax Authorities officially assessed income tax and Value Added Tax amounting to \$ 50.7 million and \$ 31.7 million, respectively, calculated on interest corresponding to Negotiable Obligations Global Programs. The amounts include compensatory interest and fines.

Those resolutions are related to the process for confirming compliance with the requirements ensuring that returns paid to the holders of those corporate bonds enjoy the benefits granted by section 36 bis of Law No. 23.576.

TGN appealed the sanctions imposed before the Federal Tax Court, and for both lawsuits handled in separated files by tax, the Authorities requested the suspension of the process to analyze the evidence filed by TGN following Instruction No. 1/05. This rule sets forth the guidelines to be considered by the collection entity to apply Jointly Resolutions Nos. 470 and 1.738 of the CNV and AFIP, respectively, detailing the criteria to be applied to confirm compliance with the requirement for placing Negotiable Obligations Bonds by public offering.

The Company has approved the extensions requested in both lawsuits, which have not yet expired.

#### **11.7. Correction Factors of Volumes Measured**

In June 2004, the ENARGAS levied a fine on TGN for \$ 0.1 million through Resolution No. 3027, considering that the Company had not complied with mandatory procedures established in the Service Regulations to modify gas measurements according to delivery point atmospheric pressure. The Company calculated and set a provision for \$ 1.3 million for the possible contingency arising from potential net compensation claimed from TGN by loaders.

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 11 - LEGAL MATTERS (Contd.)**

#### **11.8. Income tax official assessment**

At the end of December 2005, TGN was notified of two resolutions, through which the Tax Authorities officially assessed income tax differences for the periods 1999 to 2002. The total claim amounts to \$ 21.1 million and include interest up to that date and a fine of 70% on the tax calculated.

Adjustments made are based on the rejection of useful lives assigned by TGN to "Gasoducto Norte" and all its compression plants, used to calculate depreciation for income tax purposes, as the Tax Authorities considered that the lives should be longer than those adopted by the Company. The revenue authority considers that useful lives should be 45 years, i.e. equal to the original term of the License granted to TGN to render the public gas transport service, plus its ten-year extension. The Company understands that the useful lives questioned, used to determine accounting as well as tax depreciation, are technically adequate and are supported by a report of a consultancy expert on the issue.

On February 17, 2006, TGN challenged those official assessments by filing motions with the Federal Tax Court.

### **NOTE 12 – EXPORTS EXPANSION TRUST**

On March 8, 2004, TGN Company acting as trustor, and HSBC Bank Argentina S.A. acting as trustee, executed a Framework Agreement for the creation of Financial Trusts for up to US\$ 50 million, with a life of five years (the "Program"), subject to the provisions of Law No. 24.441 and ENARGAS Resolution No. 2877.

The Program contemplates the possibility of setting up trusts issuing securities authorized for public offering or not, to finance extensions of the Company's gas pipeline system. The Program also establishes that the extension assets will be the exclusive property of the Company at the expiry of the trust, free from charges or taxes. The Company will be in charge of the operation and maintenance of those assets as long as the trust is in force.

Within the framework of that Agreement, the Company's Board of Directors authorized: (i) the creation of the TGN Financial Trust Series 01, under which debt securities for a face value of US\$ 7.5 million were totally subscribed on March 26, 2004, and were issued and earmarked for 303,000 m3/day enlargement works hired by Metrogas S.A. (the gas distributor operating in Santiago de Chile), and (ii) the creation of the TGN Financial Trust Series 02, under which debt securities for a face value of US\$ 6.3 million, were also subscribed on April 16, 2004 and were issued and earmarked for 247,000 m3/day enlargement works hired by Colbún S.A.

Series 01 Securities define September 30, 2019 as the *Final Payment Date* or the date in which Series 01 Securities are to be repaid, whereas the *Final Payment Date* for Series 02 Securities is March 30, 2019 or the date in which Series 02 Securities are repaid.

It is important to highlight that, according to the contractual framework, neither TGN nor the Trustee will be obliged to cover with their own property any difference there would be arising from any lack of funds at the TGN Financial Trusts to cover the payment of interests and/or principal related to the Securities Series 01 and 02 and/or the taxes and expenses of the

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)  
Trusts.

### **NOTE 12 – EXPORTS EXPANSION TRUST (Contd.)**

The extension works for TGN Financial Trusts Series 01 and 02 were completed in the established term. The investment at December 31, 2005 amounts to \$ 29 million and its residual value at that date is approximately of \$ 27 million.

