

## Risk Factors

*You should consider the following risks with respect to an investment in Telecom and investments in Argentine corporations that are not normally associated with investments in the securities of issuers in the United States and other jurisdictions.*

### ***Risk Factors Relating to the Current Economic Crisis in Argentina and its Effects on the Company***

#### **Overview**

Substantially all of Telecom's property, operations and customers are located in Argentina and most of its indebtedness is denominated in U.S. dollars and euros. Accordingly, Telecom's financial condition and results of operations depend to a significant extent on economic and political conditions prevailing in Argentina and on the rates of exchange between the peso and such other currencies. As detailed below, the Argentine economy has experienced a severe recession as well as a political crisis, and the abandonment of dollar-peso parity has led to significant devaluation of the peso against major international currencies. These conditions have and will continue to adversely affect Telecom's financial condition and results of operations and may continue to impair Telecom's ability to make payments of principal and/or interest on its outstanding indebtedness.

#### **Recent political and economic instability in Argentina has paralyzed commercial and financial activities and may result in continued economic turmoil and recession.**

Since the second half of 1998, the Argentine economy has been in a recession that has caused real gross domestic product to decrease by 3.4% in 1999, by 0.8% in 2000 and by 4.4% in 2001.

In 2001, Argentina experienced increased capital flight, decreased economic activity and continuing political infighting. As the recession caused tax revenue to drop, the public sector relied increasingly on financing from local, and to a lesser extent, foreign banks, effectively foreclosing private sector companies from bank financing. Consequently, the creditworthiness of the public sector began to deteriorate while interest rates increased to record highs.

Severe political and economic uncertainty and speculation about the eventual abandonment of the Convertibility Law following the expected default by the Argentine government generated numerous deposit withdrawals in the banking sector. On December 3, 2001, the Argentine government effectively froze bank deposits and introduced exchange controls restricting capital outflows. The measures were designed to preserve the banking sector from collapse, because under the Convertibility Law, the Central Bank's ability to issue pesos in order to provide liquidity was restricted. Although the deposit freeze was announced as a temporary measure, it was perceived as a further paralysis of the economy and it worsened the political, social and economic crises that eventually led to the resignation of President De la Rúa.

The interim governments that followed De la Rúa and particularly President Duhalde after his appointment on January 1, 2002, undertook a number of far-reaching initiatives, including:

- amending the Convertibility Law, with the resulting devaluation of the peso;
- suspending payments of principal and interest on certain of Argentina's sovereign debt;
- converting domestic U.S. dollar-denominated debts into peso-denominated debts at a one-to-one exchange rate;
- converting U.S. dollar-denominated bank deposits into peso-denominated bank deposits at an exchange rate of P\$1.40 per U.S. dollar;
- restructuring bank deposits and restrictions on transfers abroad;

- amending the Central Bank's charter to allow it to print currency in excess of the amount of the foreign reserves it holds, make short-term advances to the federal government and provide financial assistance to financial institutions with liquidity constraints or solvency problems;
- requiring the obligatory sale by all banks of all their foreign currency held in Argentina to the Argentine Central Bank at an exchange rate of P\$1.40 per U.S. dollar (this initiative is currently suspended);
- converting public service tariffs, including Telecom's, which had originally been calculated in U.S. dollars, into pesos at a one-to-one exchange rate;
- freezing public service tariffs, including Telecom's, and prohibiting indexation of any kind on public service tariffs; and
- authorizing the Argentine government to renegotiate public service tariffs.

The rapid and radical nature of changes in the Argentine social, political, economic and legal environment, including the Argentine Supreme Court's decision declaring the conversion of dollar-denominated deposits into pesos unconstitutional, have created significant uncertainty. As a result, commercial and financial activities in Argentina decreased significantly in 2002, further aggravating the economic recession that precipitated the current crisis. Real gross domestic product dropped by an estimated 10.9% in 2002, and the unemployment rate rose to 21.5% in May 2002, reaching 17.8% as of October 2002. General economic conditions showed some improvement during the first months of 2003. In particular real gross domestic product grew 5.4% in the first quarter compared to the same period of 2002. Consumer inflation was 2.1% through May of 2003 and the nominal exchange rate appreciated from P\$3.37 per U.S. dollar as of December 31, 2002 to P\$2.85 per U.S. dollar as of May 30, 2003.

Elections for a new president held on April 27, 2003 led to the election of Nestor Kirchner, a provincial governor, and it remains unclear how that outcome will affect the composition of the Argentine government, the laws it promulgates and the economy.

**Argentina's insolvency and default on its public debt has aggravated the current financial crisis.**

As of December 2001, Argentina's federal gross public debt was approximately US\$144 billion. As of September 2002, Argentina's total public debt was approximately US\$130 billion. On December 23, 2001, the Argentine government declared the suspension of payments on certain of Argentina's sovereign debt. Furthermore, the ensuing paralysis of economic activity and the large currency devaluation had caused tax collections to drop dramatically in dollar terms.

The Argentine government has not yet reached a comprehensive restructuring agreement with its creditors. The Argentine government's insolvency, its default and its inability to obtain financing can be expected to affect significantly the private sector's ability to restore economic growth in the long term, and may result in deeper recession, higher inflation and unemployment and greater social unrest. As a result, Telecom's business, financial condition and results of operations will likely be materially and adversely affected.

