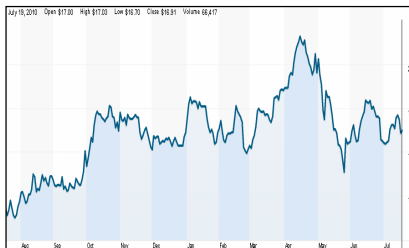


Stock Statistics

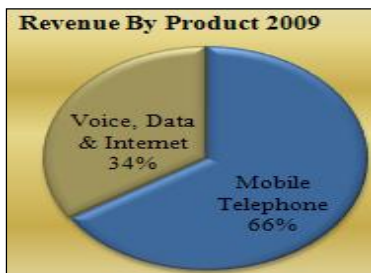
| | |
|----------------------|-------------|
| Ticker | TEO |
| Exchange | NYSE |
| Financial Year End | December 31 |
| Market Price * | \$ 16.91 |
| Market Cap * | \$3.3 bln |
| 52-Week Hi / Low | \$22 / \$12 |
| Average Daily Volume | > 100,000 |

*As of previous day close
Sources: Reuters



Company Description

Telecom Argentina **TEO** is headquartered in Puerto Madero (Buenos Aires) and was incorporated in April, 1990 as a result of the privatization of Entel, a government owned company. It is one of the largest private sector corporations in Argentina, which together with its subsidiaries, provides local telephone services to residential and corporate customers in the northern part of the country and Buenos Aires.



Nortel Inversora holds ~ 55% (stake) of TEO. ~ 41% of the common stock is publicly traded and the remaining ~ 5% is held by the employees of the company. This company was earlier known as Sociedad Licenciataria Norte and was renamed in February, 2004. The subsidiaries of TEO are Telecom Personal, Nucleo, Springville, Telecom Argentina, and Micro Sistemas. TEO also provides mobile phone service through *Personal* (one of the three mobile phone companies in the country), and internet service through Arnet.

Investment Recommendation -- Buy / 2012-2013 price target: \$25

Telecom Argentina ranked # 14 out of 180 names covered in the Q2 ADR report from last month according to our 155-variable computer model. Additionally, the stock passes our fundamental and subjective overlays. We initiated coverage on TEO June 14 ó the shares are > 300 basis points ahead of the S&P since the recommendation. During 1Q -- revenues increased by 15%, fueled by the Mobile and Broadband businesses. Operating Profit increased by 16%. Mobile subscribers: 16.8 mln (+ 12% vs. 1Q09); Broadband subscribers: 1.2 mln (+ 16% vs. 1Q09); Fixed Lines in service: 4.4 mln (+1% vs. 1Q09). Annual Revenues are \$3.3 bln, and Market Cap is \$3.4 bln. TEO earned \$1.94 per share ttm and should earn > \$2.20 this year and > \$2.40 next year. **Note: Argentina Peso = US\$0.25**

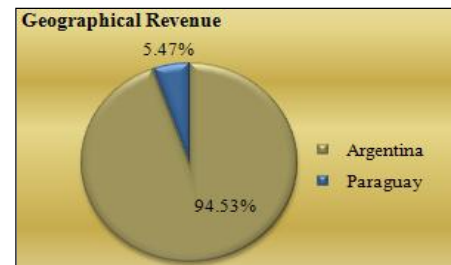
Investment Summary

Good overall performance in Q1FY10 -- Telecom Argentina posted revenue of P\$3.25 bln (US\$838 mln) in Q1ó0, compared to P\$2.83 bln (US\$760) mln in Q1ó09. TEO revenue increased by ~ 15% y/y and ~ 10% y/y in terms of US\$. Net Income was P\$411 mln (US\$106 mln) for Q1ó0, compared to P\$351 mln (US\$94 mln) in Q1ó09 -- an increase of 17% (and 12% in terms of US\$). TEO's effective tax rate in Q1ó0 was 31.72%. Net income per share for Q1ó0 was P\$0.42 (US\$0.11) based on 984.4 mln weighted average shares, compared to P\$0.36 (US\$0.10) reported in Q1ó09 based on 984.4 mln weighted average shares. TEO Operating Profit Before Depreciation and Amortization (OPBDA) during Q1ó0 amounting to P\$1.06 bln (US\$274.3 mln) accounted for 33% of the Net Revenue and also represents a positive change of 16% in comparison to Q1ó09. Higher broadband and mobile revenues in Argentina were responsible for the increase.

New Licenses will improve the value of services -- TEO has been granted non-expiring licenses to provide the following services in Argentina ó fixed, local, domestic and international long distance telephony; domestic and international point-to-point link services and telex services, value added, data transmission, videoconferencing and broadcasting signal services and internet access. TEO's subsidiary *Personal* has been approved to provide mobile telecommunication, data transmission and other services by means of a non-exclusive and non-expiring license. These licenses are expected to enhance TEO's ability to provide a wide range of services to its clients and also a value addition to the existing services provided by the company. In the long run this will allow TEO to better compete with other service providers.