### **NOTE 13 – DOMESTIC MARKET EXPANSION TRUST**

Resolution No. 185/04 of the MPFIPyS, Public Investment and Services, covered by Decree No. 180/2004, provides for the creation of a Gas Trusts Program to be organized by the Energy Department, with a view to financing natural gas transport and distribution infrastructure works.

In the context of that Resolution, the Government required TGN as licensee and other companies as investors to undertake the expansion of its carrying system with the aim of contributing to an improvement in gas supply by 2005. The project principal, a local trust organized in December 2004 by the Energy Secretariat and administered by Nación Fideicomisos S.A., charged TGN with the management of the expansion works for the Gasoducto Norte and its subsequent operation and maintenance, for which the Company will receive 1% of the amount of the work, before value-added tax (approximately US\$1.5 million).

On December 22, 2004, the Company signed the following contracts with the Energy Secretariat and Nación Fideicomisos S.A.: (i) Supplementary gas trust Contract; (ii) Management Contract, and (iii) Operation and Maintenance Contract.

The extension of Gasoducto Norte transport capacity, in the final stages at present, includes the construction of approximately 234 kilometers of parallel pipelines and the incorporation of 22,700 HP to transport 1.8 MM<sup>m3</sup>/day of additional gas. The total estimated cost of the work amounts to US\$ 183 million (before Value Added Tax) at closing.

The remaining assets for the execution of the work on the extension of the trust will form part of its net worth until it is settled. Once this has taken place, TGN may opt to transfer the ownership of the essential asset to its own equity.

The participation in the total cost of the works that TGN has undertaken to contribute to the Government corresponds to the current net value of receivables for rates, considering the incremental costs of operation and maintenance for the expansion to be carried out. The amount thus undertaken by TGN for expansion of Gasoducto Norte amounts to US\$ 10.5 million (including Value Added Tax).

Until December 31, 2005 the Company carried out works amounting to US\$ 8.4 million corresponding to the extension of Gasoducto Norte, on account of the contribution committed.

The Company will receive the regulated rate for firm transportation services aimed at recovering the investment related to the extension work and to cover its operation and maintenance costs.

In July 2005, as instructed by the ENARGAS in Note No. 3767, TGN the invoicing of the "Gas Trust" on behalf of and for the account of the "Gas Trust – "Gasoducto Norte

## **TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

### **NOTE 13 – DOMESTIC MARKET EXPANSION TRUST (Contd.)**

Extension". The amount invoiced for that charge is paid directly by the customers through deposit into a trust account opened by the Trust in the bank "Banco de la Nación Argentina".

Under the same regulatory context covering that extension, on September 2005, TGN called for an Open Tender on Capacity for the extension of the "Gasoducto Norte" System at the request of the Energy Secretariat, as a result of which tenders for more than 31 MM<sup>m<sup>3</sup>/day</sup> were submitted. At the date of issue of these financial statements, the ENARGAS and the Energy Secretariat were analyzing the documentation received and the financing alternatives to define the project to be implemented.

The Company also undertook to contribute US\$ 11.4 million (including Value Added Tax) for a possible expansion of Gasoducto Centro Oeste, which will be disbursed if the Energy Secretariat decides to carry out this work.

The planned expansion of the Centro Oeste gas pipeline has been postponed by the Energy Secretariat and is not included in the current project.

### **NOTE 14 - SUBSEQUENT EVENTS**

i) The Company's Shareholders' Extraordinary Meeting held on January 26, 2006 approved the first amendment to the Contract for Technical Assistance and Assistance to the Audit Area signed on December 7, 2004 modifying the terms approved in that meeting, namely: (i) TGN will pay the Technical Operator, Petronás and CMS an annual fee equal to US\$ 3 million or the seven per cent (7%) of the net income for each fiscal year, whichever is higher; and (ii) the Contract will have a duration of twelve years as from January 1, 2006, and it will expire automatically on December 31, 2017 without need for prior notice.