**The devaluation of the peso creates greater uncertainty as to Argentina's economic future.**

On January 6, 2002, the Argentine government enacted the Public Emergency Law and applicable regulations including Decree No. 293/02, putting an end to ten years of dollar-peso parity under the Convertibility Law and eliminating the requirement that the Central Bank's reserves in gold, foreign currency and foreign currency denominated bonds be at all times equivalent to not less than 100% of the pesos in circulation plus the peso deposits of the financial sector with the Central Bank. The Public Emergency Law grants the executive branch of the Argentine government the power to set the system that will determine the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market. In early January 2002, the executive branch established a temporary dual exchange rate system, a fixed rate for transactions subject to Central Bank approval and import and export transactions at an exchange rate of P\$1.40 per dollar and a floating rate to be freely determined by the market for all other transactions.

On January 11, 2002, after the Central Bank ended a banking holiday that it had imposed with some interruptions since December 21, 2001, the exchange rate began to float for the first time since April 1991. Heightened demand for scarce dollars caused the dollar to trade well above the P\$1.40 per dollar rate used by the government. On February 8, 2002, the executive branch eliminated the dual exchange rate in favor of a single floating rate for all transactions. As of June 23, 2003, the Argentine peso-U.S. dollar exchange rate (ask price) was approximately P\$2.79 = US\$1.00.

The Argentine government's ability to honor its foreign debt obligations has been materially and adversely affected by the devaluation of the peso, as peso-denominated tax revenues constitute the primary source of its earnings, but most of its financial liabilities are dollar-denominated. The adoption of austere fiscal measures which would be required to repay the Argentine government's debt and to balance its budget after the devaluation could lead to further social unrest and political instability.

Argentina has found few opportunities to effectively raise capital in the international markets amid sustained lack of investor confidence in Argentina's ability to make payments due on its sovereign debt and in the Argentine economy generally. The devaluation of the peso and accompanying economic policy measures were intended by the Argentine government to redress the effects of unemployment and to stimulate economic growth. However, the success of such measures is predicated on the ability of the Argentine government to elicit confidence among the local and international financial and business communities in the sustainability of its reforms, the recovery of liquidity in the banking sector, the stability of the peso at current exchange levels (which have been supported in part by the Central Bank interventions in the exchange market) and the absence of significant inflation. Without such confidence, investment is likely to retract, economic activity is likely to contract further, unemployment could increase beyond current levels, tax revenue could drop and the fiscal deficit could widen.

There can be no assurance that the political environment and social conditions currently prevailing in Argentina will enable the government to implement such measures over time or to announce and implement others required by international investors and multilateral credit agencies, or that such measures, if announced and implemented, will be found to be satisfactory by international investors and multilateral credit agencies such that new credit will be made available to both the public and private sectors in Argentina. Consequently, adverse economic conditions in the Argentine economy are likely to continue to impair Telecom's business and financial condition and results of operations.

**There is risk that the Argentine financial system will collapse.**

Although deposits in the Argentine banking system had been declining for a number of years, in the last quarter of 2001 a significant amount of deposits were withdrawn from Argentine financial institutions as a result of increasing political instability and uncertainty. This run on deposits had a material adverse effect on the Argentine financial system as a whole. For the most part, banks suspended the disbursement of new loans and focused on collection activities to be able to pay their depositors. However, the general unavailability of external or local credit created a liquidity crisis which triggered numerous payment defaults in the public and private sectors which in turn have undermined the ability of many Argentine banks to pay their depositors.

To prevent a run on the dollar reserves of local banks, on December 3, 2001, the government of President De la Rúa restricted the amount of money that account holders could withdraw from banks. Subsequently, the government of President Duhalde released a schedule stating how and when such deposits would become available. These restrictions, with certain modifications, are still in place today. In addition, on February 4, 2002, pursuant to Emergency Decree No. 214, the Argentine government announced the conversion of all foreign currency denominated deposits into peso-denominated deposits, set the exchange rate for this conversion at P\$1.40 per U.S. dollar and announced the issuance by the government of U.S. dollar-denominated bonds that, at the option of depositors, may be exchanged for the converted deposits. Despite these restrictions, on April 25, 2002, pursuant to Law 25,587, the Argentine government announced another banking freeze in order to prevent further withdrawals from the financial system. Furthermore, on June 3, 2002, the Argentine government published Decree No. 905/02 in the Official Gazette which set forth the requirements with which the deposit holders must comply in order to exercise the option to swap their deposits for the bonds referred to above and the terms and conditions of these bonds.

While the restrictions on bank withdrawals and the mandatory conversion of dollar deposits to pesos have shielded banks from a further massive withdrawal of deposits, they have also led to a significant decrease in commercial and financial activities, diminished spending and greatly increased social unrest resulting in widespread public protests. The Argentine Supreme Court has declared some of the measures adopted by the government to prevent withdrawals of deposits unconstitutional. The government has continued to enforce these restrictions, although it has relaxed some of the limitations to permit certain withdrawals. The solvency of the Argentine financial system is currently in jeopardy, and the system's failure would have a material and adverse effect on the prospects for economic recovery and political stability.

