

TELECOM ARGENTINA STET FRANCE TELECOM SA

Form 6-K

August 25, 2003

[Table of Contents](#)

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# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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## **FORM 6-K**

**Report of Foreign Issuer**

**Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934**

**For the month of August, 2003**

**Commission File Number: 001-13464**

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# **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)**

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## Edgar Filing: TELECOM ARGENTINA STET FRANCE TELECOM SA - Form 6-K

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 ☒ 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 ☒

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 ☒

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 ☒

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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**Table of Contents**

**Telecom Argentina STET-France Telecom S.A.**

TABLE OF CONTENTS

**Item**

1. Consolidated Financial Statements at June 30, 2003.

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

**CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003**

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

**CONSOLIDATED FINANCIAL STATEMENTS AT**

**JUNE 30, 2003 AND 2002**

**INDEX**

**Summary information on the consolidated financial statements at June 30, 2003**

1. General considerations
2. Company activities <sup>(a)</sup>
3. Summary comparative consolidated balance sheets
4. Summary comparative consolidated statements of operations
5. Fixed telephone service statistical data (in physical units) <sup>(a)</sup>
6. Consolidated ratios
7. Outlook <sup>(a)</sup>

(a) Not covered by the limited review report

**Consolidated Financial Statements**

Consolidated balance sheets

Consolidated statements of operations

Consolidated statements of changes in shareholders' equity

Consolidated statements of cash flows

Notes to the Consolidated Financial Statements

Exhibits A to I

**Limited review report**

**Corporate information**

\$: Argentine peso

US\$: U.S. dollar

\$2.80 = US\$1

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**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

**SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT**

**JUNE 30, 2003**

(Amounts in million of Argentine constant pesos or as expressly indicated)

**1. General considerations**

Telecom Argentina reached a consolidated net income of \$1,288 million for the six-month period ended June 30, 2003 ( 1H03 ) as a result of the effect of the appreciation of the peso on the Company's holdings. Comparatively, consolidated net loss for the six-month period ended June 30, 2002 ( 1H02 ) was \$4,631 million.

Gross profit/(loss), operating profit before depreciation and amortization, operating profit/(loss) and net income/(loss) for 1H03 represented 29%, 54%, (0.4%) and 74% of net sales, respectively; compared with 33%, 45%, (0.9%) and (202%), respectively, for 1H02.

The Company has accounted for the effects of inflation adjustment as adopted by Resolution No. 415/02 of the Comisión Nacional de Valores ( CNV ) by following the method adopted by Technical Resolution 6 and modified by Technical Resolution 19, to restate the figures using the wholesale rate of inflation as from January 1, 2002 according to Decree No. 1269/02.

However, the Government through Decree No. 664/03 stated that regulatory entities are not allowed to receive financial statements adjusted by inflation. Accordingly, the CNV, through Resolution No. 441/03, required the companies under their supervision to discontinue, as of March 1, 2003, the inflation adjustment method stated by Technical Resolution 6 and complementary regulations. Therefore, the Company has accounted for the inflation effect until February 28, 2003 and is showing the comparative figures using the adjustment factor of 1.1237 that corresponds to the period June 2002 to February 2003.

Moreover, the Company is providing additional information for a better understanding of the business including figures that have not been adjusted by inflation and which were used as the base for the information presented in constant pesos. This information, which is not required by the current professional accounting rules, can be found in Note 16 to the Consolidated Financial Statements as of June 30, 2003 as Relevant Additional Information .

Six month periods ended June 30,	2003	2002
Net sales	1,750	2,294
Cost of services provided	(1,244)	(1,530)
<b>Gross profit</b>	<b>506</b>	<b>764</b>
Administrative expenses	(137)	(173)
Sales expenses	(376)	(612)
<b>Operating profit (loss)</b>	<b>(7)</b>	<b>(21)</b>
Equity losses from related companies		(16)
Depreciation of goodwill		(7)
Financial and holding results	1,019	(6,921)
Other expenses, net	(86)	(85)
Debt restructuring results	374	
<b>Net income (loss) before income tax and minority interest</b>	<b>1,300</b>	<b>(7,050)</b>
Income tax		2,390
Minority interest	(12)	29
<b>Net income (loss)</b>	<b>1,288</b>	<b>(4,631)</b>
<b>Earnings per share (in pesos)</b>	<b>1.31</b>	<b>(4.70)</b>

## 2. Company activities

### *SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*



**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

**Consolidated net revenues**

Consolidated net revenues for 1H03 totaled \$1,750 million, a decrease of \$544 million or 24%, compared with \$2,294 million for 1H02. It must be noted that the regulated rates remained frozen after the pesification enforced by the Government. Revenues for 1H03, without the adjustment for inflation, would have reached \$1,749 million, an increase of \$232 million or 15% compared to 1H02 (\$1,517 million). This increase is mainly a consequence of the increases in non-regulated services, as explained below.

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**II**

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

In the basic telephony business, the main component of revenues, measured service, decreased by \$150 million or 26% to \$434 million during 1H03 as compared to 1H02 (\$584 million). Non-adjusted figures would have shown an increase of \$53 million or 14%. Revenues from domestic long distance increased as a consequence of higher traffic and higher average rates prompted by the reduction in promotional discounts. Revenues from local telephony increased slightly mainly due to higher traffic.

Total traffic volume (Local and DLD), measured in minutes, increased by 1% for 1H03 when compared to 1H02. Additionally, the outgoing international long distance traffic, measured in minutes, decreased by 20%, when compared to 1H02.

Monthly charges decreased by \$170 million or 36%, to \$297 million for 1H03 when compared to 1H02. Non-adjusted figures would have shown a decrease of \$2 million or 1% reaching \$297 million mainly due to a lower average number of lines in service of approximately 132,000 lines. Lines in services as of June 30, 2003 reached approximately 3,579,000 compared with approximately 3,632,000 as of June 30, 2002. Moreover, monthly basic charges remained stable after the pesification and freeze enforced by the Government.

Revenues from installation fees paid by new customers increased by \$1 million or 9% to \$12 million for 1H03 when compared to 1H02. Non-adjusted figures would have shown an increase of \$4 million or 50%, largely due to a higher number of lines connected.

Revenues from public telephony decreased by \$27 million or 24% to \$84 million for 1H03 when compared to 1H02. Non-adjusted figures would have shown an increase of \$12 million or 17% as a consequence of the higher traffic generated by public telephony telecommunication centers (Telecentros) and higher revenues received from public payphones and telephone cards.

Revenues generated by interconnection services during 1H03 decreased by \$33 million or 32% to \$70 million. Non-adjusted figures would have shown an increase of \$3 million or 4%.

Regarding the international telephony business, during 1H03 revenues decreased by \$46 million or 31% to \$102 million when compared to 1H02. Non-adjusted figures would have shown an increase of \$1 million or 1%, mainly due to the revenues generated by Telecom's subsidiary Telecom USA and lower discounts. These effects were partially offset by the freeze of regulated rates, lower outgoing traffic and lower revenues derived from incoming traffic.

Revenues generated by the data transmission business totaled \$166 million during 1H03, representing a decrease of \$28 million or 14% when compared to 1H02. Non-adjusted figures would have shown an increase of \$42 million or 34%, as a consequence of higher revenues generated by the ground networks and lease of data circuits. Additionally, Internet dial-up measured services increased as a consequence of the higher

number of Internet subscribers of other ISPs that use the special prefix 0610 and local numbers with 4004 numbering or similar to access Telecom's network. As of June 30, 2003 Internet minutes represented 32% of total traffic measured in minutes transported over the fixed-line network.

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**III**

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

Internet revenues decreased by \$3 million or 10% to \$28 million during 1H03. Non-adjusted figures would have shown an increase of \$8 million or 40%, mainly due to the increase in ADSL high-speed access and dial-up monthly fees. As of June 30, 2003, the number of ADSL subscribers reached approximately 35,000. Furthermore, Internet dial-up customers reached approximately 152,000.

The revenues generated by the cellular business during 1H03 decreased by \$76 million or 13% to \$512 million when compared to 1H02. Non-adjusted figures would have shown an increase of \$103 million or 25%.

Non-adjusted revenues of Telecom Personal in Argentina would have increased by \$129 million or 41% to \$442 million when compared to 1H02 mainly due to higher sales of pre-paid cards and higher Calling Party Pays revenues. Furthermore, the average revenue per user increased by 30% (to \$30 per customer per month for 1H03, denominated in current pesos). Total cellular subscribers of Telecom Personal in Argentina reached approximately 2,254,000, representing an increase of approximately 138,000 customers, or 7%, as compared to June 30, 2002.

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**IV**

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.*****Corporation non adhered to the Optional Statutory Regime of Compulsory Public******Purchase Offer***

The customer base as of June 30, 2003 amounted to approximately 1,838,000 prepaid subscribers, representing 82% of the total customer base, and approximately 416,000 post-paid subscribers, representing the remaining 18% of the total customer base.

Núcleo, Telecom Personal's subsidiary that provides cellular and PCS services in Paraguay, generated \$70 million in revenues during 1H03, which are consolidated into the revenues of Telecom Personal. This represented a decrease of \$38 million or 35% as compared to 1H02. Non-adjusted figures would have shown a decrease of \$26 million or 27%. The decrease can be mainly attributed to the appreciation of the peso against the dollar as these revenues are denominated in foreign currency, the slight decrease in the customer base and the lower average revenue per user. As of June 30, 2003, Núcleo had approximately 516,000 cellular and PCS customers, a decrease of approximately 29,000 customers or 5% when compared to June 30, 2002.

In the telephone directories publishing business, revenues from our affiliated company Publicom remained at the same level of \$2 million for both 1H03 and 1H02.

<b>Six month periods ended June 30,</b>	<b>2003</b>	<b>2002</b>
National basic telephone service	940	1,331
International telephone service	102	148
Data transmission	166	194
Internet	28	31
Cellular telephony	512	588
Directories edition	2	2
<b>Total net sales in constant pesos</b>	<b>1,750</b>	<b>2,294</b>

**Operating costs**

The cost of services provided, administrative expenses and selling expenses for 1H03 decreased by \$558 million or 24% to \$1,757 million when compared to 1H02, mainly as a result of the adjustment by inflation of figures as of June 30, 2002 and to cost reduction plans implemented by the Company.