ii) In the context of the process of restructuring of the Company's financial debt, the Extraordinary Shareholders' Meeting gave its approval to the granting -as one of the components of the future debt restructuring- of new negotiable obligations to be issued by the Company in exchange for existing debt, reflecting the new terms and conditions. On this basis, approval was granted for the setting up of a global program for the issue of ordinary non-convertible negotiable obligations denominated in US dollars or any other currency, with ordinary guarantee, in different classes and/or series and/or segments, qualifying as "negotiable obligations" under the terms of Law 23576 (text as per Law 23962), for a maximum outstanding amount during the term of the program of up to five hundred million US dollars (US\$ 500,000,000) or its equivalent in other currencies (the "Program"), the duration of the Program being five years as from the date of its original authorization. In addition to the cases of exchange for corporate bonds or other debt, liabilities or bonds, the funds resulting from the placement shall be applied exclusively to one or more of the purposes foreseen by section 36 of Law 23576 (text as per Law 23962).

iii) In order to enable a successful restructuring of the Company's financial debt, the Extraordinary Shareholders' Meeting agreed the issue of ordinary TGN Negotiable obligations for one hundred and seventy five million US dollars (US\$ 175,000,000) to be granted in exchange for financial debt securities known as 10.875% *Convertibility Insured Bonds (CRIBs)* falling due on July 15, 2012 and/or to be offered for subscription in cash and/or through the granting of CRIBs and/or in any other form determined by the Board.



**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**NOTES TO THE FINANCIAL STATEMENTS** for years ended December 31, 2005 and 2004  
(In thousands of pesos)

**NOTE 14 - SUBSEQUENT EVENTS (Contd.)**

On January 30, 2006, a special meeting of holders of CRIBs was held at the Company's initiative, which authorized the trustees to enter into a trust indenture supplement amending the terms of the CRIBs Trust so as to establish a voluntary exchange mechanism enabling holders representing at least 25% of the total principal of the CRIBs to ask authorization from the Company to exchange their CRIBs for Negotiable Obligations, issuance of which was decided by the shareholders' meeting of the abovementioned company. On February 11, 2006, the Board of Directors of the Company approved the signing of the trust indenture supplement abovementioned and the issuance of negotiable obligations for delivery in exchange for CRIBs under the same terms and conditions.

iv) On February 20, 2006, within the framework of the steps that must be carried out to restructure the Company's financial debt, the Board of Directors called an Extraordinary Meeting to amend by by-laws, increase the capital stock and approve the application for authorization from the National Securities Commission for the public offer of the new shares to be issued in Argentina.

Subsequent to December 31, 2005, there have been no other events, situations or circumstances that have impacted or could impact significantly on the net worth, or economic and financial situation of the Company that have not been mentioned in these financial statements.

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTE S.A.****FINANCIAL STATEMENTS** as of December 31, 2005 and 2004

(in thousands of pesos)

**FIXED ASSETS, NET**

EXHIBIT A

Account	12.31.05											12.31.04	
	Original values					Depreciation						Net book value	Net book value
	At the beginning of the year	Increases	Disposals	Transfers	At the end of the year	At the beginning of the year	For the year		Disposals	Transfers	Accumulated at the end of the year		
							%	Amount					
Land	3,275	-	-	-	3,275	-	-	-	-	-	-	3,275	3,275
Building and constructions	75,733	-	-	424	76,157	14,115	2	1,516	-	-	15,631	60,526	61,618
Installations and fixtures	1,844	-	-	223	2,067	311	4	81	-	-	392	1,675	1,533
Gas Pipelines	1,970,452	542	(1,899)	45,852	2,014,947	411,289	3,33 y 2,22	54,905	(567)	3,012	468,639	1,546,308	1,559,163
Recoating	-	17,590	-	-	17,590	-	-	-	-	-	-	17,590	-
High-pressure branch lines	613	-	-	7	620	175	3,33 y 2,22	17	-	-	192	428	438
Compressor Plants	766,880	3	(783)	34,166	800,266	219,378	4	40,495	(277)	(3,193)	256,403	543,863	547,502
High pressure control and/or measurement stations	65,960	380	(1,882)	6,118	70,576	24,950	5	3,732	(927)	-	27,755	42,821	41,010
Other technical installations	47,512	-	(287)	61	47,286	16,773	6,67	2,573	(104)	-	19,242	28,044	30,739
Machinery, equipment and tools	22,279	313	(482)	(13)	22,097	15,348	10, 20 y 50	1,866	(418)	135	16,931	5,166	6,931
Computer and Telecommunication system	71,001	1,434	(301)	(534)	71,600	31,707	10 y 20	5,854	(154)	26	37,433	34,167	39,294
Vehicles	17,334	1,214	(3,091)	382	15,839	13,303	20	1,569	(2,895)	(71)	11,906	3,933	4,031
Furniture and fixtures	9,422	67	(12)	(11)	9,466	7,613	10	428	(6)	-	8,035	1,431	1,809
Assets held at third parties	6,826	-	(46)	314	7,094	3,730	12,5	757	(20)	91	4,558	2,536	3,096
Work in process	42,608	64,338	(422)	(82,586)	23,938	-	-	-	-	-	-	23,938	42,608
Advances to suppliers	338	4,737	-	(4,403)	672	-	-	-	-	-	-	672	338
<b>Total as of 12.31.2005</b>	<b>3,102,077</b>	<b>90,618</b>	<b>(9,205)</b>	<b>-</b>	<b>3,183,490</b>	<b>758,692</b>		<b>113,793</b>	<b>(5,368)</b>	<b>-</b>	<b>867,117</b>	<b>2,316,373</b>	<b>-</b>
<b>Total as of 12.31.2004</b>	<b>3,043,332</b>	<b>68,528</b>	<b>(9,783)</b>	<b>-</b>	<b>3,102,077</b>	<b>651,653</b>		<b>111,563</b>	<b>(4,524)</b>	<b>-</b>	<b>758,692</b>	<b>-</b>	<b>2,343,385</b>