On March 5, 2003, the Argentine Supreme Court declared the conversion of dollar-denominated deposits into pesos unconstitutional. The case concerned a deposit of the Argentine Province of San Luis in *Banco de la Nación Argentina*, a bank wholly owned by the Argentine government. Although the decision is binding only on the parties to the case, Argentine Supreme Court decisions are generally adhered to by lower Argentine courts. In several places the ruling indicates that cases brought by other depositors are similar to the one under analysis by the Argentine Supreme Court. Therefore, the decision may be followed in cases brought by depositors. The Argentine government has not yet determined how and to what extent it will grant financial assistance to the banks that might be ordered to pay dollars in connection with writs of "*amparo*" initiated by depositors to obtain the return of their deposits in dollars or in pesos at the prevailing exchange rate at the time of the payment. Failing such financial assistance, or absent any other solution to the cascade of lawsuits that financial institutions may be exposed to, such as a compulsory rescheduling of deposits, the entire financial system may collapse. Likewise, the granting of financial assistance to financial institutions may cause inflation, which could have dramatic and unpredictable consequences on the Argentine economy.

On April 1, 2003, the executive branch of the Argentine government passed Decree 739/03, providing that depositors may elect to be paid in cash and/or government bonds according to the amount of their deposits.

**The Central Bank has imposed restrictions on the transfer of funds outside of Argentina in the past and may do so in the future, which could prevent Telecom from making payments on its external debt and prevent Telecom from transferring dividend payments outside of Argentina.**

On December 3, 2001, the Argentine government imposed a number of monetary and currency exchange control measures that included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad, with certain exceptions for transfers related to foreign trade and other authorized transactions. The restrictions requiring the Central Bank's prior authorization for the transfer of funds abroad in order to make payments of principal and/or interest, which were in place during 2002, were progressively reduced from January to May 2003 and were completely eliminated on May 6, 2003.

In addition, funds may now be transferred abroad without previous authorization of the Central Bank in order to pay dividends corresponding to prior periods provided that independent accountants have certified the financial statements for such period.

There can be no assurance, however, that the Central Bank will not once again require its prior authorization for the transfer of funds abroad for principal and/or interest payments by Telecom to its foreign creditors or for dividend payments by Telecom to its foreign shareholders.

**Telecom's results of operations have been, and may continue to be, materially adversely affected by the devaluation of the peso and the economic conditions currently prevailing in Argentina.**

Telecom realizes substantially all of its revenues in Argentina in pesos and, as a result, the devaluation of the peso has had a material adverse effect on the U.S. dollar value of Telecom's earnings and its ability to service its debt which is largely denominated in U.S. dollars and euros. In addition, the devaluation of the peso has had a material adverse effect on the financial condition of the Company, as its largely peso-denominated assets have depreciated accordingly against its largely foreign currency-denominated indebtedness. Any further depreciation of the peso against the U.S. dollar will correspondingly increase the amount of Telecom's debt in pesos, with further adverse effects on the results of operation and financial condition of the Company. As of December 31, 2002, consolidated current assets were lower than current liabilities by P\$9,564 million mainly due to the classification of

almost all of its financial indebtedness as current liabilities. The Company's total liabilities as of December 31, 2002 amounted to P\$11,999 million.

Telecom's revenues consist, in part, of monthly basic charges, measured service charges and other charges. The rates charged by Telecom for the basic telephony service were, until recently, expressed in U.S. dollars and adjusted twice annually according to the U.S. Consumer Price Index. Through the Public Emergency Law, the Argentine government mandated that rates be "pesified" at a rate of P\$1.00=US\$1.00 and froze public service tariffs. Therefore, despite the fact that the peso no longer has parity with the U.S. dollar, Telecom is currently being forced to charge rates to its customers as if parity between the two currencies were still in effect. Telecom is currently in negotiations with the Argentine government regarding the rates that Telecom may charge in the future. See Item 4: "Information on the Company-Rates-Rates" and Item 4: "Information on the Company-Rates-Public Emergency Law."

The devaluation of the peso and the "pesification" of certain rates as well as general recessionary conditions in Argentina have had and continue to have a significant impact on Telecom's net income. The current recession coupled with a rise in inflation in 2002 has led to a reduction of wages in real terms across all class sectors of the Argentine population. This reduction has resulted and may continue to result in reduced usage of the Company's services, a deterioration in the collection of accounts receivable and a consequent reduction in its revenues and cash inflows.

Given the continuing economic crisis in Argentina and the related economic and political uncertainties, it is impossible to predict whether, and to what extent, the value of the peso may further depreciate or appreciate against the U.S. dollar and how these uncertainties will affect the consumption of telephone services. Moreover, Telecom cannot predict whether the Argentine government will further modify its monetary policy and, if so, what impact any such changes could have on the Company's financial condition and results of operations.

**Substantial inflation has occurred following the amendment of the Convertibility Law, thereby further impacting Telecom's revenues.**

Since the devaluation of the peso, consumer price inflation in Argentina has risen significantly, reaching 40.95% in the year 2002. If future rates are not adjusted to account for inflation in Argentina, this could have a material adverse effect on Telecom's financial condition and results of operations.