Salaries and social security contributions decreased by \$121 million or 35% to \$228 million for 1H03. Non-adjusted figures would have shown a slight decrease of \$2 million or 1%, primarily due to the reduction in labor costs of unionized and non-unionized employees and reductions in headcount. As of June 30, 2003, the headcount totaled 13,091 as compared to 14,229 as of March 31, 2002. This effect was partially offset by

the increase in social security contributions since March 1, 2003 and the salary increase for unionized employees mandated by the Government.

Expenses related to taxes (including turnover taxes and taxes on bank debit and credit) decreased by \$30 million or 19% to \$125 million for 1H03. Non-adjusted figures would have shown an increase in taxes of \$23 million or 23%, mainly due to the increase in the turnover tax in the voice, data and Internet business as the sales in this business have increased. Additionally, an increase in the applicable rate in the turnover tax in the cellular activity was registered.

Materials and supplies charges decreased by \$28 million or 29% to \$69 million for 1H03. Non-adjusted figures would have shown an increase of \$6 million or 10% reaching \$67 million mainly due to higher expenses

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***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**V**

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

associated with higher costs for the maintenance of the network, hardware and software due to the high imported materials content.

The allowance for doubtful accounts decreased by \$149 million or 92% to \$13 million for 1H03. Non-adjusted figures would have shown a decrease of \$85 million or 87%. The decrease was evidenced in the residential segments and it is related to the decrease in customer lines. Furthermore, a better level of collections was applied.

Commissions paid to vendors and card sales increased by \$9 million or 28% to \$41 million for 1H03. Non-adjusted figures would have shown an increase of \$16 million or 64%, as a consequence of higher commissions paid for new cellular customers and higher costs for distribution and prepaid card sales.

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**VI**

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

Interconnection costs decreased by \$21 million or 26% to \$60 million for 1H03. Non-adjusted figures would have shown an increase of \$7 million or 13% mainly as a result of higher charges paid for local and long distance access, circuits rentals and termination charges for traffic related to 4004 services in the Internet business.

Service fees (including fees for debt restructuring process) decreased by \$13 million or 20% to \$52 million for 1H03. Non-adjusted figures would have shown an increase of \$8 million or 18%, principally due to higher fees related to information systems and advisory services.

Management fees decreased by \$20 million, or 95%, to \$1 million for 1H03. Non-adjusted figures would have shown a decrease of \$11 million or 92%, as the Company and the Operators agreed to suspend certain provisions of both parties of the management contract, starting April 1<sup>o</sup>, 2002. As a consequence, the accrual and the payment of the management fee have been suspended from such day and until the termination of the Management Contract provided in point 7.2. of such contract (October 2004).

Costs related to advertising decreased by \$11 million or 58% to \$8 million for 1H03. Non-adjusted figures would have shown a decrease of \$4 million or 33%. This is mainly due to lower media advertising and promotional and institutional campaigns expenses resulting from the cost control plan.

Cost of cellular handsets decreased by \$6 million or 67% to \$3 million for 1H03. Non-adjusted figures would have shown a decrease of \$4 million or 57% mainly due to the lower number of cellular handsets sold.

Other expenses decreased by \$53 million or 27% for 1H03, reaching \$147 million. Non-adjusted figures would have shown an increase of \$16 million or 12% reaching \$130 million, mainly due to higher costs for to insurance policies.

Depreciation of fixed assets decreased by \$104 million or 10%, to \$895 million during 1H03, as a consequence of the end of the useful lives of amortizable assets and to lower depreciation of capitalized foreign currency exchange differences originated by financial debt.

Finally, amortization of intangible assets increased by \$11 million or 25% to \$55 million for 1H03, mainly due to higher charges related to exclusivity rights and information systems development in the cellular business.

Six month periods ended June 30,

2003      2002



Wages and social benefits	(228)	(349)
Taxes	(42)	(60)
Turnover tax	(65)	(70)
Taxes on bank debits and credits	(18)	(25)
Materials and supplies	(69)	(97)
Transport and freight	(14)	(22)
Bad debts expense	(13)	(162)
Interconnection costs	(60)	(81)
Settlement outgoing expenses	(37)	(57)
Lease of circuits	(23)	(25)
Fees for debt restructuring process	(10)	
Fees for services	(42)	(65)
Management fees	(1)	(21)
Advertising	(8)	(19)
Cost of cellular handsets	(3)	(9)
Agent commissions and card sales	(41)	(32)
Other	(133)	(178)
<b>Subtotal</b>	<b>(807)</b>	<b>(1,272)</b>

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*SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

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VII

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

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Depreciation of fixed assets	(895)	(999)
Amortization of intangibles assets	(55)	(44)
	<hr/>	<hr/>
<b>Operating costs</b>	<b>(1,757)</b>	<b>(2,315)</b>
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***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**VIII**

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

**Financial and holding results**

The gains resulting from financial and holding results reached \$1,019 million for 1H03 as compared to the loss of \$6,921 million in 1H02. This improvement can be largely attributed to the \$1,399 million gain arising from currency exchange differences derived from the appreciation of the Peso during the six-month period, which affected the company's net foreign currency monetary position. Additionally, as a consequence of the lower exchange rate, the interest on foreign currency liabilities decreased by \$165 million when compared with 1H02.

**Other expenses, net**

Other expenses (net) increased \$1 million or 1% to \$86 million 1H03 compared with 1H02 as a result of the inflation adjustment of figures as of June 30, 2002, higher reserves for lawsuits and contingencies and higher severance and termination charges.

**Cash flow and net financial debt**

Net Financial Debt (Loans + Cash and banks plus Current Investments) decreased by \$5,099 million or 41% to \$7,475 million for 1H03 compared with 1H02 (\$12,574), as a consequence of the lower foreign exchange rate, the results of the Cash Tender Offer and the cash generation from operations.

**Investment plan**

Telecom has made investments in fixed assets of \$20,831 million, since the start of operations on November 8, 1990, of which \$34 million corresponds to 1H03. As of June 30, 2003, the net book value of fixed assets totaled \$8,689 million.

Of the total amount invested during 1H03, \$21 million or 62% corresponds to basic telephony, data transmission and Internet (public telephony 10%, transmission 24% and outside plant 38%, switching 19% and computer equipment 9%) and \$13 million or 38% to cellular telephony.

**Recent developments**

**Debt restructuring process**

On June 2, 2003, Telecom Argentina and its subsidiary Telecom Personal announced the expiration of their respective cash tender offers for a portion of their financial debt instruments which commenced on April 16, 2003.

Telecom Argentina purchased an aggregate principal amount equal to approximately US\$175 million of its outstanding notes and US\$34 million of its outstanding indebtedness under credit facilities, for the aggregate offer consideration of the equivalent of US\$115 million.

Telecom Personal purchased an aggregate principal amount equal to approximately US\$80 million of its outstanding indebtedness under credit facilities with financial creditors for the aggregate offer consideration of the equivalent of US\$44 million.

The purchase price for the Companies debt instruments, expressed as a percentage of the principal amount of the tendered debt instruments, was equal to 55%.

The Companies also announced that on June 2, 2003 they have made interest payments on their respective financial debt obligations.

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**IX**

**Table of Contents**

**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 and Telecom Personal paid a total of US\$96 million and US\$11 million of accrued interest.

**Tariff renegotiations**

On June 4, 2003 through Decree No. 311/03, the National Government created the Unit for the Renegotiations and Analysis of the Public Services Contracts. The Unit, a joint body of the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services, will be in charge of the renegotiations of the contracts of the public services mandated by the Emergency Law No. 25561.

The Unit will sign the new contracts ad referendum of the National Government and will have the power to propose transitory increases of tariffs, prices or new segmentation of them.

The new body will continue the task initially undertaken by the Commission for the Renegotiations of Contracts and will have until December 2004 to finish the assignment.

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**X**

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public**Purchase Offer***3. Summary comparative consolidated balance sheets**

<b>June 30,</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Current assets</b>	2,010	2,268	2,536	3,078	2,945
<b>Non current assets</b>	9,797	12,752	12,346	12,397	11,900
<b>Total assets</b>	<b>11,807</b>	<b>15,020</b>	<b>14,882</b>	<b>15,475</b>	<b>14,845</b>
<b>Current liabilities</b>	9,347	14,255	3,478	4,225	3,462
<b>Non current liabilities</b>	308	145	6,187	5,786	5,819
<b>Total liabilities</b>	<b>9,655</b>	<b>14,400</b>	<b>9,665</b>	<b>10,011</b>	<b>9,281</b>
<b>Minority interest</b>	<b>21</b>	<b>1</b>	<b>27</b>	<b>28</b>	<b>35</b>
<b>Temporary differences from translation</b>	<b>26</b>	<b>47</b>			
<b>Shareholders' equity</b>	<b>2,105</b>	<b>572</b>	<b>5,190</b>	<b>5,436</b>	<b>5,529</b>
<b>Total liabilities, minority interest, temporary differences and Shareholders' equity</b>	<b>11,807</b>	<b>15,020</b>	<b>14,882</b>	<b>15,475</b>	<b>14,845</b>

**4. Summary comparative consolidated statements of operations**

<b>Six month periods ended June 30,</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Net sales</b>	1,750	2,294	3,538	3,681	3,669
<b>Operating costs</b>	(1,757)	(2,315)	(3,061)	(3,031)	(2,861)
<b>Operating profit (loss)</b>	<b>(7)</b>	<b>(21)</b>	<b>477</b>	<b>650</b>	<b>808</b>
<b>Equity losses from related companies</b>		(16)	(2)	(2)	
<b>Depreciation of goodwill</b>		(7)	(9)	(9)	(7)
<b>Financial and holding results</b>	1,019	(6,921)	(244)	(244)	(167)
<b>Other expenses, net</b>	(86)	(85)	(57)	(13)	(70)
<b>Debt restructuring results</b>	374				
<b>Net income (loss) before income tax and minority interest</b>	<b>1,300</b>	<b>(7,050)</b>	<b>165</b>	<b>382</b>	<b>564</b>
<b>Income tax</b>		2,390	(74)	(156)	(184)
<b>Minority interest</b>	(12)	29		2	2
<b>Net income (loss)</b>	<b>1,288</b>	<b>(4,631)</b>	<b>91</b>	<b>228</b>	<b>382</b>