Increase in client base -- The number of clients for TEO's mobile services increased in Q1ó0, reaching 16.8 mln as of 31-Mar-2010, posting an increase of 500,000 since 31-Dec-2009 and 1.8 mln since 31-Mar-2009. By the end of Q1ó0, *Personal* had 15 mln subscribers in Argentina ó an increase of 13% vs. Q1ó09. Approximately 470,000 subscribers were added during Q1ó0.

Revenue by Areas and Products -- Telecom Argentina is the major player in Argentina with more than 90% of its revenue coming from Argentina and the rest from Paraguay. Telecom Argentina earns 65% of its revenue from Mobile Telephone Services and rest from Voice, Data & Internet Services. ARPU (Average Revenue Per User) in Argentina was ~ P\$40 in 2009 ó even when compared to 2008. Total market share was 31% nationwide. Penetration level at the end of 2009 was 117% as compared to 107 % in 2008 and 96% in 2007. 69% of the customers are using pre-paid connections and the remaining 31% are post-paid clients. As the government increased the VAT from 10.5% to 21.0%, TEO was forced to raise its handset prices by around 25% although it will not impact margins. That being said, demand may be reduced because half of the connections are sold with handsets.



Negative effects of inflation -- Inflation may tick higher resulting in lower margins for the company ó this will also have an unfavorable impact on the economy of the country. Argentina experienced high levels of inflation during the early 2000s, which caused a devaluation of its currency. More recently, inflation levels have increased since 2005 remaining relatively high from 2006-2009. In the first half of 2010, inflation remained high. If inflation is not controlled, it will pose a threat to the company.

Peer Benchmarking --

| Company | Five-yr. EPS | P/E | Five-yr. ROE | Net Profit Margin |
|---------------------------|--------------|------|--------------|-------------------|
| Tele Argentina TEO | 09% | 09.1 | 43.7% | 05.2% |
| NII Holdings NIHD | 16% | 17.2 | 22.5% | 07.8% |
| Tele Mexico TMX | -06% | 08.4 | 41.9% | 10.9% |

Financial Analysis

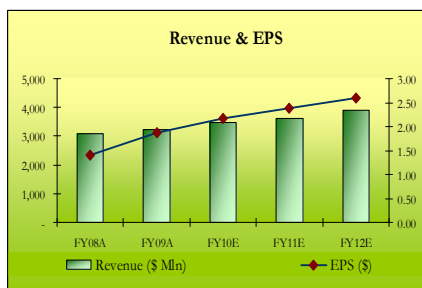
Management Guidance – Telecom Argentina has not given any revenue guidance for FY10. Capital expenditures for FY10 is expected to be in the P\$2.2 bln - P\$2.4 bln range (or 16% of the total revenue).

Note: Argentina Peso = US\$0.25

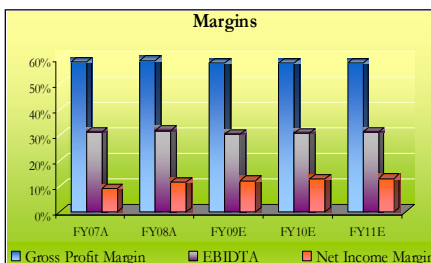
Reuters Consensus Estimates – Reuters mean consensus estimates for FY10 revenue is \$3.5 billion and EPS is US\$1.98. For FY11, the revenue estimate is US\$3.6 billion and EPS is \$2.04.

Note: The estimates in this Reuters section will not always match estimates on the right side, as those are from an independent service.

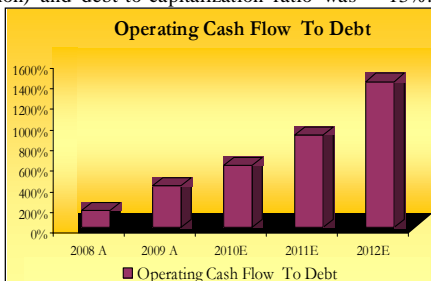
Revenue -- FY09 revenue increased by 15.25% to P\$12.26 billion as compared to P\$10.61 billion in FY08. On the other hand, growth in US\$ was 4.7% from US\$3.07 bln to US\$3.22 bln (due to the foreign exchange difference). The increase was due to the added connections in the Wireless segment. Common stock EPS for FY09 was \$1.88 while for FY08 it was US\$1.41 ó an increase of 33%. In Q1, FY10, Wireless segment revenue increased to P\$2.16 bln from P\$1.8 bln in Q109 (+17%), while the total revenue increased to P\$3.2 bln (+15%). This 15% y/y growth was mainly due to 473,000 new customers added to company subscriber list in the Wireless segment.



Margins ó The gross margins for the company hovers around 59%, whereas the net margin hovers around 11% in recent years. TEO's gross margin increased slightly from 58.9% in FY08 to 59.4% in FY09. The EBITA margin also increased from 31.4% in FY08 to 31.9% in FY09. The EBITDA margin of the company is expected to be in the 30%-31% range in the short- to medium-term.



Balance Sheet and Liquidity ó In FY09, TEO's total debt was P\$821 million (US\$216 million) and debt-to-capitalization ratio was ~ 13%. TEO in FY09 repaid P\$1.4 bln. The liquidity position of the company is very sound in the near-term as cash outflows in terms of debt maturities is negligible and the company has also not authorized share repurchases. From FY10, TEO has estimated dividend payouts and capital expenditures to be approximately P\$2.3 bln (US\$544 mln).



