

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 Argentina

Overview

Substantially all of our property, operations and customers are located in Argentina and most of our indebtedness is denominated in U.S. dollars and euro. Accordingly, our 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 these other currencies. In the past several years 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 affect our financial condition and results of operations and may impair our ability to make payments of principal and/or interest on our financial indebtedness including the notes.

The devaluation of the peso will adversely affect Telecom's results of operations and its ability to service its debt obligations.

Since Telecom realizes substantially all of its revenues in Argentina in pesos, any devaluation in the peso will negatively affect the U.S. dollar value of our earnings while increasing the cost, in peso terms, of our expenses and capital costs denominated in foreign currency (including costs of servicing our indebtedness denominated in foreign currencies).

The Argentine peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. Given the economic and political uncertainties in Argentina, it is impossible to predict whether, and to what extent, the value of the peso may 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 of these changes could have on the value of peso and, accordingly, on Telecom's financial condition and results of operations.

Substantial inflation may continue, which will negatively impact Telecom's revenues.

Argentina experienced significant inflation during 2002. During 2002, the Argentine consumer price index increased 41% and the wholesale price index increased 118%. The level of inflation reflects both the effect of the peso devaluation on production costs and a substantial change in relative prices, partially offset by the elimination of public utility rate adjustments and the large drop in demand resulting from the recession.

Inflation slowed in 2003, with the Argentine consumer price index increasing by 3.7% and the wholesale price index increasing by approximately 1.9% in 2003. For the first five months of 2004, the Argentine consumer price index increased by 2.7% and the wholesale price index increased by 3.9%. Despite recent slowing of inflation rates, if the Central Bank issues significant amounts of currency to finance public sector spending or to assist financial institutions in distress or if the value of the peso cannot be stabilized by positive expectations for Argentina's economic future and/or strict fiscal and monetary policies, an increase in inflation rates can be expected. Since we derive the majority of our revenues from fees payable in pesos, unless our tariffs increase at a rate at least equal to the rate of inflation, any further increase in the rate of inflation will result in decreases in our revenues in real terms and will adversely affect our results of operations. Pursuant to the Public Emergency Law, contract clauses requiring adjustments in agreements for the provision of public utility services between the Argentine government and the providers of those services (including us) based on foreign inflation indexes and all other indexation mechanisms have been revoked, and the tariffs for the provision of such services were converted from their original U.S. dollar values to pesos at a rate of P\$1.00 per U.S.\$1.00. We are in the process of renegotiating our tariffs and contractual terms with the Argentine government. As part of this renegotiation, on May 20, 2004, we and Telefónica de Argentina S.A. signed a letter of understanding with the Argentine government whereby we agreed to

maintain together with Telefónica de Argentina S.A. the current tariff structure we charge our customers for basic telephony services until December 31, 2004. We cannot assure you that the outcome of any further renegotiation will be favorable to us and our future financial position.

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 us from making payments on our external debt.

In 2001 and 2002, 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. These restrictions severely limited our ability to make payments on our debt to creditors outside of Argentina. Although these restrictions have generally been eliminated, there can be no assurance that the Central Bank will not again restrict the transfer of funds abroad for principal and/or interest payments by Telecom to its foreign creditors which would limit our ability to service our debt.

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.

Under section 206 of the Argentine Companies Law No. 19,550, as amended, if at the annual shareholders' meeting a corporation presents financial statements that report that the corporation's losses have absorbed its reserves and at least 50% of its share capital, the corporation is required to reduce its capital stock. Furthermore, under paragraph 5 of section 94, if the corporation presents annual financial statements that report negative shareholders' equity, 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 increases the company's capital stock. These provisions of the Argentine Companies Law have been suspended until December 10, 2004 as a result of successive presidential decrees. In addition, the Buenos Aires Stock Exchange has issued a resolution providing that companies with negative shareholders equity can continue listing their securities on the reduced trading panel (*rueda reducida*) until June 30, 2004, instead of being suspended from listing from the Buenos Aires Stock Exchange. We cannot assure you that the suspension of the mandatory capital reduction requirements of the Argentine Companies Law, or the exemption from the positive shareholders' equity requirements of the Buenos Aires Stock Exchange, will be extended again or that these requirements will not be enforced in the future.

Although Telecom's shareholders' equity was positive as of December 31, 2003 (largely as a result of the appreciation of the peso in 2003), if the Argentine economy does not continue to improve and the peso depreciates against the U.S. dollar, Telecom's results of operations may decline such that they absorb at least 50% of its share capital and reserves or result in negative equity. In this event, if the suspension of the provisions of Section 206 and paragraph 5 of section 94 are not extended past December 10, 2004, then Telecom may be forced to reduce its capital stock or to commence dissolution proceedings.