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

## TRANSPORTADORA DE GAS DEL NORTE S.A.

**FINANCIAL STATEMENTS** as of December 31, 2005 and 2004  
(in thousands of pesos)

### INVESTMENTS

### EXHIBIT C

Issuer	Class	Par value	Amount	Cost value	Book value		Information on the issuer						
					12.31.05	12.31.04	Principal activity	Latest financial statements					Percentage of direct holding
								Date	Common stock and inflation adjustment of common stock	Other Reserves	Retained earnings	Shareholders' equity	
In thousand \$												%	
<b>NON-CURRENT INVESTMENT</b>													
Investments in other companies													
Corporations Law No. 19550, section 33													
Comgas Andina S.A.	Ordinary	(1) \$ch 1 per share	490	246	4,899	4,370	Providing of gas pipeline operation and maintenance services	12.31.05	5	-	9,993	9,998	49.0
Companhia Operadora de Rio Grande do Sul	Ordinary	(2) R\$ 1 per share	49	55	119	75	Providing of gas pipeline operation and maintenance services	12.31.05	-	84	160	244	49.0
Allowance for long term investment - COPERG (Note 3.4.e) and Exhibit E)					(119)	-							
Total				246	4,899	4,445							

(1) Chilean pesos

(2) Reales

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**FINANCIAL STATEMENTS** as of December 31, 2005 and 2004  
(in thousands of pesos)

**SHORT-TERM INVESTMENTS**

**EXHIBIT D**

Caption	12.31.05	12.31.04
	Balances at the end of the year	Balances at the end of the year
<b>Short term investments</b>		
Mutual funds in foreign currency	309,920	174,378
Time deposits in foreign financial institutions	131,315	166,333
Mutual funds in \$	27,044	18,686
Stock exchange securities in \$	16	3,010
Government Bonds – Discount Bonds	2,062	-
Patriotic Bond	-	6,277
Allowance for impairment of investments (Exhibit E)	-	(4,708)
<b>Total</b>	<b>470,357</b>	<b>363,976</b>

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTE S.A.****FINANCIAL STATEMENTS** as of December 31, 2005 and 2004  
(in thousands of pesos)**ALLOWANCES AND PROVISIONS****EXHIBIT E**