Dividends -- TEO does not have a policy of distributing dividends regularly. However, on 28-Apr-10 the shareholders approved the dividend distribution in two installments. The company paid its first installment on 5-May-10, P\$689.06 million and it is scheduled to pay its second installment of P\$364.22 million on 20-Dec-10.

Note: Argentina Peso = US\$0.25

Financial Summary

| | 2009A | 2010E | 2011E | 2012E |
|---------------------------------|-------|-------|-------|-------|
| Summary Income Statement | | | | |
| Revenue | 3,217 | 3,483 | 3,618 | 3,905 |
| Gross Profit | 1,912 | 2,038 | 2,116 | 2,285 |
| EBIDTA | 1,026 | 1,062 | 1,111 | 1,215 |
| Interest Expense | 146 | 44 | 29 | 22 |
| Pre Tax Income | 583 | 672 | 734 | 805 |
| Net Income | 370 | 426 | 470 | 512 |
| EPS | 1.88 | 2.17 | 2.39 | 2.60 |
| Earning per ADS | 7.14 | 9.16 | 11.03 | 12.09 |

| | 2009A | 2010E | 2011E | 2012E |
|------------------------------|-------|-------|-------|-------|
| Summary Balance Sheet | | | | |
| Cash and Equivalents | 339 | 278 | 342 | 358 |
| Long-term Debt | 15 | - | - | - |
| Total Debt | 216 | 135 | 95 | 65 |
| Net Debt | (123) | (143) | (247) | (293) |
| Shareholders' Equity | 1,431 | 1,462 | 1,564 | 1,759 |
| Total Asset | 2,798 | 2,781 | 2,858 | 3,085 |

| | 2009A | 2010E | 2011E | 2012E |
|--------------------------|-------|-------|-------|-------|
| Summary Cash Flow | | | | |
| Cash from Operations | 865 | 811 | 854 | 909 |
| Capex | 392 | 544 | 519 | 545 |
| Capex, Net | 388 | 538 | 509 | 528 |
| Free Cash Flow | 477 | 273 | 346 | 381 |
| Cash Dividend | - | 249 | 233 | 318 |

| | 2009A | 2010E | 2011E | 2012E |
|-------------------------|-------|--------|--------|--------|
| Key Ratios | | | | |
| Revenue Growth Y/Y | 4.7% | 8.3% | 3.9% | 8.0% |
| EPS Growth Y/Y | 32.8% | 15.4% | 10.3% | 8.9% |
| Gross Margin | 59.4% | 58.5% | 58.5% | 58.5% |
| EBIDTA Margin | 31.9% | 30.5% | 30.7% | 31.1% |
| Debt/EBIDTA | 0.21x | 0.13x | 0.09x | 0.05x |
| EBIDTA/Interest Expense | 7.03x | 23.93x | 37.80x | 56.38x |

\$ million except EPS
 P\$/USD exchange rate for FY2009 is assumed as P\$3.8=1USD. For projected periods, Bloomberg exchange estimates are used for conversion i.e. P\$4.23, P\$4.65 and P\$4.65 an USD for FY10, FY11 and FY12, respectively.

Significant Developments

(06/29/2010) Telecom Argentina S.A. announces the filing of its Form 20-F with the Securities and Exchange Commission -- Argentine GAAP Net Income for FY09 was P\$1.405 billion whereas the same as per U.S. GAAP was P\$1.241 billion. **Note: This would put the P/E based on 2009 U.S. GAAP earnings at < 10X.**

(05/26/2010) IRSA bids to acquire stake in Telecom Argentina – it was reported by Dow Jones that Argentine investment firm IRSA is planning to acquire a controlling stake in Telecom Argentina (from Telecom Italia). However, IRSA did not disclose what they are willing to offer for 50% of Sofora Group's stake and an option to purchase the remaining 50%. SG is the holding company of Nortel South America and is equally owned by Telecom Italia and the Wertheim Group.

(01/15/2010) Nortel Inversora and its subsidiaries, including Telecom Argentina, lodge appeal against the National Commission for Protection of Competition -- Nortel Inversora South America declared that along with its subsidiaries, Telecom Argentina SA and Telecom Personal SA, it has lodged a plea against the verdict of the National Commission for Protection of Competition (CNDC). CNDC instructed Telecom Italia to divest its stake in Telecom Argentina, because of a possible conflict of interests. This given the fact that Telefonica (TEO's largest local competitor) is part of a consortium which recently acquired a minority stake in Telecom Italia.

