TELECOM ARGENTINA STET FRANCE TELECOM SA
Form 6-K
March 30, 2004
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of March 30, 2004

Commission File Number: 001-13464

Telecom Argentina STET-France Telecom S.A.

(Translation of registrant s name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ¨ No x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ¨ No x

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

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as of December 31, 2003 and 2002 and for the years

ended December 31, 2003, 2002 and 2001

$: Argentine peso

US$: U.S. dollar

$2.93 = US$1 as of December 31, 2003

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Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Consolidated Balance Sheets as of December 31, 2003 and 2002

(In millions of Argentine pesos - see Note 3.c)

	As of December 31,	
	2003	**2002**
ASSETS		
Current Assets		
Cash and banks	$ 26	$ 53
Investments	2,441	1,362
Accounts receivable, net	581	609
Other receivables, net	150	64
Inventories, net	14	12
Other assets	3	3
Total current assets	**3,215**	**2,103**
Non-Current Assets		
Accounts receivable, net		1
Other receivables, net	193	143
Investments	47	59
Fixed assets, net	8,001	9,689
Intangible assets, net	845	946
Total non-current assets	**9,086**	**10,838**
TOTAL ASSETS	**$ 12,301**	**$ 12,941**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 451	$ 394
Debt	9,996	11,135
Salaries and social security payable	77	61
Taxes payable	151	118
Other liabilities	25	25
Contingencies	15	9
Total current liabilities	**10,715**	**11,742**
Non-Current Liabilities		
Debt	86	145
Salaries and social security payable	30	29

Other liabilities	39	29
Contingencies	210	142
Total non-current liabilities	**365**	**345**
TOTAL LIABILITIES	**$ 11,080**	**$ 12,087**
Minority interest	32	9
Foreign currency translation adjustments	21	28
SHAREHOLDERS EQUITY	**$ 1,168**	**$ 817**
TOTAL LIABILITIES, MINORITY INTEREST, FOREIGN CURRENCY TRANSLATION ADJUSTMENTS AND SHAREHOLDERS EQUITY	**$ 12,301**	**$ 12,941**

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

Valerio Cavallo	**Carlos Felices**	**Amadeo R.Vázquez**
Chief Financial Officer	**Chief Executive Officer**	**President**

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Consolidated Statements of Income for the years ended December 31, 2003, 2002 and 2001

(In millions of Argentine pesos, except per share data in Argentine pesos -see Note 3.c)

	Years ended December 31,		
	2003	**2002**	**2001**
Net sales	$ 3,753	$ 4,012	$ 7,056
Cost of services	(2,640)	(2,893)	(3,657)
Gross profit	**1,113**	**1,119**	**3,399**
General and administrative expenses	(222)	(281)	(541)
Selling expenses	(784)	(1,042)	(1,985)
Operating income (loss)	**107**	**(204)**	**873**
Equity gain (loss) from related companies	2	(23)	(6)
Amortization of goodwill		(10)	(18)
Financial results, net	48	(5,302)	(507)
Other expenses, net	(168)	(176)	(130)
Gain on repurchase of debt	376		
Net income (loss) before income tax and minority interest	**365**	**(5,715)**	**212**
Income tax benefit, net	7	1,304	(112)
Minority interest	(21)	25	
Net income (loss)	**$ 351**	**$ (4,386)**	**$ 100**
Net income (loss) per share	**0.36**	**(4.46)**	**0.10**

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

Valerio Cavallo	**Carlos Felices**	**Amadeo R.Vázquez**
Chief Financial Officer	**Chief Executive Officer**	**President**

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Consolidated Statements of Changes in Shareholders Equity for the years ended

December 31, 2003, 2002 and 2001

(In millions of Argentine pesos see Note 3.c)

	Shareholders contributions			Unappropriated results				
	Common stock	Inflation adjustment of common stock	Total	Legal reserve	Future dividends reserve	Retained earnings/ Accumulated deficit	Total	Total Shareholder s equity
Balances as of January 1, 2001	**$ 984**	**3,044**	**4,028**	**299**	**391**	**853**	**1,543**	**$ 5,571**
Board of Directors Resolution of January 17, 2001:								
- Cash dividends (0.39 per share)					(391)		(391)	**(391)**
As approved by the Shareholders Ordinary Meeting held on April 24, 2001:								
- Legal Reserve				(25)		25		
- Cash dividends (0.08 per share)						(77)	(77)	**(77)**
Net income						100	100	**100**
Balances as of December 31, 2001	**984**	**3,044**	**4,028**	**274**		**901**	**1,175**	**5,203**
As approved by the Shareholders Ordinary Meeting held on April 24, 2002:								
- Legal Reserve				3		(3)		
Net loss						(4,386)	(4,386)	**(4,386)**
Balances as of December 31, 2002	**984**	**3,044**	**4,028**	**277**		**(3,488)**	**(3,211)**	**817**
Net income						351	351	**351**
Balances as of December 31, 2003	**$ 984**	**3,044**	**4,028**	**277**		**(3,137)**	**(2,860)**	**$ 1,168**

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

Valerio Cavallo	**Carlos Felices**	**Amadeo R.Vázquez**
Chief Financial Officer	**Chief Executive Officer**	**President**

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

(In millions of Argentine pesos - see Note 3.c)

	Years ended December 31,		
	2003	**2002**	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 351	$ (4,386)	$ 100
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities			
Allowance for doubtful accounts and other receivables	12	191	567
Depreciation of fixed assets	1,768	1,980	1,690
Amortization of intangible assets	109	111	134
Equity (gain) loss from related companies	(2)	23	6
Amortization of goodwill		10	18
Consumption of materials	39	47	65
Fixed assets disposal	8	50	5
Net book value of fixed assets sold	1		2
Provision for contingencies	90	101	39
Gain on repurchase of debt	(376)		
Interest and other financial results	32	4,568	564
Minority interest	21	(25)	
Income tax benefit, net	(8)	(1,304)	(123)
Net decrease (increase) in assets	(366)	998	(216)
Net increase (decrease) in liabilities	336	(697)	(419)
Total cash flows provided by operating activities	**2,015**	**1.667**	**2,432**
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed asset acquisitions	(162)	(390)	(1,156)
Intangible asset acquisitions	(6)	(24)	(255)
Proceeds from the sale of fixed assets	3	2	2
(Decrease) increase in investments not considered as cash and cash equivalents	(180)	100	(9)
Total cash flows used in investing activities	**(345)**	**(312)**	**(1,418)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Debt proceeds		18	1,594
Repurchase of debt	(11)	(42)	(1,442)
Payment of debt	(422)		
Payment of interest and debt-related expenses	(335)	(446)	(964)
Dividends paid			(467)

Total cash flows used in financing activities	**(768)**	**(470)**	**(1,279)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**902**	**885**	**(265)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**1,314**	**429**	**694**
CASH AND CASH EQUIVALENTS AT YEAR END	**$ 2,216**	**$ 1,314**	**$ 429**

See Note 6 for supplementary cash flow information.

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

Valerio Cavallo	**Carlos Felices**	**Amadeo R.Vázquez**
Chief Financial Officer	**Chief Executive Officer**	**President**

TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

1. The Company and its operations

Telecom Argentina STET-France Telecom S.A. (Telecom Argentina and together with its subsidiaries, the Company) was created by a decree of the Argentine government in January 1990 and organized as a *sociedad anónima* under the name Sociedad Licenciataria Norte S.A. on April 23, 1990. In November 1990, this legal name was changed to its present form (see Note 18 for details).

The Company provides fixed-line public telecommunication services and fixed telephone services, international long-distance service, data transmission, Internet services and directories publishing services in Argentina. The Company also provides wireless telecommunication services in Argentina and Paraguay.

Telecom Argentina commenced operations on November 8, 1990 (the Transfer Date), upon the transfer to the Company of the telecommunications network of the northern region of Argentina previously owned and operated by the state-owned company, Empresa Nacional de Telecomunicaciones (ENTel).

Upon the Transfer Date, Telecom Argentina entered into a management agreement with Telecom Italia S.p.A. (Telecom Italia) and France Cables et Radio S.A., a subsidiary of France Telecom S.A. (FCR and together with Telecom Italia, the Operators) pursuant to which the Operators agreed to manage the business and provide services, expertise and know-how. See Note 7 for an update of the management agreement.