Caption	12.31.05			12.31.04	
	Balances at the beginning of the year	Net Increases	Decreases	Balances at the end of the year	Balances at the end of the year
<b>Deducted from Assets</b>					
<b>Current</b>					
<b>Allowance for impairment of Patriotic Bond</b>					
Bonds under medium-term external bill program (Exhibit D)	4,708	-	(4,708) <sup>(6)</sup>	-	4,708
<b>Allowances for doubtful accounts</b>					
Accounts receivable, net	4,961	591 <sup>(2)</sup>	-	5,552	4,961
Allowance for disputed amounts and others	12,001	3,459 <sup>(1)</sup>	-	15,460	12,001
Allowance for other receivables	278	677 <sup>(2)</sup>	(337)	618	278
<b>Subtotal</b>	<b>21,948</b>	<b>4,727</b>	<b>(5,045)</b>	<b>21,630</b>	<b>21,948</b>
<b>Non Current</b>					
<b>Allowance for disputed tax payments and judicial escrow accounts</b>	4,234	459 <sup>(4)</sup>	-	4,693	4,234
<b>Inventories</b>					
Allowance for slow-moving materials and spare parts and obsolescence	36,032	3,104 <sup>(5)</sup>	-	39,136	36,032
<b>Long term investments in other companies</b>					
Allowance for impairment of COPERG (Note 3.4.e) and Exhibit C)	-	119 <sup>(3)</sup>	-	119	-
<b>Subtotal</b>	<b>40,266</b>	<b>3,682</b>	<b>-</b>	<b>43,948</b>	<b>40,266</b>
<b>Total allowances deducted from assets</b>	<b>62,214</b>	<b>8,409</b>	<b>(5,045)</b>	<b>65,578</b>	<b>62,214</b>
<b>Included in Liabilities</b>					
<b>Provisions for contingencies</b>					
For labor, civil and contentious-administrative lawsuits	59,321	13,329 <sup>(4)</sup>	(39)	72,611	59,321
<b>Total provisions included in liabilities</b>	<b>59,321</b>	<b>13,329</b>	<b>(39)</b>	<b>72,611</b>	<b>59,321</b>
<b>Total 12.31.05</b>	<b>121,535</b>	<b>21,738</b>	<b>(5,084)</b>	<b>138,189</b>	<b>-</b>
<b>Total 12.31.04</b>	<b>112,515</b>	<b>38,420</b>	<b>(29,400)</b>	<b>-</b>	<b>121,535</b>

(1) Charged to Net revenues (Note 4.g)) by \$ 2,697 and to Selling expenses – Doubtful accounts (Exhibit H) by \$ 762.

(2) Charged to Selling expenses - Doubtful accounts (Exhibit H)

(3) Charged to gain from equity investments, net

(4) Charged to administrative expenses – Lawsuits (Exhibit H)

(5) Charged to Obsolescence of consumption material and spares (Exhibit H)

(6) Corresponds to the use during the year

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**FINANCIAL STATEMENTS** at December 31, 2005 and 2004 (in thousands of pesos)

**ASSETS AND LIABILITIES IN FOREIGN CURRENCY**

**EXHIBIT G**

	12.31.05			12.31.04	
	Foreign currency class and amounts	Exchange rate	Amount in \$	Foreign currency class and amounts	Amount in \$
<b>ASSETS</b>			En thousand of \$		En thousand of \$
<b>CURRENT ASSETS</b>					
<b>CASH AND BANKS</b>					
Cash	US\$ 3	2.992	9	US\$ 5	15
Banks	US\$ 319	2.992	954	US\$ 3,779	11,108
			963		11,123
<b>SHORT-TERM INVESTMENTS</b>					
Mutual funds in Foreign institutions	US\$ 103,583	2.992	309,920	US\$ 59,332	174,378
Time deposits in Foreign institutions	US\$ 43,889	2.992	131,315	US\$ 56,595	166,333
Patriotic Bond			-	US\$ 2,136	6,277
Discount Bond	US\$ 689	2.992	2,062		-
			443,297		346,988
<b>ACCOUNT RECEIVABLE</b>					
Gas Transport Services	US\$ 9,118	2.992	27,281	US\$ 9,445	27,761
Other Services	US\$ 507	2.992	1,517	US\$ 1,041	3,060
			28,798		30,821
<b>OTHER RECEIVABLES</b>					
Prepaid expenses	-		-	US\$ 107	316
Deposit in escrow	US\$ 1,203	2.992	3,599	US\$ -	-
Management fees – Gas trust program	US\$ 306	2.992	917		-
Prepaid expenses in behalf of third parties and others	R\$ 101	1.3841	140	R\$ 93	99
	US\$ 1,395	2.992	4,174	US\$ 824	2,422
			8,830		2,837
<b>Total current assets</b>			<b>481,888</b>		<b>391,769</b>
<b>NON-CURRENT ASSETS</b>					
<b>OTHER RECEIVABLES</b>					
Deposit in escrow	-		-	US\$ 567	1,668
Guarantee deposits	US\$ 179	2.992	537	US\$ 162	477
			537		2,145
<b>INVESTMENTS</b>					
Comgas Andina (Exhibit C)	\$ ch 844,655	0.0058	4,899	\$ ch 851,894	4,370
COPERG ((Note 3.4.e) and Exhibit C and E)	-		-	R\$ 70	75
			4,899		4,445
<b>Total non-current assets</b>			<b>5,436</b>		<b>6,590</b>
<b>Total assets</b>			<b>487,324</b>		<b>398,359</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
<b>ACCOUNTS PAYABLE</b>					
Suppliers	US\$ 3,900	3.0320	11,825	US\$ 2,643	7,873
	L 118	5.2153	615	L 14	78
	EURO 5	3.5869	18		
			12,458		7,951
<b>CARRY FORWARD</b>			<b>12,458</b>		<b>7,951</b>