Standpoint Research 155-Variable Model / Quantitative Analysis with Fundamental & Subjective Overlay

We recently ran 180 ADR-Int'l stocks through our 155-variable computer model. Refer to the Legend sheet in our Excel reports for the color code and description of all 155 variables used in our model. The 155-variable scoring is summarized in the 32 categories below (from roe through peg). The number in each of the cells, is the rank out of 180 stocks in the recent run. The seven cells to the right of the peg cell are coded and for internal use. For example -- a weak score for return on equity (roe) can be offset by a strong score on price-to-book (pbk). A weak score on technical indicators (**especially at the extremes**), is looked at positively if it is combined with strong scores on fundamentals and valuation. Below is the color-coded profile generated by the computer for # 14 ranking Telecom Argentina **TEO**.

| | | | | | | | | | | | | | | |
|----------|--------|--------|--------|--------|---------|-------|--------|--------|--------|---------|-------------|------|---------|-----------|
| rank | ticker | roe | roa | roc | ebitda | npm | acct | eps m | rev gr | eps gr | beta | debt | stab gr | |
| 14 / 180 | TEO | 45 | 116 | 83 | 88 | 130 | 15 | 37 | 101 | 51 | 87 | 56 | 154 | |
| div I | pbk | base | rel-ma | inside | safe | pcf I | pcf II | fcf | div II | rel str | pr mo | ps | rel ps | off hi-lo |
| 61 | 92 | 86 | 127 | 1 | 1 | 31 | 24 | 44 | 21 | 17 | 21 | 27 | 1 | 141 |
| pred | pertix | perhis | blend | peg | deducts | t val | t fund | t prop | t misc | t tech | total score | | | |
| 104 | 4 | 5 | 23 | 20 | 3962 | 530 | 1746 | 1119 | 402 | 165 | 70.26% | | | |

Note: When investors go into ADR-Int'l situations, the risks and concerns are usually a bit more significant and *under the magnifying glass* – TEO is no exception. It is a higher risk - higher reward scenario. Approximately 20% of our > 300 recommendations since 2003 have come from outside the United States. We have an excellent track record with these Int'l recommendations – had we been scared off by what you see in the five paragraphs below – it comes with the territory – we would have been left out of the run in South American and Asian shares (since 2003). These concerns are par for the course, usually fizzle out and result in nothing. These warnings are not that much different from what you see in U.S. company reports.

TEO earns sizable fraction of its revenues in Argentina in pesos, and any **depreciation in the Peso will have a negative impact** on the US\$ worth of its earnings while increasing, in peso terms, the expenses and capital costs represented in foreign currency. Devaluation of the Peso against major foreign currencies adversely impacts the capital expenditure program and leads to an increase in their debt obligations. The Argentine Peso has been subject to noteworthy devaluation in the past and may also be subject to the same situation again (in the future). The economic and political conditions in Argentina make it difficult to predict the changes in the value of the Peso versus other currencies and hence the ability of TEO to frame suitable policies to adjust to such circumstances. With a considerable portion of TEO's debts denominated in foreign currencies in which the firm is only partly hedged, any decline in the Argentine Peso will add to the company's obligations.

Traditionally the Argentine government had remarkable influence particularly on telecommunications companies which forced them to operate in a highly regulated environment. Owing to the economic crisis in Argentina during 2001-2002, severe controls were imposed on such companies which negatively impacted their operations. Local municipalities also brought in regulations and imposed several taxes and fees for the infrastructure and equipment set-up, and expansion of fixed-line and wireless networks by TEO. Secondly, **the Argentine government may implement greater intrusion** in private sector companies, including Telecom Argentina. Controls may be exercised over corporate governance decisions of TEO limiting its ability to exercise exclusive rights over shareholder voting rights, decisions regarding the board's composition and several areas of taxation and regulatory matters. Again, the Argentine government may impose upon TEO changes in labor regulations and **may also order salary increases for workers** which are binding upon the company and this has the impact of increased overall costs. Lastly, the Argentine government **may subject TEO to measures** which modify or impose obligations to grant telecommunications services at a reduced rate or without any compensation which might result in huge losses.

Under the Public Emergency Law, in January 2002, the basic telephone and long distance services' rates were fixed at an exchange rate of P\$1.00 = US\$1.00. Telecom Argentina's charges in the future will be based on the discussions between Telecom Argentina and the Argentine government, which will consider the impact of such rates on the economy, service-quality and investment decisions of service providers in addition to consumer protection and the profitability of public services providers such as TEO. Telecom Argentina is unable to predict the impact of such negotiations and its ability to satisfy the requirements therein.

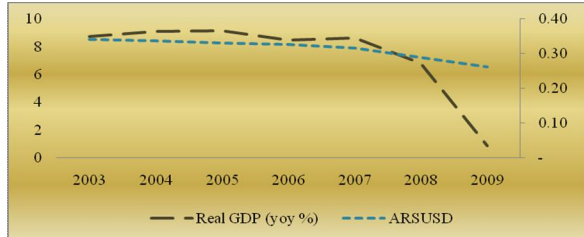
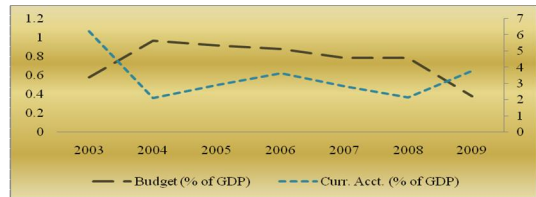
Telecom Argentina faces **tough competition** from America Movil and Transportadora De Gas Sur. America Móvil offers wireless phone services from the Rio Grande to Tierra del Fuego and it is Latin America's top mobile carrier with > 180 million subscribers in 18 countries. Transportadora De Gas Sur is occupied in the transportation of natural gas, production and commercialization of natural gas liquids and midstream operations and **telecommunication services**. Severe competition pressures TEO to lower rates for their services and also may cause a loss of market share for Voice, Data and Internet services, particularly in the long distance service and Internet businesses. To remain competitive, TEO is required to make more investments in fixed-line networks and information technology in order to improve the quality of their service and sustain growth.

TEO is a party to numerous **legal proceedings**, some of which have been pending since years and their resolution in favor of the company is highly doubtful. Such long drawn cases also demand considerable quantity of the management time and financial resources of the company. Regulations enforced by the Consumer Protection Act may increase the number of legal proceedings against the company and hence has an adverse impact on its functioning. These pronouncements may also involve risks for TEO regarding the prices charged for its services, or the commitment to return the amounts charged for its services which adversely impacts its financial situation. Restrictions imposed on the transfer of funds outside Argentina in the past, some of which still exist, could prevent TEO from making payments of dividends, debt and trade liabilities. **Labor Union activities** in Argentina have a negative influence on TEO's operations and financial conditions. The increase in the number of employees roofed by Trade Unions results in an increased cost which the company is required to pay to such employees. Sofora, the controlling shareholder of Nortel, TEO's controlling shareholder, exercises control over significant matters of the company. Such indirect interference may create conflicts of interest between the shareholders as direct or indirect owners of TEO's capital stock. TEO is operating in a politically unstable environment which adds to its disadvantages and makes it difficult for the company to frame its policies and programs with certainty.

TEO's business segment includes **Voice, Data and Internet** (services) which accounts for approximately 34% of the entire revenue of the company. The Voice, Data, and Internet Services segment provides fixed and international telephone services, including voice and data; international point-to-point leased circuits; data transmission and Internet services (private networks, dedicated lines, broadcasting signal transport, and videoconferencing) as well as dial-up and broadband Internet connectivity services; and call forwarding, call waiting, calling cards, voice mail, and itemized billing services. This segment of the company competes with Grupo Telmex Argentina, Telephone2, Impsat, IPlan, Comsat, Telectro, Telefonica, Netizen, Gigared, UOL, Ertach, Telectro and Cablevision. The other segment, **Wireless**, generates a major portion (66%) of TEO's revenue. This segment provides wireless service in Argentina (and to a lesser extent Paraguay) through the company's subsidiaries. Basic services offered by the segment includes GSM and 3G wireless communication over UMTS/ HSDPA networks (including GPRS, EDGE and HSDPA high-speed wireless, videoconferencing, full track download, multimedia messaging, online streaming, corporate mailing and Blackberry solutions) and Sale of wireless communication devices (cellular phones, 3G modems, 3G hotspots, wireless internet and notebooks). This segment competes with Telefonica Moviles, America Movil, Telefonica Celular del Paraguay S.A. and Hola Paraguay S.A.

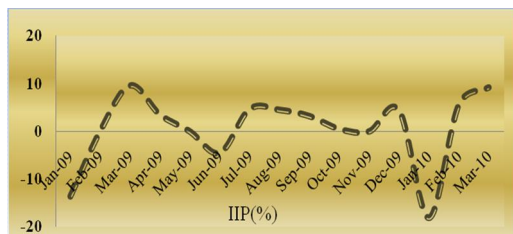
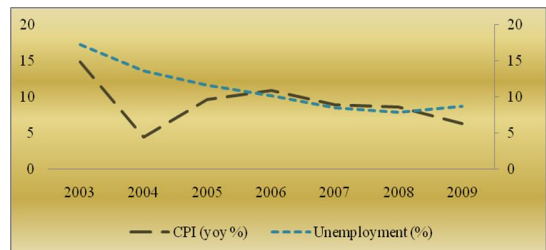
A \$300 billion economy with real GDP growth at 0.88%, Argentina suffered during the 1930s great depression and other economic crises including the 6Peso Crisis⁶ in 1981-2001 leading to > 400,000 companies filing for bankruptcy. That being said, Argentina is an economy with abundant natural resources, a highly educated population and a diversified industrial base. Important to the Argentina economy is its export-oriented agriculture sector.

Argentina lost its ground during the 1970s-1980s military dictatorship that resulted in record debt, tax evasion and a crisis in the balance of payments -- the economy suffered through a period of severe stagflation. In 1991, the Peso was pegged to the dollar in order to limit growth in the money supply. The economy was then opened for liberalization and privatization which helped to lower inflation, and increase the GDP. Unfortunately, due to failures in the overall economic system, the economy collapsed resulting in debt default and high unemployment -- the Peso depreciated by more than 60%.



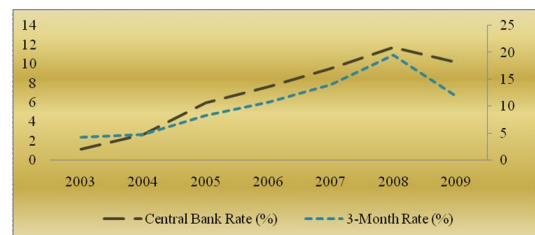
Argentina came out of this following the expansionary policy of 2003 that raised the confidence of the people. The unemployment rate declined and people started to consume goods and services ó this led to a GDP rebound. GDP growth for a few years was above 8%, but inflation, which was still quite high at that point, was still a concern. Better agricultural resources combined with diversified industrial sectors and adoption of new technologies made Argentina a good hub for foreign investment and the resulting economic scenario attracted huge foreign direct investment in the country of nearly \$80 billion.

Manufacturing is the major GDP contributing sector of the economy contributing ~ 21% of GDP. Tourism is another important sector which contributes ~ 15% of GDP. Transport & Communications contributes ~ 9% and Agriculture contributes ~ 8%. Out of the total agricultural production, major portions are exported to foreign countries. Finance, Business and Real Estate contributes ~ 17%; Construction 6%, Mining 4% and Services contributes ~ 20% of GDP. Unemployment rates have come down to 8% versus 18% in 2003. Nearly half of the labor force is employed in the private sector while the public sector employs ~ 20%. The remaining population is either self-employed or are unpaid workers. Inflation is stabilizing, with the CPI down to 6.3% in 2009 from the high of ~ 15% in 2003.¹



After emerging from the crisis, industrial activity of Argentina increased, thereby creating huge demand for the Argentine products resulting in major exports of agricultural products, animal products and plants. Argentine exports were ~ \$60 billion in total of which a major contributor was agriculture and its by-products. Approximately 15 mln tons of animal products were exported to the European Union; for agricultural products, major exporting countries are Brazil, China and the United States. Argentina imported goods worth ~ \$40 billion and the main imports were industrial parts and computers. Major importing partners are same as the exporters.

The economy of Argentina recovered well from the major default of the last decade and stitched up some good deals with the IMF in order to secure the growth of the country. After the announcement of several (crisis) packages by the government of Cristina Fernández de Kirchner, the country created jobs in the economy. Additionally, a series of tax incentives for small and medium enterprises (SMEs) contributed to pull the economy out from its malaise. Argentine gross external debt is ~ \$110 billion. Tax revenues are ~ \$88 billion and foreign reserves are ~ \$50 billion. This emerging economy expanded by ~ \$90 billion last year; the population of Argentina is ~ 40,000,000. Current central bank interest is at ~ 10%. IMF forecasted its GDP will rise from \$400 billion in 2010 to \$465 billion in 2015, with real GDP growth of 3.5% in 2010 and 3% in 2015. Inflation averages to be at 10.1% in 2010 and 9.7% in 2015.



Following the global sub-prime crisis which resulted in the reduction of GDP worldwide and raised concerns, governments intervened in the Private sector domains (worldwide). The telecom sector of Argentina is one of the most important private players of the Argentine economy and faces a high probability of government intervention. In the year 2008, the Argentina Government nationalized private pension and retirement systems by transferring 20% ownership in the ANSES (Administración Nacional de la Seguridad Social). This step by the government raises concerns in the private companies that the government may exert increasing influence in running the private sector.

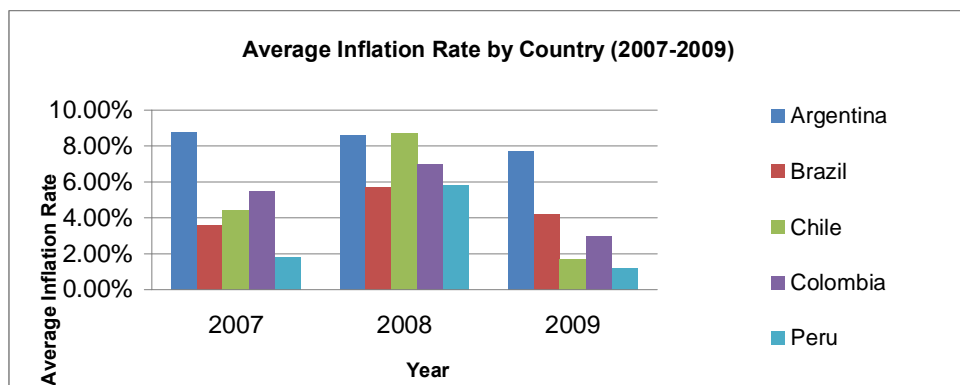
Even though Argentina has been experiencing decent economic growth recently, the country's economy may be impacted by the weakness in the overall global economy which may lead to further worsening of the situation by returning to periods of recession, fiscal deficits, higher inflation, lower employment and low confidence among the consumers. The Government of Argentina has maintained a fiscal surplus since the crisis of 2001 but considering a weak global scenario and higher debt of the country, there may be concerns of new default, and a new recession which may negatively impact the private sector in the country.

¹ <http://www.indec.gov.ar/>

Latin American countries have for decades, been known for their political and economic instability. Thankfully, for some of these countries (such as Colombia and Brazil), this impression has begun to change, and foreign investment has poured in and facilitated growth. However, **when it comes to Argentina**, the second largest economy in South America, investors remain skeptical with regards to the future.

Inflationary pressures have regularly threatened the stability of Latin American economies as governments expanded the money supply in order to keep up with fiscal deficits. Argentina's history has been plagued by bouts of hyper-inflation, and according to private consultants, by the end of December 2009 it had the third highest inflation rate in the world in a range of 15%-18% within that year. While public officials in the country claim this figure stayed below 8%, **this number is trusted by few**. In fact, Transparency International ranks the country at 106 out of 180 countries on its Corruption Perceptions Index which measures the perceived level of public-sector corruption. This year, inflation has hit its highest point since August of 2006.

Buenos Aires research group *Ecolatina* estimates prices in May rose by ~ 22% from a year earlier while officials claim it is less than half that with an ~ 11% rise over the same period. Economists say that this climb in prices can be attributed to the growth in government spending which rose 34.3% in April from a year earlier. Even considering Argentina's official inflation numbers which remain far below those estimates by private economists, the country's price increases have consistently outpaced that of peers. The IMF expects an increase in inflation for 2010 from official figures in 2009, forecasting a 10% rise in prices for the year, and another 9% rise in 2011. As recently as October '09, the IMF was predicting just 5% inflation for Argentina, but recently doubled this estimate with news of high interest rates, wage inflation, and rising food prices. Professionals in the private sector have released inflation estimates in excess of 20% for '10 and up to 30% for '11. This is the consequence pursuing short-term growth maximization.



Despite concerns over growing inflation, experts are predicting strong economic growth this year owing to higher commodity prices, dovish monetary policy, and stronger confidence indicators. The Argentine government expects GDP growth to be 5.0%-6.0% and this sentiment has been echoed by private economists. Some expect growth of up to 8% citing an ongoing consumption boom. The economy expanded 9.7% in April from a year earlier thanks to increased consumer spending and greater demand for Argentine

vehicles in Brazil. In 2011, growth is expected to lose speed. The Economist Intelligence Unit forecasts growth next year to be 4.0%-4.5% as government spending slows and monetary policy tightens.

Source: Central Intelligence Agency

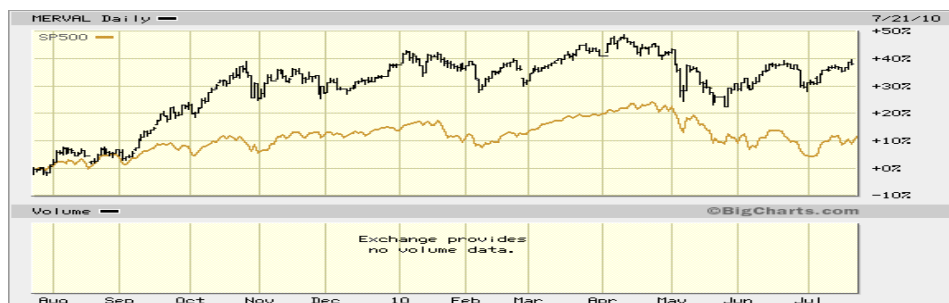
Argentina's government has given no indication that it will begin reigning in its economy, though. In fact, it is seeking to raise capital on the international bond markets as its bond yields tumbled with the recent rally in global markets and an upgraded credit rating by Fitch to 'B' seemed to raise investor confidence. The question that remains is whether investors would be interested in such an issue. At first glance, the answer appears to be 'no'. Many people feel that the Argentine government policy lacks predictability. According to Federico Sturzenegger, President of Banco de la Ciudad de Buenos Aires, steep inflation, caps on utility prices, and the government's takeover of private businesses and pension funds will discourage investors.

There are other reasons investors should be wary of Argentina. For instance, just nine years ago, Argentina defaulted on \$95 billion of bonds. Additionally, foreign direct investment in the country is extremely low compared to that of its peers. In 2009, this figure increased by only \$4.9 billion while the figures for Brazil, Chile, Colombia and Peru were \$26 billion, \$17 billion, \$7.2 billion \$4.4 billion, respectively. To put this into perspective, Peru, with a GDP less than 40% that of Argentina, received a similar amount of foreign direct investment. Because of erratic government policy, businesses are opting to expand in other countries. Executives at Spanish company Repsol plan to decrease exposure to Argentina and increase business in places such as Brazil, as price controls in Argentina have impaired earnings. Additionally, there have been recent incidents of capital flight, and capital controls established in 2005 making foreign investment less attractive.

Continued expansionary policy has stimulated demand during a period where supply bottlenecks have been common. The nature of this supply cycle has promoted inflation, increasing existing consumer demand for fear of future rises in prices. In addition to this, employment has expanded and export-oriented manufacturing has strengthened, further fueling consumption.

While past GDP growth and forecasts for GDP growth over the next two years are both notable, it is worth considering how high inflation can soar before substantial impacts on the economy are felt. Argentina's government will be forced to take a more hawkish stance on monetary policy and slow down spending within the next couple of years in order to control an economy that could easily spiral out of control. In the mean-time, Argentina's current administration shows no signs of (wanting to) slow down which could be a good indicator of growth in the near- to mid-term.

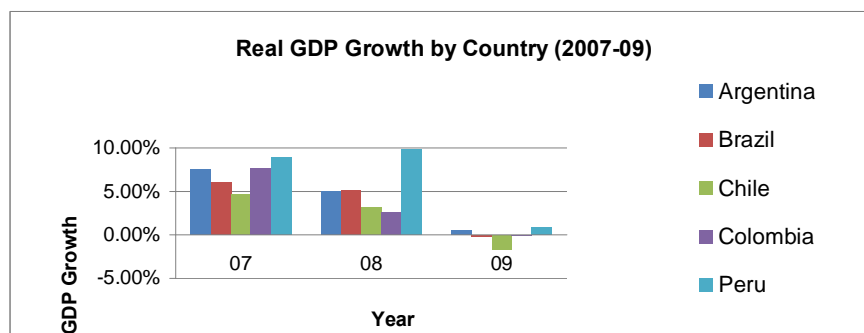
Some say that the country offers an impressive return for the amount of risk that is taken, and if the economy continues to grow as it has over the past year there will likely be room for more upside potential. The chart below compares the performance of Argentina's MERVAL Index against the performance of the S&P 500 over the past year. As shown, the MERVAL Index has outperformed the S&P by nearly 3000 basis points.



TEO -- jumped from \$17 to \$18 while this report was being prepared -- earned \$1.94 per share ttm and should earn > \$2.20 in 2011 and > \$2.40 in 2012. This was a difficult report to prepare **in particular** because of the inflation and currency issues, and many different data sources involved (with numbers that didn't always match). We took extra precautions and tapped into more sources than usual in order to prepare this report because Argentina is a volatile situation. This is a *higher-risk, higher-reward* play and may not suit everyone.

| | | | | |
|-----------------------------|-----------|------|--------------|--------------|
| BRANDES INVESTMENT PARTNERS | 4,180,496 | 2.12 | \$78,342,495 | Mar 31, 2010 |
| RENAISSANCE TECHNOLOGIES | 2,293,600 | 1.16 | \$42,982,064 | Mar 31, 2010 |
| ACADIAN ASSET MANAGEMENT | 2,139,122 | 1.09 | \$40,087,146 | Mar 31, 2010 |
| SOROS FUND MANAGEMENT | 1,768,595 | 0.90 | \$33,143,470 | Mar 31, 2010 |
| MORGAN STANLEY | 1,428,179 | 0.73 | \$26,764,074 | Mar 31, 2010 |

| | Argentina | Brazil | Chile | Colombia | Peru |
|------------------------|-------------|-------------|-------------|--------------|-------------|
| GDP per Capita | \$13,800 | \$10,200 | \$14,700 | \$9,200 | \$8,600 |
| GDP Growth | 0.5% | -0.2% | -1.7% | -0.1% | 0.9% |
| Unemployment | 8.7% | 8.1% | 9.6% | 12% | 8.1% |
| Investment - % of GDP | 20.9% | 16.7% | 21.4% | 24.2% | 20.6% |
| Public Debt - % of GDP | 48.6% | 60% | 6.1% | 45.8% | 24.8% |
| Inflation Rate | 7.7% | 4.2% | 1.5% | 4.2% | 2.9% |
| Account Balance | \$11.29 bln | -\$24.3 bln | \$4.217 bln | -\$5.146 bln | \$247 mln |
| Foreign Direct Invest | \$4.9 bln | \$26 bln | \$17 bln | \$7.2 bln | \$4.4 bln |
| Market Value of Shares | \$48.03 bln | \$1.338 tln | \$230.7 bln | \$140.5 bln | \$69.75 bln |



Sources (for economic text)

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End of Report

Below is our reporting schedule through the end of Q3

Individual write-ups (six pages each) to be determined
Past reports can be re-sent on request

Utilities, Materials and Telecom each carry less than 4% weight in the S&P-500
Sector reports for those (three) are not in our regular reporting rotation
They will each be covered in the ADR, Russell, Dividend and S&P-500 reports

Jul 04: S&P-500 _ # 263
Jul 08: Special Report _ # 264
Jul 12: Individual write-up [ADBE](#) -- original recommendation date was 06-30-2010
Jul 16: Energy-150 _ # 265
Jul 20: Healthcare-200 _ # 266
Jul 23: Individual write-up [TEO](#) -- original recommendation date was 06-14-2010
Jul 27: Industrials-200 _ # 267
Jul 30: Individual write-up [GILD](#) -- original recommendation date was 07-13-2010

Aug 03: Russell-1000 _ # 268
Aug 05: Individual write-up [CVX](#) -- original recommendation date was 07-02-2010
Aug 07: Consumer Discretionary-300 _ # 269
Aug 10: Short Interest-1000
Aug 13: Individual write-up [TBD](#)
Aug 19: Consumer Staples-100 _ # 270
Aug 22: Individual write-up [TBD](#)
Aug 26: ADR-International-200 _ # 271

Sep 01: Individual write-up [TBD](#)
Sep 04: Technology-300 _ # 272
Sep 08: Financials-200 _ # 273
Sep 12: Individual write-up [TBD](#)
Sep 16: Short Interest-1000 _ # 274
Sep 19: Special Report _ # 275
Sep 24: Individual write-up [TBD](#)
Sep 28: Dividend Stocks-200 _ # 276

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