Telecom Argentina s license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina through November 8, 1997, with the possibility of a three-year extension. In March 1998, the Argentine government extended the exclusivity period to late 1999 and established the basis for a transition period towards deregulation of the telecommunications market.

In this context, the Department of Communications provided for a transition period, which ended on October 10, 1999. As from such date, the Company began providing telephone services in the southern region of Argentina and competing in the previously exclusive northern region.

2. Regulatory framework

(a) Regulatory bodies and general legal framework

Telecom Argentina and Telecom Personal S.A. (Telecom Personal) operate in a regulated industry. Regulation not only covers rates and service terms, but also the terms on which various licensing and technical requirements are imposed.

The provision of telecommunication services is regulated by the Department of Communications and supervised by the *Comisión Nacional de Comunicaciones*, the National Communications Commission (NCC). The NCC is responsible for the general oversight and supervision of telecommunications services. The Department of Communications has the authority to develop, suggest and implement policies; to ensure that these policies are applied; to review the applicable legal regulatory framework; to act as the enforcing authority with respect to the laws governing the relevant activities; to approve the major technical plans and to resolve administrative appeals filed against NCC resolutions.

The principal features of the regulatory framework have been created by:

- The Privatization Regulations, including the List of Conditions;
- The Transfer Agreement;
- The Licenses granted to Telecom Argentina and its subsidiaries;
- The Tariff Agreements; and
- Various governmental decrees, including Decree No. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum management.

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

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Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated - See Note 3.c)

2. Regulatory framework (continued)

(b) Licenses granted as of December 31, 2003

As of December 31, 2003, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

- Local fixed telephony;
- Public telephony;
- Domestic and international long-distance telephony;
- Domestic and international point-to-point link services;
- Domestic and international telex services;
- Value added services, data transmission, videoconferencing and broadcasting signal services; and
- Internet access.

As of December 31, 2003, the Company s subsidiaries have been granted the following licenses:

- Telecom Personal has been granted a non-exclusive, non-expiring license to provide mobile telecommunication services in the northern region of Argentina and data transmission and value added services throughout the country. In addition, Telecom Personal owns licenses to provide mobile cellular radiocommunication services in the Federal District and Greater Buenos Aires areas, as well as a non-expiring license to provide PCS services throughout the country and it is registered to provide national and international long-distance telephone services; and

Nucleo S.A. (Nucleo) has been granted a license to provide mobile telecommunication services in Paraguay as well as PCS services in certain areas of that country.

Telecom Argentina s license is revocable in the case of non-compliance with certain obligations, including but not limited to:

the interruption of all or a substantial portion of service;

the non-performance of material obligations;

any sale, encumbrance or transfer of assets which may result in a reduction of level of services provided, without the prior approval of the regulatory authority;

the reduction of Nortel Inversora S.A. s (Nortel , the parent company of the Company) interest in Telecom Argentina to less than 51%, or the reduction of Nortel´s original shareholders interest in Nortel to less than 51%, in either case without prior approval of the regulatory authorities; and

the Company s bankruptcy.

Telecom Personal s licenses are revocable in the case of non-compliance with certain obligations, including but not limited to:

repeated interruptions of the services;

any transfer of the license and/or the related rights and obligations, without the prior approval of the regulatory authority;

any encumbrance of the license;

the voluntary insolvency proceedings or bankruptcy of Personal and,

the liquidation or dissolution of Personal, without the prior approval of the regulatory authority.

the liquidation or dissolution of Personal, without previous authorization of the NCC.

Nucleo´s licenses are revocable mainly in the case of:

interruption of services;

the bankruptcy of Nucleo and,

non-compliance with certain obligations.

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated - See Note 3.c)

2. Regulatory framework (continued)

(c) Renegotiation of agreements with the Argentine government

Telecom Argentina s tariff scheme and procedures are detailed in the Tariff Agreement entered into by Telecom Argentina and the Argentine Government in November 1991, as amended in February 1992. Pursuant to the Tariff Agreement, all tariffs were to be calculated in US dollars and converted into Argentine pesos at the time the customer was billed using the exchange rate prevailing at that time. Under the Convertibility law that was effective until January 2002, the applicable exchange rate was $1 to US$1. Tariffs were to be adjusted twice a year in April and October based on the variation of the U.S. Consumer Price Index (CPI). These adjustments were not applied since 2000 according to a resolution of the Department of Communications.

However, in January 2002, the Argentine Government enacted Law No. 25,561, which provided, among other aspects, for the following:

The end of the relation $1 = US$1 (pesification of tariffs);

The elimination of dollar or other foreign-currency adjustments and indexing provisions for tariffs;

The establishment of an exchange rate for dollar-denominated prices and rates of $1 =US$1; and

The renegotiation of the conditions of the contracts entered into by privatized companies with the Argentine government.

The Argentine government is entitled to renegotiate the agreements based on the following criteria:

The impact of the rates on the economy and its effect on people s income;

Service quality and investment plans, as contractually agreed;

The customers interests and access to the services;

The security of the systems; and

The profitability of the companies.

Decree No. 293/02, dated February 12, 2002, entrusted the Ministry of Economy with the renegotiation of such agreements, including agreements that govern the provision of fixed telephone services. Initially, the contractual renegotiation proposals were to be submitted to the government within 120 days after the effective date of the Decree, although this term was further extended for an additional 180-day period. Telecom Argentina filed all information as required by the government, which included information on the impact caused by the economic crisis on the Company s financial position and its revenues, the pre-existing mechanisms for tariff adjustments, operating costs, indebtedness, payment commitments with the government and future and on-going investments.

Resolution No. 38/02 of the Ministry of Economy established that the regulatory bodies are not entitled to modify, directly or indirectly, the prices and tariffs for public services while the renegotiation talks with the companies are in progress. In August 2003, the Ministry of Economy and Production and the Ministry of Federal Planning, Public Investments and Services issued Resolutions No. 188/03 and No. 44/03, which nullify Resolution No. 38/02.

Furthermore, Decree No. 311/03 created a special unit within the Ministry of Economy and Production and the Ministry of Federal Planning, Public Investments and Services, pursuant to which all contracts entered into by the Argentine government with the privatized companies are to be analyzed and further renegotiated. In October 2003, the Argentine Government enacted Law No. 25,790 pursuant to which the original term to renegotiate the contracts was further extended through December 31, 2004. Congress will receive the renegotiation proposals from the Executive Power and will have a period of 60 days to approve or reject them. The proposals will be deemed approved if Congress neither approves nor rejects the proposals within this time-frame. In the event Congress rejects the proposals, the Executive Power will have to reinitiate the renegotiation of the respective contracts under discussion.

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

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Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated - See Note 3.c)

2. Regulatory framework (continued)

On April 24, 2003, Telecom Italia filed a notice with the relevant Argentine authorities for the formal commencement of proceedings to resolve the dispute with the Argentine State, pursuant to the Bilateral Agreement between Italy and Argentina Concerning the Promotion and Protection of Investments . The proceedings are aimed at receiving compensation for the damages deriving from the enactment, on the part of the Argentine government, of measures considered to be detrimental to the investment made in the Company. The filing of the notice started a six-month period in which the parties shall attempt to effect an amicable settlement. If no decision is reached during this period, Telecom Italia will have the right to start specific arbitration proceedings.

Also, FCR filed notices with the relevant Argentine authorities under the terms and conditions of bilateral agreements between Argentina and France concerning the protection of investments. FCR may, in its sole discretion, initiate actions against the Argentine government.

As of the date of these financial statements, there can be no assurance as to the final outcome of the renegotiation of the agreements with the Argentine government, including but not limited to, the renegotiation of tariffs.

3. Preparation of financial statements

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles used in Argentina (Argentine GAAP), considering the regulations of the *Comisión Nacional de Valores (CNV*), the National Securities Commission in Argentina, which differ in certain significant respects from generally accepted accounting principles in the United States of America (US GAAP). Such differences involve methods of measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission (SEC). A description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company are set forth in Note 16 to these consolidated financial statements.

However, certain reclassifications and accommodations have been made to conform more closely to the form and content required by the SEC.

(b) Basis of consolidation

These consolidated financial statements include the accounts of Telecom Argentina and its subsidiaries over which it has effective control. Investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method.

All significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

In accordance with Argentine GAAP, the presentation of the parent company s individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes (see Note 15 for a description of certain condensed unconsolidated information).