US\$ : United States dollars

\$ch: Chilean pesos

R\$: Reales

L: Pounds

**TRANSPORTADORA DE GAS DEL NORTE S.A.****FINANCIAL STATEMENTS** at December 31, 2005 and 2004 (in thousands of pesos)**ASSETS AND LIABILITIES IN FOREIGN CURRENCY (Contd.)****EXHIBIT G**

	12.31.05			12.31.04	
	Foreign currency class and amounts	Exchange rate	Amount in \$	Foreign currency class and amounts	Amount in \$
			En thousand of \$		En thousand of \$
BROUGHT FORWARD			12,458		7,951
<b>LOANS</b>					
Global Program of Negotiable Obligations - US\$ 300 MM	US\$ 85,600	3.032	259,540	US\$ 83,181	247,797
Global Program of Negotiable Obligations - US\$ 320 MM	US\$ 192,831	3.032	584,663	US\$ 140,466	418,448
Cribs interest	US\$ 53,092	3.032	160,974	US\$ 35,202	104,867
Loan agreements	US\$ 104,408	3.032	316,564	US\$ 111,416	331,907
Import finance	US\$ 1,005	3.032	3,047	US\$ 972	2,897
			1,324,788		1,105,916
<b>CUSTOMERS' ADVANCES</b>	US\$ 435	3.032	1,318	1,016	3,027
			1,318		3,027
<b>Total current liabilities</b>			<b>1,338,564</b>		<b>1,116,894</b>
<b>NON-CURRENT LIABILITIES</b>					
<b>LOANS</b>					
Global Program of Negotiable Obligations - US\$ 320 MM	US\$ 63,623	3.032	192,906	US\$ 95,646	284,928
Cribs	US\$ 175,000	3.032	530,600	US\$ 175,000	521,325
			723,506		806,253
<b>CUSTOMERS' ADVANCES</b>	-		-	US\$ 483	1,440
			-		1,440
<b>Total non-current liabilities</b>			<b>723,506</b>		<b>807,693</b>
<b>Total liabilities</b>			<b>2,062,070</b>		<b>1,924,587</b>

US\$: United States dollars

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTE S.A.****INFORMATION REQUIRED BY SECT. 64. SUB SECT. I. b) OF LAW No. 19550** for the year ended December 31, 2005 and 2004  
(in thousands of pesos)**EXHIBIT H**