**The current economic environment in Argentina and the adverse conditions in the capital markets of Argentina have impaired Telecom's ability to service its debt obligations.**

In managing its liabilities and anticipating its liquidity requirements, Telecom expected that it would meet its short and long-term debt obligations and short-term capital expenditures through internally-generated funds, third-party financing and access to capital markets. However, in light of recent economic developments in Argentina, the Company has been unable to access the capital markets and these third-party financing sources are currently not available in amounts sufficient to enable the Company to refinance its debt obligations. In addition, as a result of the devaluation and volatility of the peso and the "pesification" of certain of the Company's rates at a rate of P\$1.00=US\$1.00, the Company's internally-generated funds alone are not sufficient to meet its debt obligations. Furthermore, the current economic environment in Argentina may worsen in the short-term and further harm the Company's ability to meet its current and future debt obligations.

As a consequence of the continuing devaluation and volatility of the peso, lower net cash flows being generated in the current economic environment in Argentina and the uncertain timetable for resolving discussions with the Argentine government concerning adjustment of regulated rates, on April 2, 2002, Telecom announced the suspension of principal payments on its outstanding financial indebtedness as well as the outstanding financial indebtedness of its Argentine subsidiaries and on June 24, 2002, Telecom announced the suspension of interest payments on their outstanding financial indebtedness. Although Telecom is working to develop a debt restructuring plan, no assurance can be given that successful restructuring efforts will occur and enable the Company to extend its current liabilities and remain a going concern or that, absent any available legal or contractual remedies, the Company will not be forced into *quiebra* or file for *concurso preventivo*.

**Uncertainties resulting from the current economic situation in Argentina and recent changes to regulations affecting Telecom raise substantial doubt about the Company's ability to continue as a going concern and may continue to negatively impact Telecom's financial position and results of operations.**

As a result of the current economic situation in Argentina and recent modifications to regulations affecting Telecom, as further described under the risk factors discussed above, the Company cannot provide assurance that it will be able to obtain financial resources to repay or refinance its debt or that the outcome of the pending renegotiation of rates with the government will not have a material adverse effect on the Company's financial condition or results of operations. The financial statements as of December 31, 2002 and 2001 have been prepared assuming that the Company will continue as a going concern. The auditors' report on Telecom's financial statements as of and for the years ended December 31, 2002 and 2001, includes an explanatory paragraph describing the existence of substantial doubt about the Company's ability to continue as a going concern due to the negative effects on Telecom's operations of the devaluation of the Argentine peso and Telecom's suspension of payments and resulting defaults on its financial indebtedness. Such auditors' report also includes a paragraph describing the existence of substantial doubt about Telecom Personal's ability to continue as a going concern.

Furthermore, as a result of the continued deterioration of the Argentine economy and the devaluation of the peso, as further described in this "Risk Factors" section, Telecom cannot provide assurance that these factors will not continue to negatively impact the financial position and results of operations of Telecom and its subsidiaries.

**The deterioration of the Argentine economy and the effects of pesification may require Telecom to undertake a mandatory capital stock reduction or commence dissolution proceedings.**

Due to the economic and financial situation in Argentina, Telecom reported a loss for the year ended December 31, 2002. This loss has absorbed the totality of Telecom's reserves and significantly reduced shareholders' equity. Under section 206 of the Argentine Companies Law, if at the annual shareholders' meeting the corporation presents financial statements that report that the corporation's losses have absorbed its reserves and at least 50% of the share capital of the company the corporation is required to reduce its capital stock. Further, under paragraph 5 of section 94, if the corporation presents financial statements that report that shareholders' equity is negative, the corporation is required to commence dissolution proceedings unless its shareholders take action (either by making an additional capital contribution or authorizing the issuance of additional shares of the corporation) that results in positive shareholders' equity within 90 days of such annual shareholders' meeting. However, on July 16, 2002, the requirements of section 206 and paragraph 5 of section 94 of the Argentine Companies Law were suspended until December 10, 2003.

Although section 206 and paragraph 5 of section 94 of the Argentine Companies Law have been suspended until December 10, 2003, if this suspension is not extended and Telecom's shareholders' equity declines such that Telecom's losses absorb 50% of its share capital or cause shareholders' equity to be negative at the end of the year ended December 31, 2003 or a subsequent fiscal year, Telecom will have to reduce its capital stock or commence dissolution proceedings, respectively, unless it is able to issue additional shares or its shareholders contribute additional capital.

The future evolution of Telecom's shareholders' equity depends to a great extent on the development of the current economic crisis and, in particular, on the fluctuation of the U.S. dollar and euro exchange rate, the results of the renegotiation of Telecom's indebtedness which has been affected by the devaluation, the "pesification" and freezing of Telecom's tariffs and the effects of such measures on Telecom's operating results and Telecom's capacity to generate sufficient cash flow to meet its financial obligations.