Future Argentine government policies will likely significantly affect the economy as well as the operations of the telecommunications industry.

The Argentine government has historically exercised significant influence over the economy, and telecommunications companies in particular have operated in a highly regulated environment. Due to the Argentine economic crisis, the Argentine government promulgated numerous, far-reaching regulations affecting the economy and telecommunications companies in particular. Under the Kirchner administration, the CNC has been aggressive in adopting new regulations and imposing fines on telecommunications companies, particularly privatized companies such as Telecom. The CNC has initiated administrative proceedings to collect fines against Telecom amounting to approximately P\$8 million and claims for 2002 fines of P\$0.42 million are also pending. We have challenged the imposition of these fines in these administrative proceedings. In addition, local municipalities in the regions where we operate have also introduced regulations and proposed various taxes and fees for the installation of infrastructure, equipment and expansion of fixed line and wireless networks. The AFIP have also brought an increasing number of claims against us, including for our amortization of assets and past deductions for uncollectable receivables. We cannot assure you that laws and regulations currently governing the economy or the telecommunications industry will not change, or that any changes will not adversely affect our business, financial condition or results of operations as well as our ability to honor our foreign currency denominated debt obligations.

In the event of further social or political crisis, companies in Argentina may also face the risk of further civil and social unrest, strikes, expropriation, nationalization, forced renegotiation or modification of existing contracts, and changes in taxation policies, including royalty and tax increases and retroactive tax claims.

In addition, investments in Argentine companies may be further affected by changes in laws and policies of the United States affecting foreign trade, taxation and investment.

Argentina continues to face considerable political and economic uncertainty.

Although general economic conditions have shown improvement and political protests and social disturbances have diminished considerably in 2003, the rapid and radical nature of the changes in the Argentine social, political, economic and legal environment over the past five years and the absence of a clear political consensus in favor of any particular set of economic policies have given rise to significant uncertainties about the country's economic and political future. It is currently unclear whether the economic and political instability experienced over the past five years will continue and it is possible that, despite recent economic growth, Argentina may return to a deeper recession, higher inflation and unemployment and greater social unrest. If this instability continues, there could be a material adverse effect on our results of operations and financial condition.

Further, the Argentine government is facing severe fiscal problems as a result of the devaluation of the peso. As most of the Argentine government's financial liabilities are U.S. dollar-denominated, the cost, in peso terms, of servicing these liabilities has increased significantly as a result of the devaluation. In addition, peso-denominated tax revenues constitute the majority of Argentina's tax receipts and although tax revenues have increased in peso terms, they have decreased in U.S. dollar terms. Therefore, the government's ability to honor its foreign debt obligations has been materially and adversely affected by the devaluation of the peso.

Argentina is currently insolvent and is limited in its ability to obtain financing in the future, which may restrict its ability to implement reforms and restore economic growth.

The Argentine government is currently insolvent and has defaulted on a significant part of its public debt in recent years although it has recently reached an agreement to postpone the maturity date of certain amounts of its debt owed to the International Monetary Fund, or IMF, and other international credit organizations. Due to a sustained lack of investor confidence in Argentina's ability to make payments due on its sovereign debt and in the Argentine economy generally, Argentina's opportunities to effectively raise capital in the international markets have been severely limited. This inability to obtain financing has and will continue to affect Argentina's ability to implement any reforms and restore economic growth. In addition, the adoption of austere fiscal measures may be required to repay the Argentine government's debt and to balance its budget. These factors could lead to deeper recession, higher inflation and unemployment and social unrest which would negatively affect our financial condition and results of operations.

The stability of the Argentine banking system is uncertain.

In recent years the Argentine financial system has been characterized by extreme volatility. In the past, the Argentine government has restricted bank withdrawals and required the conversion of dollar deposits to pesos. This has led to a significant decrease in commercial and financial activities, diminished spending and greatly increased social unrest, resulting in widespread public protests against financial institutions.

Since 2002, a large number of cases brought in Argentine courts have challenged the constitutionality of "pesification" pursuant to the Public Emergency Law and have demanded the return of deposits in dollars or in pesos at the prevailing exchange rate at the time of payment. In at least one case, the Argentine Supreme Court has struck down the mandatory conversion to pesos of U.S. dollar deposits. This decision creates uncertainty for the Argentine banking system as a whole and raises the possibility that a large number of depositors may seek to withdraw all of their deposits and convert their pesos into dollars in the future. If this happens, the Argentine government may be required to provide additional financial assistance to banks. If the Argentine government is not able to provide this assistance and these withdrawals are significant, this could lead to the collapse of one or more large banks or even the Argentine financial system.