	Total 12.31.05	Cost of services			Selling expenses			Administrative expenses	Financial and holding results	Investments in fixed assets	Total 12.31.04
		Transportation service	Other services	Total	Transportation service	Others services	Total				
		\$									
Fees for technical and administrative tasks	983	-	-	-	-	-	-	983	-	-	638
Fees for professional services	4,822	1,379	938	2,317	40	-	40	2,196	-	269	3,306
Salaries, wages and other personnel benefits	43,237	23,744	5,583	29,327	741	-	741	12,467	-	702	30,803
Social security contributions	7,869	5,201	905	6,106	118	-	118	1,645	-	-	5,130
Fees for technical operator services	5,973	5,973	-	5,973	-	-	-	-	-	-	5,926
Inbound personnel expenses	1,686	1,686	-	1,686	-	-	-	-	-	-	2,514
Spare parts and materials	18,876	14,010	349	14,359	-	-	-	62	-	4,455	15,961
Gas imbalance	4,140	4,140	-	4,140	-	-	-	-	-	-	2,342
Third party services and supplies	2,814	2,209	267	2,476	19	-	19	319	-	-	1,952
Maintenance and repair	72,737	48,635	1,186	49,821	-	-	-	1,577	-	21,339	53,492
Travel expenses	7,050	4,498	1,412	5,910	61	-	61	761	-	318	5,610
Freight and transportation	803	606	35	641	-	-	-	74	-	88	789
Communications	1,213	689	183	872	22	-	22	311	-	8	1,179
Insurance	5,479	5,150	9	5,159	-	-	-	320	-	-	6,628
Office supplies	1,472	551	222	773	13	-	13	678	-	8	1,332
Rentals	1,089	557	474	1,031	-	-	-	30	-	28	897
Easements	6,304	6,304	-	6,304	-	-	-	-	-	-	5,158
Taxes, rates and contributions	18,626	441	20	461	12,881	594	13,475	4,690	-	-	15,327
Financial results generated by assets	(23,869)	-	-	-	-	-	-	-	(23,869)	-	(11,569)
Financial results generated by liabilities	231,344	-	-	-	-	-	-	-	231,344	-	209,957
Fixed assets depreciation	113,793	112,085	114	112,199	228	-	228	1,366	-	-	111,563
Intangible assets amortization											1,454
Fixed assets expenses	4,121	-	-	-	-	-	-	-	-	4,121	4,521
Allowance for doubtful accounts	2,030	-	-	-	2,030	-	2,030	-	-	-	3,148
Provision for contingencies	13,788	-	-	-	-	-	-	13,788	-	-	16,039
Allowance for slow-moving and obsolescence	3,104	3,104	-	3,104	-	-	-	-	-	-	-
Others	1,853	822	80	902	29	-	29	902	-	20	1,866
<b>Total at 12.31.05</b>	<b>551,337</b>	<b>241,784</b>	<b>11,777</b>	<b>253,561</b>	<b>16,182</b>	<b>594</b>	<b>16,776</b>	<b>42,169</b>	<b>207,475</b>	<b>31,356</b>	<b>-</b>
<b>Total at 12.31.04</b>	<b>-</b>	<b>225,630</b>	<b>5,318</b>	<b>230,948</b>	<b>16,876</b>	<b>480</b>	<b>17,356</b>	<b>38,648</b>	<b>198,388</b>	<b>10,623</b>	<b>495,963</b>

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.



FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH  
ORIGINALLY ISSUED IN ARGENTINA

**TRANSPORTADORA DE GAS DEL NORTE S.A.**

**FINANCIAL STATEMENTS** as of December 31, 2005

**TERMS AND GUIDELINES FOR THE RESTATEMENT OF INVESTMENTS,  
RECEIVABLES AND LIABILITIES** (in thousands of pesos)

**EXHIBIT I**

	12.31.05			
	Short-term Investments (1)	Account receivalbes and other receivables (2)	Debt	Other liabilities (3)
	thousands of \$			
a) Past due				
12.31.2004	-	12,128	849,814	-
03.31.2005	-	2,135	157,376	-
06.30.2005	-	1,826	31,951	-
09.30.2005	-	2,280	57,394	-
12.31.2005	-	11,052	58,945	-
b) Without due date	470,357	111,340	92,383	-
c) To be due				
03.31.2006	-	84,360	49,160	88,820
06.30.2006	-	123	24,056	502
09.30.2006	-	163	24,381	-
12.31.2007	-	120	25,175	-
12.31.2008	-	7,238	106,904	5,533
12.31.2009	-	43,778	133,773	-
12.31.2010	-	-	129,096	-
12.31.2011	-	-	117,911	-
12.31.2012	-	-	117,911	-
12.31.2013	-	-	117,911	-

<b>Total 2005</b>	<b>470,357</b>	<b>276,543</b>	<b>2,094,141</b>	<b>94,855</b>
-------------------	----------------	----------------	------------------	---------------

a) Balances subject to adjustment	-	645	45,847	-
b) Balances not subject to adjustment	470,357	275,898	2,048,294	94,855

<b>Total 2005</b>	<b>470,357</b>	<b>276,543</b>	<b>2,094,141</b>	<b>94,855</b>
-------------------	----------------	----------------	------------------	---------------

a) Interest bearing balances	469,730	86	316,530	92,727
b) Non-interest bearing balances	627	276,457	1,777,611	2,128

<b>Total 2005</b>	<b>470,357</b>	<b>276,543</b>	<b>2,094,141</b>	<b>94,855</b>
-------------------	----------------	----------------	------------------	---------------

- (1) Except in equity investments.  
(2) Includes accounts receivables - trade and other receivables, except its allowances.  
(3) Includes all non- financial debts, except contingencies.

Eduardo Ojea Quintana  
Chairman

The independent auditors' report dated March 2, 2006 is issued as a separate document.

FREE TRANSLATION FROM THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SPANISH  
ORIGINALLY ISSUED IN ARGENTINA