A description of the subsidiaries with their respective percentage of capital stock owned is presented as follows:

Subsidiaries	Percentage of capital stock owned and voting rights as of December 31, 2003 (i)
Telecom Personal	99.99%
Nucleo	67.50%
Publicom S.A. (Publicom)	99.99%
Telecom Argentina USA	100.00%
Micro Sistemas (ii)	99.99%
Cable Insignia (iii)	75.00%

(i) Percentage of equity interest owned has been rounded.
(ii) Not operating at December 31, 2003.
(iii) In process of liquidation.

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TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated - See Note 3.c)

3. Preparation of financial statements (continued)

(c) Presentation of financial statements in constant Argentine Pesos

On August 22, 1995, the Argentine government issued Decree 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995 in accordance with CNV resolutions and Argentine GAAP, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the financial statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statement information of periods prior to August 31, 1995 was restated to pesos of general purchasing power at the end of August 31, 1995 (constant Pesos). The August 31, 1995 balances, adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

However, as a result of the new inflationary environment in Argentina and the conditions created by the Public Emergency Law No. 25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the Public Emergency Law), the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA), approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements for fiscal years or interim periods ending on or after March 31, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are to be stated in constant currency as of December 31, 2001 (the Stability Period).

On July 16, 2002, the Argentine government issued a decree, instructing the CNV to issue the necessary regulations for the acceptance of financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency, following the criteria of the CPCECABA.

However, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for discontinuing inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date.

In November 2003, the CPCECABA issued Resolution MD No. 41/03 which also provided for discontinuing inflation accounting as of September 30, 2003. Accordingly, since Argentine GAAP requires companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution mentioned in the preceding paragraph represents a departure from Argentine GAAP.

As recommended by Argentine GAAP, the following table presents a comparison between certain condensed balance sheet and income statement information, as restated for the effects of inflation through September 30, 2003, and the corresponding reported amounts which include restatement only through February 28, 2003:

	As restated through September 30, 2003	As reported	Effect
Total assets	12,169	12,301	**(132)**
Total liabilities	11,080	11,080	
Shareholders equity	1,036	1,168	**(132)**
Net income	236	351	**(115)**

(d) New accounting standards in Argentina

In February 2003, the FACPCE issued Technical Resolution No. 21 (RT 21), Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions which amends Technical Resolutions No. 4 and 5 and introduces certain amendments to other standards. This standard, as amended by CPCECABA, will be effective for fiscal years beginning after April 1, 2003. As of the date of these financial statements, the CNV has not adopted this resolution.

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Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated - See Note 3.c)

3. Preparation of financial statements (continued)

(e) Reclassifications

During the year ended December 31, 2001, the Company disclosed the cost associated with the tax on bank debits and credits as unusual losses. In 2002 the Company changed the presentation of this cost to include it as part of cost of services. This and certain other reclassifications of prior years information have been made to conform with the current year presentation.

(f) Use of estimates

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

The accompanying consolidated financial statements were prepared assuming: a) a favorable result of the renegotiation of Telecom Argentina s tariffs mentioned in Note 2.c); and b) the successful outcome of the financial restructuring described in Note 12. The actual results could differ from those estimates. Therefore, the accompanying consolidated financial statements do not include any potential adjustments or classifications to the recorded amounts of assets or liabilities that might result from the adverse outcome of these uncertainties.

(g) Statement of cash flows

For the purpose of Cash flows the Company considers all highly liquid temporary investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

(h) Concentration of credit risk

The Company s cash equivalents include high-quality securities placed with various major financial institutions with high credit ratings. The Company s investment policy limits its credit exposure to any one issuer/obligor.

The Company s customers include numerous corporations. The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company s account receivables are not subject to significant concentration of credit risk. While receivables for sales to these various customers are generally unsecured, the financial condition and creditworthiness of customers are routinely evaluated. Fixed customer lines (prepaid lines were not included) were 3,361,341 (unaudited) at December 31, 2003, 3,293,952 (unaudited) at December 31, 2002, and 3,583,622 (unaudited) at December 31, 2001 and wireless customer lines (prepaid lines were not included) were 482,796 (unaudited) at December 31, 2003, 462,730 (unaudited) at December 31, 2002 and 722,906 (unaudited) at December 31, 2001.

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

(i) Earnings/Dividends per share

The Company computes net income (loss) per common share and dividends per share by dividing net income (loss) for the period by the number of common shares outstanding.

4. Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Company in the preparation of the financial statements.

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4. Summary of significant accounting policies (continued)

(a) Foreign currency translation

The financial statements of the Company s foreign subsidiaries are translated in accordance with RT 18, Specific Considerations for the Preparation of Financial Statements , as amended by CPCECABA. RT 18 establishes guidelines to classify foreign investments either as foreign operations or foreign entities . A company is to be regarded as a foreign entity if it is financially, economically and organizationally autonomous. Otherwise, a company is to be regarded as a foreign operation it its operations are integral to those of the Company. The Company s foreign subsidiaries have been classified as foreign entities since they are financially, economically and organizationally autonomous. Accordingly, and pursuant to RT 18, as amended by CPCECABA, financial statements of foreign entities are translated using period-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as a separate line item between the liability and equity sections of the balance sheet.

(b) Revenue recognition

The Company s principal sources of revenues are:

Voice, data and Internet services segment

- Fixed telephone services:

Domestic services revenues consist of monthly basic fees, measured service, long-distance calls and measured charges for value-added services, including call forwarding, call waiting, three-way calling, itemized billing and voicemail.

Revenues are recognized when earned. Unbilled revenues from the billing cycle dating to the end of each month are calculated based on traffic and are accrued at the end of the month.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Revenues derived from other telecommunications services, principally network access, long distance and airtime usage, are recognized monthly as services are provided.

Revenues from the sale of prepaid calling cards are recognized in the month in which the traffic is used or in which the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as deferred revenue in accounts payable.

Revenues from installations consist primarily of amounts charged for the installation of local access lines. Installation fees are recognized at the time of installation or activation. The direct incremental cost related to installations and activations are expensed as incurred. Installation and activation costs exceed installation revenues for all periods presented. Reconnection fees charged to customers when resuming service after suspension are deferred and recognized ratably over the average life for those customers who are assessed a reconnection fee. Associated direct expenses are also deferred over the estimated customer relationship period in an amount equal to or less than the amount of deferred revenues. Reconnection revenues are higher than its associated direct expenses.

Interconnection charges represent amounts received by the Company from other local service providers and long-distance carriers for calls that originate on or transit their networks but terminate on the Company s network. Revenue is recognized as services are provided.

- International long-distance services:

The Company provides international telecommunications service in Argentina including voice and data services and international point-to-point leased circuits.

Revenues from international long-distance service reflect payments under bilateral agreements between the Company and foreign telecommunications carriers, covering inbound international long-distance calls.

Revenues are recognized as services are provided.

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4. Summary of significant accounting policies (continued)

- Data transmission and Internet services:

Data and Internet revenues consist of fixed monthly fees received from residential and corporate customers for data transmission and Internet connectivity services, including traditional dial-up connections, dedicated lines, private networks, broadcasting signal transport and videoconferencing services. These revenues are recognized as services are rendered.

Wireless telecommunication services segment

The Company provides wireless telephone service throughout Argentina via cellular and PCS networks. Cellular and PCS fees consist of airtime usage charges and additional charges for value-added services, including call waiting, call forwarding, three-way calling and voicemail, and for other miscellaneous cellular and PCS services. These revenues are recognized as services are rendered.

Equipment sales consist principally of revenues from the sale of wireless mobile telephone handsets and accessories to new and existing customers and to agents and other third-party distributors. The revenues and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by the customer, which is considered to be a separate earnings process from the sale of wireless services.

Revenues from the sale of prepaid calling cards are recognized in the month in which the traffic is used or in which the card expires, whatever happens first. Remaining unused traffic for unexpired calling cards is shown as deferred revenue in current liabilities.

Directory publishing segment

Revenues and expenses related to publishing directories are recognized on the issue basis method of accounting, which recognizes the revenues and expenses at the time the related directory is published, fulfilling the Company s contractual obligation to customers. A change in the timing of the publication of a directory could change the period in which the related revenues and expenses will be recognized.