Earnings per share (in pesos)	1.31	(4.70)	0.09	0.23
	0.39			

5. Fixed telephone service statistical data (in physical units)

	2003		2002		2001		2000		1999	
June 30,	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Installed lines	3,800,300	(2,224)	3,802,394	352	3,782,836	32,023	3,582,839	3,661	3,566,426	52,0
Lines replaced (a)	1,851,232		1,851,232		1,851,232		1,817,084		1,787,354	
Lines in service (b)	3,578,557	18,640	3,632,259	(113,556)	3,914,142	20,450	3,554,938	102,858	3,401,256	(18,4
Customers lines	3,285,070	18,681	3,331,263	(110,311)	3,615,616	10,158	3,300,304	94,516	3,195,654	(24,7
Public phones installed	79,360	20	79,679	470	82,732	1,536	78,011	(22)	63,446	2,7
Percentage of lines connected to digital exchanges	100.0		100.0		100.0		100.0		100.0	
Lines in service per 100 inhabitants (c)	19.2		19.7	(0.7)	21.5	0.1	19.7	0.6	19.0	(0
Lines in service per employee	332	10	318	(18)	378	5	369	4	361	
Investment in Fixed assets in million of pesos	20,831	21	22,034	90	20,109	283	18,444	508	16,309	5

(a) As from 11.8.90.

(b) Includes Direct Inward Dialing numbers that do not occupy lines installed capacity.

(c) Corresponding to the northern region of Argentina.

6. Consolidated ratios

June 30,	2003	2002	2001	2000	1999
Liquidity (1)	0.22	0.16	0.73	0.73	0.85
Solvency (2)	0.22	0.04	0.54	0.55	0.60
Locked up capital (3)	0.83	0.85	0.83	0.80	0.80

*SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

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- (1) Current assets/Current liabilities.
  - (2) Shareholders' equity plus minority interest and temporary differences from translation/Total liabilities.
  - (3) Non current assets/Total assets

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**XII**



---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

**7. Outlook**

The 2Q03 went on with a economically stable context, where the main macroeconomic factors started reporting a certain recovery. The exchange rate continued with its decreasing trend lower than in 1Q03. The levels of activity also continued with the positive trend shown in 1Q03 although they decelerate the rhythm of growing evidenced in previous periods. Likewise, the rates of inflation remained stable or even decreased.

The Company's operations are still affected, in general, by the macroeconomic scenario uncertainty and, in particular, by the lack of resolution of the tariff structure renegotiation that restrains the planning of medium or long term investment programs.

In the context of the debt restructuring, on June 2<sup>nd</sup>, the Company announced the expiration of the cash tender offer for a portion of its financial debt obligations with the purchase of an aggregate principal amount of US\$292 million at a price equal to 55%. Likewise the Company made partial interest payments of US\$107 million. The cash tender offer and the partial interest payments are the first steps of the Company's plans to restructure their outstanding financial indebtedness and their ongoing debt service obligations. The Company will continue the conversations with its main financial creditors in order to find a final resolution to the debt restructuring process.

In this uncertain and critical context, Telecom is still working hard to maintain the quality of the service and to reduce its cost structure and adapt it to the new environment. Likewise, the Company has significantly reduced its investment program and has increased its efforts to generate a substantial reduction of its expenditure and increase cash inflows.

**Amadeo R. Vázquez**  
**President**

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***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**XIII**

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

Alicia Moreau de Justo 50 Buenos Aires

**FISCAL YEAR No. 15 beginning January 1, 2003 with comparative information for**

**the six month period ended June 30, 2002 and for the year ended December 31,**

**2002 (see Note 3.1.c)**

**CONSOLIDATED FINANCIAL STATEMENTS at June 30, 2003 and 2002**

Principal Company activity: **Telecommunication services and the marketing of equipment, infrastructure and goods of any type related or complimentary to telecommunication, and the performance of works and the provision of all types of services, including consultancy and security, related to telecommunications and telecomputing.**

Dates of registration with the Public Commerce Registry:

Bylaws: **July 13, 1990**

Last amendment to by-laws: **May 29, 2003**

Expiration of Company charter: **July 13, 2089**

Information about Company control is in Note 6 a.

**CAPITAL COMPOSITION**

**at June 30, 2003**

	Registered, authorized, issued and outstanding
<u>Capital stock</u>	<u>(Note 8)</u>
Capital stock, \$ 1 nominal value and one vote per share	
Class A	502,034,299
Class B	436,323,992
Class C	46,022,687
<b>Total</b>	<b>984,380,978</b>

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public**Purchase Offer***CONSOLIDATED BALANCE SHEETS (see Note 3.1.c)**

	In million of Argentine constant pesos (see Note 3.1.d)	
	June 30, 2003	December 31, 2002
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and banks (Note 4.a)	79	89
Investments (Note 4.b)	1,278	1,326
Trade accounts receivable (Note 4.c)	525	600
Other receivables (Note 4.d)	121	77
Inventories (Note 4.e)	2	12
Other assets (Note 4.f)	5	3
<b>Total current assets</b>	<b>2,010</b>	<b>2,107</b>
<b>NON-CURRENT ASSETS</b>		
Trade accounts receivable (Note 4.g)		1
Other receivables (Note 4.h)	145	139
Investments (Exhibit C)	71	59
Fixed assets (Exhibit A)	8,689	9,689
Intangible assets (Exhibit B)	892	946
<b>Total non-current assets</b>	<b>9,797</b>	<b>10,834</b>
<b>TOTAL ASSETS</b>	<b>11,807</b>	<b>12,941</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable (Note 4.i)	342	394
Debt (Note 7)	8,810	11,135
Payroll and social benefits payable (Note 4.j)	56	61
Taxes payable (Note 4.k)	103	118
Other liabilities (Note 4.l)	21	25
Reserves (Exhibit E)	15	9
<b>Total current liabilities</b>	<b>9,347</b>	<b>11,742</b>

<b>NON-CURRENT LIABILITIES</b>		
Debt (Note 7)	83	145
Payroll and social benefits payable (Note 4.m)	23	29
Other liabilities (Note 4.n)	26	29
Reserves (Exhibit E)	176	142
<b>Total non-current liabilities</b>	<b>308</b>	<b>345</b>
<b>TOTAL LIABILITIES</b>	<b>9,655</b>	<b>12,087</b>
Minority interest	21	9
Temporary differences from translation	26	28
<b>SHAREHOLDERS' EQUITY</b> (according to Statement of changes)	<b>2,105</b>	<b>817</b>
<b>TOTAL LIABILITIES, MINORITY INTEREST, TEMPORARY DIFFERENCES FROM TRANSLATION AND SHAREHOLDERS' EQUITY</b>	<b>11,807</b>	<b>12,941</b>

The accompanying notes and Exhibits are an integral part of the consolidated financial statements.

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

**Table of Contents**

**Valerio Cavallo**

**Amadeo R. Vázquez**

**Chief Financial Officer**

**President**

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

Table of Contents

## TELECOM ARGENTINA STET FRANCE TELECOM S.A.

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

## CONSOLIDATED STATEMENTS OF OPERATIONS (see Note 3.1.c)

Six month periods ended June 30,	In million of Argentine constant pesos, except	
	per share amounts (see Note 3.1.d)	
	2003	2002
Net sales (Note 4.o)	1,750	2,294
Cost of services provided (Exhibit F)	(1,244)	(1,530)
<b>Gross profit</b>	<b>506</b>	<b>764</b>
Administrative expenses (Exhibit H)	(137)	(173)
Sales expenses (Exhibit H)	(376)	(612)
<b>Operating loss</b>	<b>(7)</b>	<b>(21)</b>
Equity losses from related companies (Note 4.p)		(16)
Depreciation of goodwill (Note 4.q)		(7)
Financial and holding results (Note 4.r)	1,019	(6,921)
Other expenses, net (Note 4.s)	(86)	(85)
Debt restructuring results (Note 4.t)	374	
<b>Net income (loss) before income tax and minority interest</b>	<b>1,300</b>	<b>(7,050)</b>
Income tax (Note 9)		2,390
Minority interest	(12)	29
<b>Net income (loss)</b>	<b>1,288</b>	<b>(4,631)</b>
<b>Net income (loss) per share (Note 3.1.j)</b>	<b>1.31</b>	<b>(4.70)</b>

The accompanying notes and Exhibits are an integral part of the consolidated financial statements.

Valerio Cavallo

Chief Financial Officer

Amadeo R. Vázquez

President





**Table of Contents****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 six month periods ended June 30, 2003 and 2002 (see Note 3.1.c)**

(In million of Argentine constant pesos see Note 3.1.d)

Concept	Shareholders			Earnings			Total Shareholder s equity
	contributions		Total	Unappropriated retained earnings		Total	
	Capital stock	Adjustment to capital stock		Legal reserve			
Balance at January 1, 2002	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					(4,631)	(4,631)	(4,631)
Balance at June 30, 2002	984	3,044	4,028	277	(3,733)	(3,456)	572
Balance at January 1, 2003	984	3,044	4,028	277	(3,488)	(3,211)	817
Net income					1,288	1,288	1,288
Balance at June 30, 2003	984	3,044	4,028	277	(2,200)	(1,923)	2,105

The accompanying notes and Exhibits are an integral part of the consolidated financial statements.

**Valerio Cavallo****Chief Financial Officer****Amadeo R. Vázquez****President****CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003**

**Table of Contents****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 (see Note 3.1.c)**

	<b>In million of Argentine constant</b>	
	<b>pesos (see Note 3.1.d)</b>	
<b>Six month periods ended June 30,</b>	<b>2003</b>	<b>2002</b>
<b><u>CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u></b>		
Net income (loss)	1,288	(4,631)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities</b>		
Bad debts expense and allowances for other receivable	22	170
Depreciation of fixed assets	895	999
Amortization of intangible assets	55	44
Equity losses from related companies		16
Depreciation of goodwill		7
Temporary differences from translation on cash and banks		7
Materials usage	20	34
Fixed assets disposals	5	36
Reserves	46	31
Debt restructuring results	(374)	
Interest and other financial expenses	(1,107)	6,264
Termination benefits	(9)	2
Minority interest	12	(29)
Income tax	(1)	(2,390)
Net decrease (increase) in assets	(236)	1,275
Net increase (decrease) in liabilities	168	(889)
<b>Total cash flows provided by operating activities</b>	<b>784</b>	<b>946</b>
<b><u>CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES</u></b>		
Fixed asset acquisitions	(65)	(287)
Intangible asset acquisitions	(3)	(12)
Other investments not considered as cash or cash equivalents	41	1
<b>Total cash flows used for investing activities</b>	<b>(27)</b>	<b>(298)</b>
<b><u>CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES</u></b>		
Debt proceeds		3
Repayment of debt	(426)	(46)
Payment of interest and related expenses	(328)	(431)

<b>Total cash flows used for financing activities</b>	<b>(754)</b>	<b>(474)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3</b>	<b>174</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b>1,314</b>	<b>429</b>
<b>CASH AND CASH EQUIVALENTS AT PERIOD END</b>	<b>1,317</b>	<b>603</b>

The accompanying notes and Exhibits are an integral part of the consolidated financial statements.

Note 5 provides additional information regarding the Consolidated statements of cash flows.

**Valerio Cavallo**

**Chief Financial Officer**

**Amadeo R. Vázquez**

**President**

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

**Table of Contents**

**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 (\*)**

**For the six month periods ended June 30, 2003 and 2002**

**and for the year ended December 31, 2002 (see Note 3.1.c)**

(Amounts in million of Argentine constant pesos per share amounts or as otherwise

indicated see Note 3.1.d)

**INDEX**

<u>Note</u>	<u>Concept</u>	<u>Page</u>
	<u>Glossary of terms</u>	8
1	<u>Telecom Group operations</u>	9
2	<u>Regulatory framework</u>	9
3	<u>Bases of presentation and summary of significant accounting policies</u>	17
4	<u>Details of principal consolidated financial statements captions</u>	33
5	<u>Supplementary consolidated cash flow information</u>	36
6	<u>Transactions and balances with related companies and parties and controlling company as defined under Law No. 19550 Section 33</u>	39
7	<u>Debt</u>	42
8	<u>Capital stock</u>	48
9	<u>Income tax: adoption of the deferral method</u>	52
10	<u>Commitments and contingencies</u>	58
11	<u>Renegotiation of contracts with the public administration</u>	60
12	<u>Suspension of payments of financial debt of the Telecom Group. Cash tender offer, payment of interests and proposed restructuring plan</u>	62
13	<u>Financial trusts constituted by the Telecom Group for the payment of the cash tender offer and interests</u>	68
14	<u>Consolidated information by business segment</u>	68
15	<u>Consolidated quarterly information (unaudited)</u>	71
16	<u>Relevant additional information</u>	71
17	<u>Unconsolidated information</u>	73
18	<u>Differences between Argentine and U.S.GAAP</u>	74
19	<u>Restrictions on unappropriated retained earnings</u>	79

(\*) Conventionally, the definitions used in these consolidated financial statements are included in the Glossary of terms .

**CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003**



---

**Table of Contents**

**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**

**GLOSSARY OF TERMS**

The following definitions are not intended as technical definitions, but to assist the reader to understand certain terms as used in the Company's financial statements.

<i>The Company/Telecom Argentina/Telecom</i>	Telecom Argentina Stet-France Telecom S.A.
<i>Telecom Group/Group</i>	Economic group formed by the Company and its controlled companies.
<i>ENTel</i>	Empresa Nacional de Telecomunicaciones, which had provided public telecommunication services in Argentina until its privatization.
<i>SC</i>	The Argentine Secretary of Communications.
<i>SBT</i>	Basic Telephone Services.
<i>CNV</i>	The National Securities Commission.
<i>Personal/Núcleo/Cable Insignia/Micro Sistemas/ Publicom/Latin American Nautilus/Multibrand/ Nahuelsat/Internacional/Telintar/Soluciones</i>	Correspond to the corporations controlled by Telecom or that were controlled or jointly controlled by Telecom as defined under the Argentine Corporation Law or that are related parties.
<i>Telecom Argentina USA</i>	Corresponds to Telecom Argentina USA Inc., a controlled company of Telecom, as defined under the Argentine Corporation Law.
<i>CNC</i>	The Argentine National Communications Commission.
<i>The Pliego</i>	List of Conditions approved by Decree No. 62/90, related to the privatization of ENTel.
<i>STM</i>	Mobile Telephone Service.
<i>SRMC</i>	Mobile Cellular Radiocommunication Service.
<i>AMBA</i>	Metropolitan Area Buenos Aires, the area of the Federal District and greater Buenos Aires.
<i>PCS</i>	Personal Communications Service. A wireless communications service with systems that operate in a manner similar to cellular systems.
<i>Nortel</i>	Nortel Inversora S.A. The controlling company of Telecom.
<i>Telecom Italia/FCR/Operators</i>	

<i>Telefónica</i>	Telecom Italia S.p.A. and France Cables et Radio S.A. (a controlled company by France Telecom S.A.), jointly referred to as the Operators.
<i>SU</i>	Telefónica de Argentina S.A.
<i>IPC</i>	Universal Service: the availability of SBT at an affordable price to all persons within a country or specified area.
<i>Price Cap</i>	Consumer Price Index.
<i>BCRA</i>	The application of annual reductions to the general level of the Company's rates.
<i>SEC</i>	The Central Bank of the Argentine Republic.
<i>CPCECABA</i>	Securities and Exchange Commission of the USA.
<i>RT/FACPCE/Argentine GAAP</i>	Professional Board of Economic Sciences of Ciudad Autónoma de Buenos Aires.
<i>Constant pesos</i>	Technical Resolutions issued by the Argentine Federation of Professional Boards of Economic Sciences that is generally accepted accounting principles of Argentina.
<i>VPP</i>	Currency unit of the financial statements, that is, constant Argentine pesos as of period-end, according to FACPCE RT 6.
<i>IAS/IASC</i>	Equity method.
<i>DGI</i>	International Accounting Standards issued by the International Accounting Standard Committee.
<i>U.S.GAAP</i>	The Argentine Tax Authority.
<i>BCBA/NYSE</i>	Generally Accepted Accounting Principles in USA.
<i>PPP</i>	Buenos Aires and New York Stock Exchanges, respectively.
<i>OCI</i>	Share Ownership Program.
	Other Comprehensive Income

**CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003**

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public**Purchase Offer***NOTE 1 TELECOM GROUP OPERATIONS**

Telecom Argentina was formed as a result of the privatization of ENTEL, which had provided public telecommunication services in Argentina.

The Company obtained a license to operate in a designated Northern Zone, beginning operations on November 8, 1990, and provided public telecommunication services on an exclusive basis for seven years subsequent to this date, having the right to a three-year extension of this exclusivity period.

The Company filed the appropriate petition with the SC to extend the license exclusivity period. Acknowledging the Company's filing, the Argentine government established the standards for an orderly transition towards an openly competitive telecommunications market by October 10, 1999, the date at which the exclusivity period ended and the Company remained qualified to provide SBT nationally.

Likewise, the Company merged various companies under its ownership to provide the following services: international long distance in the Northern Zone, national telex, value added services, data transmission and Internet. In order to adapt to the new market demands, the Company expanded its corporate purpose. This expansion was approved by the SC and the CNV.

The Company achieves its business objective of providing services through integration with its subsidiaries. Activities carried out by these entities at June 30, 2003 are as follows:

<u>Activity</u>	<u>Subsidiary</u>	<u>Ownership by Telecom in capital stock and votes</u>	<u>Control is through the following</u>	<u>Date of incorporation</u>
<b>Voice, data and</b>	Micro Sistemas (a) (c)	99.99%		12.01.97
<b>Internet services</b>	Telecom Argentina USA	100.00%		09.12.00
<b>Cellular telephone service</b>	Personal	99.99%		07.06.94
	Núcleo	67.50%	Personal	02.03.98
	Cable Insignia (b) (c)	75.00%	Personal	03.18.98



<b>Directories edition</b>	Publicom	99.99%	06.11.92
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- (a) Principal company activities: manufacture, commercialization, importation, exportation, research, maintenance and development of electronics equipment.
- (b) Principal company activities: communication services operation, except to broadcasting.
- (c) Companies not operative at June 30, 2003.

## NOTE 2 REGULATORY FRAMEWORK

### a) Regulatory bodies and practices

The Company and its telecommunication subsidiaries are regulated by the CNC, decentralized organism dependent on the SC, which is supervised by the Ministry of Federal Planning, Public Investments and Services. The SC is responsible for developing of sector policies, approving and administrating fundamental technical plans, assisting the Ministry of Federal Planning, Public Investments and Services in rate matters affecting the Company and the development of telecommunication regulations.

Some of the more pertinent regulations are:

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

- The Privatization Regulations, which regulate the process of privatization, including the Pliego,
- The Transfer Agreement,
- Telecommunication licenses granted to the Company and to subsidiaries that provide telecommunication services,
- Rate agreements and related decrees and regulations approved in Decree No. 764/2000.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

**b) Licenses held at June 30, 2003**

**Company licenses**

The Company holds licenses to provide the following services in Argentina for an indefinite period:

Fixed local telephone service,

Public telephone service,

Long distance, both national and international,

Point to point connections, both national and international,

Telex, both national and international,

Value added services, data transmission, video conferencing, broadcast signal transmission and community repeater.

Internet access.

**Licenses of subsidiaries**

**Personal** is licensed for an indefinite period, on a competitive market basis, to provide STM in the northern region of Argentina, and data transmission and value added services nationally. Additionally, Personal holds a license to provide SRMC in the AMBA, a license without expiration date to provide PCS service in Argentina and the register for the rendering of national and international long distance telephone service.

**Núcleo**, controlled by Personal, is licensed to provide STM service over Band B nationwide in Paraguay and PCS service in some areas of Paraguay.

**c) Causes of revocation of licenses**

**SBT license**

Some of the causes that could revoke the Company's license are:

- (i) the interruption of all or a substantial part of licensed service;
- (ii) a change in corporate business purpose (without a previous authorization of the appropriate regulatory bodies) or a change of corporate domicile outside of Argentina;
- (iii) any sale, encumbrance or transfer of assets that has the effect of reducing services provided, without the prior approval of the appropriate regulatory bodies.
- (iv) reduction of Nortel (see Note 6) ownership of the Company's capital stock to less than 51%, or the reduction to less than 51% of the collective ownership by Nortel shareholders who existed at the date of possession, without the prior approval of the appropriate regulatory bodies.
- (v) the assignment or delegation of the commitments of the Operators without the prior approval of the appropriate regulatory bodies.

If the Company's license is revoked, Nortel must transfer its shares in the Company to the regulatory bodies, in trust, for subsequent sale at public auction. Upon the sale of these shares, the regulatory bodies may renew the Company's license under conditions to be determined.

**STM license**

According to the STM Pliego, the following causes could revoke Personal's license:

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

- (i) repeated interruptions of the services described in the STM Pliego;
- (ii) a transference of the license and/or the rights and obligations related to that license, without previous authorization of the CNC;
- (iii) taxes constituted over the license;
- (iv) creditors meeting or bankruptcy of Personal;
- (v) the liquidation or dissolution of Personal, without previous authorization of the CNC.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

**d) Decree to deregulate telecommunication services**

Decree No. 764/2000 approved, among other items, three new regulations whose basic provisions are as follows:

**General licensing regulation**

Establishes a single license valid throughout Argentina for the provision of all telecommunication service, fixed or mobile, wired or wireless, national or international, with or without proprietary infrastructure. Service providers need not be exclusively devoted to the telecommunications business. There are no requirements for minimum investment or coverage. Radio broadcasting entities may apply for telecommunication licenses. The resale of services is authorized, subject to a license being received. Foreign companies are not restricted from entry.

**National interconnection regulation**

Establishes the basic regulation and general rules applicable to interconnection between networks of the different providers in competence. This regulation introduces important modifications respect to the National interconnection regulation approved in 1998, in which it could be mentioned a decrease in interconnection services index prices of approximately 50%. Increases the number of network components and functions on behalf of the dominant provider (the Company in the northern zone and Telefónica in the southern zone), and also details the interconnection obligation down to the local level, the rate setting process and the separation of the local loop. Introduces the interconnection method for numeric translation services known as NTS for the internet, audiotext and collect calls and the transfer of telephone numbers.

**SU Regulation**

Fixes the rate of contribution to the SU Fund at 1% of telecommunication services income. Establishes an Administrative Counsel to manage the SU Fund and oversee the specific programs of the SU. Adopts a "pay or play" mechanism to ensure compliance with SU Fund contributions, but establishes a contribution exemption mechanism for SBT licensees, which considers both net losses and the percentage market participation of other local telephone service providers. The Regulatory Authority has neither implemented the formation of the Fund nor the official programs to be subsidized.

At the end 2002, the SC created a work group which main purpose is the definition of the Net cost calculation for the SU services, and specifically the application of the "Hybrid Cost Proxy Model", based on incremental costs in a theoretic network, like the definition and methodology of the calculation for "Non-monetary benefits", in order to determined the costs to compensate the SU provision. This group has issued different documents which are under consultation through different opinion tribunal.

Telecom, in the responses at those consults, insists on the rule simplification, in order to make effective the SU working, denying the validity and application of concepts like the Non-monetary benefits, non-applicable to the Argentine reality.

It should be noted that until today Telecom provides SU programs without obtaining the corresponding compensation included in the Regulation. Additionally, considering the lack of appropriate

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

regulation issued by the Regulatory Body about the SU function and in particular about the Fund, the contributions to the mentioned fund have not been performed.

For all that Telecom, following a prudent criteria, has not recorded in its financial statements the net assets which would correspond if the SU Fund was regulated.

**e) Regulation for the call by call selection of the providers for long distance services**

On December 28, 2001, the former Ministry of Infrastructure and Housing issued Resolution No. 613/01 which approved the rules for the call by call selection ( SPM ) of the providers for long distance services.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---



---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

The call by call selection is a system that, allows users, in each call, to select the long distance provider who will make the communications, dialing before the phone number, the access code 17 (for national long distance calls) or 18 (for international long distance calls) and the three digits PQR for the provider's identification.

Subsequently, and considering the claims submitted against Resolution No. 613/01 by several carriers, the Ministry of Economy issued Resolution No. 75/03, introducing several changes to the Regulations. The main changes were as follows: to provide SPM is optional for long distance carriers; improvement in blockage modality for delinquency; the service connection is a request of the client and; simplify the obligations connected with service promotion and advertising.

As regards implementation terms, Resolution No. 75/03 sets forth that origin providers, both fixed and mobile, must have their equipment and networks available to provide the SPM service within 120 running days since February 6, 2003. Although that period of time has expired at June 6, 2003, the interconnection request for this service have not been received yet.

**f) CPP for international calls**

In January 2003 the SC determined that overseas calls terminated in cellular telephones would pay for Calling Party Pays ( CPP ) charges. In order to identify such calls, customers dialing from outside to cellular phones in our country, must add a prefix 9 , after the country code .

**g) Rate structure**

On November 28, 1991, the Company and Telefónica signed a rate agreement with the Argentine government, which was ratified by Decree No. 2585/91 and became effective on December 18, 1991. The principal features of the agreement, which modified the Transfer Agreement, are as follows:

- 1) Rates, measured in basic units or pulsos , are denominated in United States dollars and will be adjusted twice annually (April and October) to reflect changes in the overall IPC of the United States of America. Rate adjustments do not require prior regulatory body approval. Since year 2000, adjustments were not made as required by the SC.
- 2) Invoicing to customers will be in local currency.

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Law No. 25561, of Public Emergency law and reform of the exchange rate , effective January 6, 2002, in Section 8 nullifies contract clauses providing for adjustments to the value of payments with reference to United States Dollars or other foreign currencies as well as any indexation clauses based on price indexes or similar mechanism. As a consequence, from that date on, the Company's tariffs were set in pesos at a US\$1 to \$1 exchange rate. Likewise, Decree No. 293/2002 started a process of renegotiation of contracts with the public Administration in which the rate structure is involved. Additional information on the process of renegotiation of tariffs and the SBT contract is given in Note 11.

### **Rate rebalancing**

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

On December 1, 1999, SC Resolution No. 4269/99 ratified the application of methodology outlined by SC Resolution No. 1801/97. This verified the revenue differences of SBT licensees at the end of a two year period, which resulted from rate rebalancing in February 1997. Additionally, the impact of the rate rebalancing was determined to be an increase in revenues of approximately \$9.5 million. The future refunding of this amount has not so far been ruled upon by the Regulatory Bodies.

**Price Cap**

The Price Cap is an annually rate regulation system that includes increasing elements (such as the rate increments twice a year April and October ) and reducing elements (such as the annually adjustments on the efficiency factor November ).

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

On April 6, 2000, the Argentine government, Telefónica and the Company signed an agreement which established, for the application of the 2000 cap, a 6.75% reduction of revenues of licensees covered by the rate regulation (6% as set by the SC and 0.75% as determined by licensees) in the period November 2000/October 2001. The 6% reduction should be applied through the following:

1. the application of discounts for monthly basic charges to commercial and government clients and discount plans for local measured service and for Internet service to residential domestic customers, in force since March 2000;
2. the non application of the 110 service approved rate since January 2000 up to November 8, 2001;
3. the non application of the restatement of the pulse rate considering the variation of the IPC of the United States of America as it should be applied in April and October 2000.

The economic impact generated by 1. and 2. since January 2000 through November 2000 was discounted (considering a 12% annual rate) in three installments that would be each added to the 2000, 2001 and 2002 caps, respectively.

If in November 2000 the 6% reduction would not be reached, the regulatory body would determine in which items of the Rate structure should be applied the discounts in order to reach the agreed reduction.

The regulatory body has requested the Company all the information needed to audit the 2000 cap but the final opinion is still pending.

In April 2001, the Argentine government, Telefónica and the Company signed an agreement which established, for the application of the 2001 cap, a 5.6% efficiency factor for the period November 2001/October 2002, with the following additional discounts:

1. the non application of the 2001 pulse rate adjustments related to the variation of the IPC of the United States of America;
2. the second installment of the 2000 cap agreement mentioned above.

The surplus had to be applied as from November 8, 2001 but it is still pending because it was affected by a preliminary injunction stating not to carry out any tariff adjustments. The Company appealed this injunction arguing that if one part of the formula cannot be applied, the price cap system should be null. Finally, Law No. 25561 of Public Emergency prohibited the tariff adjustments explicitly.

**Transfer of the tax on debits and credits on bank accounts and other transactions**

On February 6, 2003 the Ministry of Economy, through Resolution No. 72/03, authorized the Company to increase the SBT tariffs, in accordance with that resolution, by the effect of the mentioned tax, which should be shown in the customers' bills. The amounts charged before Resolution No. 72/03 (approximately \$34 millions at the date of issuance of these consolidated financial statements) will be included in the tariffs renegotiation process, mentioned in Note 11.