The Argentine banking system's collapse or the collapse of one or more of the larger banks in the system would have a material adverse effect on the prospects for economic recovery and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives for consumers. These conditions would have a material adverse effect on us by resulting in lower usage of our services and the possibility of a higher level of delinquent or uncollectible accounts.

Shareholders may be liable under Argentine law for actions that are determined to be illegal or ultra vires.

Under Argentine law, a shareholder's liability for losses of a company is limited to the value of his or her shareholdings in the company. Under Argentine law, however, shareholders who vote in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or a company's bylaws (or regulations, if any) may be held jointly and severally liable for damages to such company, to other shareholders or to third parties resulting from such resolution. In connection with recommending any action for approval by shareholders, the board of directors of Telecom frequently obtains and intends to obtain in the future, opinions of counsel concerning the compliance of the actions with Argentine law and Telecom's bylaws (or regulations if any). Although the issue is not free from doubt, based on advice of counsel, Telecom believes that a court in Argentina in which a case has been properly presented would hold that a non-controlling shareholder voting in good faith and without a conflict of interest in favor of such a resolution based on the advice of counsel that such resolution is not contrary to Argentine law or the Company's bylaws or regulations, would not be liable under this provision.

Risks Associated with Telecom and its Operations

Telecom may be forced into bankruptcy or to file for reorganization.

Although Telecom is currently pursuing a restructuring pursuant to an *acuerdo preventivo extrajudicial* (or "APE"), an out-of-court restructuring agreement governed by Law No. 24, 522, Telecom cannot assure you that it will be successful in refinancing its outstanding debt through the APE Solicitation. Our proposed APE is subject to a number of conditions including the approval of holders of our outstanding debt, a minimum level of participation in one of the consideration options offered in the APE and the approval by the reviewing court in Argentina. In addition, the APE procedure is a new statutory mechanism with few court cases interpreting these proceedings, and judicial treatment of the APE by the reviewing court and the enforcement of the APE by courts outside of Argentina is subject to uncertainty. It is possible that one or more of Telecom's creditors may seek to attach Telecom's assets prior to the completion of the proposed restructuring. In addition, if a claim is filed requesting Telecom's bankruptcy, or *quiebra*, by one or more of its creditors, Telecom may seek the assistance of the Argentine courts by filing for reorganization, or *concurso*. If Telecom's proposed restructuring is not consummated, there is a significant likelihood that we will have to commence bankruptcy proceedings or face involuntary insolvency proceedings.

If the restructuring is not consummated, there is a significant likelihood that we will pursue the pesification of our foreign-currency denominated debt, and will have to commence reorganization proceedings or face bankruptcy proceedings.

Except for partial payments of accrued but unpaid interest of the equivalent of US\$96 million (excluding withholding tax) made by Telecom, US\$13 million (excluding withholding tax) made by Telecom Personal and US\$0.04 million (excluding withholding tax) made by Publicom S.A. (a 99.99% owned subsidiary), which we refer to as Publicom, in June 2003, we have not made principal or interest payments to our financial creditors since the first half of 2002. As of December 31, 2003, the aggregate principal face amount of our unconsolidated outstanding debt (which excludes accrued but unpaid interest, penalties and post-default interest rate increases) was the equivalent of US\$2,553 million. As of December 31, 2003, the aggregate amount of total unconsolidated outstanding debt amounted to approximately the equivalent of US\$2,801 million (including accrued but unpaid interest, penalties and post-default interest rate increases).

A substantial portion of our outstanding debt is denominated in foreign currencies and is governed by foreign law. Notwithstanding the economic crisis in Argentina and subsequent devaluation and pesification, Telecom has recorded its outstanding debt at their respective original foreign currencies in the expectation that the debt restructuring would be completed successfully. If a restructuring plan pursuant to the APE is not completed, our

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management will analyze different courses of action in order to preserve the continuity of Telecom's operations. As discussed in Note 12 to Telecom's consolidated financial statements as of and for the year ended December 31, 2003, such actions may include pursuing legal arguments to support the "pesification" of foreign-currency denominated debt governed by foreign law. In this event, Telecom would seek to treat the foreign-currency denominated debt of Telecom and its subsidiaries as having been "pesified" at a rate of P\$1 to US\$1 or its equivalent in other foreign currencies.

Our cash flow is currently insufficient to service our existing debt. Unless holders of the requisite majorities of outstanding debt vote in favor of the APE Solicitation, there is a significant likelihood that we will have to commence reorganization, or *concurso*, proceedings under Argentine Bankruptcy Law or one of our creditors may force us into bankruptcy proceedings, or *quiebra*.