(c) Foreign currency transaction gains/losses

Generally, foreign currency transaction gains and losses are included in the determination of net income or loss. During the years ended December 31, 2003, 2002 and 2001, net foreign currency transaction gains or losses were a gain of $624 and a loss of $2,922 and $15, respectively.

However, CNV Resolution No.398 allowed the application of CPCECABA Resolution MD No.3/02, issued in March 2002, which provides that foreign currency transaction gains or losses on or after January 6, 2002, related to foreign-currency denominated debts as of such date must be allocated to the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements established in such standard are fulfilled. The Company adopted these resolutions and allocated the costs accordingly.

In July 2003, the CPCECABA issued Resolution CD No. 87/03, which suspended such accounting treatment and therefore required foreign currency transaction gains and losses to be included in the determination of net income for the period as from July 29, 2003.

As further discussed in Note 12.f., as of December 31, 2003 and 2002, the Company recognized the outstanding foreign-currency denominated liabilities existing as of January 6, 2002, and governed by foreign law, at their respective original foreign currencies, translated at year-end exchange rates.

(d) Cash and banks

Cash and banks are stated at nominal value.

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4. Summary of significant accounting policies (continued)

(e) Trade accounts, other receivables and payables, in currency, arising from the sale or purchase of goods and services and financial transactions

Certain receivables and payables on the sale or purchase of goods and services, respectively, and those arising from financial transactions, are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at the time of initial measurement, unless the Company has the intent and ability to dispose of those assets or advance settlement of liabilities.

(f) Other receivables and payables in currency not included in (e) above (except for deferred tax assets and liabilities and retirement benefits)

Other receivables and payables not included in (e) above (except for deferred tax assets and liabilities and retirement benefits), are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at the time of measurement, unless the Company has the intent and ability to dispose of those assets or advance settlement of liabilities.

(g) Investments

Time deposits are valued at their cost plus accrued interest at period end.

Mutual funds are carried at market value. Unrealized gains and losses are included in financial results, net, in the consolidated statement of income.

The Company has investments in certain government bonds. The Company has classified these securities as held-to-maturity as management has the intent and ability to hold those securities to maturity. Such securities are recorded at amortized cost, subject to impairment evaluation. Due to the current economic situation and the deterioration of the public sector finances, there has been a significant impairment in the value of these securities. As such, the Company recognized other-than-temporary losses on these investments to carry them at fair value.

The Company has certain equity interests in unconsolidated companies, representing 0.15% and 5.75% of the capital stock in such companies as of December 31, 2003. These investments have been accounted for at the lower of cost or equity value. Because the financial statements of certain affiliates are not made available timely to the Company in order to apply the equity method of accounting, the Company s proportionate share of the results of operations of these associated companies are included in the Company s consolidated financial statements on a three month lag.

Management is not aware of any event or circumstances since the date of such companies financial statements that would modify or significantly affect their financial position or results of operations.

(h) Inventories, net

Inventories are stated at the lower of replacement cost or net realizable value. Where necessary, provision is made for obsolete, slow moving or defective inventory.

From time to time, the Company decides to sell wireless handsets at prices lower than their respective replacement costs. This strategy is aimed at achieving higher market penetration by reducing customer access costs while maintaining the Company s overall wireless business profitability. As this policy is the result of management s decision, promotional prices are not used to calculate the net realizable value of such inventories.

(i) Other assets

Raw materials have been accounted for at replacement cost, which does not exceed the estimated realizable value of such materials. Where necessary, provision is made for obsolete, slow moving or defective raw materials.

Printing costs related to directories are carried at cost adjusted for inflation (See Note 3.c.), and deferred until the related directories are published.

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4. Summary of significant accounting policies (continued)

(j) Fixed assets, net

Fixed assets received from ENTel have been valued at their transfer price. Subsequent additions have been valued at cost. All amounts have been restated for inflation in accordance with applicable regulations (See Note 3.c.). Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, as specified below:

Asset	Estimated useful life (years)
Buildings	11-25
Transmission equipment	9-10
Switching equipment	10
Power equipment	5-10
External wiring	14
Telephony equipment, instrument and systems for improvement in services	6-8
Installations	3-11
Computer equipment	3-6

As of the date of these financial statements, the Company has received the transfer of title pertaining to substantially all of the fixed assets received from ENTel, other than 4.73% of such assets. Nevertheless, the Company is in complete possession of these fixed assets and operates them normally.

For fixed assets whose operating condition warrants replacement earlier than the end of the useful life assigned by the Company to its fixed asset category, the Company calculates the depreciation charge based on the adjusted remaining useful life assigned in accordance with the related asset replacement.

The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statement of income.

The Company capitalizes interest on long-term construction projects. Interest capitalized was $6, $62 and $94 for the years ended December 31, 2003, 2002 and 2001, respectively.

Certain foreign currency transaction gains and losses were capitalized as part of the cost of the assets from January 2002 through July 2003 (See Note 4.c for details). The net capitalized costs were $566 as of December 31, 2003 and $762 as of December 31, 2002.

Leases classified as capital leases are recognized as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between imputed finance charge and the reduction of the outstanding liability. The Company has no capital leases as of December 31, 2003.

The Company is subject to asset retirement obligations associated with its cell and switch sites operating leases. Accordingly, the Company records a liability for an asset retirement obligation. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the estimated useful life of the related asset.

(k) Intangible assets, net

Intangible assets are stated at cost, less accumulated amortization. All amounts have been restated for inflation in accordance with applicable regulations (See Note 3.c.).

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4. Summary of significant accounting policies (continued)

The Company capitalizes interest on long-term construction projects. Interest capitalized was $nil, $4 and $10 for the years ended December 31, 2003, 2002 and 2001, respectively.

Intangible assets comprise the following:

- Software obtained or developed for internal use

The Company capitalizes certain costs associated with the development of computer software for internal use. Costs capitalized during the years ended December 31, 2003, 2002 and 2001 were not significant. These costs are being amortized on a straight-line basis over a period of 5 years.

- Debt issuance costs

Expenses incurred in connection with the issuance of debt have been deferred and are being amortized under the interest method over the life of the related issuances.

- PCS license

The Company adopted RT 17, Overall considerations for the preparation of financial statements , as amended by CPCECABA, on January 1, 2002. This standard prescribes the accounting treatment for both identifiable intangibles and goodwill after initial recognition. Upon adoption of this standard, amortization of indefinite life intangibles ceased. Periodic impairment testing of these assets is now required. The Company identified spectrum licenses as indefinite life intangibles. Concurrent with adoption of RT 17, and again in December 2002, the Company evaluated for impairment its indefinite life intangibles in accordance with the standard s guidance and determined that these assets were not impaired.

- Band B license

The Company s Band B license is amortized under the straight-line method over 10 years.

- Rights of use

The Company purchases network capacity under agreements which grant the exclusive right to use a specified amount of capacity for a period of time. Amounts paid are capitalized and amortized over the terms of the respective capacity agreements, generally 15 years.

- Exclusivity agreements

Exclusivity agreements were entered into with certain retailers and third parties relating to the promotion of the Company s products. Amounts capitalized are being amortized over the life of the agreements, which range from two to 29 years.

- Website development costs

Costs relating to the development of web sites are capitalized or expensed depending on the phase of development of the sites: costs relating to the planning and operating stages are expensed, and costs related to development and creation of the design are capitalized and amortized on a straight-line basis over 2 years. Costs capitalized during the years ended December 31, 2003, 2002 and 2001 were not significant.

- Trademarks

Trademarks are amortized under the straight-line method over 15 years.

(l) Impairment of long-lived assets

The Company periodically evaluates the carrying value of its long-lived assets and certain intangible assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying value of long-lived assets is considered impaired by the Company when the expected cash flows, undiscounted and without interest cost, from such assets, is less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

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4. Summary of significant accounting policies (continued)

The devaluation of the Argentine peso and the pesification of Telecom Argentina s tariffs materially affected the Company s financial position and results of operations, and changed the rules under which the Company operated. However, as indicated in Note 2.c., Law No. 25,561 authorized the Argentine government to renegotiate the conditions of the contracts with the privatized companies, taking into account their profitability, among other criteria.

In this regard, the Company has made certain assumptions in the determination of its estimated cash flows to evaluate a potential impairment of its long-lived assets in relation to each business segment. In these estimates, the Company has assumed that it will be able to implement a modification of the current level of Telecom Argentina s tariffs which would enable the Company to continue providing services within a deregulated and competitive market environment, achieve a reasonable profit and meet its debt requirements.