#### ***Risk Factors Relating to Telecom***

**Telecom's debt restructuring process is subject to significant uncertainty and is likely to result in dilution of Telecom shareholders' ownership and restrictions on its ability to pay dividends. If the restructuring process is not successful, Telecom may be forced into or file for bankruptcy.**

Telecom is currently engaged in discussions and negotiations with its creditors in an effort to effect a restructuring of its financial indebtedness. These discussions and negotiations have focused on, among other things, the level of debt to be issued to its creditors and rates of interest thereon, the structure and terms of any equity-linked

instrument to be issued to creditors, the amount of equity capital that creditors would receive and the extent, if any, to which any part of the new debt obligations would be collateralized. As part of this debt restructuring, Telecom may issue equity securities to its creditors or to creditors of its subsidiary, Telecom Personal S.A. Although the issuance of these equity securities may be subject to the approval of Telecom's current shareholders and certain regulatory bodies, if Telecom does issue equity securities, these securities, depending on their terms, may result in dilution of the interests of the current Telecom shareholders. Additionally, it is possible that in connection with the restructuring Telecom's creditors will impose restrictions on Telecom's ability to pay dividends.

Telecom's restructuring plans remain subject to significant uncertainties. Although Telecom's goal is to achieve a consensual restructuring, Telecom cannot provide assurance that it will be successful in refinancing its outstanding financial indebtedness. It is possible that one or more of Telecom's creditors may seek to attach the assets of Telecom prior to the proposed restructuring. In addition, if a claim is filed requesting Telecom's bankruptcy ("*quiebra*") by one or more of its creditors, Telecom may seek the assistance of the Argentine courts by filing for *concurso preventivo* or it may seek a prepackaged agreement ("*acuerdo preventivo extrajudicial*") with its creditors.

Telecom has been advised by its Argentine counsel that if the Company is forced into *quiebra* its shareholders and holders of its financial indebtedness should expect the following:

- A court-appointed trustee will manage the business of the Company under the supervision of the Argentine court which will be subject to input from, but will not be bound by, the opinion of a committee of the Company's creditors. In this respect, if the court considers that the interruption of the provision of an essential public service may cause severe damage to its customers, the court may authorize the Company to continue providing such public service.
- All of Telecom's obligations will become due and payable immediately.
- Existing judicial claims from creditors, including trade creditors, will be considered by an Argentine court and the proceedings relating to such claims will be stayed. Holders of the Company's debt instruments and/or its shareholders therefore may not be able to control the process, and their interests shall be treated in accordance with Argentine bankruptcy law.
- Holders of the Company's debt instruments will lose any rights of set-off against the Company that they had prior to the *quiebra*.
- The *quiebra* proceedings may continue for a continued period of time and during such period Telecom could lose significant value.
- Under the Argentine court's supervision, the trustee will identify all of the assets and liabilities of the Company, liquidate the Company's assets and distribute the proceeds from such liquidation among all the creditors of the Company in the preferential order set forth under Argentine bankruptcy law.
- Foreign currency-denominated claims will be mandatorily converted into pesos at the exchange rate of the date on which the *quiebra* is declared or at maturity, if maturity occurred before the *quiebra* was declared.
- Interest on the Company's debts will cease to accrue.
- If Telecom is forced into *quiebra*, the Argentine government has the power to revoke the Company's license to provide telecommunications services, including fixed-line telephony services.
- If the Company's license to provide fixed-line telephony services is revoked, its controlling shareholder may be forced to transfer the shares and capital contributions in trust to the relevant regulatory entity, who will sell such shares and capital contributions in an auction. If this occurs, the proceeds of the sale minus fees, expenses, taxes and/or penalties will be delivered to the controlling shareholder. Once the shares and the capital contributions have been awarded to a new entity in the auction, a new license will be issued. During such period of time the regulatory entity may appoint one or more operators to temporarily provide the services formerly provided by Telecom. Any such operator will be paid out of the proceeds of the sale of the shares.

## [Table of Contents](#)

Telecom has been advised by its Argentine counsel that in order to reorganize its financial indebtedness under a *concurso preventivo*, the Company would need to obtain the approval of the majority of its unsecured creditors representing two-thirds of its liabilities filed in the *concurso preventivo* proceedings and admitted by the Argentine court. During the period of the *concurso preventivo*, the Company's shareholders and the holders of its financial indebtedness should expect the following:

- With the exception of a limited number of transactions that would require court approval (which approval will be subject to input from, but will not be bound by, the opinion of a committee of the Company's creditors), the Company would continue to be in charge of the management of its business while under the supervision of a trustee.
- All of Telecom's obligations will become due and payable as provided for by applicable laws.
- Existing judicial claims from creditors, including trade creditors, will be considered by an Argentine court and the proceedings relating to such claims will be stayed. The Company's shareholders and/or holders of its debt instruments therefore may be unable to control the process.
- The claims of holders of the Company's indebtedness will be restructured on terms that cannot be predicted at this time.
- For purposes of calculating the required majority, restructured claims will be denominated in pesos to calculate outstanding debt and determine the relative position of each creditor at the exchange rate as of the date of the bankruptcy trustee's filing of its report discussing each proof of claim.
- The *concurso preventivo* proceedings may continue for an extended period of time and during such period Telecom could lose significant value.
- Interest on the Company's debts will cease to accrue.
- The Company's assets would be protected against claims by its creditors, including but not limited to attempts to attach or liquidate its assets.
- No payments of principal or interest can be made by the Company to its creditors.
- Holders of the Company's indebtedness will lose any rights of set-off against the Company that they had prior to the *concurso preventivo*.
- If the *concurso preventivo* fails, holders of the Company's indebtedness will be left with a claim in a *quiebra* and may force the Company into *quiebra*.

Telecom has been advised by its Argentine counsel that the Company may also reorganize its financial indebtedness pursuant to an *acuerdo preventivo extrajudicial* if it is able to obtain the approval of the majority of its creditors representing two-thirds of the total liabilities of the Company and a court endorsement. Such an agreement would have a binding effect on all of the Company's creditors, including those that reject or do not execute such agreement. Any monetary claims against the Company would be suspended by the Argentine courts at the time such agreement is filed for endorsement.

Even if a court approval of such agreement were obtained and the restructuring was carried out in Argentina, it is possible that the agreement may not be recognized in other jurisdictions.

If a creditor were to challenge the modification of the terms and conditions of the Company's debt obligations governed by non-Argentine law, a court in another jurisdiction may determine that the minimum standards necessary for honoring and respecting an *acuerdo preventivo extrajudicial* in its jurisdiction were not satisfied. If that were to occur, all or some of the transactions that would be part of the restructuring could be challenged, and the Company may become subject to significant litigation.

See Item 8: "Financial Information—Legal Proceedings."



**Telecom's inability to service its debt obligations has caused certain of its creditors to exercise their right to accelerate Telecom's indebtedness to them.**

On April 2, 2002, Telecom announced the suspension of principal payments on its outstanding financial indebtedness as well as the outstanding financial indebtedness of its Argentine subsidiaries, and on June 24, 2002, Telecom announced the suspension of interest payments on their outstanding financial indebtedness. As a result of these suspensions, Telecom's creditors generally have the right to accelerate the maturity of its indebtedness to them and to demand payment of the full amounts payable under their respective debt instruments. Certain of Telecom's creditors and creditors of Telecom Personal have exercised their rights to accelerate their maturity and Telecom has been informed that holders of its medium term notes have filed seven legal actions against it seeking enforcement of their rights under their notes. See Item 8: "Financial Information - Legal Proceedings." The enforcement of such acceleration notices against Telecom would impair its ability to continue as a going concern. In addition, if Telecom is not successful in refinancing its outstanding financial indebtedness, it will continue to be significantly limited in its ability to meet its debt service obligations.

**Rate adjustments could adversely affect Telecom's revenues.**

Because of the current economic crisis, and in accordance with the Public Emergency Law, in January 2002, rates for basic telephone services and long distance services were converted to pesos and fixed at an exchange rate of P\$1.00=US\$1.00. The Argentine government and Telecom are currently in negotiations regarding the rates Telecom may charge in the future. According to the Public Emergency Law, while undertaking these negotiations, the government must consider the effect of these rates on the competitiveness of the general economy, the quality of the services, the investment plans, consumer protection and accessibility of the services and the profitability of the Company. Telecom is unable to predict the outcome of these negotiations and the rate scheme which will be applied in the future. Moreover, Telecom is unable to predict whether the Argentine government, as a result of the current rate renegotiations, will impose additional conditions or requirements on telecommunications companies, including Telecom, and if such conditions or requirements are imposed, whether Telecom will be able to meet them.

Rate restrictions and reductions of some scope and magnitude may continue for a number of years and may reduce revenues from basic services and other services. While the Company intends to continue to strive to control operating costs and improve productivity, those efforts may not offset, in whole or in part, the decline in operating margins that may result from mandatory rate freezing or reductions measured in dollar terms.

**Telecom must comply with conditions in its license, some of which are outside of its control.**

Telecom is subject to a complex series of laws and regulations with respect to most of the telecommunications services it provides. Telecom provides telecommunications services pursuant to a license that is subject to regulation by various regulatory bodies. Any partial or total revocation of the license would be likely to have a material adverse impact on Telecom's financial condition and results of operations. The Company's dissolution and the declaration of bankruptcy are events which may lead to a revocation of the Company's license under the List of Conditions. In addition, certain of the conditions of the license are not within Telecom's control. For example, transfers or issuances of the capital stock of Nortel Inversora S.A. ("Nortel") (which, as of the date of this report, owns approximately 54.74% of the common stock of Telecom) without the approval of the relevant regulatory bodies, and any transfer or issuance of Telecom's capital stock that reduces Nortel's ownership of Telecom to less than 51% without the approval of the regulatory bodies, may result in the revocation of Telecom's license. Telecom has no control over the control and/or transfers of its shares and the control and/or transfers of the shares of Nortel. Although the transfer of Telecom's shares by Nortel is subject to certain restrictions, these restrictions may not prevent a change in the indirect ownership of the holders of the shares of Nortel. For example, during 1999, Telecom Italia, which directly and indirectly owns 50% of Nortel's common stock, was acquired by Olivetti. During 2001, Olimpia S.p.A., a company whose share capital is currently held by Pirelli S.p.A. (50.4%), Edizione Finance International S.A. (16.8%), IntesaBci S.p.A. (8.4%), UniCredito Italiano S.p.A. (8.4%) and Hopa S.p.A. (16%), acquired and as of May 9, 2003 owns 28.55% of the share capital of Olivetti. As of May 9, 2003, Olimpia also holds 504,825,562 Olivetti 1.5% 2001-2010 convertible bonds with a premium at redemption and 68,409,125 Olivetti 2001-2002 warrants on ordinary shares.

**Telecom's business now operates in a competitive environment and this is likely to reduce Telecom's market share and may have material and adverse effects on its financial condition and results of operations.**

Until October 1999, Telecom provided basic telephone services to the northern region of Argentina (the "Northern Region") on an exclusive basis. The expiration of the exclusivity of Telecom's original license at that time exposed the Company to the negative effects of competition. On June 9, 2000, the executive branch of the Argentine government issued Decree No. 465/00, which provided for the complete deregulation of the Argentine telecommunications market beginning November 9, 2000.

With the end of exclusivity and subsequent deregulation, Telecom and licensed provider groups, comprised of, among others, independent basic telephone service providers, mobile (cellular) and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina, are now able to compete throughout Argentina. In providing local, domestic long-distance and international telephone services, such provider groups and other new competitors are now direct competitors of Telecom as a fixed line basic telephone services provider. Those groups with data transmission networks and other companies providing wireless services may be indirect competitors of Telecom to the extent those services may be substitutes for fixed wireline telephony. As of the date of this annual report on Form 20-F, more than 150 licenses for local and/or long distance services had been granted since the end of the exclusivity period.

Competition is impacting Telecom's business. The general business and economic climate in Argentina, including economic turbulence and regional differences in growth, interest rates, inflation rates and the instability of the dollar/peso exchange rate may affect the Company and its competitors differently, potentially to the relative disadvantage of the Company. The new competitive environment has resulted in decreases in rates, principally in the domestic and international long-distance services. Telecom expects that it will face additional pressure on the rates it charges for services and experience loss of market share for basic telephony service in the Northern Region. The market for cellular services is quite competitive as certain competitors are well capitalized in their networks and have substantial telecommunications experience. Competition is and will be affected by their respective business strategies and alliances. Accordingly, the Company may face additional pressure on the rates it charges for its services or experience loss of market share in this area. The Company also expects that the level of competition in its markets will increase in the future.

In light of the range of regulatory, business and economic uncertainties Telecom faces, as discussed in this "Risk Factors" section and elsewhere in this annual report on Form 20-F, it is difficult for the Company to predict with meaningful precision and accuracy the future market share of the Company in relevant geographic areas and customer segments, the speed with which change in the Company's market share or prevailing prices for services may occur or the effects of competition. Those effects could be material and adverse to Telecom's overall financial condition and results of operations.

**Telecom's operations and financial condition could be affected by union activity and general labor unrest.**

In Argentina, labor organizations have a substantial support and have considerable political influence. The demands of Telecom's labor organizations have increased recently as a result of the general labor unrest and dissatisfaction resulting from the disparity between the cost of living and salaries in Argentina as a result of the end of the Convertibility Law (although the Duhalde government has attempted to alleviate this economic disparity through in-kind social welfare distributions).

While Telecom is attempting to negotiate with its labor organizations in order to mitigate the effects of the Argentine economy on the real wages of its employees, Telecom is limited in its abilities to resolve these issues since it has not received authorization for tariff increases. If Telecom is not able to resolve these issues with the labor organizations, these organizations may strike or cause other types of conflicts. Strikes or other types of conflict with the unions or unionized personnel may have a material adverse effect on Telecom's ability to maintain ordinary service levels or otherwise operate its business in the manner that customers expect. In those circumstances, Telecom might face an immediate loss of revenue. Damage to the Company's reputation might also result, with a potential longer-term negative effect on revenues. See Item 6: "Directors, Senior Management and Employees—Employees and Labor Relations."

**Telecom is involved in various litigation proceedings which could result in unfavorable decisions and financial penalties for Telecom.**

Telecom is party to a number of legal proceedings, some of which have been pending for several years. Telecom cannot be certain that these claims will be resolved in its favor. Pending claims against Telecom include:

- A claim that Telecom should be held jointly and severally liable for amounts owed to the employees of ENTel, the provider of telecommunications services in Argentina prior to the privatization, despite a provision in the transfer agreement stating that ENTel would remain liable for such amounts.
- A claim filed in 1995 against Telecom, Telefónica, Telintar (a former jointly owned subsidiary of Telefónica and Telecom) and the Argentine government seeking, among other things, nullification of certain tariff rules and agreements.
- Seven legal actions filed by holders of Telecom's medium term notes seeking enforcement of their rights under the notes.
- An involuntary bankruptcy, or *quiebra*, petition initiated by an individual alleging to be a holder of a number of notes.

See Item 8: "Financial Information – Legal Proceedings."

**Nortel, as the principal shareholder of Telecom, may exercise its control in a manner that is not in Telecom's best interest.**

Nortel is Telecom's principal shareholder, owning approximately 54.74% of Telecom's capital stock as of the date of this report. Nortel owns all of Telecom's Class A shares and, as of the date of this report, approximately 8.4% of Telecom's Class B shares. Nortel has the ability to determine the outcome of any action requiring shareholder approval, including the election of a majority of directors and, subject to the requirements of Argentine law, the payment of dividends. Accordingly, Nortel is able to control the payment of dividends by Telecom, subject to the requirements of Argentine law, and to increase the amount or frequency of such dividend payments in order to fund expenditures or distributions by Nortel or for other purposes. The holders of Nortel's common stock have also granted each other rights of first refusal with respect to the sale of Nortel common stock, which could have the effect of preventing or deterring changes of control.

**Creditors of Telecom may be unable to attach certain assets of Telecom to secure a judgment.**

Argentine courts will not enforce any attachment with respect to property which is located in Argentina and determined by the court to be dedicated to the provision of essential public services. A substantial portion of Telecom's assets may be considered to be dedicated to the provision of an essential public service. If an Argentine court were to make such a determination with respect to certain of Telecom's assets, those assets would not be subject to attachment, execution or other legal process and Telecom's creditors may not be able to realize a judgment against the assets of Telecom.

**Telecom may be subject to measures by the Argentine government which may impose an obligation to provide telecommunications services without compensation.**

On June 12, 2002, the Argentine Congress passed Law 25,609 which, as of the date of this annual report, has not been published in the Official Gazette. Law 25,609 provides that Argentine telephone operators such as the Company must provide "indispensable telephony services" to the following entities (the "Beneficiaries"): (i) public hospitals and welfare institutions, (ii) public education facilities and (iii) Argentine armed forces. Law 25,609 has not defined the scope of "indispensable telephony services." Pursuant to the terms of this law, the Company must continue to provide telephony services even if the Beneficiaries do not pay for such services. Subject to the implementation of this law and subsequent regulations that may be enacted thereunder, the Company may or may not be able to set-off any amounts due by the Beneficiaries against any amounts owed by the Company to the Argentine government.

The Executive Branch vetoed Law No. 25,609 and instead passed Decree No. 1174/02 on July 4, 2002. However, Law 25,609 may still become effective upon a 2/3 majority vote of the National Congress. Decree No. 1174/02, unlike Law 25,609, does not require Argentine telephone operators such as the Company to provide the above mentioned “indispensable telephony services” but does require a party wishing to suspend the provision of such services to provide 30 working days notice of such suspension to the affected entity and the Ministers or Secretaries of the Presidency of the Nation.

**Telecom’s financial statements may not give you the same information as financial statements prepared under U.S. accounting rules.**

Publicly available information about public companies in Argentina is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States and certain other countries. In addition, although Telecom is subject to the periodic reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), the periodic disclosure required of foreign issuers under the Exchange Act is more limited than the periodic disclosure required of domestic U.S. issuers. Furthermore, there is a lower level of regulation of the Argentine securities markets and of the activities of investors in such markets as compared with the securities markets in the United States and certain other developed countries. Telecom maintains its financial books and records and prepares its financial statements in conformity with Argentine GAAP, which differs in certain respects from U.S. GAAP.

**Telecom could be delisted from the New York Stock Exchange and/or the Buenos Aires Stock Exchange which would result in a loss of liquidity for Telecom’s securities.**

Telecom’s Class B Shares are currently listed on the Buenos Aires Stock Exchange and Telecom’s ADSs are currently listed on the New York Stock Exchange. See Item 9: “The Offer and Listing.” Under its regulations, the Buenos Aires Stock Exchange will delist shares of a company under certain circumstances which include the company reporting a deficit under Argentine GAAP, a bankruptcy judgment against the company, liquidation, revocation of the company’s public offering authorization by the CNV and delisting by a foreign stock market. Notwithstanding these regulations, on May 29, 2002, the CNV passed certain resolutions consistent with a resolution of the Buenos Aires Stock Exchange Presidency under which shares of companies with negative net worth shall not be delisted if such negative net worth was a result of the devaluation of the peso resulting from the Public Emergency Law.

A company may be delisted from the New York Stock Exchange if its average global market capitalization falls below certain specified levels, its average daily closing price falls below certain specified levels for a specified period or if the listed company has a reduction in operating assets, undergoes bankruptcy or liquidation, violates public policy or its agreements with the New York Stock Exchange or the listed company’s securities are authoritatively determined to have no value. On July 29, 2002, Telecom was notified by the New York Stock Exchange that (i) it did not meet the minimum share price criteria for continued listing on the exchange and (ii) it must bring its share price and average share price back above \$1.00 within six months of receipt of the notification or it would be delisted. Telecom agreed with the New York Stock Exchange that in order to remedy the price deficiency it would seek shareholder approval for a change in the ratio of common shares to ADSs at the annual shareholders’ meeting on April 30, 2003. However, prior to April 30, 2003, Telecom’s share price increased so that Telecom’s ADSs met the New York Stock Exchange’s standards on minimum price per ADS at the time of its annual shareholders’ meeting. Nevertheless, at its annual shareholders’ meeting held on April 30, 2003, Telecom’s shareholders granted its board of directors the power to change the ratio of ADSs to common shares if necessary in the future.

Even though Telecom’s board of directors now has the power to change the ratio of ADSs to common shares if necessary in the future, it is possible that the current economic and political conditions in which Telecom is operating may result in circumstances that require the delisting of its securities from the New York and/or Buenos Aires Stock Exchange. The delisting of Telecom’s securities from either of these exchanges will result in a loss of liquidity for the Company’s shares.