**NOTE 3 BASES OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

**3.1. Bases of presentation**

The CPCECABA and the CNV approved RT 16, 17, 18, 19 and 20 of the FACPCE which establish new accounting and disclosure principles ( the new accounting standards ). These new RT fit in the project of harmonization of Argentine GAAP with IAS issued by the IASC and they take effect as from the Telecom Group's fiscal year beginning January 1, 2003.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

As the Board of Directors has intended:

- a) to adopt accounting principles consistent with IAS and
- b) minimize the differences to the U.S.GAAP

the management of the Company decided the early adoption of the new accounting standards from fiscal year 2002, in accordance with CNV Resolution No. 434. Additional information on the impact of these new accounting standards on the Company's financial condition and the results of operations is given in Note 3.1.c.

So, the Company's consolidated financial statements have been prepared in accordance with Argentine GAAP (RT 4, 5, 6, 8, 9, 14, 16, 17, 18, 19 and 20 established by the FACPCE, modified by the CPCECABA and adopted by the CNV. The consolidated financial statements include certain reclassifications and disclosures to conform more closely to the form and content required by the SEC.

Where investments in subsidiaries are accounted for by the equity method, Argentine GAAP requires companies with a controlling financial interest in other companies to present both parent company and consolidated financial statements as primary and supplementary information, respectively. Because of the special purpose of these consolidated financial statements, the parent company's summarized financial information is included in Note 17. This approach has been adopted for the convenience of the reader of the financial statements.

In accordance with procedures defined in FACPCE RT 4, financial statements at June 30, 2003 and 2002 and at December 31, 2002 have been consolidated on a line by line basis for majority-owned subsidiaries Publicom, Personal, Núcleo, Cable Insignia, Micro Sistemas and Telecom Argentina USA.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

These consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary to present the financial position and results of operations on a basis consistent with the audited fiscal year financial statements.

- a) **Financial statements used for consolidation**

Financial statements at June 30, 2003 and 2002 and at December 31, 2002, for the six month periods/year ended at those dates have been used for the consolidation. Consequently, these periods coincide with those of the Company.

**b) Foreign currency translation**

The Group follows FACPCE RT 18 with the amendments introduced by the CPCECABA to translate the foreign corporations financial statements (Núcleo, Cable Insignia, Telecom Argentina USA, Latin American Nautilus and Intelsat Ltd.) into Argentine pesos for purposes of consolidation, total or in a line, considering that companies as companies non integrated.

According to this RT, the investments in these companies have been valued at exchange rate at period-end.

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

---



**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

Exchange rates differences resulting from the translation of those financial statements are included in the Company's consolidated balance sheet in Temporary differences from translation.

**c) Effect of the new accounting standards in the consolidated financial statements**

The adoption of the new accounting standards in accordance with CNV Resolution No. 434, resulted in changes of valuation and disclosure criteria that have been recorded by the Group as of December 31, 2002 and June 30, 2002 as per the following detail:

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

**Changes in the valuation criteria of assets and liabilities**

- 1. Accounting measurement of certain assets and liabilities at their current value.** RT 16, which establishes the basic concept rules of professional accounting standards, includes as one of the measurement criteria, the use of the discounted amount of the net cash flow to be received and disbursed for receivables and liabilities, respectively (current value). RT 17 provides as general criteria the recognition of certain receivables and liabilities in currency based on the calculation of its current value, using the internal rate of return determined at the moment of measurement, except the company intends and finds it feasible to dispose of its assets or advance payment of its liabilities.
- 2. Liabilities arising from refinancing.** RT 17 establishes that when an arms length debt is replaced with another one, the terms of which are substantially different from the original ones, the pre-existing account will be written off and a new debt will be acknowledged, the accounting measurement of which shall be made based on the best possible estimate of the sum payable, discounted using a rate evidencing the market assessments on the time value of money and the specific risks of the debt. In addition, the standard provides, without admitting any evidence to the contrary, that the terms are substantially different if the discounted value of the new debt differs at least by ten percent from the discounted value of the refinanced debt. In such regard, as stated in Note 7, the agreements entered into during FY 2002 by the TITAN Financial Trust are a refinancing, so that Personal accounted for this operation conformed with the new accounting standards, using a discount rate of 12% p.a. in US dollars.
- 3. Derivative Financial Instruments.** RT 20 establishes the particular valuation and disclosure criteria for derivative instruments and hedging transactions. As per this standard, hedging derivative instruments must be acknowledged in financial statements as assets or liabilities at their current values as of the measurement date. In the case of a derivative instrument to protect cash flow risks, the change in its current value is charged, as per the CPCECABA's amendment, to a specific account called Temporary measurement differences of derivative instruments determined as an effective hedge included in the balance sheet and which shall be reclassified as income of the period when assets or liabilities subject matter of the hedge have an impact on such period's income. Instead, in the case of a derivative instrument to protect the risks of changes in the current value, changes in the current value are directly charged to income of the period. In both cases, the non-cash portion of derivative financial instruments is directly charged to income of the period when such event is known. The application of this standard did not give rise to any accounting effect for the period/year, for there were no current derivative instrument existing as of such dates.
- 4. Temporary differences from translation.** RT 18 amended by CPCECABA establishes that the exchange differences arising from translation of financial statements issued in foreign currency shall be exposed as an additional chapter between liabilities and the stockholders' equity called Temporary differences from translation instead of their being acknowledged as income of the period or include in an

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

specific account in the Shareholder's equity (criteria adopted by the IAS and adopted by the FACPCE).

5. **Intangible assets with undefined useful life: PCS license.** RT 17 amended by CPCECABA in item 5.13.3 establishes that if the useful life of an intangible asset is undefined, its depreciation may not be necessary, subject to comparisons of the accounting book value and its recoverable value. Therefore, the management of the Company decided to suspend the systematic depreciation of the PCS license as from year 2002 considering that the accounting book value of such license does not exceed the estimated recoverable value.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public**Purchase Offer***Changes in disclosure criteria**

1. **Reclassification of costs directly associated with sales.** RT 19 establishes that only reimbursements and allowances may be deducted from sales. Therefore, turnover tax and other costs directly associated with sales were reclassified at operating costs.
2. **Goodwill.** RT 19 provides for the breakdown of the depreciation of the goodwill in a specific caption in the consolidated statement of operations. In previous periods, the Company included it within Equity losses from related companies.
3. **Comparative information.** RT 8, with the amendments introduced by the RT 19, establishes that, for interim periods, the comparative information related to the balance sheet must be the corresponding to the last fiscal year-end and the comparative information related to statements of operations, changes in the shareholder's equity and cash flows must be the corresponding to the same period of prior year.

The adoption of these new valuation and disclosure criteria resulted in the following impacts for the comparative figures of the six month period ended June 30, 2002, as follows:

	Six month period ended June 30, 2002
	(loss) profit
<b><u>Changes in valuation criteria of assets and liabilities</u></b>	
<b>1. Other receivables</b>	
The Company	(1)
Subsidiaries	(2)
	<b>(3)</b>
<b>2. Temporary differences from translation (in Financial and holding results)</b>	
The Company	(14)
Subsidiaries	(33)
	<b>(47)</b>
<b>3. PCS license</b>	
Subsidiaries	22
	<b>22</b>

<b>Net effect in Net income</b>	<b>(28)</b>
<b><u>Changes in disclosure criteria</u></b>	
<b>1. Net sales</b>	
The Company	
Turnover tax	49
Settlement outgoing expenses	57
Other direct costs of sales	16
Subsidiaries	
Turnover tax	21
<b>Higher net sales</b>	<b>143</b>
<b>2. Cost of services provided</b>	
The Company	
Turnover tax.	(49)
Settlement outgoing expenses	(57)
Other direct costs of sales	(16)
Subsidiaries	
Turnover tax	(21)
<b>Higher operating costs</b>	<b>(143)</b>
<b>Net effect of reclassifications in the Consolidated statements of operations</b>	

**d) Accounting for inflation**

The consolidated financial statements have been prepared in million of Argentine pesos of constant currency, recognizing inflation effects. In order to prepare the accounting for inflation, it was used the mechanism established by RT 6, amended by RT 19, considering the Wholesale Internal Prices Index, as from January 1, 2002, according to National Government Decree No. 1269/02.

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

However, the National Government, through Decree No. 664/03, ordered the Regulatory Bodies, that are subordinated to it, to not receive financial statements in constant pesos. Therefore the CNV, through its Resolution No. 441/03, resolved to discontinue the application of the restatement in constant pesos established by RT 6 and its amendments from March 1, 2003. The Company has complied with this CNV resolution.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public**Purchase Offer*

Therefore, these consolidated financial statements have been prepared according to accounting and legal standards established by the CNV, recording the inflation effects until February 28, 2003, and the comparative figures were restated until that date. The indexes used are as follows:

<b>Period</b>	<b>Index</b>
June 02 - February 03	1.1237
December 02 - February 03	1.0074

Nevertheless, the mechanism to adjust for inflation is still in force under the Argentine GAAP, and this situation causes a difference between the information included in these financial statements and the information that would be included if the Argentine GAAP would be mandatory for the Company.

As it is recommended by the accounting standards in force, the Company provides a detail of: a) the estimated figures corresponding to the main captions of the balance sheet and the statement of operations, adjusted for inflation until June 30, 2003 and b) the estimated impacts over the consolidated statement of operations and the consolidated balance sheet.

*Consolidated balance sheet at June 30, 2003*

	<b>Restated figures at 6.30.03</b>	<b>Balance sheet figures</b>	<b>Differences</b>
<b>TOTAL CURRENT ASSETS</b>	<b>2,010</b>	<b>2,010</b>	
Investments	71	71	
Fixed assets	8,492	8,689	(197)
Intangible assets	864	892	(28)
Other non-current assets	145	145	
<b>TOTAL NON-CURRENT ASSETS</b>	<b>9,572</b>	<b>9,797</b>	<b>(225)</b>
<b>TOTAL ASSETS</b>	<b>11,582</b>	<b>11,807</b>	<b>(225)</b>
Current liabilities	9,347	9,347	
Non-current liabilities	308	308	

<b>TOTAL LIABILITIES</b>	<b>9,655</b>	<b>9,655</b>	
<b>MINORITY INTEREST</b>	<b>21</b>	<b>21</b>	
<b>TEMPORARY DIFFERENCES FROM TRANSLATION</b>	<b>26</b>	<b>26</b>	
Capital stock	984	984	
Adjustment to capital stock	2,912	3,044	(132)
Legal reserve	268	277	(9)
Unappropriated retained earnings	(3,374)	(3,488)	114
Net income	1,090	1,288	(198)
<b>SHAREHOLDERS' EQUITY</b>	<b>1,880</b>	<b>2,105</b>	<b>(225)</b>
<b>TOTAL LIABILITIES, MINORITY INTEREST, TEMPORARY DIFFERENCES FROM TRANSLATION AND SHAREHOLDERS' EQUITY</b>	<b>11,582</b>	<b>11,807</b>	<b>(225)</b>

*Consolidated statement of operations at June 30, 2003*

	<b>Restated figures at 6.30.03</b>	<b>Statement of operations figures</b>	<b>Differences</b>
Net sales	1,725	1,750	(25)
Operating costs	(786)	(807)	21
<b>Operating profit before D&amp;A</b>	<b>939</b>	<b>943</b>	<b>(4)</b>
Depreciation of fixed and intangible assets	(937)	(950)	13
<b>Operating profit (loss)</b>	<b>2</b>	<b>(7)</b>	<b>9</b>
Financial and holding results	814	1,019	(205)
Other expenses, net	(86)	(86)	
Debt restructuring results	372	374	(2)
<b>Net income before income tax and minority interest</b>	<b>1,102</b>	<b>1,300</b>	<b>(198)</b>
Minority interest	(12)	(12)	
<b>Net income</b>	<b>1,090</b>	<b>1,288</b>	<b>(198)</b>

**e) Change in the accounting standards**

In February 2003, the CPCECABA approved with some amendments the RT 21 of the FACPCE Equity method Consolidated financial statements

**CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003**



**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

Disclosure about related companies which will be in force for fiscal years beginning April 1°, 2003, admitting its early adoption. At the date of issuance of these consolidated financial statements, this RT has not been adopted by the CNV yet.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

***Purchase Offer***

---

**f) Financial instruments to hedge financial risk or reduce financing costs**

During the period in which the Convertibility Law that fixed the exchange rate between Argentine peso and the dollar at \$ 1 = US\$ 1 was in force, as part of its risk management strategy, Telecom Group had decided to convert a significant portion of its debt obligations denominated in foreign currencies other than the U.S. dollar to the U.S. dollar in order to reach a natural hedge with its income fixed in dollars. Occasionally, the Group had also swapped the interest on debt in order to balance its financial payments between fixed and floating interest on debt.

However, due to the change in current macroeconomic conditions occurred at the beginning of year 2002, Telecom Group terminated all of its foreign currency and interest rate swap agreements during the second quarter of the year 2002 (see Note 7).

The Company and its subsidiaries do not invest in speculative derivative financial instruments.

**g) Concentration of credit risk**

The Company and some of its subsidiaries provide telecommunication services to residential, commercial and governmental clients, granting credit in accordance with regulations governing such services, generally without security. The fixed customer lines (pre-paid lines were not included) were 3,285,070 and 3,331,263 at June 30, 2003 and 2002, respectively, and the cellular customer lines (pre-paid lines were not included) were 415,939 and 569,903 at these dates, respectively, and represents a diverse customer base.

The risk of collectibility varies among customers largely due to the individual financial situation of the customer. The Group evaluates the risk of uncollectable accounts and provides an allowance for doubtful accounts receivable.

**h) Cash and cash equivalents**

In the Consolidated statements of cash flows, the Company includes as cash and cash equivalents all highly liquid investments purchased with an original maturity of three months or less.

**i) Revenue recognition**

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Revenue is recognized as services are provided to customers. Revenue recognized may result in receivables not yet billed to customers.

However, in the case of revenues for installation fees, the Company recognizes them in the period in which the installation service is completed, jointly with the related costs. Considering that the installation costs are higher than the related revenues, it is considered that this criterion corresponds with U.S.GAAP (see Note 18), because U.S.GAAP requires the deferral of the installation fees and the related costs considering the estimated average useful life of customers. However costs in excess of the related revenues cannot be deferred.

For services paid for by the customers but not yet provided to them, the Company records a liability.

Both services provided for but not billed and services paid for but not rendered, are estimated using technical measurement information systems.

### j) Net income (losses) and dividends per share

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

The Company calculates net income (losses) and dividends per share on the basis of 984,380,978 common shares outstanding with a \$1 nominal value and one vote per share.

**3.2. Principal valuation criteria**

- a) **Balances in foreign currency:** at exchange rates existing at each period-end. Exhibit G shows details of foreign currency balances. Foreign exchange gains or losses expressed in constant pesos, net of the effect of the inflation, were credited to or charged against net income of each period, as appropriate.

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public***

***Purchase Offer***

---

As the devaluation of the peso had been significant, the CPCECABA issued Resolution No. 3/02, subsequently adopted by CNV Resolution No. 398, that required for the capitalization of foreign currency exchange differences by debt, originated in the devaluation of the Argentine peso as from January 6, 2002.

The Company calculated the capitalization following the methodology described in these resolutions. The financial results capitalized/(devolved) are detailed in Note 4.r and Exhibit A.

- b) Cash and banks and short term investments in pesos:** at nominal value plus accrued interest at each period-end, where applicable. Public bonds received as part of the collection of the particular clients have been valued as follows:
- a) *at its nominal value -without accruing any interests-*: for the holding of bonds that the Company applies for their value and in the short term in order to cancel its tax and commercial liabilities. At June 30, 2003 the Group holds \$3 million of bonds with these characteristics.
  - b) *at its estimated sale price*: for the holding of bonds that cannot be applied in the short term in order to cancel tax and commercial liabilities. At June 30, 2003 the Group holds \$6 million of bonds with these characteristics. The results from holding these kind of bonds were a loss of \$4 million, that are included in Financial and holding results in the Consolidated statement of operations.
- c) Trade accounts and other receivables in currency and liabilities originated in the sale or purchase of goods and services and in financial transactions:** at its accounting measurement, obtained as a result of the discounted value of the cash flows that will be generated by assets and liabilities by using the internal rate of return at the moment of the initial measurement. This measurement does not significantly differ from the nominal value plus accrued interest at each period-end.
- Legal fees, commissions and other bond issuance costs corresponding to debt issuance are capitalized as Intangible assets and amortized over the term of the corresponding debt. Amortization is classified within Financial and holding results in the Consolidated statement of operations.
- d) Other receivables and liabilities in currency not included in c) above (except for deferred tax assets and liabilities and retirement benefits):** at its accounting measurement, obtained as a result of the discounted value of the cash flows that will be generated by assets and liabilities by using the internal rate of return at the moment of the measurement. This measurement does not significantly differ from the nominal value plus accrued interest at each period-end.
- e) Investments:**  
*Public bonds to be held to maturity:* at cost plus amortized discount earned using the internal rate of return at date of purchase.

During the credit collection from the public sector, the Company has received bonds to cancel the credits for services rendered to the different provincial governments. Notwithstanding the

***SUMMARY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---

---

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

foregoing, because of the economic crisis affecting the national and provincial public sector, the fall of the price of such bonds has been very significant and it is not expected to suffer any changes in the short term. Consequently, despite the intention to hold the provincial bonds until their maturity date, the management of the Company decided to value the holding of these bonds at their estimated sales price.

*Other public bonds:* at market value less estimated sales costs.

*Equity investments:*

- *subsidiaries in the unconsolidated financial statements:* at VPP based upon subsidiaries financial statements and using comparable accounting criteria as are used for the Company's consolidated financial statements.

- *related companies:* at VPP based upon related companies financial statements and using comparable accounting criteria as are used for the Company's consolidated financial statements. In those companies where their financial statements closing date is different than that of the Company, financial statements with a closing date of no more than three months are used for consolidation purposes.

- *related companies in which the Company does not exert significant influence:* at acquisition cost or VPP, the least.

The management of the Company is not aware of any event that modifies its financial position or the results of its operations or significantly affects the valuation of its investments in subsidiaries or related companies and the corresponding results at June 30, 2003, since the approval date of their financial statements.

*Capital contributions:* at nominal value restated as detailed in Note 3.1.d.

Investments are detailed in Exhibit C and D.

**f) Inventories:** at each period-end replacement cost. Inventories have been recorded at amounts which do not exceed their net realizable value.

The sales prices of cellular handsets are influenced by a marketing strategy to achieve higher market penetration by reducing customer access costs, without losing sight of the overall cellular business profitability. As a result, on occasion, the management of the Company decides to sell handsets at prices lower than replacement cost. As these sales price policies are the result of decisions of the management of the Company, promotional prices are not used to calculate the net realizable value of such inventories.

**g) Other assets:**

*Deferred printing costs:* at cost restated as detailed in Note 3.1.d, which is expensed as directories are issued.

*Raw materials:* at each period-end replacement cost, net of the allowance for obsolescence. Raw materials, taken as a whole, are not valued in excess of recoverable value.

**h) Fixed assets:**

*Transferred from ENTel:* at the transfer price, restated as detailed in Note 3.1.d less accumulated depreciation at period-end. At June 30, 2003, title transfer of 4.73% of these assets remains to be completed; the Company is in full possession of

***CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003***

---



**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.*****Corporation non adhered to the Optional Statutory Regime of Compulsory Public******Purchase Offer***

these assets and they are integrated into the economic activity of the Company.

*Acquired subsequent to November 8, 1990:* at acquisition cost, restated as detailed in Note 3.1.d less accumulated depreciation.

The cost of fixed assets which construction over a prolonged period of time is financed includes capitalized interest on associated third party financing. These costs are detailed in Note 4.r.

Fixed asset acquisitions financed by leases are recorded at the estimated price which would have been paid on a cash basis, with the unpaid amount discounted using the internal rate of return at the moment of the initial measurement (including the purchase price option), recorded as a liability. At June 30, 2003 the Company holds capital leases in the amount of 1, which due dates are within fiscal year 2003. A summary by major class of fixed assets covered by capital leases at June 30, 2003 is as follows:

	<b>Book</b>		
	<b>value</b>	<b>Lease terms</b>	<b>Amortization period</b>
Computer equipment	37	3 to 4 years	2, 3 and 6 years
Accumulated depreciation	(30)		
<b>Net value</b>	<b>7</b>		

Fixed assets, whose operating condition warrants replacement earlier than the end of the useful life, are depreciated based on the remaining useful life assigned in accordance with the Company's investment plan.

Fixed assets are depreciated using the straight-line method over the estimated useful lives of each asset class.

The recoverable value of the fixed assets depends on the capacity to generate net cash flows sufficient to absorb the net book value during the periods it is estimated these assets will be useful for the Group.

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The management of the Company periodically evaluates the recoverable value of such fixed assets by the preparation of economic-financial projections considering alternative scenarios based on macroeconomic, financial and telecommunications market hypothesis, which are considered probable or conservative. Notwithstanding the foregoing, the devaluation of the Argentine peso and the pesificación of the public services tariffs and the contracts between private parties executed before January 6, 2002, set forth a significant change in the rules for all of the economic factors of the country.

Despite the already mentioned difficulties and considering section 9 of mentioned Law No. 25561 which states that the National Government shall consider the profitability of the public services companies in order to assess the recoverable value of the fixed assets, the management of the Company have adopted for their projection of incoming cash flows the modification of its tariffs which allows it to recompose the economic-financial equation of the Company in a non-regulated and competitive market, with reasonable levels of profitability to pay its shareholders and to achieve the commitments with its financial creditors. Additionally, the economic financial projections include the satisfactory results of the Group's financial debt restructuring described in Note 12.

*CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

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**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

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Based upon the described methodology regarding the recoverable value of the assets and the expected results of the processes of renegotiations of the Company's tariffs and the financial debt of the Group, the management of Telecom considers that fixed asset and intangible assets, taken as a whole, are not valued in excess of recoverable value.

Fixed assets activity is detailed in Exhibit A.

- i) **Intangible assets:** at acquisition cost, restated as detailed in Note 3.1.d less accumulated amortization at period-end. The cost of intangible assets developed over a prolonged period of time includes capitalized interest on associated third party financing. These costs are detailed in Note 4.r.

Intangible assets are depreciated using the straight-line method over the estimated useful lives of each asset class, except for PCS license, as follows:

System development costs	60 months
Debt issue costs	Initial debt term
Usage rights	180 months
Exclusivity rights	Contract term
Websites	24 months
Trademarks and patents	180 months

The Company has suspended the amortization of the PCS license as from FY 2002 in accordance with the new accounting standards, because it is an intangible with non-defined useful life, which accounting value does not exceed its estimated recoverable value at period-end.

Intangible assets activity is detailed in Exhibit B.

- j) **Dismissal indemnities and termination payments** are charged to Other expenses when a termination decision is made.

- k) **Taxes payable:**

*Tax on minimum presumed income:* the Telecom Group has determined tax loss carryforward by the end of fiscal year 2002. Consequently, for the six month period ended June 30, 2003, a credit for tax on minimum presumed income was recorded and has

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been included in Non-current Other receivables, because it was estimated that the payments for this tax will be recoverable within the legal term of prescription.

*Turnover Tax:* for the six month periods ended June 30, 2003 and 2002, turnover tax as an overall percent of applicable revenues was 3.71% and 3.05%, respectively.

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### *CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003*

**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

**l) Other liabilities:**

*Retirement benefits:* represent obligations for accrued and unpaid benefits stipulated in collective bargaining agreements. Accruals are actuarially determined based upon existing information at each period-end.

**m) Reserves:**

*Asset reserves:* have been provided for doubtful accounts receivable, other receivables for the recoverability of the deferred net assets and for inventories whose realization is not assured based upon period-end analyses.

*Liability reserves:* have been provided for contingencies based upon management estimates and the opinion of legal counsel.

Activity in these reserves is detailed in Exhibit E.

**n) Shareholders equity accounts:** they are restated as described in Note 3.1.d, except Capital stock, at nominal value. The restatement is included in Adjustment to capital stock.

**o) Statement of operations accounts:** they are restated as follows:

charges by consumption and non monetary assets depreciation (fixed and intangible assets) were recorded considering the restated amounts;

financial results in constant pesos are disclosed net of the effect of the inflation generated by the corresponding assets and liabilities;

equity results from related companies, at the VPP based upon the financial statements of the companies detailed in Exhibit C, as indicated in Note 3.2.e.

other results at cost restated as described in Note 3.1.d.

**p) Debt restructuring results:** correspond to the results obtained in the cash tender offer ended in June 2003 (see Note 12). These results are considered as unusual because of the unusual nature of the operation carried out by Telecom. Additional information about its disclosure is detailed in Note 4.t.

**NOTE 4 DETAILS OF PRINCIPAL CONSOLIDATED FINANCIAL STATEMENTS CAPTIONS**

The composition of principal financial statement captions is as follows:

Consolidated balance sheets at	June 30, 2003	December 31, 2002
<b>CURRENT ASSETS</b>		
<b>a) Cash and banks</b>		
Cash	2	3
Banks	68	50
National and provincial Public bonds (*)	9	36
	<b>79</b>	<b>89</b>
<b>b) Investments</b>		
Short term investments (Exhibit D)	411	1,127
Financial trusts (Exhibit D)	788	
Investment trusts (Exhibit D)	24	13
Public bonds (Exhibit C)	55	186
	<b>1,278</b>	<b>1,326</b>
<b>c) Trade accounts receivable</b>		
Basic national and international telephone service, data transmission and Internet	472	519
Cellular telephone service in the Argentine Republic	245	284
Cellular telephone service abroad	67	70
Directories edition	19	25

**CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003**

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**Table of Contents**

**TELECOM ARGENTINA STET FRANCE TELECOM S.A.**

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public*

*Purchase Offer*

---

Subtotal of trade accounts receivable	803	898
Allowance for doubtful accounts receivable (Exhibit E)	(278)	(298)
	<u>525</u>	<u>600</u>

**CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003**

---

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public**Purchase Offer*

<b>Consolidated balance sheets at</b>	<b>June 30, 2003</b>	<b>December 31, 2002</b>
<b>d) Other receivables</b>		
Deferred tax assets (Note 9)	69	4
Tax credits	37	17
Prepaid expenses	35	16
Accounts receivable from employees	7	8
Accounts receivable from unions	1	1
Accounts receivable from roaming	14	9
Various	22	22
	<u>185</u>	<u>77</u>
Subtotal	185	77
Allowance for net deferred tax assets (Exhibit E and Note 9)	(64)	
	<u>121</u>	<u>77</u>
<b>e) Inventories</b>		
Cellular handsets and equipment (Exhibit F)	8	18
Allowance for obsolescence of inventories (Exhibit E)	(6)	(6)
	<u>2</u>	<u>12</u>
<b>f) Other assets</b>		
Deferred printing costs	3	2
Raw materials	2	1
	<u>5</u>	<u>3</u>
<b>NON CURRENT ASSETS</b>		
<b>g) Trade accounts receivable</b>		
Directories edition		1
		<u>1</u>
<b>h) Other receivables</b>		
Deferred tax assets (Note 9)	64	580
Credit on tax on minimum presumed income	118	85
Certificates of tax credit	9	31
Credit on tax on personal property	5	2
Prepaid expenses	7	6
Receivables from sale of Sky Argentina S.C.A.	14	5
Various	3	8
	<u>220</u>	<u>717</u>
Subtotal	220	717
Allowance for net deferred tax assets (Exhibit E and Note 9)	(56)	(571)



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Allowance for credit on tax on personal property (Exhibit E)	(5)	(2)
Allowance for other receivables (Exhibit E)	(14)	(5)
	<u>145</u>	<u>139</u>
<b><u>CURRENT LIABILITIES</u></b>		
<b>i) Accounts payable</b>		
Vendors	308	360
Advances from customers (Note 3.1.i)	25	21
Capital leases (Note 3.2.h)	1	2
Companies Law No. 19550 Sect. 33 and related parties (Note 6.d)	8	11
	<u>342</u>	<u>394</u>
<b>j) Payroll and social benefits payable</b>		
Vacation, awards and social benefits	40	41
Termination benefits	12	15
Compensation fund	4	5
	<u>56</u>	<u>61</u>
<b>k) Taxes payable</b>		
Tax on minimum presumed income	27	50
VAT (net of payments)	31	27
Turnover tax	25	24
Other taxes	20	17
	<u>103</u>	<u>118</u>
<b>l) Other liabilities</b>		
Contributions to social programs for Internet access and others	13	13
Repair funds	4	4
Various	4	8
	<u>21</u>	<u>25</u>
<b><u>NON CURRENT LIABILITIES</u></b>		
<b>m) Payroll and social benefits payable</b>		
Termination benefits	15	18
Compensation fund	8	11
	<u>23</u>	<u>29</u>
<b>n) Other liabilities</b>		
Retirement benefits	6	6
Lease of international capacity	11	14
Various	9	9
	<u>26</u>	<u>29</u>

CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2003

**Table of Contents****TELECOM ARGENTINA STET FRANCE TELECOM S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public**Purchase Offer*

CONSOLIDATED STATEMENTS OF OPERATIONS	Income (expense)	
	2003	2002
Six month periods ended June 30,		
<b>o) Net sales</b>		
National and international telephone service	1,042	1,479
Data transmission and Internet	194	225
Subtotal Voice, data and Internet services	<b>1,236</b>	<b>1,704</b>
Cellular telephone service	512	588
Directories edition	2	2
	<b>1,750</b>	<b>2,294</b>
<b>p) Equity losses from related companies</b>		
Latin American Nautilus		(7)
Intelsat		(1)
Nahuelsat		(8)
		<b>(16)</b>
<b>q) Depreciation of goodwill</b>		
Soluciones		(7)
<b>r) Financial and holding results</b>		
<b>Generated by assets</b>		
Interest earned on short term investments	31	(38)
Interest earned on trade accounts receivable	36	33
Foreign currency exchange gains	(153)	778