Based on the foregoing, the Company considered an impairment charge not to be necessary for its long-lived assets.

(m) Severance indemnities

Severance payments made to employees are expensed as incurred.

(n) Taxes payable

- Income taxes

The Company did not either calculate or pay income taxes on a consolidated basis for any of the periods presented. The Company records income taxes using the method required by RT 17.

Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. RT 17 also requires companies to record a valuation allowance for that component of net deferred tax assets which are not recoverable. The statutory income tax rate was 35% for all the periods presented.

- Tax on minimum presumed income

The Company is subject to a tax on minimum presumed income. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on certain production assets valued according to the tax regulations in effect as of the end of each year. The Company s tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the tax on minimum presumed income exceeds income tax during any fiscal year, such excess may be computed as a prepayment of any income tax excess over the tax on minimum presumed income that may arise in the next ten fiscal years.

The Company has estimated the existence of income tax losses for the years ended December 31, 2003, 2002 and 2001. The Company has determined an additional proportional charge for the year ended December 31, 2003 for the tax on minimum presumed income of $66, which, together with the 2002 and 2001 charges, were deferred as Other non-current receivables . These charges have been estimated as recoverable based on the Company s tax projections and the 10-year legal expiration term for use of the credit.

- Turnover tax

Under Argentine tax law, the Company is subject to a tax levied on gross revenues. Rates differ depending on the jurisdiction where revenues are earned for tax purposes. Average rates were 3.65%, 3.29% and 3.33%, respectively, for the years ended December 31, 2003, 2002 and 2001.

(o) Pension benefits

Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or privately managed fund plans to which employees may elect to contribute. Amounts payable to such plans are accounted for on an accrual basis. The Company does not sponsor any stock option plan.

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4. Summary of significant accounting policies (continued)

Retirement liabilities shown under other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability. Benefits consist of the payment of a single lump sum equal to one salary for each five years of service. There is no vested benefit obligation until the occurrence of those conditions. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement. The net periodic pension costs are recognized as employees render the services necessary to earn pension benefits. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as of December 31, 2003 and 2002.

(p) Litigation

The Company, in the ordinary course of business, is subject to various legal proceedings. While it is impossible to determine the ultimate outcome of these matters, it is management s and legal counsel s opinion that the resolution of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

(q) Derivatives

In compliance with the controls and procedures associated with financial risk management, during the period where the peso was pegged to the US dollar, the Company used certain derivative financial instruments such as interest rate and currency swaps in order to reduce risks associated with changes in interest rates and foreign exchange rates relating to borrowings in foreign currencies other than dollars. These instruments were negotiated with institutions and corporations with significant financial capacity; therefore, the Company considered that the risk of non-compliance with the obligations agreed to by such counterparties to be minimal.

Effective January 1, 2002, the Company adopted RT 20, as amended by CPCECABA, Accounting for Derivative Instruments and Hedging Activities , which requires the recognition of all derivative financial instruments as assets and/or liabilities at their estimated fair value. Changes in the fair value of effective cash flow hedges are deferred as a separate component of the balance sheet and subsequently reclassified to earnings when the hedged items affect earnings. Gains and losses from fair value hedges are recognized in earnings in the period of any changes in the fair value of the related recognized asset or liability.

Beginning in 2002, and due to the economic environment and change in rules under which the Company operates, principally the pesification of tariffs, the Company terminated all derivative agreements in the second quarter of fiscal year 2002. As such, the Company recognized a loss of $281, which is included in financial results, net, in the statement of income for the year ended December 31, 2002. The Company does not have any derivative instruments as of December 31, 2003.

(r) Vacation expense

Vacation expenses are fully accrued in the period the employee renders services to earn such vacation.

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of December 31, 2003	As of December 31, 2002
Cash	$ 3	$ 3
Banks	23	14
Currency-like bonds (i)		36
	$ 26	**$ 53**

(i) From time to time, the Company receives from its customers national and provincial government bonds, which may be used by the Company to pay certain commercial and tax obligations in the respective jurisdictions of issuance. In the last few years, provincial governments in Argentina have historically settled their debts with suppliers through the issuance of provincial bonds, which were intended to circulate as money.

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5. Breakdown of the main accounts (continued)

(b) Investments

Investments consist of the following:

	As of December 31, 2003	As of December 31, 2002
Current		
Time deposits (i)	$ 2,173	$ 1,157
Mutual funds	192	19
Government bonds	76	186
	$ 2,441	**$ 1,362**
Non current		
Equity investments	$ 10	$ 11
Government bonds	35	48
Financial trust	2	
	$ 47	**$ 59**

(i) Includes an amount of $886, which has been segregated by the Company for purposes of satisfying debt obligations and an amount of $18 from an escrow account, which has been segregated by the subsidiary Nucleo for purposes of satisfying debt obligations.

(c) Accounts receivable

Accounts receivable consist of the following:

	As of December 31, 2003	As of December 31, 2002
Current		
Voice, data and Internet	$ 386	$ 519
Wireless (i)	272	363
Directories publishing	35	25
Subtotal	**693**	**907**
Allowance for doubtful accounts	(112)	(298)
	$ 581	**$ 609**
Non current		
Directories publishing	**$**	**$ 1**

(i) Includes $197 and $292 corresponding to wireless receivables in the Argentine Republic as of December 31, 2003 and 2002, respectively and, $75 and $71 corresponding to wireless abroad as of those dates.

(d) Other receivables

Other receivables consist of the following:

	As of December 31, 2003	As of December 31, 2002
Current		
Tax credits	98	17
Prepaid expenses	17	16
Advances to employees	5	8
Other	30	23
	$ 150	**$ 64**
Non current		
Net deferred tax assets	467	584
Less:		
Valuation allowance	(447)	(571)
Deferred tax assets, net of allowance (i)	20	13
Credit on minimum presumed income tax (ii)	151	85
Other tax credits	6	33

Prepaid expenses	7	6
Other	12	8
Subtotal	**196**	**145**
Allowance for doubtful accounts	(3)	(2)
	$ 193	**$ 143**

(i) As of December 31, 2003 the net credits correspond to Publicom and Nucleo.
(ii) Considering current expiration period (10 years), the Company considers the ultimate realization of the credit to be more likely than not based on current projections.

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5. Breakdown of the main accounts (continued)

(e) Inventories

Inventories consist of the following:

	As of December 31,2003	As of December 31,2002
Wireless handsets and equipment	16	18
Allowance for obsolescence	(2)	(6)
	$ 14	**$ 12**

(f) Other assets

Other assets consist of the following:

	As of December 31, 2003	As of December 31, 2002
Deferred printing cost	1	2
Raw materials	2	1

	$ 3	**$ 3**

(g) Accounts payable

Accounts payable consist of the following:

	As of December 31, 2003	**As of December 31, 2002**
Current		
Suppliers	$ 419	$ 361
Deferred revenues	30	20
Capital leases		2
Related parties (Note 7)	2	11
	$ 451	**$ 394**

(h) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of December 31, 2003	**As of December 31, 2002**
Current		
Vacation, bonuses and social security payable.	$ 55	$ 41
Special termination benefits	17	15
Other	5	5
	$ 77	**$ 61**
Non current		
Special termination benefits	$ 22	$ 18
Other	8	11
	$ 30	**$ 29**

(i) Taxes payable

Taxes payable consist of the following:

	As of December 31, 2003	As of December 31, 2002
Tax on minimum presumed income	$ 58	$ 50
VAT, net	44	27
Turnover tax	30	24
Other	19	17
	$ 151	**$ 118**

(j) Other liabilities

Other liabilities consist of the following:

	As of December 31, 2003	As of December 31, 2002
Current		
Contributions to government programs (Note 11)	$ 13	$ 13
Other	12	12
	$ 25	**$ 25**
Non current		
Retirement benefits	$ 8	$ 6
Lease of international capacity	11	14
Asset retirement obligations	10	
Other	10	9
	$ 39	**$ 29**

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5. Breakdown of the main accounts (continued)

(k) Net sales

Net sales consist of the following:

	Years ended December 31,		
	2003	**2002**	**2001**
Voice	$ 2,164	$ 2,529	$ 4,486
Data and Internet	392	425	645
Subtotal	**2,556**	**2,954**	**5,131**
Wireless	1,163	1,035	1,822
Directories publishing	34	23	103
	$ 3,753	**$ 4,012**	**$ 7,056**