We have been advised by our Argentine counsel that in order to reorganize our outstanding debt under a reorganization (*concurso*), we would need to obtain the approval of the majority of our unsecured creditors representing two-thirds of our liabilities filed in the *concurso* proceedings and admitted by the Argentine court. During the period of the *concurso*, the holders of our outstanding debt should expect the following:

- We will continue managing our business, subject to control and supervision by a bankruptcy trustee (*síndico*) and a committee of creditors. In addition, certain transactions will be subject to court approval (which approval would be subject to input from, but would not be bound by, the opinion of the committee of creditors).
- All of our obligations will become due and payable as provided for by applicable laws.
- Existing judicial claims from creditors, including trade creditors, will be considered by the court and any proceedings relating to these claims will be stayed. Holders of our outstanding debt therefore may be unable to control the process and their interests may be given less weight by the reviewing court when considered in relation to the interests of all of our creditors, including our commercial creditors. In our APE, by contrast, commercial creditors will not have their claims accelerated and will continue to be paid on customary terms.
- The claims of holders of our outstanding debt will be restructured on terms that cannot be predicted at this time, but they could be more or less favorable than the terms being offered pursuant to the APE.
- For purposes of calculating the requisite majorities and the relative positions of the creditors, restructured claims denominated in a currency other than pesos will be converted into pesos at the exchange rate as of the date of the bankruptcy trustee's filing of its report discussing each proof of claim.
- Reorganization (*concurso*) proceedings are likely to take a longer period of time than proceedings involving APE agreements and holders may therefore have to wait for an extended period of time before the *concurso* proceedings are completed. During this period, Telecom could lose significant value.
- Accrual of interest on our unsecured debts will be suspended in the reorganization (*concurso*).
- Our assets would be protected against claims by our creditors, and the protection would include, but would not be limited to, a prohibition against attempts to attach or liquidate our assets.
- No payments of principal or interest may be made by us to our creditors.
- Holders of our indebtedness will lose any rights of set-off against us that they had prior to the reorganization (*concurso*) unless the debt owed to holders was already due and payable prior to the date of filing of the reorganization (*concurso*).
- If the reorganization (*concurso*) fails, holders of our indebtedness will be left with a claim in a bankruptcy (*quiebra*) and may force us into *quiebra*.

We have been advised by our Argentine counsel that if we are forced into bankruptcy proceedings (*quiebra*) holders of our outstanding debt should expect the following:

- A court-appointed trustee will manage our business 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 our creditors. In this respect, if the court considers that the interruption of the provision of an essential public service may cause severe damage to our customers, the court may authorize us to continue providing this public service.
- All of our obligations will become due and payable immediately.
- Existing judicial claims from creditors, including commercial creditors, will be considered by the reviewing court and any proceedings relating to these claims at the time of the bankruptcy (*quiebra*) will be stayed. Holders of our outstanding debt therefore may not be able to control the process, and their interests shall be treated in accordance with Argentine Bankruptcy Law, taking into account the interests of all creditors as a whole. In our APE, by contrast, commercial creditors will not have their claims accelerated and will continue to be paid on customary terms.
- Holders of our outstanding debt may not exercise any set-off rights with respect to debt we owed to them prior to the bankruptcy (*quiebra*) unless the debt we owed to holders was already due and payable prior to the date of filing the bankruptcy (*quiebra*).
- The bankruptcy (*quiebra*) proceedings may continue for a continued period of time and during this period we could lose significant value.
- Under the Argentine court's supervision, the trustee will identify all of our assets and liabilities, liquidate our assets (for which a specific procedure may apply under Argentine law according to the terms of our license to provide telecommunications services) and distribute the proceeds from this liquidation among all our creditors in the preferential order set forth under Argentine Bankruptcy Law.
- Foreign currency-denominated claims will be mandatorily converted into pesos at the exchange rate in effect on the date on which the bankruptcy is declared or upon the maturity of the claims, if maturity occurred before the bankruptcy was declared.
- Interest on our debts will cease to accrue.
- Our assets would be protected against claims by our creditors, and the protection would include, but would not be limited to, a prohibition against attempts to attach or liquidate our assets.
- Holders of our indebtedness will lose any rights of set-off against us that they had prior to the bankruptcy (*quiebra*) unless the debt owed to holders was already due and payable prior to the date of filing of the bankruptcy (*quiebra*).
- If we become subject to bankruptcy proceedings, the Argentine government has the power to revoke our and Telecom Personal's licenses to provide telecommunications services, including fixed-line telephony and cellular services.
- If our license to provide fixed-line telephony services is revoked, our controlling shareholder may be forced to transfer its shares and capital contributions in trust to the relevant regulatory entity, who will sell these 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 our 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 this period of time the regulatory entity may appoint one or more operators to temporarily provide the services formerly provided by us. Any of these operators will be paid out of the proceeds of the sale of the shares.

In addition, the processes of reorganization (*concurso*) and bankruptcy (*quiebra*) proceedings are subject to considerable uncertainty because they will be governed by a statute that was amended in 2002, and substantial aspects of the amended statute have not yet been applied or interpreted by the courts. Consequently, the actual outcome might be less favorable or more favorable for creditors than the consequences described in this document in ways we cannot foresee.

Our subsidiaries are also in the process of negotiating debt restructurings, the outcome of which are uncertain.

Our subsidiary, Telecom Personal, is currently discussing a restructuring proposal with representatives of its creditors, and Telecom is not certain whether Telecom Personal will complete its restructuring plan as proposed, or when such restructuring may be completed. As of December 31, 2003, Telecom Personal's unconsolidated outstanding debt and intercompany obligations amounted to the equivalent of US\$599 million (including US\$27 million principal amount of intercompany obligations owed to Telecom, accrued but unpaid interest, penalties and post-default interest rate increases). Telecom Personal's subsidiary, Núcleo, also is in the process of restructuring its indebtedness. The outcome of the Telecom Personal and Núcleo restructurings are subject to approval by the relevant creditors of those companies and to the conditions of their respective restructuring plans.

Uncertainties resulting from the current economic situation in Argentina and currently existing regulations affecting us and uncertainties relating to the restructuring of our outstanding debt currently raise substantial doubt about our ability to continue as a going concern and may continue to negatively impact our financial position and results of operations.

Telecom's consolidated financial statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 have been prepared assuming that it will continue as a going concern.

Pricewaterhouse & Co. (a member firm of PricewaterhouseCoopers) and Pistrelli, Henry Martin y Asociados S.R.L. (a member firm of Ernst & Young Global) have jointly issued a qualified opinion on the consolidated financial statements of Telecom as of and for the year ended December 31, 2003, because of a departure from Argentine GAAP. As further discussed in Note 3.c. to the consolidated financial statements, Telecom has discontinued restating its financial statements in constant currency effective March 1, 2003, as required by a CNV resolution. Argentine GAAP required companies to restate financial statements for inflation through September 30, 2003.

Our accountants' report includes a paragraph describing the existence of substantial doubt about our ability to continue as a "going concern." Although we expect that completion of the APE, if successful, will reduce the risks associated with or our ability to continue as a going concern, factors such as the strength of the Argentine economy and the devaluation of the peso, as further described in this "Risk Factors" section, may continue to negatively impact the financial position and results of operations of Telecom and its subsidiaries and there is a risk that we will not be able to continue as a going concern.

Our ability to operate our business will be constrained by restrictions and limitations imposed during the interim period for the APE and by the indenture governing the notes that we propose to issue.

The indenture governing the notes that will be issued pursuant to our APE restructuring proposal will contain certain operating and financial restrictions and covenants that may adversely affect our ability to finance our future operations or capital needs or to engage in certain business activities. We will agree to observe these restrictions during the interim period for the APE. These agreements will limit, and in some cases prohibit, our ability to:

- incur liens;
- incur indebtedness;
- sell assets;
- enter into sale and leaseback transactions;

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- engage in transactions with our shareholders and affiliates;
- make capital expenditures;
- make restricted payments (including loans and investments);
- impose payment restrictions affecting restricted subsidiaries;
- issue equity interests of Telecom Personal resulting in a loss of control of Telecom Personal;
- engage in other lines of business; or
- engage in certain mergers.

In addition, the notes and Telecom Personal's loans will contain cash sweep provisions which will require us and Telecom Personal to use any "excess cash" as defined in the notes to prepay our and Telecom Personal's notes, respectively, which will further limit our ability to finance our future operations or capital needs.

We are and will continue to be highly leveraged.

As of December 31, 2003, our total consolidated bank and financial indebtedness, denominated in dollars, euro and yen amounted to the equivalent of approximately US\$3,381 million, including accrued but unpaid interest, penalties and post-default interest rate increases. Our total consolidated peso-denominated debt amounted to P\$176 million, including accrued but unpaid interest, penalties and post-default interest rate increases and CER adjustment. After giving effect to the restructuring pursuant to the APE, based on the assumptions of the management of Telecom, we expect that the nominal (contractual) amount of our unconsolidated bank and financial indebtedness as of December 31, 2003 will be approximately US\$1,801 million. However, if the APE is implemented, the amount of our restructured financial indebtedness and the scheduled interest payments and mandatory amortization obligations for our financial indebtedness outstanding after the restructuring will depend on the elections of participating holders and the decision of the reviewing court with respect to the treatment of the non-participating holders. Assuming that the APE is completed in the form that we have proposed in the APE Solicitation Statement, we expect to be able to make principal and interest payments on the notes to be issued in the APE. However, this expectation is based on assumptions about important macroeconomic factors, including exchange rates, inflation, tariff adjustments and growth in the Argentine economy. Our leverage may impair our ability to service our indebtedness or obtain additional financing in the future, to withstand competitive pressure and adverse economic conditions or to take advantage of significant business opportunities that may arise.

In addition, our subsidiary, Telecom Personal is, and will continue to be, highly leveraged. As of December 31, 2003, Telecom Personal's unconsolidated outstanding debt was US\$599 million (including the U.S. dollar equivalent, in the case of debt denominated in other currencies, of US\$27 million principal amount in intercompany obligations, accrued but unpaid interest, penalties and post-default interest rate increases). After giving effect to Telecom Personal's proposed restructuring based on the assumptions of the management of Telecom and Telecom Personal, we expect that the nominal (contractual) amount of Telecom Personal's unconsolidated bank and financial indebtedness as of December 31, 2003 will be approximately P\$1,236 million (the equivalent of approximately US\$422 million).

Nortel, as the principal shareholder of Telecom, and its controlling shareholder, Sofora, exercise significant control over matters affecting Telecom.

Nortel is Telecom's principal shareholder, owning approximately 54.74% of Telecom's capital stock as of the date of this annual report. Nortel owns all of Telecom's Class A shares and approximately 8.5% of Telecom's Class B shares. Sofora owns 100% of the common stock and 67.78% of the capital stock of Nortel. Sofora is currently 50% owned by Telecom Italia Group, 48% owned by W de Argentina - Inversiones S.L., or W de Argentina - Inversiones (a company that is party of the Wertheim Group de Argentina) and 2% owned by France Telecom Group.

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Through their ownership of Sofora, the Telecom Italia Group and W de Argentina - Inversiones will have the ability to determine the outcome of any action requiring Telecom's shareholders' approval, including the ability to elect a majority of directors. Accordingly, Sofora and its shareholders are able to control the payment of dividends by Telecom, subject to the requirements of Argentine law, and to increase the amount or frequency of these dividend payments in order to fund expenditures or distributions by Sofora or for other purposes.

Telecom has been informed that pursuant to the shareholders' agreement entered into between the Telecom Italia Group and the Wertheim Group, the Telecom Italia Group and W de Argentina - Inversiones have agreed amongst themselves certain matters relating to the election of directors of Nortel and Telecom and have given W de Argentina - Inversiones veto power with respect to certain matters relating to Telecom.

Telecom's APE does not provide for the issuance or modification of any equity securities. As a result, Nortel will retain all of its current equity and, as a result of Sofora's direct ownership of Nortel, Sofora's shareholders will continue to exercise their current level of control after the APE. We have engaged in and will continue to engage in transactions with these shareholders and their affiliates. Certain decisions concerning our operations or financial structure may present conflicts of interest between these shareholders as direct or indirect owners of our capital stock and as parties with interests in these related party contracts.

The "pesification" and freezing of rates may continue to adversely affect Telecom's revenues.

In accordance with the Public Emergency Law, in January 2002, rates for basic telephony services and long distance services were converted to pesos and fixed at an exchange rate of P\$1.00=US\$1.00. The rates Telecom may charge in the future will be determined by negotiation between Telecom and the Argentine government. According to the Public Emergency Law, while undertaking these negotiations, the Argentine 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 Telecom. In connection with these negotiations, on May 20, 2004, we and Telefónica de Argentina S.A. signed a letter of understanding with the Argentine government whereby we agreed, without waiving our right to continue negotiations, to maintain the current tariff structure we charge our customers for basic telephony services until December 31, 2004.

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, and if these 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 Telecom 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. Telecom's dissolution and the declaration of bankruptcy are events which may lead to a revocation of Telecom's license under the List of Conditions.

Certain of the conditions of the license are not within Telecom's control. For example, any transfer of shares resulting in a direct or indirect loss of control in Telecom without prior approval of the regulatory authorities may result in the revocation of Telecom's license and, until June 29, 2004, certain transfers of shares of Telecom, or its direct or indirect shareholders, may result in the revocation of Telecom Personal's PCS AMBA license.

In addition, since December 2003, the Telecom Italia Group and W de Argentina - Inversiones S.L are each required to maintain direct ownership of at least 15% of the common stock of Sofora.

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Nortel owns all of our Class A Ordinary Shares (51% of our total capital stock) and approximately 8.5% of our Class B Ordinary Shares (3.74% of our total capital stock) which, in the aggregate, represented approximately 54.74% of our total capital stock. Telecom is directly controlled by Nortel by virtue of Nortel's ownership of a majority of our capital stock; however, Nortel's controlling interest is subject to certain agreements among Sofora's shareholders.

Pursuant to the List of Conditions as amended by Resolutions S.C. N° 111/03 and N° 29/4: (i) any reduction of ownership of Nortel in the capital stock of Telecom to less than 51% without prior approval of the Regulatory Bodies; or (ii) any reduction of ownership of currently common shareholders in the capital stock with voting power of Nortel to less than 51% without prior approval of the Regulatory Bodies, may result in the revocation of Telecom's telecommunications license.

Telecom's business operates in a competitive environment which may result in a reduction in its market share in the future.

Telecom competes with licensed provider groups, comprised of, among others, independent basic telephony service providers, mobile (cellular) and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina. 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 December 31, 2003, more than 150 licenses for local and/or long distance services had been granted since the end of the exclusivity period.

Telecom expects that it will face pressure on the rates it charges for services and experience loss of market share for basic telephony service in the Northern Region as a result of this competition. In addition, the market for cellular services is quite competitive as certain of our competitors are better capitalized than Telecom in their networks and have substantial telecommunications experience. In March 2004, Telecom learned that BellSouth Corporation announced that it would sell its interests in its Latin American cellular operations to Telefónica Móviles, S.A. ("Telefónica Móviles"), the wireless affiliate of Telefónica, S.A., which reported that the proposed sale would result in Telefónica Móviles becoming Argentina's largest cellular operator. The Internet services and wireless telecommunications markets, which we expect will account for an increasing percentage of our revenues in the future, are characterized by rapidly changing technology, evolving industry standards, changes in customer preferences and the frequent introduction of new services and products. To remain competitive in the basic telephony market, Telecom must invest in its fixed-line network in order to maintain and improve service quality. To remain competitive in the wireless telecommunications market, Telecom Personal must enhance its wireless networks by transitioning from TDMA to GSM technology, expand its network coverage, provide high service quality and attractive plans. To remain competitive in the Internet services market, Telecom must constantly upgrade its access technology and software, embrace emerging transmission technologies and improve the responsiveness, functionality, coverage and features of its services. Telecom must also adapt to changing market conditions. Responding to these changes may require us to devote substantial capital to the development, procurement or implementation of new technologies.

We also anticipate that we will have to devote significant resources to the refurbishment and maintenance of our and our subsidiaries' existing network infrastructures. In addition, we may have to make significant expenditures for the repair or replacement of our equipment lost due to theft or vandalism.

The operating and financial restrictions under the terms of the notes (including limits on capital expenditures by us and by Telecom Personal) and the macroeconomic situation in Argentina and our related lack of access to bank financing and the capital markets may impede our ability to successfully invest in, and implement, new technologies, coverage and services in a timely fashion. Accordingly, we cannot assure you that we will have the ability to make needed capital expenditures. If we are unable to make these expenditures, or if our competitors are able to invest in their businesses to a greater degree than we are, our competitive position will be adversely impacted.

Moreover, the products and services we offer may fail to generate revenues or attract and retain customers. If our competitors present similar or better responsiveness, functionality, services, speed, plans and features, our customer base and our user traffic may be materially affected.

Competition is and will continue to be affected by Telecom's and its competitors' respective business strategies and alliances. Accordingly, Telecom may face additional pressure on the rates it charges for its services or experience loss of market share in these areas. In addition, 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 Telecom and its competitors differently, potentially to the relative disadvantage of Telecom. Telecom 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, it is difficult for Telecom to predict with meaningful precision and accuracy the future market share of Telecom in relevant geographic areas and customer segments, the speed with which change in Telecom’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 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.

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.

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

In Argentina, labor organizations have 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 Argentine government has attempted to alleviate this economic disparity through in-kind social welfare distributions). Moreover, labor organizations have advocated that certain of our non-unionized employees, particularly Telecom Personal’s cellular telephony employees, should be represented by trade unions. If the number of employees covered by trade unions increases, we may incur an increase in costs for the higher compensation that we may need to pay to unionized employees.

While Telecom attempts 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,

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Telecom might face an immediate loss of revenue. Damage to Telecom's reputation might also result, with a potential longer-term negative effect on revenues. We have agreed to defer negotiations under one of our collective bargaining agreements until August 2004.

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 and responding to the demands of litigation may divert management time, attention and financial resources. Telecom is subject to two involuntary bankruptcy petitions, or *pedidos de quiebra*, for an aggregate amount of US\$356,787 and eight summary attachment proceedings, or *juicios ejecutivos*, that have been filed by persons alleging to be holders of our outstanding notes for the aggregate value of approximately US\$2.2 million (based on exchange rates as of June 1, 2004). We have not been served process with respect to the bankruptcy petitions. We have been served with process and have filed the required formal responses for each of the *juicios ejecutivos*. In addition, certain attachments have been granted over an aggregate amount of approximately US\$3.5 million (based on exchange rates as of June 1, 2004) of funds and assets of Telecom. We do not expect that these bankruptcy petitions or summary attachment proceedings and attachments will result in Telecom being declared bankrupt. However there is a significant likelihood that we will have to commence *concurso* (reorganization) proceedings if we are unable to consummate the APE expeditiously and if claims of this nature increase.

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 No. 25,609 which, as of the date of this annual report, is not yet in effect. Law No. 25,609 provides that Argentine telephone operators such as Telecom must provide "indispensable telephony services" to certain public entities, including public hospitals, welfare institutions, public education facilities and the Argentine armed forces, even if these beneficiaries do not pay for these services. The implementation of Law No. 25,609 and subsequent regulations may impact Telecom's ability to set-off any amounts owed by these public entities against any amounts Telecom owes to the Argentine government.

The executive branch vetoed Law No. 25,609 and instead passed Decree No. 1174/02 on July 4, 2002, which requires an operator that intends to suspend services to these entities provide 30 business days notice of this suspension to the affected entity and departments of the executive branch. However, Law No. 25,609 may still become effective upon approval of the National Congress.

If the proposed measures under Law No. 25,609 are enforced, Telecom may incur losses as a result of its provision of services without compensation.

As part of our negotiations under the Decree No. 293/02 on the tariff structure, on May 20, 2004, we and Telefónica de Argentina S.A. signed a letter of understanding with the Argentine government whereby we, together with Telefónica de Argentina S.A., agreed, among other things, to grant free prepaid calling cards to pensioners and to certain beneficiaries of Argentine government-sponsored social programs that currently have no wire telephone lines, and to establish special tariffs for the provision of Internet services within the Argentine provinces.

Telecom's financial statements may not give you the same information as financial statements prepared under U.S. GAAP.

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, or 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 these 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

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Argentine GAAP, which differs in certain significant respects from U.S. GAAP. See Note 16 to Telecom's consolidated financial statements as of and for the year ended December 31, 2003 for a description of the significant differences between Argentine GAAP and U.S. GAAP as they relate to Telecom.

ITEM 4. INFORMATION ON THE COMPANY

INTRODUCTION

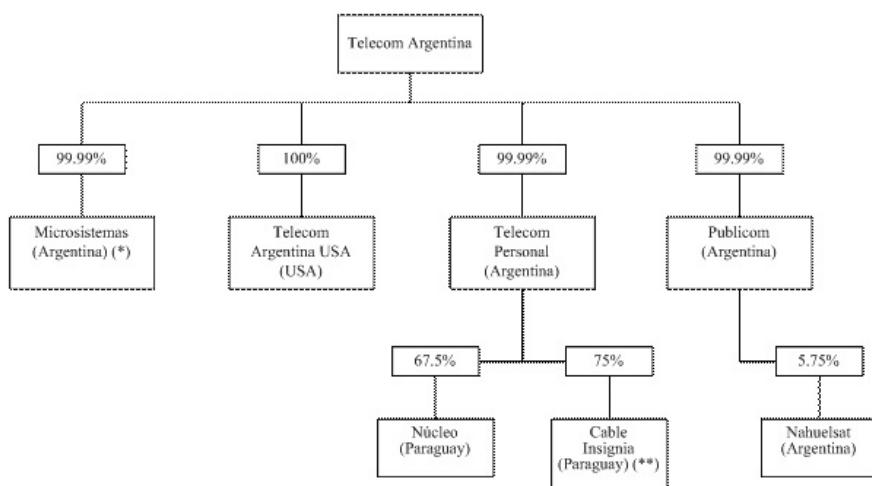
The Company

Telecom is one of the largest private-sector corporations in Argentina in terms of revenues. Telecom has a non-expiring license (the "License") to provide fixed-line public telecommunications services and basic telephone services in Argentina. The Company also provides other telephone-related services such as international long-distance service and data transmission and Internet service, and through its subsidiaries, wireless telecommunications services, telephone directory publishing and data transmission. Through September 30, 1999, Telecom provided domestic and international telephony services in the Northern Region on an exclusive basis. Commencing in October 1999, the Argentine government implemented a deregulation plan introducing competition into the market. See "Regulatory Framework - Deregulation Plan Established by Decree No. 264/98."

As of December 31, 2003, our telephone system included approximately 3.6 million lines in service. This is equivalent to approximately 20 lines in service per 100 inhabitants in the Northern Region and 320 lines in service per employee.

Organizational Structure

The following chart shows our principal subsidiaries and affiliated companies as of December 31, 2003, and jurisdiction of organization.



(*) Non-operating company.

(**) In process of liquidation.