(l) Equity gain/(loss) from related companies

Equity gain/(loss) consist of the following:

Years ended

December 31,

	2003	2002	2001
Latin American Nautilus	$	$ (15)	$ (5)
Nahuelsat	2	(8)	(1)
Intelsat			2
Agroconnection			(2)
	$ 2	**$ (23)**	**$ (6)**

(m) Financial results, net

Financial results, net consist of the following:

	Years ended December 31,		
	2003	**2002**	**2001**
Generated by assets			
Interest income	$ 108	$ 76	$ 138
Foreign currency exchange gain/(loss)	(38)	618	(2)
Losses on exposure to inflation	(11)	(2,106)	
Other	(10)	(140)	(16)
Total generated by assets	**$ 49**	**$ (1,552)**	**$ 120**
Generated by liabilities			
Interest expense	$ (664)	$ (928)	$ (684)
Capitalized interest	6	66	104
Foreign currency exchange gain (loss)	662	(3,540)	(13)
Gain on exposure to inflation	4	942	
Loss on termination of derivative		(281)	
Other	(9)	(9)	(34)
Total generated by liabilities	**$ (1)**	**$ (3,750)**	**$ (627)**
Total financial results	**$ 48**	**$ (5,302)**	**$ (507)**

(n) Other expenses, net

Other expenses, net consist of the following:

	Years ended December 31,		
	2003	**2002**	**2001**
Termination benefits	$ (75)	$ (48)	$ (84)
Provision for contingencies	(90)	(101)	(39)
Other, net	(3)	(27)	(7)
	$ (168)	**$ (176)**	**$ (130)**

(o) Gain on repurchase of debt

Gain on repurchase of debt consist of the following:

	Years ended December 31,		
	2003	**2002**	**2001**
Discount on principal	$ 361	$	$
Discount on accrued and penalty interest	49		
Reversal of capitalized foreign currency exchange differences	(21)		
Other related expenses	(13)		
	$ 376	**$**	**$**

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(In millions of Argentine pesos, except as otherwise indicated - See Note 3.c)

6. Supplementary cash flow information

The cash flow statement has been prepared using the indirect method.

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

	As of December 31,			
	2003	**2002**	**2001**	**2000**
Cash and banks	$ 26	$ 53	$ 129	$ 52
Current investments	2,441	1,362	332	699
Total as per balance sheet	**$ 2,467**	**$ 1,415**	**$ 461**	**$ 751**
Less:				
Items not considered cash and cash equivalents				
- Currency-like bonds (i)		(36)	(32)	
- Time deposits with maturities of more than three months (ii)	(193)			
- Government bonds	(58)	(iii)(65)		(iii)(57)
Total cash and cash equivalents as shown in the statement of cash flows	**$ 2,216**	**$ 1,314**	**$ 429**	**$ 694**

(i) Corresponds to national and provincial government bonds restricted as to their use for paying commercial and tax obligations in the respective jurisdictions of issuance. See Note 5.a. for details.
(ii) Includes $18 related to Nucleo s escrow account. See Note 5.b for details.
(iii) Corresponds to the current portion of held-to-maturity investments.

Changes in assets/liabilities components (including the effects of inflation on monetary accounts):

	Years ended December 31,		
	2003	2002	2001
Decrease (increase) in assets			
Investments not considered as cash or cash equivalents	$ (5)	$ 61	$
Trade accounts receivable	(334)	(106)	(211)
Other receivables	(19)	1,049	(152)
Inventories	(8)	(16)	143
Other assets		10	4
	$ (366)	**$ 998**	**$ (216)**
Increase (decrease) in liabilities			
Accounts payable	$ 130	$ (388)	$ (444)
Compensation and social benefits payable	17	(127)	(2)
Taxes payable	196	(61)	88
Other liabilities	10	(25)	(20)
Contingencies	(17)	(96)	(41)
	$ 336	**$ (697)**	**$ (419)**

Income tax paid during the years ended December 31, 2003, 2002 and 2001 amounted to $1, $nil and $235, respectively. Interest paid during the years ended December 31, 2003, 2002 and 2001, amounted to $335, $446 and $964, respectively.

Non-cash investing and financing activities:

	Years ended December 31,		
	2003	2002	2001
Acquisition of fixed assets through incurrence of debt	$ 59	$	$
Acquisition of fixed assets through incurrence of accounts payable		12	354
Acquisition of intangible assets through incurrence of accounts payable			4
Capitalized interest on fixed assets and intangible assets	6	66	104
Wireless handsets lent to customers at no cost (i) at	3	10	33
Collection of receivables with government bonds	352	853	32
Government bonds exchanged for tax certificates	(44)		
Payment of taxes with government bonds	(223)	(451)	
Payment of accounts payable with government bonds	(123)	(224)	

(i) Under certain circumstances, the Company lends handsets to customers at no cost pursuant to term agreements. Handsets remain the property of the Company and customers are generally obligated to return them at the end of the respective agreements.

The following table presents the cash flows from purchases, sales and maturities of securities which were not considered as cash equivalents in the statement of cash flows:

	Years ended December 31,		
	2003	2002	2001
Government bonds	$ 15	$ 100	$ (9)
Time deposits with maturities of more than three months	(193)		
Contribution to the 2003 Telecommunications Fund (Note 11.b)	(2)		
Total cash flows from investments not considered as cash equivalents	**$ (180)**	**$ 100**	**$ (9)**

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6. Supplementary cash flow information (continued)

Financing activities components:

	Years ended December 31,		
	2003	**2002**	**2001**
Proceeds from Notes	$	$	$ 359
Proceeds from bank loans		18	1,235
Payment of Notes	(277)		(220)
Payment of bank loans	(156)	(42)	(1,222)
Payment of interest on Notes	(231)	(191)	(314)
Payment of interest on bank loans and others an	(52)	(89)	(169)
Payment of interest on fixed asset and inventory financing	(52)	(99)	(186)
Payment of collateral on derivative instrument		(67)	(295)
Payment of dividends			(467)
Total financing activities components	**$ (768)**	**$ (470)**	**$ (1,279)**

The following table includes the cash from operating, investing and financing activities after disclosing the effects of inflation accounting and exchange rate changes on cash and cash equivalents:

	Years ended December 31,		
	2003	**2002**	**2001**
Total cash flows provided by operating activities	$ 2,028	$ 1,701	$ 2,432
Total cash flows used in investing activities	(345)	(312)	(1,418)
Total cash flows used in financing activities	(768)	(470)	(1,279)
Effect of exchange rate changes on cash and cash equivalents	(13)	2	

Effect of inflation accounting		(36)	
Increases (decreases) in cash and cash equivalents	**$ 902**	**$ 885**	**$ (265)**

7 - Related party transactions

(a) Controlling group

As of December 31, 2003, Nortel is the controlling shareholder of Telecom Argentina. Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares of Telecom Argentina. Nortel s ordinary shares were owned equally by Telecom Italia and FCR.

On September 9, 2003, Nortel was notified of the agreement entered into by FCR and W de Argentina Inversiones S.L., pursuant to which FCR sold its stake in Nortel to W de Argentina Inversiones S.L.

Prior to the consummation of the sale, Telecom Italia and FCR contributed their respective interests in Nortel to a newly created company, Sofora Telecomunicaciones S.A. (Sofora) in exchange for shares of Sofora. At that time, Telecom Italia and FCR had the same shareholding interests in Sofora. Following the approval obtained from the regulatory authorities, FCR sold its 48% interest in Sofora plus a put option for the remaining 2% to W de Argentina Inversiones S.L. for a total purchase price of US$125 million. The put option will be exercisable from January 31, 2008 through December 31, 2013. As of December 31, 2003, the shareholders of Sofora are Telecom Italia representing 50%, W de Argentina Inversiones S.L. representing 48% and FCR representing 2% of Sofora s capital stock. In addition, W de Argentina Inversiones S.L. granted a purchase option of its interest in Sofora to Telecom Italia for US$60 million. This option will be exercisable from December 31, 2008 through December 31, 2013. Telecom Italia is the exclusive operator of the Company, as explained in c) below.

(b) Balances and transactions with related parties

The Company has had transactions in the normal course of business with certain related parties. The following is a summary of the balances and transactions with related parties:

	As of December 31,	
	2003	**2002**
Accounts payable:		
Multibrand (a)	$	$ 1
Latin American Nautilus (a)		3
Pirelli Cables S.A.I.C. (c)	1	
Teco Soft Argentina S.A. (c)	1	1
FCR Argentine branch (d)		6
	$ 2	**$ 11**

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7 - Related party transactions (continued)

	Transaction description	Years ended December 31, 2003	2002	2001
Services received:				
Latin American Nautilus (a)	Lease of circuits and rental expenses	$	$ 15	$ 4
Nahuelsat (b)	Rental expenses	7	7	11
Intelsat Ltd. (b)	Rental expenses	5	8	7
Multibrand (a)	Advertising	1	3	9
Telecom Italia S.p.A. Argentine branch (c)	Fees for services Management fees	3	13	119
Telesoft S.p.A. Argentine branch (c)	Fees for services		14	35
Teco Soft Argentina S.A. (c)	Fees for services	12	10	
Olivetti Argentina S.A. (c)	Fees for services		2	7
FCR Argentine branch (d)	Fees for services Management fees	3	14	123
Sofrecom Argentina S.A. (d)	Fees for services	9	9	22
Tel3 S.A. (d)	Fees for services	3	1	7
Total operating costs		**$ 43**	**$ 96**	**$ 344**

	Years ended December 31, 2003	2002	2001
Purchases of fixed assets/intangible assets:			
Telesoft S.p.A. Argentine branch (c)	$	$ 6	$ 50
Teco Soft Argentina S.A. (c)	1	4	
Pirelli Cables S.A.I.C. (c)		1	2
Sofrecom Argentina S.A. (d)	8	14	33
Tel3 S.A. (d)		5	20
Olivetti Argentina S.A. (c)			2

Saritel S.A. (c)			4
Total fixed assets and intangible assets	**$ 9**	**$ 30**	**$ 111**

(a) The Company had between 10% and 25% of the capital stock in such companies.
(b) The Company has between 0.15% and 5.75% of the capital stock in such companies.
(c) Such companies form part of Telecom Italia Group.
(d) Such companies form part of France Telecom Group.

The Company believes that the transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties.

As of December 31, 2003, Telecom Argentina had loans outstanding to three officers of Telecom Argentina, totaling $0.4, that corresponded to loans granted pursuant to retention plans and to car loans. The annual interest rate for these loans is 6%.

(c) Management agreement

On the Transfer Date, Telecom Argentina and the Operators entered into a management agreement (the Management Agreement) under which the Operators undertook the management and operation of the Company and facilitated their expertise and technical assistance. The Management Agreement initially expired in October 1999, but was renewable automatically while the Company continued rendering services on an exclusive basis.

In August 1999, the parties entered into an amended agreement (the Amended Agreement), with substantially similar terms and conditions, pursuant to which the Management Agreement was extended through October 9, 2004. The Amended Agreement is renewable for an additional 5-year period upon written agreement of the parties.

The management fee payable by Telecom Argentina is based on 3% of net sales. In October 2001, due to the economic situation prevailing in Argentina, the Operators agreed to reduce the fee to 1.25% without affecting any of their obligations under the agreement. Telecom Argentina paid this reduced fee from October 1, 2001 through March 31, 2002. In 2002, and due to the impact of the crisis on the Company s financial position and results of operations, Telecom Argentina and the Operators agreed to suspend temporarily the provisions of Article II of the Management Agreement (which includes the provisions relating to the payment of the management fee) from April 1, 2002 through December 31, 2002, except for the provision of qualified management personnel, as necessary. Furthermore, the Operators notified the Company that they would continue rendering management services as required by the Company on an as-needed basis, being reimbursed only for certain costs and travel expenses. Subsequently, Telecom Argentina and the Operators agreed to suspend the Article II provisions until its expiration date in October 2004.

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7. Related party transactions (continued)

As a result of the change in the controlling group mentioned in (a) above, the Department of Communications issued Resolution No. 111/03 authorizing Telecom Italia to remain as the exclusive operator of Telecom Argentina. Consequently, on December 19, 2003, the Company and FCR terminated their relationship under the Management Agreement. However, the Management Agreement continues to be effective and binding without modifications between Telecom Argentina and Telecom Italia.

8 Debt

Short-term and long-term debt comprises the following:

	As of December 31,	
	2003	**2002**
Short-term debt:		
- Principal:		
Notes	$ 4,912	$ 5,407
Bank loans	1,638	2,097
Fixed assets financing	2,169	2,522
Inventory financing	426	511
Subtotal	9,145	10,537
- Accrued interest	747	564
- Penalty interest	104	34
Total short-term debt	**$ 9,996**	**$ 11,135**
Long-term debt:		
- Principal:		
Bank loans	$ 86	$ 142
- Accrued interest		3

Total long-term debt	86	145
Total short-term debt	**$ 10,082**	**$ 11,280**

(a) Short-term and Medium-term Notes Programs:

The Company has issued various series of notes under its short-term and medium-term global programs. The Programs were approved by shareholders general meetings which in turn authorized the Board of Directors to determine the terms and conditions, including amount, price, interest rate and currency. The Global Programs and the notes issued thereunder were ranked by Argentine ratings agencies.

The terms and conditions of the various series of notes contained customary affirmative and negative covenants, including, but not limited to, creation of liens on assets and/or revenues of the Company, mergers and others.

The detail of the outstanding series under the programs as of December 31, 2003 is as follows:

Global program	Date of issue	Nominal value (in millions)	Term, in years	Maturity date	Annual interest rate (i)	Book value at December 31, 2003	Market value at December 31, 2003
Program B:							
Series C	11.15.95	US$ 200	7	11.15.02	12.00	341	273
Series E (a)	5.5.97	US$ 100	8	5.5.05	4.35	293	234
Series F (c)	5.30.97	Euro 207	10	5.30.07	8.87	699	544
Series H (b) (c)	3.18.98	Euro 207	10	3.18.08	3.68	692	516
Series I	4.8.99	Euro 200	5	4.8.04	8.37	687	498
Series K	7.1.99	Euro 250	3	7.1.02	7.25	757	574
Program D:							
Series 1	4.7.00	Euro 250	3	4.7.03	7.62	832	667
Series 2	7.2.01	Euro 190	3	7.2.04	9.50	611	446
Principal						**4,912**	**3,752**
Accrued interest						522	
Penalty interest						31	
						5,465	

(i) Percentages have been rounded.
(a) Accrue interest at 6-month LIBOR plus 3.125%. At December 31, 2003, LIBOR was 1.22%.
(b) Accrue interest at 6-month LIBOR plus 1.5%.
(c) Originally issued in Italian Lira.

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8 Debt (continued)

- Global Program B:

The Company has six series of bonds outstanding under the Global Program B, which expired on August 10, 1999. As of December 31, 2003, an amount of $3,844 is outstanding under the program. The net proceeds of the notes were used to refinance debt and meet working capital needs.

- Global Programs C and D

The Company was authorized to create a short-term note program and a medium-term note program, C and D, respectively, for the issuance and re-issuance of unsecured non-convertible notes for up to US$ 200 million and US$ 1,500 million, respectively. As of December 31, 2003, two series (1 and 2) are outstanding under the Global Program D for an aggregate amount of $1,621. The net proceeds of the notes were used to refinance debt and meet working capital needs.

(b) Debt restructuring

Under Argentine Law No. 24,441 (the Trust Law), on August 23, 2000, the Company s subsidiary, Telecom Personal, issued US$ 60 million in aggregate principal amount at maturity of zero coupon promissory notes (the Promissory Notes) originally due in August 2002 and 2003. Bank of America N.A. Sucursal Buenos Aires (BofA) was designated as the trustee of the TITAN Telecom Personal 2000 Class I Financial Trust (the Trust). Pursuant to the terms of the Trust, the trustee had to enter into forward purchase contracts to hedge the proceeds from the collection of the dollar-denominated promissory notes against the payment in pesos of the debt certificates issued by the Trust. Concurrently, Telecom Personal entered into an early prepayment agreement (the Prepayment Agreement) with the Trustee pursuant to which Telecom Personal would prepay the Promissory Notes and costs related to the early cancellation of the forward purchase contracts, upon the occurrence of certain events.

In February 2002, Telecom Personal notified the Trustee of an event of default under the terms and conditions of the Prepayment Agreement. As per Law 25,561, certain receivables and payables denominated in US dollars were pesified . Telecom Personal and the Trustee disputed whether these obligations were under the scope of the law, and consequently, they decided to submit the matter to arbitration proceedings.

On December 13, 2002, as a result of the arbitration proceedings, Telecom Personal and the Trustee entered into an amended agreement (the Amended Agreement) pursuant to which the Prepayment Agreement and the forward purchase contracts were retroactively terminated as of June 13, 2002. Under the Amended Agreement, Telecom Personal assumed the obligation to pay the costs of the early cancellation of the forward purchase contracts. Telecom Personal issued US$ 27 million in aggregate principal amount at maturity under four promissory notes (the BofA Promissory Notes), in satisfaction of the payment. The BofA Promissory Notes bear interest at Libor plus 3% per year and are payable in 18 consecutive quarterly installments beginning January 1, 2004, after giving effect to a grace period from June 13, 2002 through December 31, 2003, during which no principal and/or interest is payable.

Also, under the terms of the Amended Agreement, Telecom Personal issued a new US$ 27 million in aggregate principal amount promissory note (the Holders Promissory Note) to holders of the Promissory Notes in exchange for relinquishing their claims in respect of the existing Promissory Notes. The Holder Promissory Note bears interest at Libor plus 3% per year and is due June 13, 2008. Interest is payable quarterly beginning April 1, 2004, after the grace period expires. The interest rate may not be higher than 10% per year during the term of the Holders Promissory Note.

For the year ended December 31, 2002, the Company recorded a gain on the restructuring of the Promissory Notes of $43. According to Argentine GAAP, the new debt has been discounted to its present value using a discount rate of 12%.

As more fully described in Note 12, the Company completed a cash tender offer for a portion of the Company s debt. Telecom Personal completed the tender offer for the early redemption of 100% of the BofA Promissory Notes and 8% of the Holders Promissory Note, pursuant to which approximately US$ 28 million and US$ 2 million, respectively, were redeemed. The net gain on repurchase of debt was approximately $24, which forms part of the $376 included in the statement of income.

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8 Debt (continued)

(c) Bank loans

These include term loans payable to various banks, bearing an annual weighted average rate of 4.45%, due at various dates through April 2009.

(d) Fixed assets financing

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 4.31%, due at various dates through May 2016. The most significant are:

Mediocredito Centrale:

Prior to the privatization of Entel, the Argentine government was granted a credit line from the *Instituto Centrale Per il Credito a Medio Termine* (the Mediocredito Centrale) for an aggregate amount of Euro 103 million, the proceeds of which were to be used to finance the digitalization of the telephone network in Argentina. Subsequently, under this credit line, the Argentine government ceded to the Company the rights to an Euro 50-million loan payable semi-annually in 30 equal consecutive installments and bearing interest at a rate of 1.75% per year.

The Argentine government remains the debtor to the Mediocredito Centrale, however, the Company assumed the obligation to service the debt according to the terms and conditions of the agreement. In the event the Company fails to pay the corresponding installments, and the Argentine government settles the obligations, the Company s debt towards the government may be offset by the corresponding receivables for services rendered to certain governmental agencies. As of December 31, 2003, an amount of approximately $143 (principal plus accrued interest) or Euro 39 million is outstanding under the agreement.

Japan Bank for International Cooperation:

On June 29, 1998, the Company entered into a credit line agreement with the Japan Bank for International Cooperation (JBIC) for up to Japanese yen 12,000 million loan due June 15, 2010. The Company used Japanese yen 11,652 million under this credit line. As of December 31, 2003, an amount of approximately $328 (principal plus accrued interest) is outstanding under the agreement.

(e) Inventory financing

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 3.56%.

9 Shareholders equity

(a) Common stock

At December 31, 2003, the Company has 502,034,299 authorized, issued and outstanding shares of $1 par value Class A Common Stock, 436,323,992 shares of $1 par value Class B Common Stock and 46,022,687 shares of $1 par value Class C Common Stock. Common stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

The Company s shares are authorized by the CNV, the Buenos Aires Stock Exchange (BCBA) and the New York Stock Exchange (NYSE) for public trading. Only Class B shares are traded. Nortel owns all of the outstanding Class A shares and Class C shares are dedicated to the employee stock ownership program, as described below.

Class B shares began trading on the BCBA on March 30, 1992. On December 9, 1994, these shares began trading on the NYSE under the ticker symbol TEO upon approval of the Exchange Offer by the SEC. Pursuant to the Exchange Offer, holders of ADRs or ADS which were restricted under Rule 144-A and holders of GDR issued under Regulation S exchanged their securities for unrestricted ADS, each ADS representing 5 Class B shares. Class B also began trading on the Mexican Stock Exchange on July 15, 1997.

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9 Shareholders equity (continued)

(b) Restrictions on distribution of profits

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Commercial Law, the by-laws of the Company and rules and regulations of the CNV, a minimum of 5% of net income for the year calculated in accordance with Argentine GAAP must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock accounts). This legal reserve may be used only to absorb deficits.

(c) Share ownership program

In 1992, a decree from the Argentine government, which provided for the creation of the Company upon the privatization of ENTel, established that 10% of the capital stock then represented by 98,438,098 Class C shares was to be included in the *Programa de Propiedad Participada* or PPP (an employee share ownership program sponsored by the government). Pursuant to the PPP, the Class C shares were held by a trustee for the benefit of former employees of the state-owned company who remained employed by the Company and who elected to participate in the plan.

In 1999, a decree of the Argentine government eliminated the restrictions on some of the Class C shares held by the Trust, although it excluded 45,932,738 Class C shares subject to an injunction against their use. On March 14, 2000, a shareholders´ meeting of the Company approved the conversion of up to unrestricted 52,505,360 Class C shares into Class B shares, of which 52,415,411 were converted. In May 2000, the employees sold 50,663,377 shares through an international and national bid.

In September 2002, the Trustor requested the Company to take all necessary actions in order to effect the conversion to Class B shares of up to 15,000,000 Class C shares out of the 45,932,738 shares held in the Trust, which had been released from the injunction. Subsequently, the Trustor informed the Company that unrestricted Class C shares amounted to 10,334,176, of which 8,361,012 are still held in the Trust.

The Company requested the Trustor to obtain judicial approval to permit the shareholders meeting to effect the conversion of the total amount of Class C shares to Class B shares in order to avoid calling for successive shareholders meetings every time restrictions on the shares are released for conversion. The Trustor informed the Company that a judicial resolution in favor of the total conversion had not been granted. The Company has also indicated that it is necessary to reach an agreement with the PPP for a timely and orderly sale of the converted Class B shares, because the sale of an inappropriate number of Class B shares could materially affect the price of the Class B shares. As of the date of these financial statements, the PPP lacks a legal representative.

(d) *Rueda Reducida* trading

As a result of the default situation described in Note 12, the BCBA decided to transfer the trading of the Company s notes to the so-called *Rueda Reducida* status, a special trading status of the BCBA for companies experiencing certain adverse financial conditions. In addition, since the Company s accumulated losses have absorbed its reserves and at least 50% of the Company s share capital, the BCBA has also decided to transfer the trading of the Company´s common stock to the Rueda Reducida status.

(e) Mandatory reduction of capital

Under section 206 of the Argentine Companies Law, if at the annual shareholders meeting, a company s losses have absorbed its reserves and at least 50% of the share capital, a company is required to reduce its capital stock. Further, under paragraph 5 of section 94, if a company shareholders equity is negative, a company is required to commence dissolution proceedings unless its shareholders take action (either by making a capital contribution or authorizing the issuance of additional shares of the company) resulting in positive shareholders equity within 90 days of such annual shareholders meeting.

However, due to the current economic environment, the requirements of section 206 and paragraph 5 of section 94 were suspended temporarily until December 10, 2004. Since the Company reported a loss for the year ended December 31, 2002, which absorbed the Company s reserves and significantly reduced its shareholders equity, the Company qualifies for mandatory reduction of capital, although its application is temporarily suspended.

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10. Income tax

No income tax provision has been recorded for any period presented as the Company has experienced net operating losses for income tax purposes.

Income tax expense (benefit) for the years ended December 31, 2003, 2002 and 2001 consists of the following: