

TELECOM ARGENTINA SA
Form 20-F
June 22, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2006**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from _____ to _____

Commission file number: 1-13464

TELECOM ARGENTINA S.A.

(Exact name of Registrant as specified in its charter)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Alicia Moreau de Justo 50

(C1107AAB) Buenos Aires

Argentina

(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class
American Depositary Shares,

Name of each exchange on which registered

representing Class B Ordinary Shares
Class B Ordinary Shares,

New York Stock Exchange

nominal value P\$1.00 per share

New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Class A Ordinary Shares, nominal value P\$1.00 each	502,034,299
Class B Ordinary Shares, nominal value P\$1.00 each	440,910,912
Class C Ordinary Shares, nominal value P\$1.00 each	41,435,767

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the Registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Table of Contents

TABLE OF CONTENTS

	Page
<u>PRESENTATION OF FINANCIAL INFORMATION</u>	ii
<u>FORWARD-LOOKING STATEMENTS</u>	iv
<u>GLOSSARY OF TERMS</u>	v
PART I	
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
ITEM 3. <u>KEY INFORMATION</u>	1
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	18
ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>	53
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	53
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	109
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	125
ITEM 8. <u>FINANCIAL INFORMATION</u>	131
ITEM 9. <u>THE OFFER AND LISTING</u>	138
ITEM 10. <u>ADDITIONAL INFORMATION</u>	143
ITEM 11. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	156
ITEM 12. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	158
PART II	
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	159
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	159
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	159
ITEM 16A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	160
ITEM 16B. <u>CODE OF ETHICS</u>	160
ITEM 16C. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	160
ITEM 16D. <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	162
ITEM 16E. <u>EQUITY SECURITIES PURCHASED BY THE COMPANY OR ANY AFFILIATED PURCHASER</u>	162
PART III	
ITEM 17. <u>FINANCIAL STATEMENTS</u>	163
ITEM 18. <u>FINANCIAL STATEMENTS</u>	163
ITEM 19. <u>EXHIBITS</u>	163

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

In this Annual Report on Form 20-F (the "Form 20-F" or "Annual Report"), the terms "the Company", "Telecom", "Telecom Group", "we", "us", and "our" refer to Telecom Argentina S.A. and its consolidated subsidiaries, unless otherwise indicated.

The term "Telecom Argentina" refers to Telecom Argentina S.A. excluding its subsidiaries Telecom Personal S.A., Núcleo S.A., Telecom Argentina USA, Inc., Publicom S.A. and Micro Sistemas S.A. Unless otherwise stated, references to the financial results of "Telecom" are to the consolidated financial results of Telecom Argentina and its consolidated subsidiaries.

The terms "Telecom Personal" or "Personal" refer to Telecom Personal S.A., our subsidiary engaged in the provision of wireless communication services in Argentina. The term "Núcleo" refers to Núcleo S.A., Telecom Personal's consolidated subsidiary engaged in the provision of wireless communication services in Paraguay.

Consolidated Financial Statements. Our Consolidated Financial Statements as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004, and the notes thereto (the "Consolidated Financial Statements") are set forth on pages F-1 through F-69 of this Annual Report.

The Consolidated Financial Statements are presented in Argentine Pesos and are prepared in accordance with Argentine GAAP considering the regulations of the Comisión Nacional de Valores (the Argentine National Securities Commission - CNV). Differences exist between Argentine GAAP and US GAAP which might be material to the financial information herein. Such differences involve methods of measuring the amounts shown in the Consolidated Financial Statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities Exchange Commission (SEC). See Note 14 to our Consolidated Financial Statements contained elsewhere in this Annual Report for a description of the principal differences between Argentine GAAP and US GAAP, as they relate to us, and a reconciliation to US GAAP of net income (loss) and shareholders' equity.

Exchange Rates. In this Form 20-F, except as otherwise specified, references to "\$", "US\$" and "dollars" are to U.S. dollars, references to "P", "P\$" and "pesos" are to Argentine pesos and references to "euro" or "euros" are to the single currency of the participants in the European Economic and Monetary Union. The exchange rate between the dollar and the peso as of December 31, 2006 was P\$3.062=US\$1.00. Prior to January 6, 2002, the exchange rate had been fixed at one peso per U.S. dollar in accordance with the Convertibility Law during the period April 1, 1991 through January 6, 2002. However, as a result of the elimination of the fixed exchange rate and the devaluation of the peso, the exchange rate between the dollar and the peso has since declined substantially. As of June 20, 2007, the exchange rate (ask price) was P\$3.08=US\$1.00. Unless otherwise indicated, our Consolidated Financial Statements use the exchange rate as of each relevant date or year-end quoted by Banco de la Nación Argentina ("Banco Nación"). Such translation should not be construed as representing that the peso amounts actually represent actual dollar amounts or that any person could convert the peso amounts into dollars at the rate indicated or at any other exchange rate. For more information regarding historical exchange rates and the peso, see: Item 3 Key Information Exchange Rates. We have provided as a convenience, translations as of December 31, 2006 for other currencies which are mentioned in this Annual Report, including the Japanese yen (P\$2.574=¥100), and the euro (P\$4.039=€1).

Inflation Accounting. On August 22, 1995, the Argentine Government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995, in accordance with CNV resolutions and Argentine GAAP, we began accounting for our financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, our Consolidated Financial Statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statements information for periods prior to August 31, 1995, was restated to pesos of general purchasing power at the end of August 31, 1995 ("constant pesos"). The August 31, 1995 balances adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

However, as a result of the inflationary environment in Argentina and the conditions created by Law No. 25,561, the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (the Professional

Table of Contents

Council of Economic Sciences of the City of Buenos Aires (CPCECABA) approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements for fiscal years or interim periods ending on or after March 31, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are deemed to be stated in constant currency as of December 31, 2001 (the Stability Period).

On July 16, 2002, the Argentine Government instructed the CNV to accept financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency, following the criteria of the CPCECABA.

Subsequently, on March 25, 2003, the Argentine Government reinstructed the CNV to preclude companies from presenting price-level-restated financial statements. Therefore, on April 8, 2003, the CNV discontinued inflation accounting as of March 1, 2003. We complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. We restated prior year amounts until February 28, 2003 for comparative purposes only.

In October 2003, the CPCECABA discontinued inflation accounting as of September 30, 2003. Since Argentine GAAP required companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution represented a departure from Argentine GAAP. The impact of not adjusting for the effects of inflation has not been material to the consolidated financial statements of the Company prepared under Argentine GAAP as of December 31, 2006 and 2005, and for the years then ended. The impact of not adjusting for the effects of inflation has been material to the 2004 consolidated financial statements prepared under Argentine GAAP. Under US GAAP, the effect of not accounting for the effects of inflation through September 30, 2003, has been material to the information presented for all periods.

Certain amounts and ratios contained in this Annual Report (including percentage amounts) have been rounded up or down in order to facilitate the summation of the tables in which they are presented. The effect of this rounding is not material. These rounded amounts are also included within the text of this Annual Report.

The contents of our worldwide website are not part of this Annual Report.

Table of Contents

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain information included in this Annual Report contains information that is forward-looking, including, but not limited to:

the impact of the emergency laws and subsequent related laws enacted by the Argentine Government;

our expectations for our future performance, revenues, income, earnings per share, capital expenditure, dividends, liquidity and capital structure;

the implementation of our business strategy;

the effects of our debt restructuring process;

our expectations regarding payments and prepayments of outstanding indebtedness;

the effects of operating in a competitive environment; and

the outcome of certain legal proceedings.

This Annual Report contains certain forward-looking statements and information relating to the Telecom Group that are based on the current expectations, estimates and projections of its management and information currently available to the Telecom Group. These statements include, but are not limited to, statements made in Item 5 Operating and Financial Review and Prospects under the captions Critical Accounting Policies and Trend Information and other statements about the Telecom Group's strategies, plans, objectives, expectations, intentions, capital expenditures, and assumptions and other statements contained in this Annual Report that are not historical facts. When used in this document, the words anticipate, believe, estimate, expect, intend, plan and project and other similar expressions are generally intended to identify forward-looking statements.

These statements reflect the current views of the Telecom Group with respect to future events. They are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. In addition, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate.

Many factors could cause the actual results, performance or achievements of the Telecom Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include, among others:

uncertainties relating to political and economic conditions in Argentina;

inflation, the devaluation of the peso and exchange rate risks;

restrictions on the ability to exchange pesos into foreign currencies and transfer funds abroad;

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the elimination of indexes to adjust rates charged for certain public services;

the final results of the contract renegotiation process with the Argentine Government regarding the adjustment to our rates charged for public services;

the creditworthiness of our actual or potential customers;

nationalization;

technological changes;

Table of Contents

the impact of legal or regulatory reform and changes in the legal or regulatory environment in which we operate; and

the effects of competition.

Many of these factors are macroeconomic in nature and are therefore beyond the control of the Telecom Group's management. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. The Telecom Group does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Annual Report.

These forward-looking statements are based upon a number of assumptions and other important factors that could cause the Company's actual results, performance or achievements to differ materially from its future results, performance or achievements expressed or implied by such forward-looking statements. Readers are encouraged to consult the Telecom Group's periodic filings made on Form 6-K, which are filed with or furnished to the United States Securities and Exchange Commission.

GLOSSARY OF TERMS

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Annual Report.

Access charge: Amount paid per minute charged by network operators for the use of their network by other network operators.

Access deficit: The portion of costs related to the Access network that are not covered by the revenues generated by the use or availability of subscribers connected to such network.

Access network: The elements that allow the connection of each subscriber to the corresponding local switch. They consist of the termination point, elements of outside plant and specific parts of the local switching equipment that make available the permanent connection from the termination point to the local switch.

ADSL (Asymmetric Digital Subscriber Line): A compression technology that allows combinations of services including voice, data and one-way full motion video to be delivered over existing copper feeder distribution and subscriber lines.

AFIP (Administración Federal de Ingresos Públicos): The Argentine federal tax authority.

AMBA (Area Multiple Buenos Aires): The area of the Federal District and greater Buenos Aires (Gran Buenos Aires), which extends to the city of La Plata to the South, the city of Campana to the North, the city of General Rodriguez to the West and the city of Monte Grande to the Southwest.

Analog: A mode of transmission or switching which is not Digital, e.g., the representation of voice, video or other modulated electrical audio signals which are not in Digital form.

APE (Acuerdo Preventivo Extrajudicial): An out-of-court restructuring agreement governed by Argentine Law No. 24,522.

Argentina: Republic of Argentina.

Argentine Bankruptcy Law: Law No. 24,522, as amended.

Argentine GAAP: Generally Accepted Accounting Principles in Argentina.

ARPU (Average Revenue per User): Calculated by dividing total revenue excluding mainly handset, outcollect (wholesale) roaming, cell site rental and activation fee revenue by weighted-average number of subscribers during the period.

Table of Contents

Basic Telephone Services: The supply of fixed telecommunications links which form part of the public telephone network, or are connected to such network, and the provision of local and long-distance telephone service (domestic and international).

BCRA (Banco Central de la República Argentina): The Central Bank of the Argentine Republic.

CAT: Compañía Argentina de Teléfonos S.A.

Cellular service: A wireless telephone service provided by means of a network of interconnected low-powered base stations, each of which covers one small geographic cell within the total cellular system service area.

CER (Coeficiente de Establización de Referencia): The reference stabilization coefficient as calculated by the BCRA or any successor thereto, in accordance with the formula set forth in Annex I of Argentine Law No. 25,713. If the CER is abrogated, found to be inapplicable or not published, references to CER shall refer to any replacement measure adopted under Argentine law or, in the absence of any such replacement measure, any adjustment that shall be necessary to provide a substantially equivalent rate of return on the notes denominated in pesos (the Peso Notes) in comparison with similar notes issued in dollars.

CETs: Telecommunication centers where public telephone services are offered.

CNC (Comisión Nacional de Comunicaciones): The Argentine National Communications Commission.

CNT (Comisión Nacional de Telecomunicaciones): The Argentine National Telecommunications Commission, the former regulatory body, later replaced by the CNC.

CNV (Comisión Nacional de Valores): The Argentine National Securities Commission.

Company: Telecom Argentina S.A. and its consolidated subsidiaries.

Concurso: A voluntary reorganization proceeding governed by Argentine law.

Convertibility Law: Law No. 23,928 and its Regulatory Decree No. 529/91. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar during the period April 1, 1991 through January 6, 2002. The Convertibility Law was partially repealed on January 6, 2002 by the enactment of the Public Emergency Law.

CPCECABA (Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires): The Professional Council of Economic Sciences of the City of Buenos Aires.

CPP (Calling party pays): The system whereby the party placing a call to a wireless phone rather than the wireless subscriber pays for the air time charges for the call.

Decree No. 92/97: Decree issued on January 31, 1997 which implemented the Rate Rebalancing.

Digital: A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

FACPCE (Federación Argentina de Consejos Profesionales en Ciencias Económicas): Argentine Federation of Professional Councils of Economic Sciences.

FCR: France Cables et Radio S.A.

February Agreement: An agreement entered into on February 28, 1992 and subsequently ratified by Decree No. 506/92 between the Argentine Government and Telecom Argentina. This agreement provides for the reduction of domestic long-distance rates from their then-current level. The reduction became effective on May 1, 1992.

Table of Contents

Fiber Optic: A transmission medium which permits extremely high capacities. It consists of a thin strand of glass that provides a pathway along which waves of light can travel for telecommunications purposes.

Free Pulses: The number of Free Pulses included in the monthly basic charge prior to the issuance of Decree No. 92/97.

GPRS (General Packet Radio Service): An enhanced second-generation wireless technology used to transmit data over wireless networks. GPRS transmits and receives packets of data in bursts instead of using continuous open radio channels, and it is used to add faster data transmission speed to GSM networks. GPRS is packet based rather than circuit based technology.

GSM (Global System for Mobile Communications): A standard for Digital cellular technology, originated in Europe, to provide pan-European roaming capabilities. The technology has recently been introduced and installed in almost all continents and it is the leading technology in the worldwide mobile industry. This standard is based on a digital transmission scheme providing expanded capacity by allowing multiple users over a single channel and is considered second-generation cellular technology.

Internet: A collection of interconnected networks spanning the entire world, including university, corporate, government and research networks from around the globe. These networks all use the IP (Internet Protocol) communications protocol.

Issuance Date: The date of issuance and delivery of the notes, cash consideration and cash interest payments pursuant to Telecom Argentina's APE, or August 31, 2005.

Law No. 25,561: Ley de Emergencia Económica y Reforma del Régimen Cambiario (see Public Emergency Law).

LIBOR: The London Interbank Offered Rate, the rate at which deposits in dollars are offered to prime banks in the London Interbank market.

List of Conditions: The Privatization Regulations, including the *Pliego de Bases y Condiciones* was approved by Decree No. 62/90, as amended. Pursuant to the List of Conditions, Telecom Argentina, S.A. was required to comply with tariff regulations and meet certain minimum annual standards regarding the expansion of its telephone system and improvements in the quality of its service in order to maintain and extend the exclusivity of its non-expiring license to provide fixed-line public telecommunications services and basic telephony services in the northern region of Argentina. After the market was opened to competition, the outstanding obligations that continue in force are the tariff regulations and those related to the quality of service; the obligations related to the expansion of the network are no longer required.

Network: An interconnected collection of elements. In a telephone network, these consist of Switches connected to each other and to consumer equipment for the transmission of data. The transmission equipment may be based on Fiber Optic or metallic cable or point-to-point radio connectors.

NGN (Next Generation Networks): A packet-based network able to provide services including telecommunication services and able to make use of multiple broadband, QoS (Quality of Service)-enabled transport technologies and in which service-related functions are independent from underlying transport-related technologies.

Nortel: Nortel Inversora S.A.

November Agreement: An agreement between Telecom Argentina and the Argentine Government providing for rates to be dollar-based and, at the election of each of Telecom Argentina and Telefónica, adjusted semi-annually according to the U.S. consumer price index. The November Agreement was ratified by Decree No. 2585/91 and became effective on December 18, 1991.

Núcleo: Núcleo S.A.

Table of Contents

PCS (Personal Communications Service): A wireless communications service with systems that operate in a manner similar to cellular systems.

Penetration: The measurement of the take-up of services. As of any date, the Penetration is calculated by dividing the number of subscribers by the population of the region and expressed as a percentage.

Personal: Telecom Personal S.A.

Pesification: Modification of the exchange rate by the Argentine Government pursuant to the Public Emergency Law.

Presubscription of Long-Distance Service: The selection by the customer of international and domestic long-distance telecommunications services from a long-distance telephone service operator.

Price Cap: Tariff regulation mechanism applied in order to determine tariff discounts based on a formula made up by the U.S. Consumer Price Index and an efficiency factor. The mentioned factor was established initially in the List of Conditions and afterwards in different regulations by the SC.

Privatization Regulations: The Argentine Government's privatization program as set forth in the State Reform Law approved in August 1989 and subsequent decrees.

Public Emergency Law: The Public Emergency and Foreign Exchange System Reform Law No. 25,561 adopted by the Argentine Government on January 6, 2002, as amended by Law No. 25,790, Law No. 25,820, Law No. 25,972, Law No. 26,077 and Law No. 26,204. Among others, the Public Emergency Law grants the executive branch of the Argentine Government the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market and to renegotiate public service agreements.

Publicom: Publicom S.A.

Pulse: Unit on which the tariff structure of the regulated fixed line services is based.

Rate Agreement: The November Agreement, as supplemented by the February Agreement. The Rate Agreement, among other things, permits Telecom Argentina to effect aggregate rate reductions required pursuant to the List of Conditions by lowering rates for some or all categories of service, *provided* that the net reductions meet applicable targets.

Rate Rebalancing: The Rate Rebalancing established by Decree No. 92/97 which provides for a significant reduction in domestic and international long-distance tariffs, an increase in basic telephone charges, the elimination of Free Pulses and an increase in urban rates.

Regulatory Bodies: Collectively, the SC and the CNC.

RT: Technical Resolutions issued by the Argentine Federation of Professional Boards of Economic Sciences. The Technical Resolutions effective as of the date of this Annual Report are: 6, 7, 8, 9, 11, 14, 15, 16, 17, 18, 21, 22 and 23. These collective technical resolutions constitute Argentine GAAP, with the exception of RT 7 which establishes the auditing rules and RT 15 which regulates the role of the public accountant. In addition, RT 17 establishes that specific measurement questions not addressed by existing RTs must be resolved by applying general accounting measurement rules, the Argentine GAAP conceptual framework, the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), the International Accounting Standards developed by the International Accounting Standards Committee (IASC), the Interpretations issued by the Standing Interpretation Committee (SIC) of the IASB and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in the order listed.

SAC (Subscriber Acquisition Costs): In the wireless telecommunications industry, agent commissions, advertising expenses and handset subsidies are usually called subscriber acquisition costs.

Table of Contents

Satellite: Satellites are used, among other things, for links with countries that cannot be reached by cable to provide an alternative to cable and to form closed user networks.

SC (Secretaría de Comunicaciones): The Argentine Secretary of Communications.

SEC: Securities and Exchange Commission of the United States of America.

Series B ADSs: Telecom Argentina's American Depositary Shares, listed on the New York Stock Exchange.

Sofora: Sofora Telecomunicaciones S.A.

SRMC (Servicios de Radiocomunicaciones Móviles Celular): Mobile Cellular Radiocommunications Service.

STM (Servicio Telefónico Móvil): Mobile Telephone Service.

Switches: These are used to set up and route telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.

TDMA (Time Division Multiple Access): A standard of Digital cellular technology that divides a single channel into a number of slots, enabling the transmission of multiple voice circuits per channel.

Telecom/Telecom Group: Telecom Argentina S.A. and its consolidated subsidiaries.

Telecom Argentina: Telecom Argentina S.A.

Telecom Italia: Telecom Italia S.p.A.

Telecom Italia Group: Telecom Italia S.p.A. and its consolidated subsidiaries, except when referring to the Telecom Italia Group as Telecom Argentina's operator in which case it means Telecom Italia S.p.A. and Telecom Italia International, N.V.

Telefónica: Telefónica de Argentina S.A.

TLRD (Terminación Llamada Red Destino): Termination charges from third parties' wireless networks.

Transfer Date: November 8, 1990, the date upon which Telecom Argentina commenced operations upon the transfer from the Argentine Government of the telecommunications system in the northern region of Argentina that was previously owned and operated by *Empresa Nacional de Telecomunicaciones*.

UMTS (Universal Mobile Telecommunications System): Third generation mobile communications system.

UNIREN (Unidad de Renegociación y Análisis de Contratos de Servicios Públicos): Renegotiation and Analysis of Contracts of Public Services Division.

Universal Service: The availability of basic telephone service, or access to the public telephone network via different alternatives, at an affordable price to all persons within a country or specified area.

US GAAP: Generally Accepted Accounting Principles in the United States of America.

Value Added Services: Services that provide additional functionality to the basic transmission services offered by a telecommunications network such as voicemail, message signaling, caller-ID, call transferring, call waiting, call conferencing, IVR dialing, ring back tones, personal e-cards, short message systems (SMS), national and international roaming and automatic call routing.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The following tables set forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2006. Our consolidated selected financial data should be read in conjunction with, and are qualified in their entirety by, our Consolidated Financial Statements and Item 5 Operating and Financial Review and Prospects .

Our selected consolidated income statement data for the years ended December 31, 2006, 2005 and 2004 and the selected consolidated balance sheet data as of December 31, 2006 and 2005 have been derived from our Consolidated Financial Statements included elsewhere in this Annual Report. Our selected consolidated balance sheet data as of December 31, 2004 has been derived from our Consolidated Financial Statements as of December 31, 2004 and 2003 and for the three years in the period ended December 31, 2004, which are not included in this Annual Report.

Our selected consolidated income statement data for the years ended December 31, 2003 and 2002 and our selected consolidated balance sheet data as of December 31, 2003 and 2002 have been derived from our Consolidated Financial Statements as of December 31, 2003 and 2002 and for the three years in the period ended December 31, 2003. The Consolidated Financial Statements as of December 31, 2003 and 2002 and for the three years in the period ended December 31, 2003 are not included in this Annual Report.

These data are set forth in accordance with Argentine GAAP and US GAAP for all periods presented. See Note 14 to the Consolidated Financial Statements in Item 18 for information regarding certain differences between Argentine GAAP and US GAAP.

As further discussed in Note 3.c to the Consolidated Financial Statements, we discontinued restating our financial statements into constant currency effective March 1, 2003, as required by a CNV resolution. Argentine GAAP required companies to restate financial statements for inflation through September 30, 2003. As stated in footnote 1 to the selected consolidated income statement and balance sheet data, figures for the year ended December 31, 2003 reflect adjustments for inflation until February 28, 2003 and figures for the year ended December 31, 2002 were restated in constant pesos as of February 28, 2003 for comparative purposes only. See Presentation of Financial Information Inflation Accounting .

Recent Accounting Pronouncements

As explained in Item 5 Operating and Financial Review and Prospects New Accounting Standards under Argentine GAAP , on December 29, 2005 and January 26, 2006, the CNV approved, with certain amendments, Resolution CD No. 93/05 issued by the CPCECABA, which establishes new accounting and disclosure standards under Argentine GAAP. These standards have been effective for the Company since January 1, 2006. The adoption of these new standards did not have any impact on the Company's financial position or results of operations, except for the classification of foreign currency translation adjustments as a component of equity. As of December 31, 2006, 2005, 2004, 2003 and 2002, the foreign currency translation adjustments were P\$49 million, P\$31 million, P\$24 million, P\$21 million and P\$28 million, respectively.

Table of Contents

Additionally, in December 2006, the CNV approved RT 23 of the FACPCE, which had been adopted by the CPCECABA, Accounting for post-employment and other long-term employee benefits. This standard will be effective for the Company as from January 1, 2008. However, as permitted by the CNV, we made use of the early adoption provisions and applied the standard as of January 1, 2007. The adoption of RT 23 did not have any impact on the Company's financial position, results of operations and disclosure.

We maintain our financial books and records and prepare our financial statements in pesos in conformity with Argentine GAAP, which differ in certain aspects from US GAAP. For a summary description of the principal differences between Argentine GAAP and US GAAP as they relate to us, see Note 14 to our Consolidated Financial Statements.

Supplementary Unconsolidated Financial Information

For information regarding our financial and operating results on an unconsolidated basis, see Note 13 to our Consolidated Financial Statements.

Table of Contents**CONSOLIDATED SELECTED INCOME STATEMENT AND BALANCE SHEET DATA**

	As of and for the Year Ended December 31, 2006 2005 2004 2003 2002 (P\$ millions, except per share and per ADS data)				
INCOME STATEMENT DATA(1)					
<i>Argentine GAAP Amounts</i>					
Net Sales	7,437	5,718	4,494	3,753	4,012
Cost of services, general and administrative and selling expenses	(6,525)	(5,214)	(4,094)	(3,646)	(4,216)
Operating income (loss)	912	504	400	107	(204)
Other, net (2)	(685)	(472)	(1,249)	(139)	(5,486)
Gain on debt restructuring, net		1,424	209	376	
Income tax benefit (expense), net	17	(122)	(26)	7	1,304
Net income (loss)	244	1,334	(666)	351	(4,386)
Operating income/(loss) per share(3)	0.93	0.51	0.41	0.11	(0.21)
Operating income/(loss) per ADS(4)	4.63	2.56	2.03	0.54	(1.04)
Net income (loss) per share(3)	0.25	1.36	(0.68)	0.36	(4.46)
Net income (loss) per ADS(4)	1.24	6.78	(3.38)	1.78	(22.28)
<i>US GAAP Amounts(6)</i>					
Operating income/(loss)	830	444	436	53	(267)
Net income (loss)	572	1,138	(782)	485	(1,653)
Net income (loss) per share(3)	0.58	1.16	(0.79)	0.49	(1.68)
Net income (loss) per ADS(4)	2.91	5.78	(3.97)	2.46	(8.40)
BALANCE SHEET DATA(1)					
<i>Argentine GAAP Amounts</i>					
Current assets	1,767	1,542	4,439	3,184	2,103
Fixed assets, net	5,741	5,959	6,895	8,001	9,689
Total assets	8,715	8,557	12,328	12,270	12,941
Current liabilities	3,373	2,206	10,232	10,684	11,742
Current debt (5)	1,395	905	9,434	9,996	11,135
Non-current liabilities	3,141	4,443	1,540	365	345
Non-current debt (5)	2,703	3,996	1,219	86	145
Minority Interest	72	41	30	32	9
Common stock	984	984	984	984	984
Total shareholders' equity	2,129	1,867	526	1,189	845
Total liabilities, minority interest, and shareholders' equity	8,715	8,557	12,328	12,270	12,941
<i>US GAAP Amounts(6)</i>					
Total assets	8,809	8,705	12,681	11,630	12,155
Current liabilities	2,644	1,856	10,225	10,684	11,742
Non-current liabilities	4,722	5,993	2,751	455	388
Minority interest	56	37	31	35	35
Total shareholders' equity (deficit)	1,387	819	(326)	456	(10)

- (1) Figures for the year ended December 31, 2003 have been adjusted to reflect inflation until February 28, 2003. Figures for year 2002 reflect the adoption of inflation accounting for the entire period and have been restated in constant pesos as of February 28, 2003 for comparative purposes. See Presentation of Financial Information Inflation Accounting .
- (2) Other, net includes equity gain (loss) on equity investees, amortization of goodwill, financial results, net, other expenses, net and minority interest.
- (3) Calculated based on 984,380,978 shares outstanding during each year.
- (4) Calculated based on 196,876,196 ADSs outstanding during each year.
- (5) The amount of Telecom Argentina's restructured debt recorded on the Company's consolidated balance sheet as of December 31, 2006 has been discounted to its present value as required under Argentine GAAP. See Item 5 Operating and Financial Review and Prospects Critical Accounting Policies Debt Restructuring Results . As of December 31, 2006, such discount amounted to P\$146 million. As of December 31,

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2006, the outstanding nominal amount of total consolidated debt was P\$4,244 million, including derivatives.

- (6) The following tables show the principal reconciling items between our consolidated selected Argentine GAAP and US GAAP amounts shown for all years presented. For a description of these differences please refer to Note 14 to the Consolidated Financial Statements.

Table of Contents

	As of December 31,				
	2006	2005	2004	2003	2002
Total assets under Argentine GAAP	8,715	8,557	12,328	12,270	12,941
<i>Valuation differences:</i>					
Foreign-currency translation	(50)	(10)	5	8	79
Capitalization of foreign currency exchange differences	(210)	(314)	(443)	(566)	(762)
Other adjustments	(3)	6	6	7	1
Tax effects on US GAAP adjustments	75	110	155	198	269
Valuation allowance of deferred tax assets			(285)	(357)	(373)
<i>Balance sheet classification differences:</i>					
Deferred income taxes	295	363	935	70	
Other classifications (i)	(13)	(7)	(20)		
Total assets under US GAAP	8,809	8,705	12,681	11,630	12,155
	As of December 31,				
	2006	2005	2004	2003	2002
Total current liabilities under Argentine GAAP	3,373	2,206	10,232	10,684	11,742
<i>Valuation differences:</i>					
Other adjustments			5		
Tax effects on US GAAP adjustments			(2)		
Valuation allowance of deferred tax assets			2		
<i>Balance sheet classification differences:</i>					
Deferred income taxes					
Financial indebtedness	(716)	(348)			
Other classifications (i)	(13)	(2)	(12)		
Total current liabilities under US GAAP	2,644	1,856	10,225	10,684	11,742
	As of December 31,				
	2006	2005	2004	2003	2002
Total non-current liabilities under Argentine GAAP	3,141	4,443	1,540	365	345
<i>Valuation differences:</i>					
Foreign-currency translation	(1)	(4)	(6)		
Debt Restructurings	875	1,300	235		
Personal Pre APE Debt Restructurings				20	43
Other adjustments	3	3			
Tax effects on US GAAP adjustments	(307)	(455)	(82)	(7)	(15)
Valuation allowance of deferred tax assets			137	7	15
<i>Balance sheet classification differences:</i>					
Deferred income taxes	295	363	935	70	
Financial indebtedness	716	348			
Other classifications (i)		(5)	(8)		
Total non-current liabilities under US GAAP	4,722	5,993	2,751	455	388

- (i) Includes the classifications corresponding to the acquisition and sale of indefeasible right of use. No classification was recorded for revenue recognition (installation fees), since the amounts involved were immaterial. See Notes 14.II.g and 14.II.h to the Consolidated Financial Statements.

Table of Contents

	As of December 31,				
	2006	2005	2004	2003	2002
Total minority interest under Argentine GAAP	72	41	30	32	9
<i>Valuation differences:</i>					
Foreign-currency translation	(16)	(4)	1	3	26
Total minority interest under US GAAP	56	37	31	35	35

	As of December 31,				
	2006	2005	2004	2003	2002
Total shareholders equity under Argentine GAAP	2,129	1,867	526	1,189	845
<i>Valuation differences:</i>					
Foreign-currency translation	(49)	(7)	11	7	78
Capitalization of foreign currency exchange differences, net	(210)	(314)	(443)	(566)	(762)
Debt Restructurings	(875)	(1,300)	(235)		
Personal Pre-APE Debt Restructurings				(20)	(43)
Other adjustments	(6)	3	1	7	1
Tax effects on US GAAP adjustments	382	565	239	205	284
Valuation allowance of deferred tax assets			(424)	(364)	(388)
Minority interest	16	5	(1)	(2)	(25)
Total shareholders equity (deficit) under US GAAP	1,387	819	(326)	456	(10)

	Years ended December 31,				
	2006	2005	2004	2003	2002
Operating income (loss) under Argentine GAAP	912	504	400	107	(204)
<i>Valuation differences:</i>					
Foreign currency translation	6	2	1	(5)	(12)
Depreciation of foreign currency exchange differences	104	117	119	121	135
Other adjustments	(6)	(14)	(6)	(2)	(10)
<i>Income statement classification differences:</i>					
Other expenses, net as operating loss under US GAAP	(186)	(165)	(78)	(168)	(176)
Operating income (loss) under US GAAP	830	444	436	53	(267)

	Years ended December 31,				
	2006	2005	2004	2003	2002
Total net income (loss) under Argentine GAAP	244	1,334	(666)	351	(4,386)
<i>Valuation differences:</i>					
Translation of foreign-currency transactions as of 12/31/2001					3,552
Foreign-currency translation	(17)	(10)	9	(53)	64
Depreciation of foreign currency exchange differences	104	129	123	196	(762)
Debt Restructurings	418	(1,230)	(235)		
Extinguishment of Personal s and Nucleo s restructured debts	7	165			
Personal Pre-APE Debt Restructurings				20	23
Other adjustments	(2)	(5)	(6)	6	(5)
Tax effects on US GAAP adjustments	(185)	328	34	(79)	(960)
Valuation allowance of deferred tax assets		424	(60)	24	908
Minority interest	3	3	(1)	17	(21)
Total net income (loss) under US GAAP	572	1,138	(782)	485	(1,653)

Table of Contents**Exchange Rates**

The following tables show, for the periods indicated, certain information regarding the exchange rates for U.S. dollars, expressed in nominal pesos per dollar (ask price). See: Item 10 Additional Information Foreign investment and exchange controls in Argentina .

	High	Low	Average(1)	End of Period
Year Ended December 31, 2002	3.90	1.55	3.24	3.37
Year Ended December 31, 2003	3.35	2.76	2.95	2.93
Year Ended December 31, 2004	3.06	1.95	2.94	2.98
Year Ended December 31, 2005	3.04	2.86	2.92	3.03
Year Ended December 31, 2006	3.11	3.03	3.07	3.06
Month Ended December 31, 2006	3.08	3.05	3.06	3.06
Month Ended January 31, 2007	3.11	3.06	3.09	3.11
Month Ended February 28, 2007	3.11	3.10	3.10	3.10
Month Ended March 31, 2007	3.11	3.10	3.10	3.10
Month Ended April 30, 2007	3.10	3.08	3.09	3.09
Month Ended May 31, 2007	3.09	3.08	3.08	3.08
Month Ended June 30, 2007 (through June 20, 2007)	3.08	3.07	3.08	3.08

(1) Yearly data reflect average of month-end rates.

Sources: *Banco de la Nación Argentina*

On June 20, 2007, the closing exchange rate (ask price) quoted by Banco Nación was P\$3.08=US\$1.00.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Table of Contents

Risk Factors

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

Risks Relating to Argentina

Overview

Substantially all of our property, operations and customers are located in Argentina, and most of our indebtedness is denominated in or swapped to U.S. dollars. Accordingly, our financial condition and results of operations depend to a significant extent on economic and political conditions prevailing in Argentina and on the rates of exchange between the peso and the U.S. dollar. In the past several years the Argentine economy has experienced a severe recession as well as a political crisis. The abandonment of dollar-peso parity in 2002 has led to significant devaluation of the peso against major international currencies and our need to restructure our financial indebtedness. These conditions have affected and may continue to affect our financial condition and results of operations, and may impair our ability to make payments of principal and/or interest on our financial indebtedness.

Devaluation of the peso will adversely affect our results of operations and the ability to service our debt obligations.

Since we realize a substantial portion of our revenues in Argentina in pesos, any devaluation in the peso will negatively affect the U.S. dollar value of our earnings while increasing, in peso terms, our expenses and capital costs denominated in foreign currency (including costs of servicing our indebtedness denominated in foreign currencies). A significant depreciation in the Argentine peso against major foreign currencies also may have a material adverse impact on our capital expenditure program.

The Argentine peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. Given the economic and political uncertainties in Argentina, it is impossible to predict whether, and to what extent, the value of the peso may depreciate or appreciate against the U.S. dollar, the euro or other foreign currencies. We cannot predict how these uncertainties will affect the consumption of services provided by the Telecom Group or our ability to meet our debt obligations denominated in currencies other than the peso. Moreover, we cannot predict whether the Argentine Government will further modify its monetary policy and, if so, what impact any of these changes could have on the value of peso and, accordingly, on our financial condition and results of operations.

Substantial inflation may return, which would negatively impact Telecom Argentina's margins.

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

Although levels of inflation were lower in years 2003 and 2004, they began to increase in year 2005 and remained higher in year 2006. In 2003, the Argentine consumer price index increased by 3.7% and the wholesale price index increased by approximately 2.0%. In 2004, the Argentine consumer price index increased by 6.1% and the wholesale price index increased by 7.9%. In 2005, the Argentine consumer price index increased by 12.3% and the wholesale price index increased by 10.7%. In 2006, the Argentine consumer price index increased by 9.8% and the wholesale price index increased by 7.2%. In the four-month period ending on April 30, 2007, the consumer price index increased 3.0% and the wholesale price index increased 3.5%. The Argentine Government has implemented several actions in order to monitor and control prices of the most relevant goods and services. Despite the relatively moderate levels of inflation in recent years, it is possible that the Argentine economy will experience significant inflation in the future. If the BCRA issues significant amounts of currency to finance public sector spending, to intervene in the foreign exchange market or to assist financial institutions in distress, or if the value of

Table of Contents

the peso cannot be stabilized by positive expectations for Argentina's economic future and/or strict fiscal and monetary policies, an increase in inflation rates can be expected. In addition, public sector spending has increased in the past few months, a trend, that if it continues, may cause the government to incur a fiscal deficit and lead to higher inflation. Since we derive the majority of our revenues from fees payable in pesos, any further increase in the rate of inflation not accompanied by a parallel increase in our rates would decrease our revenues in real terms and adversely affect our results of operations. As discussed below under **Risks Associated with Telecom and its Operations**, Telecom Argentina's ability to increase its regulated rates is subject to approval of regulatory authorities. We cannot guarantee that the permitted increases will be sufficient to counter inflationary pressures and cannot assure you that the results of any future rate negotiations will be favorable to us and to our financial condition.

In addition, the *Instituto Nacional de Estadística y Censos* (the Argentine National Statistics and Census Institute, or INDEC) has undergone changes in management and its public credibility as the reference source in publishing Argentine inflation indexes has been negatively affected.

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

The Argentine Government has historically exercised significant influence over the economy, and telecommunications companies in particular have operated in a highly regulated environment. Due to the Argentine economic crisis, the Argentine Government promulgated numerous, far-reaching regulations affecting the economy and telecommunications companies in particular. Under the Kirchner administration, the CNC has adopted new interpretations of applicable regulations and imposed fines on telecommunications companies, particularly incumbent operators such as our company. See **Item 8 Financial Information Legal Proceedings** for more information. In addition, local municipalities in the regions where we operate have also introduced regulations and proposed various taxes and fees for the installation of infrastructure, equipment and expansion of fixed line and wireless networks. Local and federal tax authorities have also brought an increasing number of claims against us. We disagree with these proceedings and we are contesting them. However, we cannot assure you that laws and regulations currently governing the economy or the telecommunications industry will not change, that the claims will be resolved in our favor, and that any changes will not adversely affect our business, financial condition or results of operations.

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

Argentina continues to face considerable economic, legal and political uncertainty.

Although general economic conditions have shown improvement and political protests and social disturbances have diminished considerably since the economic crisis of 2001 and 2002, the rapid and radical nature of the changes in the Argentine social, political, economic and legal environment over the past several years have given rise to significant uncertainties about the country's economic and political future. Despite recent economic growth, it is currently unclear whether the economic and political instability experienced over the past several years could recur and we cannot guarantee that Argentina will not return to a period of recession, higher inflation, unemployment and greater social unrest. If instability returns, there could be a material adverse effect on our results of operations and financial condition.

In addition, Argentine Courts have issued rulings changing existing jurisprudence on labor matters and indicating an increase in the assumption by companies of the responsibility for, and the costs and risks associated with, utilizing sub-contracted labor.

In a context in which the governing law and applicable regulations change frequently, it is difficult to guarantee that our commercial activities are not going to be affected in any way.

Table of Contents

Argentina's fiscal problems and sovereign debt default have negatively affected the macroeconomic environment.

The Argentine Government faced severe fiscal problems as a result of the devaluation of the Argentine peso. Due to the fact that almost all of the financial obligations of the Argentine Government were denominated in foreign currencies, there was an increase in the cost of financial services (in terms of Argentine pesos) of the debt of the Argentine Government as a result of the devaluation in 2001 and 2002. The Government's fiscal revenues are also denominated, in large part, in Argentine pesos and although these revenues have increased in Argentine pesos, due to inflation and to the establishment of new sources of tax collection, the revenues decreased in US dollar-terms. For this reason, the Government was severely affected in its ability to carry out its payment obligations using foreign currency.

The Argentine Government has defaulted on a significant part of its public debt in recent years. Due to a sustained lack of investor confidence in Argentina's ability to make payments due on its sovereign debt and in the Argentine economy generally, Argentina's opportunities to effectively raise capital in the international markets have been severely limited.

On September 17, 2004, the IMF approved the Argentine Government's request to defer repayment of about US\$1.1 billion. On January 10, 2005, Argentina launched a formal offer to restructure more than US\$100 billion of defaulted debt. On March 3, 2005, the Argentine Government announced that 76% of its creditors had accepted the offer. On June 2, 2005, new securities totaling approximately US\$35.3 billion were issued by the government and corresponding debt service payments were made. Finally, in January 2006, the Argentine Government completed an early repayment of all of its outstanding indebtedness with the IMF, an amount of approximately US\$10.0 billion. However, there can be no assurance that the Argentine Government will not default on its obligations under the new bonds in the event that it experiences another economic crisis. In addition, Argentina will have to withstand any legal actions that may be filed by bondholders who did not accept the Argentine Government's 2005 exchange offer.

It remains too early to assess what effects, if any, the 2005 sovereign debt restructuring will have on long-term investor confidence, the Argentine economy or on the government's relationship with the holdouts. After the economic crisis in 2001, the Argentine Government has maintained a policy of fiscal surplus. To be able to repay its debt, the Argentine Government may be required to continue adopting austere fiscal measures that could adversely affect economic growth. A new default by the Government could lead to a new recession, higher inflation and unemployment and social unrest, which would negatively affect our financial condition and results of operations. In addition, the Government's default and its consequences may continue to affect the ability of private companies, including Telecom, in obtaining access to capital markets or other forms of financing.

The Argentine banking system is still recovering from a collapse.

In recent years, the Argentine financial system has been characterized by extreme volatility. At the end of 2001 and during 2002, the Argentine Government restricted bank withdrawals and required the conversion of dollar deposits to pesos. This led to a significant decrease in commercial and financial activities, diminished spending and greatly increased social unrest, resulting in widespread public protests against financial institutions.

Argentina's economic growth and the relative stability of the country's exchange rate and inflation evidenced since 2003 have allowed a gradual accumulation of deposits in Argentine financial institutions and improved the liquidity of the financial system. Since 2003, overall bank deposits continued to improve. The recovery in deposits was originally restricted to those of a short-term nature (mainly in demand deposit accounts and saving accounts), but longer term certificates of deposit started to increase in the second half of 2004, allowing a recovery of overall bank financing to the private sector accompanied by growth rates of 26% in 2004, 38% in 2005 and 40% in 2006.

Despite this recovery, we cannot be sure that another collapse will not occur in the future. The Argentine banking system's collapse or the collapse of one or more of the larger banks in the system would have a material adverse effect on the prospects for economic recovery and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives for consumers. These conditions would have a material adverse effect on us by resulting in lower usage of our services and the possibility of a higher level of delinquent or uncollectible accounts.

Table of Contents

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

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

Risks Associated with Telecom and its Operations

It is possible that we will not be able to pay the interest or the principal of our indebtedness.

Having successfully completed the restructuring of our financial indebtedness in August 2005, we foresee being able to make payments of principal and interest on the notes issued pursuant to our APE. Nonetheless, this expectation is based on certain assumptions regarding macroeconomic factors which could affect significant components of our business.

If our assumptions are incorrect, or if there are unforeseen events which significantly and adversely affect our operations or if restrictions are imposed on our ability to transfer funds abroad, it is possible that we might not be in a position to make the interest and principal payments due under our indebtedness. Investment in our securities, therefore, involves a certain degree of risk. However, compliance with the prepayment provisions included in the terms and conditions of the Telecom Argentina notes issued pursuant to the APE resulted, as of April 2007, in the cancellation of the principal mandatory amortizations scheduled through October 2009 and 31.8% of the scheduled principal amortization payable in April 2010. Additionally, the net cash proceeds from the sale of the equity interest in Publicom S.A. were applied through payments made on May 24, 2007 that cancelled an additional 42.2% of the scheduled principal amortization payable in April 2010. After giving effect to this payment, Telecom Argentina has cancelled 74.0% of such scheduled principal amortization payment due April 2010 and the outstanding principal amount of Telecom Argentina indebtedness as of the date of this Annual Report is approximately equivalent to US\$846 million.

Under Argentine law, note holders are entitled to the benefits of the exemption from withholding tax on interest payments provided they comply with the requirements established by the Argentine negotiable obligations law. In addition, the terms and conditions of Telecom Argentina's listed notes call for payments to be made without withholding or tax reductions or any other current or future government charge. Although Telecom Argentina has fully complied with the applicable regulation, we cannot assure you that notes will be entitled in the future to the benefits of the exemption from withholding tax provided in the Argentine negotiable obligations law. In the event our notes do not qualify for the exemption, we could be obliged to pay Argentine taxes on the listed notes and such obligation, if imposed, would generate additional unanticipated payments which could adversely affect our ability to satisfy our obligations under the notes and/or invest in our business.

Due to Telecom Personal's debt service obligations and other funding needs related to the expansion of its business, Telecom Personal's cash flow is being fully applied to meet its own requirements and, for the near future, is not available to Telecom Argentina. Accordingly, our ability to satisfy the debt service obligations under Telecom Argentina's notes in the near future will depend principally on the free cash flow generation of Telecom Argentina (excluding the operations of Telecom Personal and its subsidiaries). As used herein, free cash flow means cash flows provided by operating activities and proceeds from sales of fixed and other assets, net of cash flows used in fixed asset and intangible asset acquisitions.

Given that the debt instruments of Telecom Argentina are not guaranteed by any of Telecom Argentina's subsidiaries, such instruments will be subordinated structurally to indebtedness incurred by its subsidiaries with respect to any assets of those subsidiaries. Accordingly, upon the liquidation or reorganization of our subsidiaries,

Table of Contents

our right to participate in any distribution of their assets is subject to the prior claims of creditors of the relevant subsidiary, including trade creditors. As of December 31, 2006, our subsidiaries (among them, Telecom Personal and Núcleo) had liabilities reaching a total equivalent amount of US\$775 million (including trade creditors and excluding inter-company obligations). Our subsidiaries' cash and cash equivalents as of December 31, 2006 amounted to US\$58 million. Subject to certain restrictions, our subsidiaries can incur additional debt and all of that debt will be structurally senior to the debt instruments of Telecom Argentina.

Our ability to operate our business will be constrained by the indenture governing the notes that we issued in connection with the APE.

The indenture governing the notes issued pursuant to Telecom Argentina's APE contain certain standard operating and financial restrictions and covenants that could adversely affect our ability to finance our future operations or capital needs or to engage in certain business activities. These agreements limit, and in some cases prohibit, except in certain permitted situations, our ability to:

incur liens;

incur indebtedness;

sell certain types of assets;

enter into sale and leaseback transactions;

engage in transactions with our shareholders and affiliates;

make capital expenditures not expressly permitted;

make restricted payments (including loans and investments);

impose payment restrictions affecting restricted subsidiaries;

issue equity interests of Telecom Personal resulting in a loss of control of Telecom Personal;

engage in other lines of business; or

engage in certain mergers.

In addition, the notes issued pursuant to Telecom Argentina's APE contain cash sweep provisions which will require Telecom Argentina to use any excess cash as defined in the notes, to prepay Telecom Argentina's notes, which will further limit our ability to finance our future operations or capital needs. Due to accumulated losses and these debt service obligations we do not expect to be able to pay dividends in the next year.

In March 2006, Telecom Argentina implemented certain modifications to the Indenture governing the notes issued pursuant to the APE, after obtaining the approval of noteholders represented at an Extraordinary Bondholders Meeting. The approved modifications removed restrictions on capital expenditures for Telecom Personal and eliminated Telecom Argentina's obligation to reinvest in Telecom Personal any distribution payments received from Telecom Personal.

Our Series A and Series B notes contain mandatory prepayment terms and permit redemption at the option of Telecom Argentina.

The terms of the Series A and Series B notes that Telecom Argentina issued pursuant to the APE include mandatory prepayment terms that may require Telecom Argentina to prepay the principal amortization of the notes before their scheduled payment date. As of the date of this Annual Report, all principal amortization payments on the notes scheduled to be made through October 2009 and 74.0% of the principal amortization payments scheduled to be made in April 2010 have been paid and the outstanding principal amount of Telecom Argentina indebtedness as of the date hereof is approximately equivalent to US\$846 million. All principal amortization payments were made on a pari passu basis, as required by the notes. In addition to making note payments (which are applied to prepay the remaining installments of the notes in direct order of maturity) or optional redemptions (which are applied pro rata at par value), Telecom Argentina may retire the notes through purchases of the notes in the secondary market if the notes are available for purchase at a price below their par value. Telecom Argentina provides no assurance regarding the amount, timing or mechanism for any prepayment or redemption of the notes.

Table of Contents

We are leveraged in foreign currency.

As of December 31, 2006, our total nominal consolidated bank and financial indebtedness, denominated in dollars, euro and yen amounted to the equivalent of approximately US\$1,322 million, including accrued but unpaid interest and related derivatives. Our total consolidated peso-denominated debt amounted to P\$196 million, equivalent to US\$64 million. As of December 31, 2006, our total nominal consolidated cash and cash equivalents denominated in dollars, euro and yen amounted to the equivalent of approximately US\$122 million and our total consolidated peso-denominated cash and cash equivalents amounted to P\$288 million, the equivalent of US\$94 million. Our leverage may impair our ability to service our indebtedness or obtain additional financing in the future, to withstand competitive pressure and adverse economic conditions or to take advantage of significant business opportunities that may arise.

In addition, our subsidiary Telecom Personal is and will continue to be leveraged. As of December 31, 2006, Telecom Personal's stand-alone outstanding debt was the equivalent of approximately US\$385 million, of which a significant portion is denominated in US dollars. As of December 31, 2006, Telecom Personal's total cash and cash equivalents denominated in dollars amounted to the equivalent of approximately US\$31 million and Telecom Personal's total peso-denominated cash and cash equivalents amounted to P\$57 million, the equivalent of US\$19 million.

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

In accordance with the Public Emergency Law, in January 2002, rates for basic telephony services and long-distance services were converted to pesos and fixed at an exchange rate of P\$1.00=US\$1.00. The rates Telecom Argentina may charge in the future will be determined by negotiation between Telecom Argentina and the Argentine Government. According to the Public Emergency Law, while undertaking these negotiations, the Argentine Government must consider the effect of these rates on the competitiveness of the general economy, the quality of the services, the investment plans, consumer protection and accessibility of the services and the profitability of public services companies such as Telecom Argentina. In connection with these negotiations, on May 20, 2004, Telecom Argentina and Telefónica signed a Letter of Understanding with the Argentine Government whereby Telecom Argentina agreed, without waiving its right to continue negotiations, to maintain the current tariff structure charged to our customers for fixed line services until December 31, 2004 (the Letter of Understanding 2004).

On December 17, 2004, Law No. 25,972 was published in the Argentine Government's Official Bulletin. The law extended the term for the renegotiation of public works and services contracts specified in Article 9 of the Public Emergency Law until December 31, 2005. Law No. 25,972 also stipulated that the Argentine Government would not be bound in its renegotiation of these contracts by any regulations with respect to public works and services currently in effect. The law also confirmed that the effectiveness of the Public Emergency Law would continue until December 2005. In January 2006, Law No. 26,077 was passed, extending the effectiveness through December 31, 2006 and, in December 2006, Law No. 26,204 again extended the effectiveness through December 31, 2007.

On March 6, 2006, Telecom Argentina executed a new Letter of Understanding (the Letter of Understanding 2006) with the Argentine Government pursuant to which Telecom Argentina will be permitted to raise certain rates and incorporate certain modifications to the current regulatory framework. Under the Letter of Understanding 2006, rate increases will be restricted to the termination charge for international incoming calls and the extension of the time bands for peak-hour tariffs applied to local and domestic long-distance calls. Please see Item 4 Information on the Company Regulatory Framework.

The Letter of Understanding 2006 contemplated the signing and effectiveness of Minutes of Agreement of the negotiation upon the fulfillment of certain necessary steps. As of the date hereof, such fulfillment has yet to occur.

Table of Contents

Although we expect such fulfillment and effectiveness in the near future, we cannot guarantee if or when this will happen. We are unable to predict the outcome of the negotiations that are continuing with regard to further rate increases and the rate scheme which will be applied in the future. Moreover, we are unable to predict whether the Argentine Government, as a result of the current rate renegotiations, will impose additional conditions or requirements, and if these conditions or requirements are imposed, whether we will be able to meet them.

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

Additionally, since the end of the year 2005, the Argentine Government had implemented various measures to control inflation such as price controls of certain goods and services. It is possible that services not currently regulated in this manner by the Argentine Government may be the subject of future price controls or that similar mechanisms affecting our economic and financial situation may be implemented.

We must comply with conditions in our license, some of which are outside of our control.

We are subject to a complex series of laws and regulations with respect to most of the telecommunications services we provide. We provide telecommunications services pursuant to licenses that are subject to regulation by various regulatory bodies. Any partial or total revocation of the licenses would be likely to have a material adverse impact on our financial condition and results of operations. Our dissolution and the declaration of bankruptcy are events which may lead to a revocation of our licenses.

Certain license conditions are not within our control. For example, any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina without prior approval of the regulatory authorities may result in the revocation of Telecom Argentina's license.

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

Nortel owns all of our Class A Ordinary Shares (51% of our total capital stock) and approximately 8.35% of our Class B Ordinary Shares (3.74% of our total capital stock) which, in the aggregate, represents approximately 54.74% of our total capital stock. We are directly controlled by Nortel by virtue of Nortel's ownership of a majority of our capital stock; however, Nortel's controlling interest is subject to certain agreements among Sofora's shareholders.

Pursuant to the provisions of Telecom Argentina's List of Conditions as amended by Resolutions S.C. No. 111/03 and No. 29/04: (i) any reduction of ownership of Nortel in our capital stock to less than 51% without prior approval of the Regulatory Bodies; or (ii) any reduction of ownership of currently common shareholders in the capital stock with voting power of Nortel to less than 51% without prior approval of the Regulatory Bodies, may result in the revocation of Telecom Argentina's telecommunications license.

Pursuant to the provisions of the Telecom Personal List of Conditions for STM, SRMC and PCS, the license holders of these services may not assign, transfer, encumber or dispose of the licenses or of the rights arising therefrom unless there is an authorization from the CNC.

We operate in a competitive environment which may result in a reduction in our market share in the future.

We compete with licensed provider groups, comprised of, among others, independent fixed line service providers, wireless (cellular) and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina. Groups with data transmission networks and other companies providing wireless services may be indirect competitors of Telecom Argentina and its subsidiaries to the extent those services may be substitutes for fixed wireline telephony. As of December 31, 2006, more than 200 licenses for local and/or long-distance services had been granted since the end of the exclusivity period.

Table of Contents

We expect that we will face pressure on the rates we charge for services and we could experience loss of market share for Voice, Data and Internet services as a result of this competition particularly in the long-distance service and Internet businesses. In addition, the market for wireless services is very competitive as certain of our competitors have substantial telecommunications experience. In 2004, Telefónica Móviles, S.A. (Telefónica Móviles), the wireless affiliate of Telefónica, S.A., acquired the Argentine wireless business of Compañía de Radiocomunicaciones Moviles S.A. Movicom which resulted in Telefónica Móviles becoming Argentina's largest wireless operator in terms of numbers of subscribers. The Internet services and wireless telecommunications markets, which we expect will continue to account for an increasing percentage of our revenues in the future, are characterized by rapidly changing technology, evolving industry standards, changes in customer preferences and the frequent introduction of new services and products. To remain competitive in the Voice, Data and Internet services market, we must invest in our fixed-line network and information technology in order to maintain and improve service quality and to prepare the network for the development and provision of new services that require enhanced capacity. To remain competitive in the wireless telecommunications market, we must enhance our wireless networks principally by completing the migration from TDMA to GSM technology, start providing 3G services, expand our GSM network coverage, provide high service quality and attractive plans and facilitate the synergy between fixed and wireless communications. To remain competitive in the Internet services market, we must constantly upgrade our access technology and software, embrace emerging transmission technologies and improve the responsiveness, functionality, coverage and features of our services. In the Wireless segment, we expect to continue to need to devote resources to customer retention and loyalty and to the replacement of handsets due to technological updates. These enhancements and the introduction of new services will demand increased capital expenditures. We must also adapt to changing market conditions. Future technological developments may result in decreased customer demand for certain of our services or even render them obsolete. In addition, as new technologies develop, equipment may need to be replaced or upgraded or network facilities (in particular, wireless network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. Responding to these changes may require us to devote substantial capital to the development, procurement or implementation of new technologies.

We also anticipate that we will have to devote significant resources to the refurbishment and maintenance of our existing network infrastructure. In addition, we may have to repair or replace our equipment lost due to theft or vandalism.

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

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

Competition is and will continue to be affected by our and our competitors' respective business strategies and alliances. Accordingly, we may face additional pressure on the rates we charge for our services or experience loss of market share in these areas. In addition, the general business and economic climate in Argentina, including economic turbulence and regional differences in growth, interest rates, inflation rates and the instability of the dollar/peso exchange rate may affect us and our competitors differently, potentially to our relative disadvantage. We also expect that the level of competition in our markets will continue to increase in the future.

In light of the range of regulatory, business and economic uncertainties we face, as discussed in this Risk Factors section, it is difficult for us to predict with meaningful precision and accuracy our future market share in relevant geographic areas and customer segments, the speed with which change in our market share or prevailing prices for services may occur or the effects of competition. Those effects could be material and adverse to our overall financial condition and results of operations.

Table of Contents

Future allocations of wireless frequency bands may affect the competitiveness of the Argentine wireless industry and could impact Telecom Personal's competitive position within it.

The SC is responsible for the allocation of bands in the wireless spectrum within promulgated regulations. We cannot guarantee that Telecom Personal's requests to participate in the reallocation process related to the bands to be released by Telefónica Móviles will be granted, or that the frequency bands will not be reallocated to existing or future competitors of Telecom Personal, negatively affecting Telecom Personal's competitive position and ability to offer cellular services to its customers on a competitive basis. See Item 4 Information on the Company Regulatory Framework Regulations Applicable to PCS Services for a detailed description of Telecom Personal's license.

Nortel, as our principal shareholder, and its controlling shareholder, Sofora, exercise significant control over matters affecting us.

As discussed above, Nortel is our principal shareholder. Sofora owns 100% of the common stock and 67.79% of the capital stock of Nortel. Sofora is currently 50% owned by Telecom Italia Group, 48% owned by W de Argentina Inversiones S.L., or W de Argentina Inversiones (a company that is party of the Werthein Group de Argentina) and 2% owned by France Telecom Group.

Through their ownership of Sofora, the Telecom Italia Group and W de Argentina Inversiones will have the ability to determine the outcome of any action requiring our shareholders' approval, including the ability to elect a majority of directors.

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

We have engaged in and will continue to engage in transactions with these shareholders of Nortel and, at the present time, of Sofora, and their affiliates. Certain decisions concerning our operations or financial structure may present conflicts of interest between these shareholders as direct or indirect owners of our capital stock and as parties with interests in these related party contracts.

Nevertheless, any transactions with related parties that hold 1% or more of our equity are put through a prior approval process established by Decree No. 677/01 and requiring involvement of the Audit Committee and/or an opinion of two independent valuation firms as well as subsequent approval by the Board of Directors in order to verify that the agreement could reasonably be considered to be in accordance with normal and habitual market practice. See Item 7 Major Shareholders and Related Party Transactions Related Party Transactions .

Our operations and financial condition could be affected by union activity and general labor unrest.

In Argentina, labor organizations have substantial support and have considerable political influence. The demands of our labor organizations have increased recently as a result of the general labor unrest and dissatisfaction resulting from the disparity between the cost of living (which was significantly affected by the increased level of inflation in the last two years) and salaries in Argentina as a result of the end of the Convertibility Law (although the Argentine Government has attempted to alleviate this economic disparity through in-kind social welfare distributions). Moreover, labor organizations have advocated that certain of our non-unionized employees should be represented by trade unions. If the number of employees covered by trade unions increases, we may incur an increase in costs for the higher compensation that we and our contractors may need to pay to unionized employees.

In this context, and given the fact that we are limited in our ability to resolve these issues since, among other things, Telecom Argentina has not yet received authorization for tariff increases, we concluded several agreements with various labor organizations representing in particular our fixed-line telephony employees. Please see Item 6 Directors, Senior Management and Employees Employees and Labor Relations and Item 8 Financial Information Legal Proceedings .

Table of Contents

The Argentine Government may order salary increases to be paid to employees in the private sector or changes in labor regulations, which would increase our cost of doing business.

The Argentine Government has in the past and may in the future promulgate laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees (including higher levels of severance payments to former employees dismissed without proper cause). In the aftermath of the Argentine economic crisis, both the Government and private sector companies have experienced significant pressure from employees and labor organizations relating to wage levels and employee benefits. However, since early 2005 the Argentine Government has decided not to order new salary increases by decree. We cannot guarantee that the government will not again adopt measures that will increase salaries or require us to provide additional benefits, which would increase our costs and, among other things, in the absence of an adjustment of regulated tariffs, reduce our profitability.

Moreover, the Argentine Congress is discussing certain modifications to labor regulations that, if approved, could materially impact our relationship with our employees increasing the labor cost and decreasing the flexibility to provide services to our clients.

We are involved in various legal proceedings which could result in unfavorable decisions and financial penalties for us.

We are party to a number of legal proceedings, some of which have been pending for several years. We cannot be certain that these claims will be resolved in our favor, and responding to the demands of litigation may divert management time, attention and financial resources. Please see: Item 8 Financial Information Legal Proceedings .

In addition, in the last two years, certain changes in the treatment of employment matters under Argentine law have created new incentives for individuals to pursue employment-related litigation in Argentine courts. These changes include holdings that an employee of a subcontractor may file a direct action against the firm contracting the work, that any cap on severance pay in cases of dismissal without cause is unconstitutional, that an employee may bring a civil action in the event of an occupational accident, and the passage of an amendment to the Employment Contract Law to restrict an employer's ability to change the form and conditions of work expected of an employee. As a result of these changes, there may be a heightened risk of employment-related litigation. For example, former sales representatives of Telecom Personal have brought legal actions for what they consider to be the untimely termination of their contracts and have submitted claims for the payment of different items such as commission differences, seniority bonuses and lost profit. Decisions on these claims are pending.

The tax authorities have reviewed certain interpretations that could affect the tax treatment of our bad debt expense and Fiber Optic improvements. Several claims for additional taxes have been brought against Telecom by the tax authorities and final resolution of such claims could result in our payment of additional taxes, accrued interest and fines. See Item 10 Additional Information Taxation and Item 8 Financial Information Legal Proceedings .

We may be subject to measures by the Argentine Government that may modify or impose obligations to provide telecommunications services without or with reduced compensation which may result in losses.

On June 12, 2002, the Argentine Congress passed Law No. 25,609, which was subsequently vetoed by the executive branch and sent back to the Congress where it is still being considered. Law No. 25,609 provides that Argentine telephone operators such as Telecom Argentina must provide indispensable telephony services to certain public entities even if these beneficiaries do not pay for these services. The implementation of Law No. 25,609 and subsequent regulations may impact Telecom Argentina's ability to set-off any amounts owed by these public entities against any amounts Telecom Argentina owes to the Argentine Government. In addition, the fulfillment of these obligations may result in losses for us. Please see Item 4 Information on the Company Regulatory Framework Law No. 25,609 .

Table of Contents

Certain regulatory measures that are still pending implementation, including regulations governing the unbundling of the local access (commonly known as local loop) and number portability, could have the effect of increasing competition for the services we offer. Moreover, the government could modify some of the current regulations, without granting the company corresponding compensation for changes in service requirements, could change its interpretation of existing regulations or introduce new obligations such as, among others, those relating to Universal Service regulation (See Item 4 Information on the Company Regulatory Framework Decree No. 764/00) or to the provision of customer services, those resulting from the 1999, 2000 and 2001 Price Cap SC reviews still pending and those being established to apply in a tariff reduction any balance resulting from Rate Rebalancing. Any such changes could have a material impact on our operations. However, these potential obligations may be offset by measures in Telecom Argentina's favor, such as those contemplated in Resolution 41/07 (see Item 4 Information on the Company Regulatory Framework Tax Stability: Social Security Contribution Variations).

The BCRA has imposed restrictions on the transfer of funds outside of Argentina in the past and may do so in the future, which could prevent us from making payments on our debt.

In 2001 and 2002, the Argentine Government imposed a number of monetary and currency exchange control measures that included restrictions on the free disposition of funds deposited with banks and tightened restrictions on transferring funds abroad, including for purposes of paying principal and interest on debt. Although these restrictions have generally been eliminated, restrictions on transfer of funds have in the past limited and may in the future limit our ability to make payments on our debt to creditors outside of Argentina. There can be no assurance that the BCRA will not again restrict the transfer of funds abroad for principal and/or interest payments by us to our foreign creditors, or require its prior authorization for such purposes, which would limit our ability to service our debt. See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina .

There is no assurance that the market for our securities will provide proper levels of liquidity.

The future liquidity position of our securities, including Telecom Argentina's Series A and Series B notes, is uncertain. The liquidity of our securities will depend on numerous factors, many of which are outside of our control. The liquidity of our securities could be adversely affected by changes in market conditions and interest rates, both in Argentina and the global economy, as well as by any change in our financial condition and results of operations.

In particular, the liquidity of Telecom Argentina's Series A and Series B notes could be reduced by prepayments and repurchases carried out in accordance with the terms of the notes.

Fluctuations in Telecom Argentina's share price depend on various factors, some of which are outside of our control.

Over the past few years, the value of Telecom Argentina's shares has increased. Nevertheless, the market price of our shares is subject to change due to various factors which are outside of our control such as changes in market expectations, changes in measures used by investors or analysts to value our stock or market trends unrelated to our performance. We cannot predict when such external factors will affect our stock price or whether their effects will be positive or negative.

In addition, future conversions of Telecom Argentina's Class C Shares could affect the trading price of Telecom Argentina's shares if a large number of converted shares are sold in the public markets within a short time period. See Item 6 Directors, Senior Management and Employees Share Ownership Share Ownership Plan.

Finally, currency fluctuations could impact the value of your investment. Although Telecom Argentina's ADRs listed on the New York Stock Exchange are U.S. dollar denominated securities, they do not eliminate the currency risk associated with an investment in an Argentine company.

If we experience significant losses, we may be required to undertake a mandatory capital stock reduction or commence dissolution procedures

Under Article 206 and paragraph 5 of Article 94 of the Argentine Companies Law No. 19,550, as amended, if at the annual shareholders' meeting a corporation presents financial statements that report that the corporation's losses exceed certain thresholds or reports negative shareholders equity, the corporation is required to reduce its capital stock; or to commence dissolution proceedings unless its shareholders take action to increase the company's capital stock.

Table of Contents

The requirements of Article 206 and paragraph 5 of Article 94 were temporarily suspended by governmental decrees until December 10, 2005, but have been in effect since that time.

Since the Company reported significant accumulated losses for the year ended December 31, 2005, it qualified for mandatory reduction of its capital stock. Accordingly, the Ordinary Shareholders Meeting held on April 27, 2006 approved the use of the Company's legal reserve and a portion of its inflation adjusted capital account to absorb accumulated losses and remediate this situation. See Item 9 The Offer and Listing .

We reported net income for the fiscal years ended December 31, 2006 and 2005, but we still had accumulated losses amounting to P\$1,592 million as of December 31, 2006. Although we currently do not qualify for mandatory reduction of capital stock, we cannot guarantee that we will not report significant losses in the future and again qualify for capital stock reduction under Article 206 or under paragraph 5 of Article 94.

In past periods of macroeconomic distress, such as those in 1989 and 2002, Articles 206 and paragraph 5 of Article 94 have been temporarily suspended. However, we cannot guarantee that in any future periods of macroeconomic distress such suspension would occur.

Our consolidated financial statement under Argentine GAAP may not give you the same information as financial statements prepared under US GAAP.

There is a lower level of regulation of the Argentine securities markets and of the activities of investors in these markets as compared with the securities markets in the United States and certain other developed countries. We maintain our financial books and records and prepare our financial statements in conformity with Argentine GAAP, which differs in certain significant aspects from US GAAP. See Note 14 to the Consolidated Financial Statements for a description of the significant differences between Argentine GAAP and US GAAP as they relate to us.

ITEM 4. INFORMATION ON THE COMPANY

INTRODUCTION

The Company

Telecom is one of the largest private-sector corporations in Argentina in terms of revenues. Telecom Argentina has a non-expiring license (the License) to provide fixed-line telecommunications services in Argentina. We also provide other telephone-related services such as international long-distance service and data transmission and Internet services, and through our subsidiaries, wireless telecommunications services, international wholesale services, and telephone directory publishing.

As of December 31, 2006, our telephone system included approximately 4.09 million lines in service. This is equivalent to approximately 21.4 lines in service per 100 inhabitants in the Northern Region and 356 lines in service per employee.

As of December 31, 2006, our Internet business has approximately 95,000 customers of its dial-up and private virtual network services and approximately 457,000 customers of its ADSL service. Our Wireless reportable segment has approximately 8.43 million customers in Argentina and approximately 1.16 million customers in Paraguay.

Business Strategy

Our goal is to be a leading provider of integrated communications, providing a wide variety of fixed and wireless telecommunication services, mainly in the territory of the Argentine Republic. Our purpose is to be a leader in operational excellence, in the provision of innovative services and in customer satisfaction.

We aim to maximize our business returns by building customer loyalty through innovative and attractive offerings that our competitors will find difficult to imitate. We believe that the main drivers of growth will continue to be our broadband business and wireless service offerings, enabled by increased penetration, higher access speeds and sale of Value Added Services.

Table of Contents

As our customer base matures and grows, we believe it is critical to provide services that are increasingly easy to adopt and use, with the degree of customization and control customers need.

We are in a privileged position to benefit from the convergence of services provided to fixed and wireless customers, which represents an advantage compared to operators that operate purely in one of the fixed, wireless and/or cable businesses. We aim at improving synergies, to which end we are designing and executing a plan conducive to the coordinated development of our networks and systems an essential element for the provision of a wide portfolio of integrated services. Key components of our strategy include:

Broadband Deployment. Adoption of broadband services is expected to be the catalyst that will speed up fixed-wireless service convergence and increase the Company's ability to offer innovative multimedia services;

Achieve nationwide coverage with our wireless service by using a differentiated strategy across regions and deploying 3G technology;

Fully migrate our traditional telephone infrastructure to the unified NGN architecture. This transition has already started;

Continue the deployment of Fiber Optics, to improve transmission capacity and increase access speed for our customers, which in turn enables the increased offering of combined Value Added Services; and

Continue our partnership with well-regarded international operator, the Telecom Italia Group.

We understand that the successful achievement of these goals will largely depend on our ability to adapt with efficiency and speed to the requirements of a rapidly changing market, and to keep pace with the technological evolution required to continue delivering leading-edge services comparable to those provided in more developed countries.

Organizational Structure

The following chart shows our principal subsidiaries and affiliated companies as of December 31, 2006, and jurisdiction of organization.

(*) Dormant entity.

(**) Entity sold on April 12, 2007. See Recent Developments.

Table of Contents**Consolidated Subsidiary Information**

The following table presents information relating to the activity and reportable segment of our percent ownership and the percentage of our consolidated total net sales represented by our consolidated subsidiaries for the fiscal year ended as of December 31, 2006:

Subsidiary (1)	Activity	Reportable Segment	Ownership	Percentage of	
				Telecom s	
				Total	
				Percent	Consolidated
					Net Sales
Telecom Personal S.A.	Wireless Services	Wireless	99.99		53.3
Núcleo S.A. (2)	Wireless Services	Wireless	67.50		4.8
Telecom Argentina USA Inc.	International Service	Voice, Data and Internet	100.00		0.4
Publicom S.A (3)	Publication of Directories	Directories Publishing	99.99		0.9
Micro Sistemas S.A. (4)	Electronic Equipment Sales	Voice, Data and Internet	99.99		
Total					59.4

(1) All incorporated in Argentina, except for Núcleo S.A. (Paraguay) and Telecom Argentina USA Inc. (USA).

(2) Interest held indirectly through Telecom Personal.

(3) Entity sold on April 12, 2007. See Recent Developments.

(4) Dormant subsidiary as of December 31, 2006.

Our principal executive offices are located at Alicia Moreau de Justo 50, C1107AAB, Buenos Aires, Argentina, telephone number: 54-11-4968-4000.

Our authorized agent in the United States for SEC reporting purposes is Puglisi & Associates, 850 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware, 19715.

Recent Developments*Sale of our Subsidiary Publicom and Note Payment with the net cash proceeds*

On March 29, 2007, the Board of Directors of Telecom Argentina approved the sale of its entire share participation in Publicom (99.99% of capital and voting shares of Publicom) to the Spanish corporation Yell Publicidad S.A. for approximately US\$60.8 million. The transaction closed on April 12, 2007. Nortel, owner of 0.01% of the capital and voting shares of Publicom, simultaneously sold its participation to the same corporation for approximately US\$6,000.

Despite the sale of its ownership interest, Telecom Argentina will continue to comply with its regulatory obligations related to the editing and distribution of telephone directories (white pages) to its clients through operating contracts entered into with Publicom. See Item 5 Operating and Financial Review and Prospects Management Overview for more detail.

According to the terms and conditions of the notes issued by Telecom Argentina, on May 24, 2007, Telecom Argentina cancelled an additional 42.2% of the scheduled principal amortization payable in April 2010 with the net cash proceeds from the sale of Publicom. After giving effect to this payment, Telecom Argentina has cancelled 74.0% of such scheduled principal amortization payment due April 2010.

Núcleo Dividend Payment

On May 3, 2007, Núcleo paid its shareholders a dividend in an amount in Guaraníes equivalent to US\$24 million, as stipulated by the General Shareholders Meeting held on April 2, 2007. Personal received US\$16.2 million in the distribution. In accordance with current tax law in

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Paraguay, Nucleo withheld 15% of the amount distributed to Personal as income tax. Consequently, Personal received US\$13.8 million in dividend proceeds and has a credit for taxes imposed of foreign earnings in an amount of US\$2.4 million.

Table of Contents

Change in Indirect Ownership of the Company

In April 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. issued a joint statement regarding their agreement to transfer their respective shareholdings in Olimpia S.p.A., which holds approximately 18% of Telecom Italia S.p.A.'s voting shares, to a joint company made up by Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefónica S.A. This transaction is subject to the approval of the competent authorities and is expected to be completed by October 2007.

Tax Stability; Social Security Contribution Variations

On March 23, 2007, the SC issued Resolution No. 41/07 relating to the impact of variations in Social Security contributions occurring over the past several years. Resolution 41/07 will permit Telecom Argentina to offset the cost of Social Security contribution increases with savings generated by decreases in contributions over the same period.

The implementation by Telecom Argentina of Resolution 41/07 remains subject to tax audits by the relevant Regulatory Authority. Management of the Company estimates that a positive balance in the Company's favor will result from such audits and will be applied to other regulatory obligations, existing or to be determined in the future. See Regulatory Framework Tax Stability; Social Security Contribution Variations.

Change of Enterprise Resource Planning (ERP) System: Successful Implementation of SAP

In the third quarter of 2005, the Company's management launched a project to replace its JD Edwards ERP software and other site planning and control systems with a single, fully-integrated multi-company software supplied by SAP.

Following a critical review of the business processes of Telecom Argentina, Personal and Publicom in 2006, the Company implemented use of the SAP software on a widespread basis on January 15, 2007. As of the date hereof, all of the Group's companies based in Argentina are using SAP for all of their processes in the areas of: accounting, accounts payable, treasury, works in progress, logistics, fixed assets and materials and project management.

As of the date of this Annual Report, Telecom has started the second phase of the project with the objective of increasing functionalities regarding human resources, buildings and automotive fleet management and engineering planning, among others.

History

Telecom Argentina was created by Decree No. 60 of the executive branch dated January 5, 1990 and incorporated as Sociedad Licenciataria Norte S.A. on April 23, 1990. In November 1990, our legal name was changed to Telecom Argentina STET-France Telecom S.A. and on February 18, 2004, it was changed to Telecom Argentina S.A.

Telecom Argentina is organized as a *sociedad anónima* under Argentine law. The duration of Telecom Argentina is 99 years from the date of registration with the Buenos Aires Public Registry of Commerce (July 13, 1990). Telecom Argentina conducts business under the commercial name Telecom.

Telecom Argentina commenced operations on November 8, 1990 (the Transfer Date), upon the transfer from the Argentine Government of the telecommunications system in the Northern Region previously owned and operated by Empresa Nacional de Telecomunicaciones (ENTel). This transfer was made pursuant to the Argentine Government's privatization program as set forth in the State Reform Law approved in August 1989 and subsequent decrees (the Privatization Regulations) which specified the privatization procedure for ENTel.

Table of Contents

The Privatization Regulations provided for:

the division of the Argentine telecommunications network operated by ENTel into two regions, the Northern Region and the southern region of Argentina (the Southern Region);

the granting to Telecom Argentina and Telefónica of non-expiring licenses to provide basic telecommunication services in the Northern Region and Southern Region, respectively;

the granting to Telintar and Startel, each joint subsidiaries of Telecom Argentina and Telefónica, of non-expiring licenses to provide international long-distance and data transmission, respectively; and

the transfer by ENTel of substantially all of its assets and certain contracts into Telecom Argentina, Telefónica, Telintar and Startel. On the Transfer Date, pursuant to the terms and conditions of a transfer contract (the Transfer Agreement), the Argentine Government sold 60% of the common stock to Nortel, a holding company formed at that moment by a consortium of investors including Telecom Italia among others. As of December 31, 2006, Nortel's common stock was owned by an Argentine company named Sofora, which was organized in September 2003 and is held 50% by the Telecom Italia Group, 48% by W de Argentina Inversiones S.L., a holding company incorporated in the Kingdom of Spain, and a company of the Wertheim Group, and 2% by France Telecom Group. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders .

Pursuant to the Privatization Regulations, 10% of Telecom Argentina's common stock was transferred to a Share Ownership Plan for certain ex employees of ENTel and CAT by the Argentine Government, and the remaining 30% of Telecom Argentina's common stock was sold to investors, principally in Argentina, the United States and Europe, in an offering completed in March 1992. See: Item 6 Directors, Senior Management and Employees Share Ownership Share Ownership Plan .

On the Transfer Date, Telecom Argentina also entered into a management agreement (the Management Agreement) with Telecom Italia and FCR, a subsidiary of France Telecom S.A. (jointly, the Operators) pursuant to which the Operators agreed to provide services, expertise and know-how with respect to the Telecom Argentina's activities. The Telecom Italia Group was sole Operator under this agreement from December 2003 to October 2004. The Management Agreement expired on October 10, 2004. Since December 2003, the Telecom Italia Group has been the sole operator of Telecom Argentina.

On April 15, 1992, Telecom Argentina began to provide services to four of the six provinces formerly served by CAT.

Telecom Argentina provided public telecommunications services on an exclusive basis for a seven-year term, which expired on November 8, 1997. Telecom Argentina had the right, subject to regulatory approval and other conditions, to an extension of the period of exclusivity. On March 13, 1998, the Argentine Government issued Decree No. 264/98, whereby the period of exclusivity was extended with respect to Basic Telephone Services until October 1999. The decree further provided for a transition period prior to the full liberalization of the telecommunications market.

On August 12, 1999, Perez Companc S.A. (owner of 25% of the ordinary shares of Nortel), and J.P. Morgan and J.P. Morgan Capital Corporation (jointly owners of 10% of the ordinary shares of Nortel) sold all of their shares of Nortel in equal parts to members of the Telecom Italia Group and the FCR Group.

Through September 30, 1999, Telecom Argentina provided domestic and international telephony services in the Northern Region on an exclusive basis. Commencing in October 1999, the Argentine Government implemented a deregulation plan introducing competition into the basic telephone service market. See Regulatory Framework Deregulation Plan Established by Decree No. 264/98 . The Argentine telecommunications market was opened to full competition beginning in November 2000. As a result, Telecom Argentina now offers services throughout Argentina and competes with Telefónica and with a number of additional operators throughout its markets.

Table of Contents

On May 3, 2000, certain employees of Telecom Group participating in the employee Share Ownership Plan created by the Argentine Government in connection with the privatization of ENTel, sold 44,458,431 Class B Shares (represented by 7,600,000 ADSs and 6,458,431 shares) in an offering in the United States and in Argentina. Subsequently, other employees sold their shares in the market. The remaining shares issued pursuant to the Share Ownership Plan are in the process of being released from ongoing legal proceedings to enable their gradual conversion and sale in the public market. See Item 6 Directors, Senior Management and Employees Share Ownership Share Ownership Plan .

THE BUSINESS

General

We conduct our business through six legal entities which represent six operating segments. We aggregate these operating segments into reportable segments following the nature of the products and services provided.

The companies we aggregated to create the reportable segments are as follows:

Reportable segment	Consolidated Company/Operating Segment
Voice, Data and Internet	Telecom Argentina Telecom Argentina USA Micro Sistemas (i)
Wireless	Telecom Personal Núcleo
Directories publishing	Publicom (ii)

- (i) Dormant entity at December 31, 2006.
- (ii) Entity sold on April 12, 2007. See Recent Developments .

Voice, Data and Internet. Telecom Argentina owns a local telephone line network, public long-distance telephone transmission facilities and a data transmission network in the Northern Region. Telecom Argentina also owns a network in the Southern Region. Voice, Data and Internet services are comprised of the following:

Basic telephony services. Telecom Argentina provides basic telephony services, including local and domestic long-distance telephone services and public telephone services. As of December 31, 2006, Telecom Argentina had approximately 4.09 million lines in service;

International long-distance services. Telecom Argentina provides international telecommunications service in Argentina including voice and data services and international point-to-point leased circuits;

Data transmission and Internet services. Telecom Argentina provides data transmission and Internet connectivity services, including traditional dial-up and broadband connections, ADSL dedicated lines, private networks, national and international broadcasting signal transport and videoconferencing services. As of December 31, 2006, Telecom Argentina had approximately 95,000 dial-up and private virtual network services subscribers and approximately 457,000 ADSL subscribers to our Internet service; and

Other basic telephony services. Other services provided by Telecom Argentina include supplementary services such as call waiting, call forwarding, conference calls, caller ID, voice mail and itemized billing, and telecommunications consulting and telecommunications equipment and maintenance services.

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Wireless Telecommunication. We provide wireless services through our subsidiaries in Argentina and Paraguay. Our subsidiary Telecom Personal provides wireless telephone service throughout Argentina via cellular and PCS networks. Telecom Personal's service offerings include supplementary wireless Value Added Services. We also provide cellular and PCS services in Paraguay through Núcleo, a subsidiary of Telecom Personal. As of December 31, 2006, Telecom Personal had approximately 8.43 million wireless subscribers in Argentina and approximately 1.16 million in Paraguay.

Table of Contents

Directory Publishing. Until its sale on April 12, 2007, we edited, printed, sold and distributed publications, through our 99.9% owned subsidiary, Publicom. In addition, Publicom sold advertising in such publications and developed and sold advertising linked to telephone service. See Recent Developments .

See Note 12 to our Consolidated Financial Statements and: Item 5 Operating and Financial Review and Prospects Years ended December 31, 2006, 2005 and 2004 Results of Operations by Reportable Segment for additional information as to our results of operations by reportable segment.

Voice, Data and Internet Services

Telecom Argentina is the principal provider of Basic Telephone Services in the Northern Region, and since late 1999 has also provided Basic Telephone Services in the Southern Region.

Since October 2000, the telecommunications sector in Argentina is completely open to competition. Our operations are subject to a complex series of laws and regulations of the Argentine Government. In addition, we are subject to the supervision of the Regulatory Bodies. See Regulatory Framework below.

The Argentine Government has taken certain measures that have affected revenues from the services we provide. By the enactment of the Public Emergency Law since January 6, 2002, the rates charged by Telecom Argentina for fixed line services such as measured service, public telephone service, national and international long-distance and monthly basic charges and installation charges have been pesified (regulated services since the Transfer Day). We cannot predict when the Public Emergency Law will cease to be effective or how these or other government regulations may affect our future revenues. See Rates below and Item 5 Operating and Financial Review and Prospects Economic and Political Developments in Argentina .

Telecom Argentina's Domestic Telephone Network

Telecom Argentina's domestic fixed-line telephone network includes installed telephones and switchboards, a network of access lines connecting customers to exchanges and trunk lines connecting exchanges and long-distance transmission equipment. The following table illustrates the development of Telecom Argentina's domestic telephone network:

	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002
Number of installed lines(1)	3,896,637	3,828,147	3,803,006	3,800,085	3,802,464
Net lines installed (during each year)	68,490	25,141	2,921	(2,379)	2,406
Net lines installed cumulative(2)	2,325,673	2,257,183	2,232,042	2,229,121	2,231,500
Number of lines in service(3)	4,094,653	3,949,911	3,790,298	3,655,859	3,590,284
Net lines in service added for the year	144,742	159,613	134,439	65,575	(301,516)
Net lines in service added cumulative	2,692,684	2,547,942	2,388,329	2,253,890	2,188,315
Lines in service per 100 inhabitants(4)	21	21	20	20	19
Pending applications(5)	60,800	52,000	44,800	74,800	20,300
Total public telephony	81,568	82,771	83,847	80,127	79,812

(1) Reflects total number of lines available in Switches. Since the year 2006, also includes NGN lines.

(2) Cumulative net lines installed since the Transfer Day.

(3) Reflects number of lines capable of generating traffic. Includes direct inward dialing lines, which do not use installed line capacity.

(4) Corresponds to the Northern Region of Argentina.

(5) Corresponds to lines requested by clients, but not yet installed.

Revenues

Voice, Data and Internet Services include monthly basic charges, measured service charges, installation charges, public telephone services and interconnection services related to essential facilities, whose prices are regulated by the rules governing the license which establishes the maximum prices that can be charged to clients. Telecom Argentina is able to charge prices below the maximum regulated prices as long as the discount is applied equally to clients who share the same characteristics. In accordance with this ability, Telecom Argentina charges lower prices than the maximum regulated prices for many of the services offered.

Table of Contents

The remaining services included in the Voice, Data and Internet reportable segment are not subject to regulation and, as a result, Telecom Argentina is able to set the corresponding rates.

Regulated services represent approximately 40% of Telecom Argentina's net sales.

a) Retail Residential and Business Customers

Monthly Basic Charges. Telecom Argentina bills a monthly basic charge to its customers. The charge is based on pulses, valued at the price per pulse prevailing during the periods included in the invoice and, through January 6, 2002, translated to pesos at the applicable exchange rate. The number of pulses varies depending on the type of customer. As of December 31, 2006, approximately 85% of lines in service were for residential customers and public telephony and approximately 15% were for professional, commercial and government customers. Additionally, due to the regulatory regime, Telecom Argentina is obliged to offer discounts to low consumption residential and retired customers.

Measured Service Charges. In addition to a monthly basic charge, Telecom Argentina bills a monthly measured service charge from almost all of its customers which is based on telephone usage. Measured service is billed at the price per minute at the time the call is made and, through January 6, 2002, translated to pesos at the applicable exchange rate. Charges for local and domestic long-distance measured service vary with the price per unit of usage. The number of units of usage depends on the time of day, the day of the week, the distance traveled and the duration of calls. During the summer months (December through March) there is decreased consumption due to the fact that many customers are on vacation. Additionally, due to competition, Telecom Argentina offers discounts to customers mainly for domestic long-distance service, as semiflat plans that include a set quantity of minutes for a fixed charge.

Local minutes were approximately 13.8 billion in 2006, 13.9 billion in 2005 and 13.8 billion during 2004. During the past three years, despite increased economic activity in Argentina and the growth in our fixed line customer base, the volume of local minutes has remained stable due to the strong development that wireless telephony is experiencing and the resulting migration of traffic to that type of telecommunication service.

Domestic long-distance minutes were 3.0 billion in 2006, 2.9 billion in 2005 and 2.7 billion during 2004. The positive growth in the domestic long-distance minutes is associated with the introduction of semiflat plans that permit the client to pay a fixed charge to get a set quantity of minutes for use during certain hours or days, or to certain numbers or places. Since the Northern Region was opened to competition in 1997, Telecom Argentina has maintained its position as the market leader for domestic long-distance traffic, with 95% of the phone numbers in the region. Similarly, the positions of its principal competitors in the Northern Region have remained stable over the past several years.

In the year ended December 31, 2006, approximately 77% of measured service revenue was generated by residential and professional customers, and approximately 23% was generated by business and government customers. In the year ended December 31, 2005, approximately 77% of measured service revenues was generated by residential and professional customers, and approximately 23% was generated by business and government customers.

International Long-Distance Service. International long-distance traffic minutes increased to 130 million in 2006 from 125 million in 2005 and 122 million in 2004. Despite the competition and VoIP (Voice Over Internet Protocol) the volumes of this traffic shows a positive trend due to promotions launched in 2006 to target the sector.

Since 1992, international tariffs have been reduced annually as a consequence of the application of the Price Cap described in b) Wholesale Price Cap. Telecom Argentina also has reduced international long-distance rates in order to compete with the new providers of long-distance calling services.

Although Telecom Argentina still retains an important market share of international long-distance traffic in the Northern Region, over the past several years, there has been a gradual and constant decrease in Telecom Argentina's

Table of Contents

market share in that region due to strong growth in prepaid cards and the adoption of VoIP technology at competitive rates. Of Telecom Argentina's various offered services, international long-distance is the service most affected by VoIP technology. However, Telecom Argentina continued to be the market leader for international long-distance in the Northern region in the last year.

Installation Charges. Revenues from installation charges consist primarily of fees levied for installation of new phone lines. Telecom Argentina offers discounts in multiple localities to reduce the rate authorized by the government, with the aim of stimulating demand in those areas. As a result, the penetration of fixed-line telephony has continued to demonstrate a slow growth in Argentina, whereas it is decreasing in various other parts of the world.

Public Telephone Services. As of December 31, 2006, there were 81,568 public lines installed of which 8,906 are in the Southern Region. Local and domestic long-distance traffic saw a systematic reduction as a result of the strong development of the cellular telephone industry in Argentina. As a result, public-telephony local traffic for the year 2006 fell to 702 million minutes compared to 844 million minutes for the year 2005 and 946 million minutes for the year 2004. Domestic long-distance public-telephony traffic over the same period was 306 million minutes, 379 million minutes and 445 million minutes for 2006, 2005 and 2004, respectively. In contrast, international long-distance public-telephony traffic has experienced consistent increases reaching 52.4 million minutes during the year 2006, from 44.5 million minutes in the year 2005 and 38.8 million minutes in the year 2004 due to several promotions, used to generate increased demand.

Data Transmission Services. The data services business includes nationwide data transmission services, national and international broadcasting signal transport and videoconferencing services. These services are provided mainly to corporations and governmental agencies. Telecom Argentina also provides certain Value Added Services, including electronic standard documents telecommunication software exchange and fax storage and delivery service. The data services business also includes the lease of networks to other providers, telecommunications consulting services, operation and maintenance of telecommunications systems, supply of telecommunications equipment and provision of related services. Corporate data transmission services are provided mainly through frame relay and ATM networks. However, in the past year, Telecom Argentina has developed an IP Virtual Private Network and has begun the migration of lines connected to the ATM networks to the IP Virtual Private Network. Telecom Argentina has a non-expiring license to provide the aforementioned services.

Telecom Argentina began to offer integrated solutions to its corporate business clients with the objective of increasing customer loyalty, retention and overall satisfaction. Notable developments in this effort in 2006 include the fulfillment of a significant connection-provision contract and the establishment of an integrated management center for the government of the province of Buenos Aires, the provision of videoconference services to the AFIP and the implementation of an emergency 911 system in the province of Salta.

Internet. Telecom Argentina introduced residential Internet service under the brand name Arnet in 1998 and has been providing Internet-related services directly to its customers since November 2001. Telecom Argentina mainly offers this service in the major cities of Argentina. In recent years, Telecom Argentina's Internet service has experienced higher demand and usage in less populated areas of the country. The Internet services include basic Dial-Up service and high-speed ADSL service. High-speed ADSL service includes two types of services, establishing the connection and providing the Internet service itself.

During the past several years, Internet service has experienced a significant shift as a result of the introduction of ADSL. We have seen a gradual, but constant, decrease in Dial-Up access that has been more than offset by increased ADSL access. This shift is illustrated in the following table:

	December 31,		
	2006	2005	2004
ADSL (1)	457,000	226,000	128,000
Dial-Up (2)	95,000	125,000	152,000

(1) Includes ADSL access in the Northern Region and ADSL clients in the Southern Region

(2) Includes private virtual network services.

Table of Contents

The shift in number shown in the table above are the result of Dial-Up customers migrating to ADSL service over the years.

The market for broadband has experienced significant growth in the years 2005 and 2006 throughout the country, increasing 74% and 68% respectively to reach approximately 1,562,000 connections at December 31, 2006. In the Northern Region, it is estimated that broadband now accounts for more than 55% of all Internet use.

Broadband Internet is delivered through three technologies: cable modem, ADSL and wireless, cable modem and ADSL being the most widely used. In the past year, ADSL connections outnumbered cable modem and wireless connections, in the Northern Region as well as in the rest of the country. Telecom Argentina markets its ADSL service through its proprietary Arnet brand and in partnership with other ISPs.

Until 2005 Telecom Argentina had sought to differentiate itself in the market by offering service prioritizing continuous increases in the speed of broadband services offered to its customers, offering the highest speeds on the market (for 5 MB download), and diversifying its service and payment plans (flat, time based, or by data volume).

In 2006 Telecom Argentina looked to significantly increase its market presence by adjusting its strategy and providing quality services at competitive speeds and prices nationwide. To this end, in March 2006 Telecom Argentina widely introduced the product Arnet 640 Kb (a 640kb speed ADSL service offered at a flat rate). Following its introduction, Arnet 640 Kb demonstrated strong growth that permitted Telecom Argentina to double its clients in one year, and to increase its market share nationwide, from 23.7 % in December 2005 to 28.7% in December 2006.

Telecom also implemented a new product portfolio to enable small to medium companies to increase adoption of broadband, offering Internet access at speeds of up to 20 Mb. Telecom Argentina's Integra Product (Internet synchronous access) has also demonstrated significant growth, increasing its number of Internet points of access by 36% in the year 2006 compared with year 2005 while it increased 8% in year 2005 compared with year 2004.

Additionally, Internet revenues include Internet access services. Telecom Argentina offers its 0610, 0611 and 0612 ISP services. The 0610 service at rates reflecting up to a 30% discount compared to normal city rates for connections lasting 30 minutes, depending on the time and day of the connection. Traffic generated by these services has been decreasing, falling from 7.6 billion minutes in 2004, to 5.9 billion minutes in 2005 and to 4.0 billion minutes in 2006 with similar effects on net sales. After the implementation of an agreement reached with the Argentine Government, Telecom Argentina offers Internet dial-up access to locations in its region through more than 98% of the installed lines.

Other National Telephone Services. Telecom Argentina provides dedicated lines primarily to businesses. Dedicated lines are dedicated point-to-point leased lines. In addition to installation fees, Telecom Argentina receives revenues from dedicated analog urban/interurban lines that are fixed by pulses according to the price of urban/interurban calls (corresponding to the distance of such calls).

Additionally, other national telephone services include charges for supplementary services (such as call waiting, call forwarding, conference calls, caller ID, voicemail and itemized billing).

b) Wholesale

Interconnection Revenues. Telecom Argentina collects fees from other operators related to interconnection services which primarily include local access, termination, and long-distance transport of calls, rent of circuits and commission on calling party pays fees. These fees are payable by mobile operators as well as fixed line operators. The increased revenues from the mobile operators reflect the dynamic growth of the cellular market.

International Long-Distance Service. Telecom Argentina holds a non-expiring license to provide international telecommunications services in Argentina, including voice and data services and international point-to-point leased circuits.

Revenues from wholesale international long-distance service reflect payments under bilateral agreements between Telecom Argentina (or our predecessor subsidiaries) and foreign telecommunications carriers, covering virtually all international long-distance calls into or out of Argentina using our network. Revenues from international long-distance service therefore consist mainly of:

amounts earned from foreign telecommunications carriers for connection to the Argentine telephone network;

Table of Contents

international point-to-point leased circuits; and

international data services.

Operating revenues from international long-distance service depend on the volume of traffic, the rates charged to local customers and the rates charged by each party under agreements between the Argentine provider and foreign telecommunications carriers. Settlements among carriers are usually made on a net basis. Incoming traffic with carriers measured in minutes accounted for 578 million in year 2006, 517 million in year 2005 and 450 million in year 2004.

Telecom Argentina is connected to international telecommunications networks mainly through the following submarine Fiber Optic cables: Unisur (Argentina Brazil Uruguay), Americas 1 and Americas 2, Columbus 2 and 3 (Europe), Atlantis 2 (Brazil Europe), Sea-Me-We (Europe Asia) and other minor cables.

Though our wholly-owned subsidiary in the United States, Telecom Argentina USA Inc., a corporation organized under the laws of the State of Delaware, we were granted an FCC 214 license by the Federal Communications Commission, or the FCC, for the provision of international long-distance telecommunications services in the United States. Telecom Argentina USA routes the majority of its traffic through its own switching capabilities and its business, at the moment, is mainly focused on wholesale long-distance international traffic although it has begun to explore the retail market through prepaid cards and A.N.I. recognition (technology similar to caller ID that allows identification and location of a particular prepaid card).

Rates

Pursuant to the original terms of the Transfer Agreement, Telecom Argentina was permitted to adjust the rates it charged for domestic telephone calls in accordance with the monthly variation of the Argentine consumer price index, or, in certain circumstances, a weighted average of the Argentine Consumer Price Index and the devaluation of the Argentine currency against the dollar. The Convertibility Law (see Item 5. Operating and Financial Review and Prospects Economic and Political Developments in Argentina), which took effect on April 1, 1991, however, prevented the operation of this indexing mechanism; as a general matter, the Convertibility Law prohibits peso-based price adjustment mechanisms.

On November 28, 1991, Telecom Argentina and Telefónica signed an agreement, known as the November Agreement, with the Argentine Government providing for rates to be dollar-based and, at the election of each of Telecom Argentina and Telefónica, adjusted semi-annually according to the U.S. consumer price index, or the US CPI . The November Agreement was ratified by Decree No. 2585/91 and became effective on December 18, 1991. On February 28, 1992, the Argentine Government and Telecom Argentina entered into a supplemental agreement, known as the February Agreement, which was ratified by Decree No. 506/92 (the November Agreement, as supplemented by the February Agreement, is referred to as the Rate Agreement).

Public Emergency Law. As a consequence of the severe and ongoing deterioration of the economic situation of Argentina, effective January 6, 2002, the Argentine Government introduced measures that have had and may continue to have a significant impact on the operations of Telecom Argentina, particularly on rates. On January 6, 2002, the Argentine Government enacted the Public Emergency Law and applicable regulations including Decree No. 293/02, putting an end to ten years of dollar-peso parity under the Convertibility Law. The Public Emergency Law also:

converted to and fixed as pesos (at a rate of P\$1.00=US\$1.00) all tariffs for measured service, public telephone service, long-distance, some supplementary services and monthly basic and installation charges;

Table of Contents

eliminated contract clauses providing for adjustments to the value of payments with reference to the United States dollar or other foreign currencies as well as any indexation clauses (based on price indexes of other countries) or similar mechanism; and

established that certain contracts signed between the Argentine Government and privatized companies (such as Telecom Argentina) will be renegotiated, including tariffs that Telecom Argentina may charge in the future.

Rate Rebalancing. At the time of ENTel's privatization, the need for a future amendment of rates to rebalance the pricing of domestic and international charges was foreseen. Subsequent agreements established the right of licensees to a Rate Rebalancing and set forth some mechanisms to implement a new tariff structure.

Decree No. 92/97 provided for a significant reduction in domestic and international long-distance rates, an increase in basic telephony charges, the elimination of Free Pulses and an increase in urban rates. The Rate Rebalancing was undertaken as part of the Argentine Government's plan to create a competitive environment in the Argentine telecommunications industry.

The new rate schedule was intended to reduce cross-subsidies (particularly those existing between urban and long-distance services) to create a competitive environment beginning in the year 2000. The preservation of the licensees' financial position was one of the main principles of the Rate Rebalancing. Decree No. 2,585/91 established that the Rate Rebalancing should have a neutral effect on the licensees' revenues. In developing the tariff structure implemented by Decree No. 92/97, the Argentine Government relied on studies which demonstrated that because of the elasticity of demand for telephone service, an increase in demand for lower-priced services would compensate for the rate reductions. Decree No. 92/97 established corrective mechanisms to facilitate neutral results on revenues. The *Banco Interamericano de Reconstrucción y Fomento*, or InterAmerican Bank for Reconstruction and Development, was responsible for making measurements on a semi-annual basis, over a two-year period, to determine the effects of the Rate Rebalancing.

Decree No. 92/97 provides for a mechanism to offset changes in revenue resulting from the Rate Rebalancing at the time of applying the Price Caps.

The variation in revenues resulting from the Rate Rebalancing for the two-year period beginning February 1997 was determined to amount to an increase of P\$9.5 million. In accordance with SC General Resolution No. 4,269/99, this amount will be included in a future tariff reduction, although the Regulatory Bodies have not yet determined how to implement this reduction. This issue will be addressed in the current tariff renegotiations in conjunction with the other pending tariff issues.

Historical Rates. The rates charged by Telecom Argentina are subject to the regulations described under Regulatory Framework . The following table sets forth certain of our maximum month-end rates for various components of local service and domestic long-distance service in U.S. dollars(1):

	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002
Residential:					
Installation charge per line	150	150	150	150	150
Monthly Basic Charge per line	13.23	13.23	13.23	13.23	13.23
Commercial:					
Installation charge per line	150	150	150	150	150
Monthly Basic Charge per line	27.30	27.30	27.30	27.30	27.30
Prices:					
Price per pulse (nominal)	0.0469	0.0469	0.0469	0.0469	0.0469

(1) Figures shown do not include value added tax charged to customers. In accordance with the Public Emergency Law these rates were pesified at the exchange rate of US\$1.00 = P\$1.00.

Many of Telecom Argentina's charges, such as the monthly basic charge and measured service charges, are calculated using pulses, a basic service unit. Effective November 1, 1999, the maximum rate per pulse (which was

Table of Contents

denominated in dollars until December 31, 2001) was US\$0.0469 (an increase of approximately 1.5% from the rate in effect from April 1999 through October 1999). As of the date of this Annual Report, this was the last time the maximum rate per pulse was changed. However, changes corresponding to years 2000 and 2001, although not directly applied on the price per pulse, were included in the 2000 and 2001 price cap negotiation. In March, 2006, Telecom Argentina signed the Letter of Understanding 2006 with the Argentine Government that is intended to serve as a foundation for a forthcoming negotiation agreement and contemplates the increase in rates for incoming international calls and the extension of peak-rate calling periods. The new rate agreement contemplated by the Letter of Understanding 2006 has not yet been completed.

Price Cap. The List of Conditions required that rates be reduced annually until the Regulatory Bodies determine that there is effective competition in the markets we serve. A 2% (measured in real dollar terms) reduction in the prior year's rates was required for each of the third through the seventh year following the Transfer Date (through November 7, 1997). In addition, following the extension of the exclusivity period, rates were required to be 4% lower (measured in real dollar terms) than the prior year's rates. This requirement is maintained pursuant to the Rate Agreement, whereby Telecom Argentina is permitted to effect aggregate rate reductions by lowering rates for some or all categories of service, provided that net reductions meet the applicable targets. The application of annual reductions to the general level of rates established in the List of Conditions (price cap) has been implemented mainly by reducing the long-distance rates and (in Price Cap 1998) discounts to certain public entities, including the fire departments and public libraries. The Regulatory Bodies recently notified Telecom Argentina of the completion of the Price Cap 1998 audit which did not show a balance to be applied. However, the Price Cap 1999 audit remains pending.

Agreement with Argentine Government to Reduce Rates. On December 15, 1999, the Argentine Government, Telecom Argentina and Telefónica agreed to implement certain modifications to the tariff structure in order to facilitate Argentine Government actions to improve the level of competitiveness of the Argentine economy.

Among other issues, the agreement contemplated:

a 19.5% reduction in the monthly basic charges for commercial and governmental customers;

a 5.5% reduction in revenues from residential customers from local basic telephony service (these reductions were made available to customers that requested the rate reduction); and

the continuance of the 0610 Internet access dial-up charge to residential customers.

These tariff modifications were taken into account in the rate reductions when the price cap reduction of November 2000 was applied (Price Cap 2000). The rate modifications came into effect as of March 1, 2000. The reductions to residential customers were applied by means of different pricing plans.

The impact of the adjustments to these items through November 2000 was to be applied on a pro rata basis to the price cap reductions for the years 2000, 2001 and 2002, carried forward at an interest rate of 12%. Additionally, the impact of the adjustments described above for the period November 2000 to October 2001 was to be applied to the price cap reduction of November 2000.

On April 6, 2000, the Argentine Government, Telefónica and Telecom Argentina signed an agreement that set the price cap efficiency factor at 6.75% for the period of November 2000 to November 2001. The price cap reductions contemplated that 6% of this reduction would be implemented through:

the continuation of the reduction in basic monthly charges for commercial and governmental customers and pricing plans for residential customers that came into effect as of March 1, 2000;

provision by Telecom Argentina of 110 (information) services free of charge from January 2000 until November 2001; and

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no adjustment of the price per pulse in accordance with the Consumer Price Index in the United States in April 2000 and in October 2000.

Table of Contents

The licensees were permitted to decide how to apply the remaining reduction. In the event that by November 2001 the reduction in these items had not achieved the efficiency factor of 6.75%, the Argentine Government was to determine which items shall be subject to additional reductions in order to achieve that goal. The Price Cap 2000 official audit is still pending.

In April 2001, the Argentine Government, Telefónica and Telecom Argentina signed an agreement that set the reduction of tariff or efficiency factor at 5.6% for the period from November 2001 to October 2002. However, in October 2001, a preliminary injunction against us carrying out any tariff adjustments by reference to the Consumer Price Index in the United States was issued. Telecom Argentina appealed this injunction arguing that if one part of the formula cannot be applied, the Price Cap system should be nullified. This appeal is currently still pending.

Public Emergency Law No. 25,561 explicitly prohibited tariff adjustments. See [Item 8 Financial Information Legal Proceedings Consumer Trade Union Proceeding](#) . As of the date of this Annual Report, the price cap regime is suspended and it is unknown if and when it will come back into effect or be replaced by other tariff regulation procedures.

Installation Charges. Under the Rate Agreement, Telecom Argentina was required to gradually reduce installation charges so as to achieve pricing levels equal to those for internationally mature networks (estimated in the Rate Agreement to be US\$250) and to eliminate distinctions between residential and commercial users. Decree No. 92/97 established that beginning in November 1997 installation charges may not exceed the amount charged in mature international markets. In accordance with this decree, the current maximum permitted charge is US\$150 (pursuant to the Public Emergency Law, this charge was pesified at the exchange rate of US\$1.00=P\$1.00). Telecom Argentina has been applying several promotions to installation charges. Actual levels of promotional installation charges in 2006 were P\$75.

Monthly Basic Charges. Until the effective date of Decree No. 92/97, customers were entitled to a certain number of Free Pulses per line depending on the category of each customer and the number of lines in the area. As a consequence of the application of Decree No. 92/97 and in order to offset tariff reductions in domestic and international long-distance services, Free Pulses were eliminated for all categories of customers, and monthly basic charges were equalized throughout the country. Decree No. 92/97, however, provided for a special reduced tariff that is available to certain low consumption residential and retired customers.

Long-Distance Tariffs. The application of annual reductions to the general level of rates established in the List of Conditions (price cap) has been implemented mainly by reducing the long-distance rates but especially in local service and discounts to certain public entities, including fire departments and public libraries.

Decree No. 92/97 reduced the average weighted domestic long-distance tariff by approximately 33%. Under this revised tariff schedule, interurban tariffs were significantly reduced, with maximum long-distance tariffs reduced by 56%. Calls within Provincial Code 1 (up to 30 Km) made within provincial cities are now billed at an urban tariff.

Letter of Understanding Relating to Basic Services. As part of our negotiations under Decree No. 293/02 on the tariff structure, on March 6, 2006, Telecom Argentina signed the Letter of Understanding 2006 with the Argentine Government whereby we agreed to increase certain tariffs and incorporate certain modifications to the current regulatory framework. In particular, the Government has agreed that Telecom Argentina can increase the termination charges applied to incoming international calls and reduce the time bands for off-peak local tariffs. As of the date of this Annual Report, Telecom Argentina is expecting the completion of certain administrative steps required for the National Executive to submit to the National Congress a proposed Memorandum of Agreement for Renegotiation. See [Regulatory Framework Letter of Understanding 2006](#) .

Network and Equipment

As a communication services operator, Telecom has one of the largest networks in Argentina. Over an infrastructure of more than 12,000 km of its own Fiber Optics connecting more than 89% of nationwide customers to the network, Telecom provides the above mentioned services: voice, Value Added Services, business services, Internet and other services to operators with smaller national presence.

Table of Contents

The Fiber Optic backbone serves as a basis for a dispersion network to which various radiolinks permit connection of multiple switching units and their corresponding access networks. The last-mile copper access network, deployed in more than 1,000 cities and towns, connects local customers to the wider Fiber Optic network and is another fundamental factor in ensuring the future development of the Company's business.

Telecom Argentina's transmission and switching networks are 100% digital and undergo continuous improvements to ensure that their operating capacity is sufficient to address changing customer needs. As part of this process, we have recently started to replace TDM (Time Division Multiplexing) digital technology switches with new, IP-based NGN equipment, a process also being undertaken by other leading telecommunications operators around the world. In addition, the deployment of DWDM (Dense Wavelength Division Multiplexing) technology on the main Fiber Optic tracks, also currently underway, will permit Telecom to increase available bandwidth by a factor up to 100, on an as-needed basis, in support of the development of new broadband services.

Since 2003, Telecom has been implementing actions to encourage the growth of broadband services in Argentina, increasing the number of cities in which the service is available, and transforming the access speed and simplicity of its offering. It has also developed an IP Backbone (IPBB) with national and international reach in order to meet the Company's needs and facilitate wholesale supply to other carriers.

With respect to future services, the Company is in an experimental phase with next-generation services platforms that will enable, in the short term, the offering of advanced services to its business customers, as well as the deployment of IPTV services when and as permitted by the Regulatory Authority.

As part of its policy for medium-term evolution of its technical platform, Telecom continues its established IT review process to ensure that its network has the operating capacity necessary to offer existing services and to accommodate the future deployment of new services. The deployment decision plan during the year 2006 included:

New Generation Switching (NGN or Next Generation Networks): The Company continued the deployment of next generation, IP-based customer lines (Class 5), either as a replacement for existing TDM technology or for the development of new areas such as gated neighborhoods and country clubs.

During the year, the number of installed lines using this technology exceeded 90,000. Telecom expects that, having completed the initial experimentation stage and built up internal know-how, during the next year it will concentrate on the planned deployment of more than 250,000 new lines based on IP technology.

Transmission: With the rapid growth of broadband services, the Company is focusing not only on deployment of access devices but also on making urban and interurban transmission capacity available to respond to new needs. During 2006, capacity was expanded in all geographical regions in support of ADSL services and mobile telephony development.

Metroethernet: The rollout of Metroethernet permits a substantial increase in local area data flow transmission capacity, initially devoted to ADSL service, which will also serve as support for the deployment of NGN switching and for a new portfolio of corporate services. The deployment planned for the network was completed, reaching approximately 50% of the buildings in Buenos Aires, Rosario and Córdoba.

Backbone IP: The upgrade of the main nodes in the network continued. At year-end, the most sensitive equipment had state-of-the-art updates and enough capacity to meet the anticipated new demand.

ADSL: In light of the deployment of the Metroethernet access network and the introduction of new generation DSLAMs based 100% on IP technology, a new architectural migration process started in order to ensure availability of more bandwidth for each user. Although the marketed services do not yet require it, all ADSL ports on the switch side installed were of the ADSL2+ type. This means that the network is being prepared for broadband services of speeds up to 20 megabytes. In this context, 28 switches were enabled for provision of ADSL service during the year. As of year-end, Telecom has 87.6% of its customer lines enabled for ADSL subscription.

Access Network: During the year 2006, the Company continued to perform work on external plant in support of its sales campaigns. Additionally, we continued with the program of building new access points on copper with lengths under 1,500 meters so as to ensure the availability of potentially higher future bandwidth for customers.

Table of Contents**Wireless**

We provide wireless services via cellular and PCS networks through our subsidiaries in Argentina and Paraguay.

Wireless Telecommunication Services in Argentina Telecom Personal

The market for wireless telephone services in Argentina is characterized by rapid growth and intense competition. Operators are generally free from regulation to determine the pricing of services, with the limited exception of calling party pays, or CPP, charges for termination of calls originating on a fixed line network. See Item 4 Information on the Company Regulatory Framework Calling Party Pays CPP. The CPP model, implemented in Argentina in 1997, resulted in increased demand for wireless services in Argentina, while the openness of the market to new entrants and freedom from price regulation has resulted in a dynamic market for the supply of wireless services. Following consolidation in the industry in 2005, there are currently three wireless operators offering nationwide service. According to the CNC, penetration of Cellular service in Argentina has increased from approximately 34% of the population as of December 31, 2004 to approximately 55% and 76% as of December 31, 2005, and 2006, respectively.

Beginning in the second half of 2003, service providers in Argentina commenced the transition to GSM technology. The introduction of GSM technology requires significant capital expenditure, as the technology requires the rollout of new network infrastructure. However, GSM technology is expected to fuel demand for Cellular services because it supports a wide variety of enhanced services such as short message systems and data transmission.

Our wireless telephony services in Argentina are provided through our wholly-owned subsidiary, Telecom Personal. We provide wireless services throughout Argentina via STM, SRMC and PCS networks. Telecom Personal utilizes digital TDMA technology and GSM technology in its networks and primarily offers its services of STM and SRMC services on the 850 MHZ frequency band, and PCS service on the 1900 MHZ frequency band.

Prior to 1999, Telecom Argentina and Telefónica jointly operated Miniphone SA, a SRMC provider. Article 20 of Decree 264/98 required the division of this business venture to guarantee effective competition. Resolution SC No. 18,952/99 authorized the division of Miniphone and granted Telecom Personal and Telefónica Comunicaciones Personales SA the corresponding licenses for the SRMC as of October 1, 1999. Due to the technical impossibility of dividing the 850 MHZ network into two independent units, its property continues to be held by both companies in equal parts and is technically operated by an Enterprise Collaboration Association under the name Red Miniphone ACE.

Although Telecom Personal provides nationwide service in Argentina, its operations are concentrated in the AMBA and in the Northern Region of Argentina. The Northern Region includes the cities of Córdoba and Rosario, the largest cities in Argentina after Buenos Aires.

Telecom Personal's business is growing rapidly. From December 31, 2005 to December 31, 2006, its subscriber base in Argentina grew approximately 37%. As of December 31, 2006, Telecom Personal had approximately 8.43 million subscribers. At December 31, 2005, Telecom Personal had approximately 6.15 million subscribers and at December 31, 2004, Telecom Personal had approximately 3.84 million subscribers. Growth in Personal's cellular subscriber base results in growth in net sales in the wireless segment. Net sales of Personal for the year 2006, 2005 and 2004 were P\$3,964 million, P\$2,576 million and P\$1,566 million, respectively.

Telecom Personal offers advanced supplementary wireless services, known as Value Added Services. Among the Value Added Services Personal offers, the following are notable: voice mail, message signaling, caller-ID, call transferring, call waiting, call conferencing, IVR (Interactive Voice Response) dialing, national and international roaming and automatic call routing, Personal Backtones (the first ringtone service in Argentina that allowed customers to select their own ringtones), Fotocomic (the first cartoon for cellular phones in the country), Personal E-Cards (the first electronic animated greeting cards for cellular telephones), Personal Messaging on-line (the first SMS service to be established between the company's website and its clients). The offering of these Value Added Services is expected to increase profitability by increasing ARPU and facilitating growth in MMS Mobile Message

Table of Contents

Service/ Data services thereby differentiating our service offerings from SMS. Telecom Personal has also introduced wireless Internet access. Telecom Personal's ARPU in Argentina was P\$40 per month for the year 2006 as compared to P\$36 per month for the year 2005. The increase in ARPU was mainly due to the capture of high value customers that contributed to the improvement of the profile of the customer base.

Service Plans

Telecom Personal wireless customers are offered a variety of flexible pricing options for wireless services. These options include prepaid, post-paid and *cuentas claras* plans. As of December 31, 2006, Telecom Personal had approximately 8.43 million subscribers. Of these, approximately 5,539,000 were prepaid subscribers, representing 65.7% of Telecom Personal's total customer base, approximately 759,000 were post-paid subscribers, representing 9.0% of Telecom Personal's total customer base and approximately 2,127,000 were *cuentas claras* plan subscribers, representing 25.3% of Telecom Personal's total customer base.

Prepaid Plans. Under prepaid plans, the customer pays in advance for telephone calls and Value Added Services through a prepaid card. When the card runs out of minutes, the customer can recharge the prepaid card through the prepaid system or can purchase virtual prepaid phone cards on Telecom Personal website, at ATMs, at kiosks or through authorized agents. Since there are no monthly bills, prepaid plans such as the Personal Light Plan and the Ultra Light Plan allow subscribers to communicate with maximum flexibility while maintaining control over their consumption. Both plans come with caller ID and voicemail services. A subscriber can add credit to the card and make and receive local, national and international calls. With the Ultra Light Plan, the more credit a subscriber puts on the card, the lower the rates are per minute.

Post-paid Plans. Telecom Personal offers a National Flat Rate post-paid plan and a Local Flat Rate post-paid plan. Under both plans, a subscriber pays a monthly bill consisting of a monthly user fee plus Value Added Services and a charge for minutes used in excess of the amount included in the plan. These plans generally offer 100 to 400 free minutes per month. Once the free minutes have been used, the subscriber can continue using the wireless phone at a set price per minute. The charges for additional minutes will be added to the next month's bill. Under the National Flat Rate Plan, a subscriber can make calls to and from any location within Argentina at a constant rate because the per minute rate includes the local public network, national long-distance and national roaming. Under the Local Flat Rate Plan, where the per minute rate includes the Local Public Network and Roaming, a subscriber can make local calls within any locality in the country but calls from one locality to another are charged at an extra rate.

Both post-paid plans include caller ID, voicemail and a personalized greeting. In cases where the plans use GSM technology, a subscriber will also receive call forwarding, GPRS, a multimedia personalized greeting, telephone technical support and call waiting.

Cuentas Claras Plans. Under the *cuentas claras* plans, a subscriber pays a set monthly bill and, once the contract minutes per month have been used, the subscriber can obtain additional minutes by recharging the phone card through the prepaid system.

From December 31, 2004 to December 31, 2005, the percentage of prepaid and post-paid subscribers out of Telecom Personal's total customer base decreased, while the percentage of *cuentas claras* subscribers increased. However, the respective percentages of prepaid, post-paid and *cuentas claras* plan subscribers of its total customer base as of December 31, 2006 were similar to those of the end of year 2005. As of December 31, 2006, Telecom Personal's prepaid subscribers accounted for 65.7% of its total customer base, post-paid subscribers represented 9.0% of Telecom Personal's total customer base and *cuentas claras* plan subscribers represented the remaining 25.3% of Telecom Personal's total customer base. As of December 31, 2005, Telecom Personal's prepaid subscribers accounted for 65.6% of its then total customer base, post-paid subscribers represented 8.9% and *cuentas claras* plan subscribers represented the remaining 25.5%. As of December 31, 2004, Telecom Personal's prepaid subscribers accounted for 73.8% of its then total customer base, post-paid subscribers represented 12.0% and *cuentas claras* plan subscribers represented the remaining 14.2%.

The following table presents selected information regarding Telecom Personal's post-paid, prepaid, *cuentas claras* and total cellular subscriber bases for the periods indicated:

	As of December 31,		
	2006	2005	2004
Cellular subscribers:(1)			
Prepaid	5,539,000	4,038,000	2,831,000
Post-paid	759,000	546,000	461,000
Cuentas Claras	2,127,000	1,566,000	543,000

Total	8,425,000	6,150,000	3,835,000
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(1) Cellular subscribers means total registered and active cellular subscribers at the end of the relevant period. An active cellular subscriber is a cellular subscriber who makes or receives 3 phone calls within the last 90 days of such relevant period.

Table of Contents

Network and Equipment

Telecom Personal's national operations provide coverage in each of the three regions of Argentina utilizing mainly a GSM network and supplementing such coverage with the now nearly obsolete TDMA network. Telecom Personal began transitioning from TDMA technology to GSM technology in 2001 in order to enhance its cellular networks and to support additional Value Added Services. Currently, Telecom Personal is in the process of overhauling its network infrastructure so that it can support GSM technology in all areas. GSM is a digital standard widely used in Europe, Latin America and elsewhere. Because it is so widely used, it provides higher quality and faster availability of new products and services with a wider variety of suppliers than TDMA technology. Implementation of GSM technology yields economies of scale in developing network equipment and handsets, as well as seamless roaming capabilities. The GSM-based network provides Telecom Personal customers with access to many of the most advanced cellular handsets and a full range of services and products.

The switching and routing core consists of national and international interconnected switches. These switches are being gradually migrated from the existing monolithic architecture to a more advanced, distributed architecture. The new architecture concentrates switching intelligence on a few central nodes and distributes the physical switching of calls geographically into less complex nodes. Additionally, it enables interconnecting nodes through a data network (VoIP), instead of through the classical circuit switching scheme. As a result, we expect to optimize investments and decrease transmission costs.

Migration towards a distributed switching scheme provides Telecom Personal the opportunity share with Telecom Argentina a single trunk network for data transmission. This approach to reuse of fixed and wireless services equipment is part of the Fixed-Wireless Convergence initiative undertaken by the Telecom Group.

Telecom Personal offers GSM technology through the 850 MHz and 1900 MHz frequency bands. Telecom Personal initially installed this technology in some areas of the AMBA and provided partial coverage in some of the main cities of Argentina's interior. From December 31, 2005 to December 31, 2006, GSM subscribers grew from 64% to 88% of Telecom Personal's subscriber base in Argentina. Telecom Personal now provides GSM service nationwide. A major challenge for 2006 was the buildout of the GSM network infrastructure and its evolution to 3G, which will continue to consolidate during 2007.

To support a significant year-to-year growth in customers (+90%) and traffic (+85%) for GSM, the switching network was extended with the inclusion of three new switches, increasing the number of switches from seven to ten in 2006. Additionally, the total number of radio transmitters in service on the GSM network was increased from 9,100 in 2005 to approximately 15,400 in 2006.

In 2006, the hardware and software of the circuit and package switching network were also updated. During the year, migration was completed to the version currently used by the world's leading operators, achieving performance improvements and enabling the implementation of advanced Value Added Services.

With respect to coverage, the area with service availability in the Southern region was extended through an approximate 40% increase in the number of base stations. Coverage in the Northern region was reinforced through the addition of 100 new transmission points.

Table of Contents

With respect to Value Added Services, the Intelligent Network (*Red Inteligente*) platform is notable. Previously operated by a supplier, it has now been implemented locally with next generation equipment, enabling the provision of innovative services and effectively controlling node operation.

Northern Region. In the Northern Region, Telecom Personal's TDMA network provides over 82% population coverage and 44% geographic coverage. The GSM network provides over 85% population coverage and 46% geographic coverage. We seek to assure the continued coverage and quality of our GSM service by consolidating our strengths in our continued transition from TDMA to GSM technology in this area. Telecom Personal operates through the 850 MHz band and the 1900 MHz band.

AMBA. In the AMBA, Telecom Personal operates a TDMA network and a GSM network. Both networks provide over 99% population coverage and 98% geographic coverage. Certain legacy network assets are administered jointly by Telecom Personal and Movistar through Red Miniphone-ACE, as a result of the division of certain network facilities previously jointly-owned by the two companies. Telecom Personal operates through the 850 MHz band and the 1900 MHz band.

Southern Region. We also are seeking to improve the quality of our coverage throughout the Southern Region. We currently provide over 62% population coverage and 2% geographic coverage in the Southern Region. Although we have in the past provided services in the Southern Region using network capacity leased from another carrier, we are developing additional network to allow us to provide services independently. We intend to focus on installing our GSM network in various cities in the Southern Region. Telecom Personal operates through the 1900 MHz band.

Wireless Telecommunications Services in Paraguay Núcleo

We provide nationwide Cellular services in Paraguay through our subsidiary Núcleo under the commercial name of Personal. Núcleo is 67.5% owned by Telecom Personal and 32.5% owned by ABC Telecomunicaciones S.A., a Paraguayan corporation. In 1997, Núcleo was granted a license to provide nationwide Cellular service in Paraguay on the 850 MHz band. In 1998, Núcleo acquired the PCS license from Cable Insignia S.A., an entity owned 75% by Telecom Personal that was liquidated in October 2006. Núcleo began providing commercial Cellular services in June 1998. Núcleo has also been granted licenses to provide internet access and videoconference and data transmission services in Paraguay.

As of December 31, 2006, Núcleo had an approximate 39% share of the Cellular services market in Paraguay. As of December 31, 2006, Núcleo had approximately 1,164,000 customers, an increase of approximately 513,000 customers, or approximately 78.8%, from December 31, 2005. As of December 31, 2005, Núcleo had approximately 651,000 customers, an increase of approximately 149,000 customers, or approximately 29.7%, from December 31, 2004. Núcleo had 502,000 customers as of December 31, 2004. For the year ended December 31, 2006, Núcleo had net sales of P\$355 million. For the year ended December 31, 2005, Núcleo had net sales of P\$221 million. For the year ended December 31, 2004, Núcleo had net sales of P\$167 million.

The wireless service market in Paraguay continued experiencing a significant level of competition in 2006, one marked by price reductions and launches of new Value Added Services.

As part of its strategy, Núcleo carried out a major commercial restructuring that entailed the regionalization of the country and the creation of a business department, among other actions. It also increased efforts in the segmentation of plan and service offerings, and in the diversification of Value Added Services, initiatives supported by major promotion and advertising campaigns designed to consolidate the Personal brand and strengthen its name recognition and market share. The products and services launched include: Wapos (POS service via WAP), Ofimail (access to corporate e-mail, contact list and appointments from a Personal GSM terminal), Personal Wolki (service based on Push-to-Talk technology), Corporate Messaging (exchanging messages with customers, employees and suppliers over the web), all of which target the business segment, Mxicarga, an offering to increase the quantity of recharging options, and the launch of Ring Back Tones.

With respect to network infrastructure, the year 2006 was characterized by the extension of GSM network capacity needed to provide the growing number of customers with the quality standards required to achieve a competitive edge in this field. Breadth of coverage continues to be one of Núcleo's main competitive advantages, and in 2006 the network was extended to new areas of inner Paraguay.

Table of Contents

As of December 31, 2006, Núcleo had the capability to provide GSM technology to 80% of the Paraguayan population through its GSM networks, which covered 38% of the total area of Paraguay, and 875,000 of its subscribers, or 75%, were GSM subscribers. In addition, Núcleo is the only wireless telecommunications operator in Paraguay to provide nationwide internet access on the EDGE network.

In late 2006, a Wimax technology network was rolled out, bringing about a major advancement in data transmission. In this context, Núcleo has launched Personal Hipuu!, an Internet service for homes at affordable prices, with the commitment to bring the Internet within reach of everyone.

Directory Publishing Publicom

Until its sale in April 2007, we edited, printed, sold and distributed publications, including telephone subscriber directories in the Northern Region, yellow pages, leaflets, magazines, annuals and other directories through our 99.99% subsidiary Publicom. In addition, Publicom sold advertising in these publications and developed and sold advertising linked to telephone service. Pursuant to regulations of the SC, Telecom Argentina must provide, on an annual basis, all clients with free telephone directories for the area of their respective domicile. On April 12, 2007, Telecom Argentina sold its interest in Publicom to Yell Publicidad S.A. See Item 5 Operating and Financial Review and Prospects Management Overview for more detail.

As of December 31, 2004, Publicom held a 5.75% interest in Nahuelsat S.A., or Nahuelsat, a company that provides, installs and operates satellite communications systems and markets these services. During the year ended December 31, 2005, Publicom sold its interest in Nahuelsat.

For the year ended December 31, 2006, the directory publishing reportable segment had net sales of P\$65 million. For the years ended December 31, 2005 and 2004, the directory publishing reportable segment had net sales of P\$50 million and P\$43 million, respectively. Rates of growth in the market, together with a business strategy designed to increase both billing volume and advertising levels, are responsible for the increased year-over-year publication sales. In addition, Publicom increased its online presence in 2006, recording approximately 1,000,000 monthly website hits at the end of 2006 as compared to approximately 800,000 monthly hits at the beginning of the year.

Description of the Operator

The Telecom Italia Group, which holds an indirect interest in Telecom Group, has been our exclusive Operator since December, 2003. The Telecom Italia Group is engaged principally in the communications sector and, particularly, in telephone and data services on fixed lines, for final retail customers and wholesale providers, in the development of fiber optic networks for wholesale customers, in innovative broadband services, in Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector, and operates mainly in Europe, the Mediterranean Basin and in South America.

In particular, at December 31, 2006, the Telecom Italia Group was one of the world's largest wireline operators, with approximately 23.7 million fixed network connections in Italy. In addition, the Telecom Italia Group was the leading mobile operator in Italy, with 32.4 million mobile telephone lines in Italy at December 31, 2006. As of the same date, the Telecom Italia Group had 25.4 million mobile telephone lines in Brazil. It has significantly expanded into broadband in recent years and, at December 31, 2006, it had 8.7 million broadband points of access, of which 6.8 million were in Italy and 1.9 million were elsewhere in Europe (France, Germany and The Netherlands).

For more information, see Item 7 Major Shareholders and Related Party Transactions .

Table of Contents

Competition

Voice, Data and Internet Services

Basic Telephony and International Long-Distance Services. Prior to November 1999, Telecom Argentina held an exclusive license to provide Basic Telephone Services to the Northern Region. The Argentine telecommunications market has been open to full competition since November 2000. As of the date of this Annual Report, the main licensees providing local and/or fixed long-distance telephone service are Techtel (now commercially known as Telmex), Telephone2, Impsat, CTI, IPlan, Comsat, Telefónica (principally in the Southern Region) and Telecom Argentina (principally in the Northern Region). Telefónica has the dominant market share for provision of telecommunications service in the Southern Region. Some of these competitors may be better capitalized than us and have substantial telecommunications experience. Accordingly, if the economic conditions in Argentina improve and competitors increase their presence in the Northern Region, Telecom Argentina expects that it will face additional pressure on the rates it charges for its services and experience limited loss in market share in the Northern Region.

Internet and Data Services. We face nationwide competition in the Internet service market in Argentina from Telefónica, Grupo Clarín (Prima), Netizen, Fullzero, UOL, Ertach and Cablevisión (Fibertel), among others. Our data services business faces competition from Telefónica and from several providers of niche data services such as Impsat, Comsat, Grupo Telmex Argentina, IPlan and others.

Wireless Telecommunications Services

Wireless Telecommunications Services in Argentina. The wireless telecommunications market in Argentina has been open to competition since 1993 and was expanded to include PCS services in 1999. Competition has intensified in recent years as a result of the recovery of demand for wireless service as the economy has improved and increased demand fueled by the transition to GSM technology. The introduction to GSM technology has resulted in intense competition for subscribers among the various service providers, including severe pricing pressure, significant handset subsidies and increased sales incentives provided to dealers.

Currently, there are three operators providing nationwide services. These three operators are Telecom Personal, Movistar and CTI. In addition, Nextel offers trunking services in Buenos Aires and selected cities in the interior.

Telefónica Móviles, which operates in Argentina under the trade name *Movistar*, is the largest wireless operator in Argentina. Movistar is the result of the consolidation of Unifón and Movicom by Telefónica in 2005. Movistar operates in the AMBA, where it operates through the 850 MHz band with a total of 37.5MHz (25 + 12.5MHz), and a total of 50 MHz (20 + 30) for PCS. It also holds a total of 80 MHz (40MHz + 40 MHz) for its PCS licenses for the Northern Region, and a total of 60 MHz (20 MHz + 40 MHz) for PCS in the Southern Region, Unifón's original service area, where it also holds 25MHz license for STM. The economic concentration resulting from the consolidation of Unifón and Movicom exceeds the maximum limit of the 50 MHz of spectrum assignment (for the services of STM-SRMC-PCS and SRCE) permitted by Article 4 of the Annex to the Article 1 of Decree 266/1998. In Reg. 343/05, the regulatory authorities approved the consolidation with the condition that the resulting entity decrease its spectrum holdings to the permitted level in accordance with a schedule culminating at year-end 2008.

CTI has provided STM Cellular service in the Northern and Southern Regions outside of the AMBA since 1994 through the 850 MHz band (25 Mhz in each region). CTI also holds a 40 MHz license for its PCS services in the AMBA and 20 MHz license for PCS in each of the Northern and Southern Regions. In October 2003, America Móvil S.A., a Mexico-based cellular telephony company, acquired a controlling interest in CTI and has since made significant investments in the modernization of CTI's technology.

Nextel Argentina provides trunking services in Buenos Aires. Nextel Argentina's service currently focuses on corporate customers in the principal cities.

See *Regulatory Framework* *Regulations Applicable to PCS Services* for additional details on Telecom Personal's license.

Table of Contents

Wireless Telecommunications Services in Paraguay. Competition in the Paraguayan wireless market has also intensified in recent years. Currently there are four participants in the wireless service market in Paraguay. As of December 31, 2006, Núcleo had approximately 1,164,000 subscribers, Telecel had approximately 1,273,000 subscribers, Vox had approximately 170,000 subscribers and CTI Movil had approximately 358,000 subscribers. Official statistics are not published in Paraguay and therefore this subscriber information is estimated.

In 2005 the operator Porthable was acquired by the América Movil Group and began operating under the brand name CTI Movil. This new operator, with a regional presence, has used the same brand in Argentina and has presented an ambitious plan for the expansion of its network. Since its launch, CTI Movil has based its strategy in the positioning of the brand and in a commercial actions, ending fiscal year 2006 with an estimated market share of 12%.

As of December 31, 2006, Núcleo had the capability to provide GSM technology to 80% of the Paraguayan population and believes that this wide coverage proved one of its principal competitive advantages.

REGULATORY FRAMEWORK

Set forth below is a summary of certain specific provisions of the general legal framework for the regulation of the activities of Telecom Argentina and Telecom Personal. The principal features of this general regulatory framework have been created by:

Law No. 19,798 (National Telecommunications Law), which regulates the provision of telecommunication services;

Res SC No. 498/87, regulation of the SRMC, a cellular service of mobile radio communications in the AMBA;

Decree No. 1,185/90, establishing the CNT, later replaced by the CNC, pursuant to Decrees No. 660/96, 1,260/96 and 80/97;

Decrees Nos. 2,345/90, 2,346/90 and 2,347/90, granting the license to provide the telecommunications services described below;

the Privatization Regulations, including the *Pliego de Bases y Condiciones* approved by Decree No. 62/90, as amended, or the List of Conditions;

Decree No. 2,332/90 (*Contratos de Transferencia de Acciones*) or Transfer Agreement;

the License granted to Telecom Argentina;

the Rate Agreement;

Res SC No. 60/96 and Decree No. 266/98, regulation for the provision of the PCS (*Servicio de Comunicaciones Personales*);

Decree No. 92/97, approving the changes to the General Tariff Structure, establishing the minute fraction as the new Calculation Unit, approving the National Numeration and Signalization Fundamental Plans and the following Regulations: Accounting and Financial Information and Costs Regulation, Basic Telephony Service Clients Regulation, Basic Telephony Quality Service Regulation, PCS Regulation, as amended by Decree No. 266/98, and Public and Residential Telephone Services for the Deaf;

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Res SC No. 490/97, Clients General Regulation, as amended, which regulates the relationships between Telecom Personal and its clients;

Decree No. 264/98; extended the period of exclusivity to provide Basic Telephone Services to the Northern Region until a date that the SC later set pursuant Resolution No. 1686/99 as of October 10, 1999;

Table of Contents

Decree No. 266/98 (as modified by Decree No. 764/00 as it relates to Argentine interconnection regulation);

SC General Resolution No. 1,122/98, establishing the regulatory framework for licenses and public telephony plan;

SC General Resolution No. 2,724/98 as amended, establishing the regulatory framework for the long-distance presubscription service;

SC General Resolution No. 10,059/99, establishing the Basic Telephony Service Client Regulation;

Res SC 18,979/99, Service Quality Regulation for the SRMC and STM, which defines the technical standards enforceable upon Telecom Personal by the Regulatory Bodies in connection with compliance with the goals of the List of Conditions;

Law No. 25,000 which adopts the norms of the World Trade Organization with regards to telecommunications in individual countries;

Decree No. 465/00, establishing the deregulation of the telecommunications market commencing November 9, 2000;

Decree No. 764/00, establishing the regulation of licenses for telecommunications services, Argentine interconnection regulations, Universal Service and regulation, and the regulation governing the administration, management and control of the wireless spectrum;

Ministry of Economy General Resolution No. 75/03, establishing the regulatory framework that allows callers to select their long-distance provider for each call;

Surveillance Laws. During 2003 and 2004, the National Congress of Argentina enacted laws which impose additional duties on telecommunications service providers, including a requirement that such providers have the capability to monitor phone and e-mail communications for law enforcement surveillance purposes (the Surveillance Laws). Costs associated with the implementation of the Surveillance Laws are the responsibility of telecommunication service providers. Should a telecommunication service provider receive an order of surveillance, it must act immediately. A law that implemented the technical and security conditions that must be met in order to comply with the Surveillance Laws was subsequently suspended on grounds of unconstitutionality, and accordingly, future application of the Surveillance Laws is uncertain;

Telecom Argentina and Telefónica signed two Letters of Understanding with the Argentine Government whereby we and Telefónica agreed certain measures that have regulatory and tariff consequences. (Letter of Understanding 2004 and Letter of Understanding 2006); and

SC Resolutions No. 242/06, establishing the regulation of prepaid calling cards.

This summary does not purport to be complete and is qualified by reference to the License, the List of Conditions, the Transfer Agreement and applicable provisions of Argentine law.

Principal Regulatory Bodies and Regulatory Authorities

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The activities of Telecom Argentina and Telecom Personal are supervised and controlled by the CNC, a governmental agency under the supervision of the SC (which is presently supervised by the Ministry of Federal Planning, Public Investments & Services). The CNC is in charge of general oversight and supervision of telecommunications services. The SC has the power to develop, suggest and implement policies which are applicable to telecommunications services, to ensure that these policies are applied, to review the applicable legal regulatory framework, to act as the enforcing authority with respect to the laws governing the relevant activities, to approve major technical plans and to resolve administrative appeals filed against CNC resolutions.

Table of Contents

Decree No. 92/97

On January 31, 1997, the Argentine Government issued Decree No. 92/97, whereby a new tariff structure was established. Decree No. 92/97 implemented changes in certain regulatory areas to address issues that Telecom Argentina believes are critical in a competitive environment. For example, Decree No. 92/97 ratified the new National Numbering Plan, which increases the length of telephone numbers to 10 digits, re-assigns numbers for special services such as police and hospitals and establishes the rules for future implementation of number portability. Decree No. 92/97 also ratified the Signalization Plan, which regulates certain aspects of call routing. Decree No. 92/97 further included a Service Quality Regulation, which defines the technical standards enforceable upon Telecom Argentina by the Regulatory Bodies in connection with compliance with the goals of the List of Conditions and the Clients General Regulation, as amended, which regulates the relationships between Telecom Argentina and its clients. Additionally, Decree No. 92/97, as amended, established a regulation and list of conditions for the granting of licenses to provide PCS services. Finally, it permits Telecom Argentina to provide equipment and maintenance services to clients in a competitive environment.

As established by Decree No. 92/97, the calculation of per time units now uses minutes as the calculation unit.

Deregulation Plan Established by Decree No. 264/98

General. In March 1998, the Argentine Government issued Decree No. 264/98, introducing a plan for the liberalization of the Argentine telecommunications industry, or the Plan. Decree No. 264/98 provided for the extension of the period of exclusivity with respect to the provision of basic telephony and international long-distance services until some time between October 8, 1999 and November 8, 1999, depending on the particular region. The Plan also provided for: (i) the immediate liberalization of pay telephone services and (ii) during July 1998, the liberalization of telephone service in rural areas. In addition, the Plan contemplated that in January 1999, data transmission services within the countries included in Mercosur would be open to competition, subject to the following conditions: (i) each of the Mercosur countries enters into agreements providing for the liberalization of these services and establishing similar regulatory bodies and (ii) reciprocity exists between countries with respect to the granting of licenses, which is still pending. Finally, the full liberalization of local, domestic and international long-distance services took place in November 2000. See Decree No. 764/00 below. Beginning in late 1999, two new operators, formed by independent operators, wireless operators and cable television operators, were permitted to offer services. These new operators, together with the existing licensees of basic telephony service, allowed customers to choose from four operators until the full liberalization of services occurred. The Plan also granted data transmission operators existing prior to the privatization of ENTel the right to operate domestic and international long-distance services by the end of 2000.

The Plan focused on three central principles:

providing universal telephone service to all segments of the Argentine population;

establishing limitations on anti-competitive activities; and

creating fair and transparent guidelines for granting future licenses.

During the Transition Period (1998-1999), new regulatory obligations were also introduced with respect to quality and service targets applicable to both Telecom Argentina and Telefónica. For example, all localities with more than 80 inhabitants had to be incorporated into the network by means of the installation of semi-public long-distance services and all localities with more than 500 inhabitants had to be incorporated into the residential network by means of fixed-line or wireless services. During the Transition Period, 640,000 new lines had to be installed, of which 15% of these new lines were required to be installed for customers in suburban areas; 19,000 new public telephones had to be added to the existing network (50% of which are to be coin-operated telephones), and 2,000 telephones were required to be installed in low income areas.

The annual 4% price cap formula was in effect during the Transition Period.

As long-distance services were liberalized, competition was introduced by Presubscription of Long-Distance Service for locations with more than 5,000 clients. Following the introduction of Presubscription of Long-Distance Service, a call-by-call selection service will be installed. These requirements obligate the telephone companies to make significant investments and modifications to their networks.

Table of Contents

During 1999, competition in local and national and international long-distance services was established among Telecom Argentina and Telefónica and Compañía Telefónica del Plata (CTP, Movicom Bell South) and Compañía de Telecomunicaciones Integrales S.A. (CTI, now Telmex), the two new national operators permitted to offer services by Decree No. 264/98. Some provisions of Decree No. 264/98 and related resolutions were modified by Decree No. 764/00, mainly provisions related to licensing conditions, interconnection and Universal Service. Decree No. 764/00 established the general regulation of licenses and provided that each licensed company was allowed to launch its services in November 2000 when the full liberalization of the telecommunications market began. As of the date of this Annual Report, the main licensees providing local and/or fixed long-distance telephone service are Techtel (Telmex), Telephone2, Impsat, IPlan, Telefónica (in the Northern Region) and Telecom (in the Southern Region).

Public Telephone Services. Pursuant to the Plan, the liberalization of public telephone services began. On December 9, 1998, Telecom Argentina entered into an agreement with the Argentine Government whereby Telecom Argentina was granted (upon the subsequent issuance of SC General Resolution No. 2627/98) a license to provide public telephone services in the Southern Region. In accordance with the terms of the agreement, Telecom Argentina installed in excess of 2,500 public phones in the Southern Region between 1998 and 2001.

As of December 31, 2006, Telecom Argentina has installed 9,265 public lines in the Southern Region. Telecom Argentina has installed public telephony telecommunication centers, or CETs, providing access to public telephony services, Internet and fax services in the Southern Region in major cities including Buenos Aires, La Plata, Mar del Plata, Mendoza, San Luis, Villa Mercedes, Tandil, San Juan, Ushuaia and Junín. Telecom Argentina competes with a number of other companies for the provision of public telephone services.

Decree No. 764/00

On September 5, 2000, the Argentine executive branch issued Decree No. 764/00 which enacted four new regulations:

the regulation of licenses for telecommunications services;

the Argentine interconnection regulation;

the Universal Service regulation; and

the regulation governing the administration, management and control of the wireless spectrum.

The basic guidelines for these regulations are as follows:

General Regulation of Licenses. This regulation establishes a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, wireless, national and international, irrespective of whether these services are provided through telecommunications infrastructure owned by the service provider. Under the regulation, a licensee's corporate purpose does not need to be exclusively the provision of telecommunications services. In addition, the regulation does not establish any minimum investment or coverage requirements. Broadcasting services companies may also apply for a license to provide telecommunications services; provided, for certain activities (such as Internet services), that the company is owned at least 70% by Argentine companies or individuals. The regulation further authorizes the resale of telecommunications services subject to the receipt of a license, and there are no restrictions on participation by foreign companies. This regulation governs the license through which Telecom Argentina offers services in the Southern Region.

Argentine Interconnection Regulation. Compared to the prior interconnection regulation (Decree 266/98), this regulation provides for a reduction of approximately 50% in the reference prices for interconnection in effect at the time. The regulation also increases the number of functions that the dominant operator must provide, including the obligation to provide interconnection at the local exchange level, to provide billing services and to unbundle the local loop. This regulation also introduces interconnection for number translation services (NTS) such as Internet, audiotext, collect calling and the implementation of number portability, all of which shall be subject to future regulations.

Table of Contents

Universal Service Regulation. The Universal Service regulation requires entities that receive revenues from telecommunications services to contribute 1% of these revenues to the Universal Service fund. The regulation establishes a formula for calculating the subsidy for the provision of Universal Service which takes into account the cost of providing this service and any foregone revenues. Additionally, the regulation creates a committee responsible for the administration of the Universal Service fund and the development of specific Universal Service programs. The regulation adopts a pay or play mechanism for compliance with the mandatory contribution to the Universal Service fund, although it establishes a mechanism for exemption from contribution for basic telephony service licensees, which combines loss of revenues and market share. However, material regulations to implement Universal Service programs are still pending.

In Telecom Argentina

By the end of 2002, the SC formed a working group whose main purpose was to analyze the method to be applied in measuring the net costs of compliance with Universal Service provision in particular the application of the Hybrid Cost Proxy Model (the HCPM Model), based on incremental costs of a theoretical network as well as the definition and methodology for the calculation of non-monetary benefits, in order to determine the costs that would be offset for the performance of Universal Service obligations. Said working group determined that efforts should be made in the short term to continue the initial programs, independently from the HCPM Model, and that there was a need to carry out a thorough revision of the present General Regulations relating to Universal Service to make said regulations operative in the near term, in accordance with existing social needs.

After more than seven years from the opening of the market and the coming into effect of the first Universal Service regulations and after six years from the coming into effect of the amendments to the regulations said regulations have yet to be implemented. Therefore, service providers under said regulations have not received set-offs for providing services under the Universal Service regime, which services have been provided since the beginning of the abovementioned opening of the market. In addition, as the Regulatory Authority has not issued any rules or regulations with regard to the Universal Service performance in general and the trust fund in particular, no contribution has been made to said fund. In this regard, Telecom Argentina decided not to record in its financial statements the net receivable it shall be entitled to when the Universal Service fund guidelines are issued.

In Personal

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the Universal Service fund. As of December 31, 2006, this provision amounted to P\$95 million. Personal, like the other wireless providers, is currently awaiting the establishment of the Universal Service fund.

Since the rates for their services are generally not regulated, as a result of increasing tax burdens on wireless operators, Telecom Personal and other Argentine wireless operators decided to include a special charge in their customer's bills which reflects the impact of these regulatory taxes. However, pursuant to General Resolution No. 279/01, the SC prohibited wireless operators from billing this special charge. Telecom Personal has filed an administrative appeal objecting to the application of General Resolution No. 279/01. As of the date of this Annual Report, this appeal is still pending.

On May 4, 2005 the SC issued Resolution No. 99/05 in which it clarified that the required contribution of 1% of total revenues drawn by the provision of telecommunication services constitutes an obligation by the providers to the Universal Service fund. The Resolution also held that required fund contributions cannot be separately included in the invoices that all providers issue and may not charge the amounts to their clients. On July 8, 2005, the CNC issued Resolution No. 2,356/05 implementing SC Resolution No. 99/05 and requiring that providers must, within 90 calendar days, reimburse their customers for any amounts collected from them relating to the Universal Service fund plus the respective normal interest, at the same rate that each provider charges its customers on their prepaid bills or post-paid invoices in the event of a delayed payment. Telecom Personal filed an administrative appeal of this resolution on August 9, 2005.

On October 13, 2005, the SC issued Resolution No. 301/05 which rejected the claims filed by Personal and the other wireless operators, nullified CNC Resolution No. 2,356/05, instructed the CNC to order wireless providers to discontinue charging Universal Service fund amounts to customers and demand reimbursement for amounts already billed. On October 25, 2005, in Note CNC No. 726, the CNC requested that Personal discontinue billing Universal Service fund amounts to customers, reimburse all collected Universal Service fund amounts, plus interest (applying the same rate used for overdue invoices from customers), identify the reimbursed amounts in the invoices and file certain information to the regulatory authority for verification of the reimbursements.

Personal's management, together with its legal counsel, believes that it has solid legal grounds to appeal these resolutions. However, although the SC resolutions were appealed, management decided to reimburse the Universal Service fund amounts billed to

Table of Contents

post-paid customers from January 1, 2001 through June 28, 2005, the date on which Personal ceased billing Universal Service fund amounts. Personal began reimbursing its active post-paid customers on January 1, 2006 and, as of the date hereof, has completed the reimbursement process. Notwithstanding this completion, Personal has not surrendered any of its rights to consider the resolutions illegitimate and without merit. In addition, since May 2006, Personal has reimbursed the Universal Service fund amounts billed to its former customers and former post-paid customers that have changed into prepaid customers and as of the date of this Annual Report, an amount of P\$6 million still remains pending that is available for collection. Therefore, Personal has recorded a provision in the amount of P\$6 million to cover the reimbursement amounts outstanding for such former customers who had not claimed their credits during the reimbursement process as of such date. In December 2006, the CNC issued a preliminary report on the verification and control of the Universal Service reimbursement, which stated that Personal fulfilled its obligations for the reimbursement of the amounts, including interest. However, the CNC is analyzing if the interest rate applied was that required by the CNC. As of the date of this Annual Report, Personal has not received any claim on this matter. If any such claim is subsequently filed, Personal's management together with its legal counsel believes that it has solid legal grounds to justify the interest rate applied.

On June 8, 2007, the SC issued Resolution No. 80/07 which stipulates that until the Universal Service Fund is effectively implemented, telecommunication service providers, such as Telecom Argentina and Telecom Personal, are required to deposit the contributions corresponding to future obligations originating since the Resolution was issued onward into a special individual account held in their name at the Banco de la Nación Argentina. The amounts to be deposited will be determined according to the applicable regulations previously mentioned.

Regulation Governing the Administration, Management and Control of the Radioelectronic Spectrum. This regulation establishes the principles and requirements governing the administration, management and control of the radioelectronic spectrum. According to the regulation, the authorizations or permissions will be granted subject to SC's right to substitute, modify or cancel them without any right to indemnification on the part of grantee. The new authorizations that are granted will have a minimum duration of 5 years. The authorizations or permissions for use of frequencies may not be transferred, leased or assigned, in whole or in part, without the prior authorization of the SC.

Reconsideration Request. During year 2000, Telecom Argentina filed an administrative appeal for the revocation of certain provisions of the regulations attached to Decree No. 764/00. The administrative appeal argues that:

the contested regulations contain inequities that violate the provisions adopted in connection with the privatization of the basic telephony service;

broadcasting companies may render telecommunications services through one entity while Telecom is unable to do so; and

the reduction of interconnection rates does not compensate for the access deficit which itself is not compensated by Universal Service.

As of the date of this Annual Report, the appeal is still pending.

Regulation for the Call by Call Selection of the Providers of Long-Distance Services

On December 28, 2001, the former Ministry of Infrastructure and Housing issued General Resolution No. 613/01 which approved a system that allows callers to select their preferred long-distance provider for each call. This call by call selection system is referred to as SPM.

Subsequently, as a result of the claims submitted by several carriers objecting to General Resolution No. 613/01, the Ministry of Economy issued General Resolution No. 75/03, which introduced several changes to the regulations providing for SPM. The main changes relate to the following: long-distance carriers' freedom to provide SPM, changes in blockage modality due to delinquency, changes in the service connection modality and greater flexibility of obligations connected with service promotion and advertising. General Resolution No. 75/03 also provides that origin providers, both fixed and wireless, must have their equipment and networks available to provide the SPM service within 120 days of February 6, 2003. Our equipment and networks have been able to provide this service since 2002. As of the date of this Annual Report, no long-distance operator has requested interconnection in order to provide this service.

Law No. 25,609

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On June 12, 2002, the Argentine Congress passed Law No. 25,609, which provides that Argentine telephone operators such as Telecom Argentina must provide indispensable telephony services to the following entities (the Beneficiaries):

public hospitals and welfare institutions;

Table of Contents

public education facilities; and

Argentine armed forces.

Law No. 25,609 did not define the scope of indispensable telephony services. Pursuant to the terms of this law, Telecom Argentina must continue to provide telephony services even if the Beneficiaries do not pay for these services. Subject to the implementation of this law and subsequent regulations that may be enacted thereunder, Telecom Argentina may or may not be able to set-off any amounts due by the Beneficiaries against any amounts owed by Telecom Argentina to the Argentine Government.

The executive branch vetoed Law No. 25,609 and instead passed Decree No. 1,174/02 on July 4, 2002. However, Law No. 25,609 may still become effective upon a 2/3 majority vote of the National Congress. Decree No. 1,174/02, unlike Law No. 25,609, does not require Argentine telephone operators such as Telecom Argentina to provide the above mentioned indispensable telephony services but does require a party wishing to suspend the provision of those services to provide 30 working days notice of the suspension to the affected entity and the Ministers or Secretaries of the executive branch.

Letter of Understanding 2004

As part of our negotiations under Decree No. 293/02 on the tariff structure, on May 20, 2004, Telecom Argentina and Telefónica signed the Letter of Understanding 2004 with the Argentine government whereby we together with Telefónica agreed, among other things, to grant free prepaid calling cards to pensioners and to certain beneficiaries of Argentine government-sponsored social programs (called Chief of Household Plan) that did not have wire telephone lines, and to establish special tariffs for the provision of Internet services within the Argentine provinces. This agreement was implemented by several SC Resolutions (Resolutions N° 261, 272 and 273).

Letter of Understanding 2006

On March 6, 2006, Telecom Argentina signed the Letter of Understanding 2006 with the UNIREN on behalf of the Argentine Government. Upon the fulfillment of the procedures set forth in the rules and regulations presently in effect, the Letter of Understanding 2006 shall constitute the necessary background for the signing of the Acta Acuerdo de Renegociación del Contrato de Transferencia de Acciones (Minutes of Agreement of the Renegotiation of the Transfer Agreement) approved by Decree No. 2,332/90, as stated in Section 9 of Law No. 25,561.

The main terms and conditions of the Letter of Understanding 2006 include:

The technical supervising offices (CNC and UNIREN) have determined that Telecom Argentina satisfactorily complied with most of the requirements contemplated in the Transfer Agreement and by the regulatory framework; and those requirements not fulfilled have been dealt with through sanctions. At the time the Letter of Understanding was executed, some matters relating to Telecom Argentina's usual and regular activities as a Licensee were pending, and were expected to be determined by June 30, 2006. Despite such expectation, the regulatory authority continues to analyze such open issues, the outcome of which will be disclosed when the analysis is completed;

Telecom Argentina's commitment to invest in the technological development and updating of its network;

Telecom Argentina's commitment to the achievement of its long-term service quality goals;

The signing parties' commitment to comply with and maintain the terms set forth in the Transfer Agreement, and in the regulatory framework in effect;

The Argentine Government's commitment to create an appropriate and standardized regulatory framework for telecommunications services and to give Telecom Argentina fair and equivalent treatment to that given to other telecommunications companies that shall

take part in the process;

Table of Contents

Telecom Argentina's commitment and the commitment of its indirect stockholders Telecom Italia and W de Argentina Inversiones, to suspend for a period of 210 working days any and all claims, appeals and petitions already filed or in the process of being filed, in administrative, arbitral or judicial offices, in Argentina or in any other country, that are founded in or related to any act or measure taken after the issuance of the Public Emergency Law with respect to the Transfer Agreement and to the License granted to Telecom Argentina by Decree No. 2,347/90, after 30 days from the end of the public hearing convened to deal with the Letter of Understanding 2006 have elapsed, and to discontinue said claims, appeals and petitions after the Minutes of Agreement of the Renegotiation have been ratified (As of the date of this Annual Report, both Telecom Argentina and its indirect stockholders Telecom Italia and W de Argentina Inversiones have honored this commitment).

An adjustment shall be made to increase the termination charge of international incoming calls to a local area to be equivalent to international values (at present such charges are steeply discounted); and

Off-peak telephone hours corresponding to reduced tariffs shall be unified with regards to local calls, long-distance domestic and international calls.

On May 18, 2006, the Letter of Understanding 2006 was subject to a public hearing procedure, with the purpose of encouraging the participation of the users and the community in general, taking into consideration that the Letter's terms and conditions shall form the foundation for the signing of the Minutes of Agreement of the Renegotiation. These Minutes of Agreement of Renegotiation shall be in effect once all the requirements stipulated in the regulatory framework are complied with, which among other things, requires that a Telecom Argentina Stockholders Meeting be held to approve said Minutes.

As of the date of this Annual Report, Telecom Argentina continues to await completion of the administrative steps required for the National Executive submit to the National Congress a proposed Memorandum of Agreement for Renegotiation. Although Telecom's Management believes that the contract renegotiation process will be satisfactorily completed, to date there is no certainty regarding either its outcome or the timing of its resolution.

Regulation of Prepaid Calling Cards

In December 2006, the SC approved, through Resolution No. 242/06, the Regulation of Prepaid Calling Cards for Telecommunication Services. This regulation, designed to ensure market transparency and avoid the existence of irregularly issued cards, sets forth certain requirements that said cards must meet and creates a Telecommunications Prepaid Calling Cards Registry that reports to the CNC. It mandated that 180 days after the regulation becomes effective no cards may be issued unless they are registered with said Registry. This transition period expires on June 11, 2007. As of the date of this Annual Report, neither Telecom Argentina nor Telecom Personal has registered, but both entities intend to do so prior to the expiration date.

CNC Resolution No. 1/07 approves the operation of the Telecommunications Prepaid Calling Cards Registry and establishes that said Registry will report to the Engineering Department of the CNC.

Tax Stability: Social Security Contribution Variations

On March 23, 2007, the SC issued Resolution No. 41/07 relating to the impact of variations in Social Security contributions occurring over the past several years and the planned use of the savings and increases that have resulted.

Pursuant to Resolution No. 41/07, Telecom Argentina will be able to offset the impact of costs borne as a result of increases in Social Security contribution rates, implemented in accordance with the applicable regulations, with the savings produced by the reduction of the level of Social Security contributions initially earmarked for the argentina@internet.todos Program.

The implementation by Telecom Argentina of Resolution 41/07 remains subject to tax audits by the Regulatory Authority. Management of the Company estimates that a positive balance in the Company's favor will result from such audits and will be applied to other regulatory obligations, existing or to be determined in the future.

Table of Contents

Penalties for Non-Compliance

The List of Conditions specified various penalties which may be applied by the Regulatory Bodies to Telecom Argentina. These penalties may include warnings, fines and revocation of the License.

Revocation of the License. The following events may result in revocation of the License:

the interruption of all or a substantial portion of service;

the serious non-performance of material obligations;

the modification of corporate purpose or change of domicile to a jurisdiction outside Argentina;

the sale or transfer of the License to third parties without prior approval of the Regulatory Bodies;

any sale, encumbrance or transfer of assets which has the effect of reducing services supplied without the prior approval of the Regulatory Bodies;

the reduction of ownership of Nortel in the capital stock of Telecom Argentina to less than 51% without prior approval of the Regulatory Bodies;

the reduction in ownership of Sofora in the capital stock with voting power of Nortel to less than 51% without prior approval of the Regulatory Bodies;

any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina without prior approval of the Regulatory Bodies;

the assignment or delegation of the Operator's functions without the prior approval of the Regulatory Bodies; and

the bankruptcy of Telecom Argentina.

If our License is revoked, Nortel must transfer its shares in Telecom Argentina to the Regulatory Bodies, in trust, for their subsequent sale through a public auction. Upon the sale of the shares to a new management group, the Regulatory Bodies may renew the License of Telecom Argentina under conditions they determine.

Calling Party Pays CPP

Calling Party Pays CPP. As of April 15, 1997, pursuant to Decree No. 92/97 and SC General Resolution Nos. 263/97 and 344/97, wireless telephone services apply the calling party pays, or CPP, system, whereby the party placing a call from a fixed-line to a wireless phone pays for the air time charges for the call. As an exception to this rule, traffic originating from public telephones does not pay CPP, and is instead charged according to the Mobile Party Pays or MPP system, whereby the cellular party pays for the call received.

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In March 2002, Telecom Personal started entering into agreements with the telephone operators to charge CPP for calls made by calling cards. Mobile operators have also agreed to pay for traffic terminated in each others networks at prices agreed amongst them.

In accordance with SC General Resolution No. 124/02, since January 2003, wireless operators can charge the CPP for international calls whereby overseas calls that terminate in wireless telephones in Argentina pay for CPP charges. In order to identify these calls, customers dialing from outside must add a prefix 54 + 9 + area code to the wireless number without the 15 .

The price per minute for the CPP (for fixed line to mobile calls) is regulated by the SC as a price cap based on average traffic volume and costs, as reported by the wireless operators under Resolution SC No. 623/02 which approved the calculation mechanism for the reference value of the TLRD costs for CPP modality. Resolution SC No. 48/03 fixed the values for the TLRD at P\$0.335 per minute for peak-hours and P\$0.22 per minute for off-peak hours, but these values had to be revised by the SC a month after their approval, with a second revision during the subsequent six months that was to be in turn followed by quarterly revisions. However, none of these revisions have yet been completed by the SC.

Table of Contents

The CPP price per minute for international calls has been agreed upon by the wireless operators and currently stands at US\$0.18.

Law 25,891: Law 25,891 was adopted on April 2, 2004, but material regulations under this law are still pending. It is intended to regulate the commercial distribution of wireless services and includes mandated registration of personal data of all customers, creating the *Registro Público Nacional de Clientes y Usuarios de Comunicaciones Móviles* in the SC.

Regulations Applicable to PCS Services

PCS. Telecom Personal has licenses for PCS in all areas in Argentina.

AMBA. In June 1999, Telecom Personal and Unifón were jointly awarded a license of 40 MHZ in the PCS Band for the region including the AMBA. Miniphone and Movicom each exercised the right to acquire a license of 20 MHZ in the PCS Band. Telecom Personal and Unifón have divided the 40 MHZ license awarded to the two companies and the additional 20 MHZ license granted to Miniphone.

Interior Regions. Telecom Personal holds licenses of 40 MHZ in the PCS Band in the Southern Region. Telecom Personal also holds a license of 20 MHZ in the PCS Band in the Northern Region.

In August 2006, the CNC issued Res No. 2,528/06 declaring that Personal had fulfilled its obligations under the *Pliego de Bases y Condiciones* for the acquisition of the licenses for the provision of PCS. In addition, the SC issued Note No. 1040/06 which enabled Personal to recover the promissory notes used to guarantee the granted PCS licenses and therefore, all such notes have been recovered as of the date of this Annual Report.

Telecom Personal also has licenses for Data Transmission and Value Added Services (granted by Res. SC No. 18/96, Date: 04-25-1996 and confirmed by Res. SC No. 55/96), and for National and International Long Distance Telephony Service (Registered by Res SC No. 502/01, Date: 11-30-2001).

In connection with Telefónica Móviles acquisition and combination of operations of Unifón and Movicom, in 2004 the SC authorized a change in shareholder control of stakes held in Compañía de Radiocomunicaciones Móviles S.A. and in Compañía de Teléfonos del Plata in Telefónica Móviles favor. Such authorization was conditioned upon the return, without charge, of frequency bands exceeding an aggregate 50 MHZ in accordance with then current laws and pursuant to a plan to be subsequently issued.

In 2005, the SC issued its plan relating to the return of the frequency bands in question, however, the plan did not stipulate how the returned bands would be reallocated or assigned to other operators.

Since then, Telecom Personal has presented successive requests before the SC demonstrating its interest in participating in the frequency band reassignment process when this takes place, but as of the date of this Annual Report, the SC has not yet responded.

Telecommunications Fund

In August 2003, Telecom Argentina was notified of the creation by the Argentine Government of a P\$70 million fund (the *Telecommunications Fund*) aimed at developing the telecommunications sector in Argentina and to be funded by the major telecommunication companies. In November 2003, Telecom Argentina contributed P\$1.5 million to the Telecommunications Fund. In addition, management announced that it is Telecom Argentina's intention to promote agreements with local suppliers which would facilitate their access to financing.

Table of Contents**CAPITAL EXPENDITURES**

Capital expenditures (investment in fixed assets, net and intangible assets, net) excluding materials amounted to P\$1,056 million in the year ended December 31, 2006, P\$572 million in the year ended December 31, 2005 and P\$449 million in the year ended December 31, 2004. Capital expenditures including materials amounted to P\$1,226 million in year 2006, P\$628 million in year 2005 and P\$521 million in year 2004.

The following table sets forth our actual consolidated capital expenditures for the years ended December 31, 2006, 2005 and 2004.

	Year ended December 31,		
	2006	2005	2004
	(P\$ millions)(1)		
Land and buildings	42	25	20
Switching and transmission	382	105	136
Access and outside plant	285	273	146
Computer equipment	207	110	78
Rights of use	52	19	24
Other	88	40	45
Capital expenditures without materials	1,056	572	449
Materials	170	56	72
Total capital expenditures with materials	1,226	628	521
Asset retirement obligations	3	8	3
Total fixed assets, net and intangible assets, net additions	1,229	636	524

(1) The allocation of work in progress among items is estimated.

In addition, the following table shows capital expenditures for the years ended December 31, 2006, 2005 and 2004 by reportable segment:

	2006	2005	2004
	(P\$ millions)		
Voice, Data and Internet	593	321	255
Wireless	635	315	269
Directories Publishing	1		
Total fixed assets, net carrying value	1,229	636	524

As a result of the expected evolution in our services, we expect that we will need to increase our capital and marketing expenditures in order to maintain the quality of our services and our competitive position. Our capital expenditure plan is set annually and is based on commercial, technical and economic factors such as rates, demand and availability of equipment and buildings, taking into consideration contractual limits on capital expenditures pursuant to Telecom Argentina's Series A notes and Series B notes. Costs are estimates and remain subject to the finalization of services and other contracts relating to these expenditures.

We estimate that our capital expenditures will be approximately P\$1,500 P\$1,600 million for 2007, of which approximately 47% corresponds for Voice, Data and Internet capital expenditures and the remaining 53% to Wireless capital expenditures. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures .

We seek to continue to improve the quality of our telecommunications network and to position ourselves for increasing competition by offering new services at competitive prices, satisfying demand in our service area, increasing telephone line density, taking advantage of leading

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technologies, improving service quality and productivity. In order to meet this strategy, we intend to maintain our fixed line networks, expand our ADSL high speed network and connections, expect to complete the transition from TDMA to GSM technology and expand our GSM network to the southern area of Argentina to support our commercial plan to increase market share in that area.

Table of Contents

We expect to finance these expenditures through operating cash flows and financing provided by our vendors.

PROPERTY, PLANT AND EQUIPMENT

As detailed below, our principal physical properties consist of transmission equipment, access facilities, outside plant (external wiring) and switching equipment. These properties are, at present, mainly located throughout the Northern Region. We believe that these assets are, and for the foreseeable future will be, adequate and suitable for their respective uses.

	As of December 31, 2006		
	Internet(*)	Wireless	Total
	Voice, Data and (P\$ millions)(**)		
Land and buildings	802	92	894
Switching and transmission	1,098	584	1,682
Access and outside plant	1,680	521	2,201
Computer equipment	226	308	534
Other	166	121	287
Fixed assets, net carrying value without materials and asset retirement obligations	3,972	1,626	5,598
Asset retirement obligations	2	8	10
Materials	88	67	155
Total fixed assets, net carrying value	4,062	1,701	5,763

(*) Includes P\$2 million related to fixed assets in Directories Publishing.

(**) The allocation of work in progress among items is estimated.

All the above mentioned assets were used to provide service to our clients as described below.

	2006	2005	2004
	(thousands)		
Fixed telephony customers	3,750	3,625	3,484
Internet(*)	552	351	280
Wireless subscribers	9,589	6,801	4,337

(*) Includes Virtual Private Network.

As of December 31, 2006, we have entered into purchase commitments totaling P\$442 million primarily for switching equipment, the repair and/or maintenance of public telephones, infrastructure works, inventory and other services. In general, the contracts were financed, directly or indirectly, by domestic and foreign vendors or other financing sources.

Our current major suppliers of equipment are Ericsson Group, Siemens Group, Infsonics Corporation, Nokia Group and IBM Argentina.

Information Technology Development

In 2006, the Company continued its efforts to update its technological infrastructure. The steps described below are expected to serve as a base for continued improvements to Telecom's information technology systems over the coming years.

Table of Contents

In line with the strategy of concentrating planning and control activities to simplify Group processes and achieve standardization without overlooking the strengthening of the financial reporting and internal control system, during the last quarter of fiscal year 2005, the Company's management decided to launch an ambitious project to replace its current JD Edwards ERP system and other works and human resources planning and control systems, with a single, fully-integrated SAP-based software application with proven success in world-class telecommunications companies.

In recent years, SAP has been the leader in ERP sales worldwide and has been widely implemented in Argentina by leading telecommunications operators and other public and SEC-registered companies. In order to reduce the costs of ongoing development and future updates, the Group implemented the standard software package with only minor modifications. During the year, a critical review of the business processes of Telecom Argentina, Personal and Publicom was conducted and the software was designed and utilized to facilitate compliance with the Sarbanes Oxley Act. In accordance with the project schedule, the Company implemented use of the SAP software on a widespread basis on January 15, 2007. Such implementation required the active involvement of all operational and corporate areas of the Group in the fields of process review, product implementation, staff training, and post-implementation fine-tuning. As of the date of this Annual Report, all of the Group's companies in Argentina are using SAP for the following processes: accounting, accounts payable, treasury, works in progress, materials management, logistics, fixed assets and project management.

As of December 31, 2006, the SAP project represented an investment amounting to approximately P\$30 million, which was capitalized as fixed assets, plus P\$1 million in training and other operating expenses.

In addition to the SAP rollout, the Company implemented a tool to administrate and manage information pertaining to litigation involving the Telecom Group, both for internal users and for the law firms that provide advice to the Company.

With respect to IT infrastructure improvement, a strong emphasis was placed on the Arnet business in light of its growing contribution to the business. Work began on the implementation of an infrastructure monitoring tool and the rollout of support services for Arnet products.

In addition, the Group worked on standardizing micro-IT platforms and networks, migrating several administration and monitoring services, and enhancing the security of workstations.

Also relating to information security, improvements centered around data and environment assurance and work continued on the detection and correction of vulnerabilities in the systems relating to external access to the Group's companies. Finally, the Company started working on the unified management of electronic identities.

Telecom Argentina

In response to business needs, in 2006 Telecom Argentina expanded the packaged service offerings that form part of its ADSL portfolio to provide customers a wider range of speed and feature choices. The new branded products include: Kronos, NDNNet, 640 Flat, 640 Free Retail, 640 with no fixed charge, Promo Turbo, Streaming Arnet, Invoice Image and CALL Web, among others. The focus was on upgrading applications to face the challenging sales targets for ADSL services.

Telecom Argentina also worked on the Arnet Portal, its security system and the implementation of a content management tool.

For claim management systems, the focus was placed on the first stage of the Single Technical Claims System, which enabled initial steps towards the consolidation of several applications in a single platform.

With regard to network inventory systems, work began on improving reliability, and migration to an existing platform of transmission and switching systems capable of setting the foundations for the Single Inventory project.

With the goal of improving the assurance process, the first stage of consolidation of failure management applications was completed and a unified testing platform was implemented, developments that together improved monitoring of both ADSL ports and traditional lines.

Table of Contents

In light of the centrality of invoicing as a means of communication with the customer, Telecom Argentina focused on improvements in this channel through two types of initiatives: (a) those focused on supporting invoice layout improvements, which included the introduction of colors, higher paper and envelope quality, creation of new space for commercial communication, and improvements in the display of invoiced items and (b) those focused on the unification of charges in a single invoice, including Arnet services in Telecom Argentina's voice services invoice.

In order to optimize arrearage management, related processes were integrated into a single platform and numerous applications were consolidated. These changes resulted in more efficient arrearage handling as well as a significant simplification of the supporting IT architecture.

Telecom Personal

In 2006, Personal focused its IT efforts on four fronts:

a) Business growth support: Several extensions and renovations were introduced in the IT infrastructure, across all its architectural layers: IP data network, servers, storage, automated prepaid activation and information lines (*150 and *151, respectively), operating systems and the database. The new IT infrastructure was deployed to coincide with the opening of new commercial offices and new call centers.

These projects and activities enabled Personal to support the strong business growth achieved in all areas (customers, traffic, credit recharge, Value Added Services, invoices, systems users, network, channels, number of applications and staff), while improving the performance, stability and availability of IT systems and services and preparing the IT infrastructure to face the challenges of the coming year.

b) New products and services: New offerings and promotions tied to special dates were implemented for prepaid customers and were designed to strengthen database growth. Additionally, new electronic recharge channels were introduced, offering prepaid customers alternative forms of payment in addition to physical and virtual PIN card and increasing recharging options across the network.

Strategic projects for 2006 included CRM, comprising the systems and support for a new customer relationship model spanning all processes from customer knowledge to personalized service. The analytic and operating CRM systems provided tools to improve knowledge, facilitate segmentation and the offering of personalized products and services for each profile and, above all, improve the frequency and quality of customer contact. The CRM project was launched in 2006 and is expected to be continuously improved over the coming years.

c) Risk reduction and revenue assurance: As a result of the implementation of several initiatives, losses due to negative balances related to prepaid services reached historic low levels for Personal and compared favorably to industry benchmarks. The factors and activities that contributed to this achievement include:

the integration of the intelligent network (IN),

the development of new tools and control reports,

the creation of contingency plans,

general performance improvements throughout the IT infrastructure, and

the control of the Value Added Services chain.

The implementation of the new anti-fraud system was one of the main initiatives related to the strategic long-term goal of revenue assurance.

The reengineering and overhaul of information systems operating processes, the implementation of new internal management tools and the continued focus on IT quality contributed to the general improvement of IT quality and reliability throughout 2006 and is expected to provide future benefits.

Table of Contents

d) IT innovation and renovation: International roaming service was extended for prepaid customers, while for the business segment new technologies such as Blackberry- were introduced to enable access to the web, e-mail and applications by way of cell phones. Additionally, self-service channels (IVR, Web, SMS) were extended and reinforced, and innovative Value Added Services like SMS Outlook and Album Personal (the customer's photo album on the web) were introduced.

Furthermore, a project for the selection and implementation of a content management platform (including own and third-party content) was initiated and is considered one of the pillars of the strategy underlying 3G rollout.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion in conjunction with our Consolidated Financial Statements, including the notes to those financial statements, which appear elsewhere in this Annual Report. Our Consolidated Financial Statements have been prepared in accordance with Argentine GAAP, which differs in certain significant aspects from US GAAP. For a discussion of the principal differences between Argentine GAAP and US GAAP as they relate to us and a reconciliation of net income (loss) and shareholders' equity to US GAAP, see "Differences between Argentine GAAP and US GAAP" in Note 14 to the Consolidated Financial Statements.

The following discussion and analysis is presented by the management of our company and provides a view of our financial condition, operating performance and prospects from management's perspective. The strategies and expectations referred to in this discussion are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. Since much of this discussion is forward-looking, you are urged to review carefully the factors referenced elsewhere in this Annual Report that may have a significant influence on the outcome of such forward-looking statements. We cannot provide assurance that the strategies and expectations referred to in this discussion will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. We also note that due to the significant impact of the 2001-2002 economic crisis and our debt restructuring, our results of operations, liquidity and capital resources in the period under discussion may not be indicative of future periods. Please refer to "Forward-Looking Statements" and "Item 3 Key Information Risk Factors" for descriptions of some of the factors relevant to this discussion and other forward-looking statements in this Annual Report.

Management Overview

Fiscal year 2006 marked the fourth year of uninterrupted economic growth in Argentina. Such growth, combined with the Telecom Group's strategy to develop the Wireless and Internet businesses through major investments, has enabled the continuous expansion of our operations as measured by sales, customer base and operating margins across all segments.

We believe that the results detailed below are both satisfactory in the short term and should encourage confidence in Telecom's operational and financial strength and potential to continue being one of the leading companies in the Argentine telecommunications market. Our operating results and financial condition remain highly vulnerable to fluctuations in the Argentine economy and, in particular, the fluctuation of the Argentine Peso against the U.S. dollar and the effects of inflation.

Continuing the trend of prior years, 2006 net sales increased by 30% compared to 2005, reaching P\$7,437 million. Operating income before depreciation and amortization for fiscal year 2006 increased by P\$302 million from 2005, to P\$2,304 million, as compared to P\$2,002 million in year 2005. As evidence of the focus on operations, operating income increased by 81% compared to 2005, and reached P\$912 million (equivalent to 12.3% of net sales in 2006).

Table of Contents

It should be noted that the three reportable segments Voice, Data and Internet; Wireless; and Directories Publishing each experienced growth in their revenues and operating income. Such growth was particularly notable the Wireless reportable segment, whose net sales increased by 54% from 2005 and represent 58% of consolidated 2006 revenues as compared to 49% in 2005. Wireless customers reached 9.6 million, which represents a 41% increase from 2005.

To enable the expansion of the business and the growth of the customer base in fixed telephony, broadband and wireless, investments increased by 95% compared to 2005, reaching P\$1,226 million.

Since December 2004, the Company has consistently maintained a policy of reducing its net financial debt. As of December 31, 2006, our net financial debt amounted to P\$3,351 million (US\$ 1,094 million) equivalent to 1.5 times the operating income before depreciation and amortization for the year 2006. This reduction of net financial debt was possible due to the generation of P\$1,507 million free cash flow (equivalent to 20% of net sales). As used herein, free cash flow means cash flows provided by operating activities and proceeds from sales of fixed assets, net of cash flows used in fixed asset and intangible asset acquisitions. Such cash was offset mainly by the financial cost of the net financial debt amounting to P\$595 million (of which P\$103 million were foreign currency exchange differences and P\$492 million were interest, commissions and expenses).

Demonstrating its financial soundness, Telecom Argentina S.A. made principal prepayments amounting to P\$982 million in 2006. These payments include mandatory prepayments due to the existence of excess cash (determined in accordance with the terms and conditions of the notes issued in the restructuring of its financial debt in August 2005), as well as an additional optional principal prepayment.

For an analysis of our results of operations for fiscal year 2006, see Years ended December 31, 2006, 2005 and 2004 below.

Economic and Political Developments in Argentina

The Argentine economy expanded during 2006, experiencing 8.5% real gross domestic product growth over 2005. The Argentine consumer price index increased by 9.8% over year 2006 (as compared to 12.3% in 2005) and the wholesale price index increased by 7.2%. The peso remained relatively stable against the U.S. dollar, with a peso/dollar exchange rate of P\$3.032 per US\$1.00 at December 31, 2005 and of P\$3.062 per US\$1.00 at December 31, 2006.

The substantial majority of our property and operations are located in Argentina. The Argentine Government has exercised and continues to exercise significant influence over many aspects of the Argentine economy. Accordingly, Argentine Governmental actions concerning the economy could significantly affect private sector entities in general and our operations in particular, as well as affect market conditions, prices and returns on Argentine securities, including ours. During the 1999-2002 period, Argentina experienced periods of negative growth, high inflation, a large currency devaluation, loss of international reserves and limited availability of foreign exchange. Although the Argentine economy has improved since the economic crisis of 2001 and 2002, macroeconomic developments will likely continue to have a significant effect on our financial condition and results of operations and our ability to make payments of principal and/or interest on our indebtedness.

Argentina entered into an economic recession in the second half of 1998 in the context of financial crises in emerging markets (including in Asia, Russia and Brazil). The recession in Argentina deepened further as public sector accounts began to be affected by the decrease in tax collections due to the recession and high interest rates on Argentina's sovereign debt. Argentine real gross domestic product decreased by an overall 18.4% during the period 1998 through 2002, most severely in 2002 when it experienced a 10.9% drop.

Beginning in the second half of 2001 through the first half of 2002, Argentina experienced increased capital outflows, further decreases in economic activity and political infighting. As the recession caused tax revenue to drop, country risk spreads (the difference between a sovereign bond and a US bond of similar duration) climbed to

Table of Contents

extremely high levels, reflecting the public sector's diminished creditworthiness. Financing for private sector companies was effectively eliminated under these circumstances. In January 2002, the Argentine Government abandoned the Convertibility regime which had fixed the peso/U.S. dollar exchange rate at 1:1 and adopted emergency economic measures which, among other things, converted and froze our tariffs into pesos at a 1:1 peso/U.S. dollar ratio (referred to herein as "Pesification").

The rapid and radical nature of changes in the Argentine social, political, economic and legal environment created a very unstable macroeconomic environment. Capital outflows increased in the first half of 2002, leading to a massive devaluation of the peso and an upsurge in inflation. In the six-month period ended June 2002, the consumer price index increased 30.5%. During this period the value of the peso compared to the U.S. dollar declined to a low of P\$3.80=US\$1.00 as of June 30, 2002 before improving to P\$3.37=US\$1.00 at December 31, 2002 and P\$2.93=US\$1.00 at December 31, 2003. As a result, commercial and financial activities in Argentina decreased significantly in 2002, further aggravating the economic recession. Real gross domestic product dropped by an estimated 10.9% in 2002 and the unemployment rate rose to a high of 21.6% as of May 2002.

The Argentine economy has steadily improved since 2003 and showed accelerated recovery in the second half of 2006. Gross domestic product increased by 8.8% in 2003, 9.0% in 2004, 9.2% in 2005 and 8.5% in 2006. The peso also remained stable against the U.S. dollar during this period, with US\$1.00 buying P\$2.93 at December 31, 2003, P\$2.979 at December 31, 2004, P\$3.032 at December 31, 2005 and P\$3.062 at December 31, 2006, respectively. However, despite improvements in Argentina, some economic and social indicators are still below pre-crisis levels. While the key components of our business were strong in 2006 and our operating results have been enhanced by the impact of our cost reduction initiatives and our successful debt restructuring, our operating results and financial condition remain highly vulnerable to fluctuations in the Argentine economy.

The changes introduced in Argentina over the past few years have triggered significant inflation. Although such inflation slowed in 2003 and 2004, it increased again in 2005 and 2006. The cumulative increase in the consumer price index was 41% in 2002, 3.7% in 2003, 6.1% in 2004, 12.3% in 2005. In 2006, consumer price index inflation decreased from 2005, but remained significant at 9.8%. The wholesale price index increased 118% in 2002, 2.0% in 2003, 7.9% in 2004, 10.7% in 2005 and 7.2% in 2006 as reported by the INDEC.

Mandatory Absorption of Accumulated Deficit of Telecom Argentina

Under Section 206 of the Argentine Companies Law and CNV resolutions, a company is required to reduce its capital stock if a company's accumulated losses have exceeded reserves and at least 50% of its adjusted capital stock.

As of December 31, 2005, Telecom Argentina had an accumulated deficit of P\$2,469 million. Therefore, as required by the aforementioned law and resolutions, Telecom Argentina's shareholders, at their meeting of April 27, 2006, approved the absorption of part of the accumulated deficit with Telecom Argentina's legal reserve and part with its inflation adjustment of capital account. See Item 9 "The Offer and Listing". As of December 31, 2006, Telecom Argentina had an accumulated deficit of P\$1,592 million.

Sale of Publicom

On March 29, 2007, the Board of Directors of Telecom Argentina approved the sale of its entire share participation in Publicom (99.99% of capital and voting shares of the subsidiary) to the Spanish corporation Yell Publicidad S.A. for a purchase price, excluding fees, of approximately US\$60.8 million.

Previously, on November 14, 2006, the Ordinary and Extraordinary Unanimous Shareholders' meeting of Publicom approved the capitalization of the total balance of the inflation adjustment of common stock account by the amount of P\$11 million. Such shareholders' meeting also approved the voluntary reduction of capital stock by P\$14 million. In December 2006, this capital reduction was paid to Telecom Argentina through the intercompany balance settlement system.

In accordance with the share purchase agreement dated as of March 30, 2007, the transfer of shares was made on April 12, 2007 (the "Closing Date") and Telecom Argentina collected the abovementioned price in its entirety.

Table of Contents

The agreement establishes a price adjustment formula (the Price Adjustment) through which the original purchase price is subject to an adjustment that reflects any changes in Publicom s net financial debt and working capital (as defined in the agreement) in the first quarter of 2007. The adjustment calculation excludes the effect of dividends approved by Publicom in the amount of P\$9.4 million for fiscal year 2006 of which P\$6.3 million have been paid to Telecom Argentina as of the date of this Annual Report.

The agreement contains standard representations and warranties and Telecom Argentina is obligated to indemnify the purchaser for a) certain third party claims successfully challenging Telecom Argentina s valid marketable title to and/or the free transferability of the shares; b) damages resulting from breaches of Telecom Argentina s representations and warranties; or c) damages resulting from the nonperformance of Telecom Argentina s obligations contained in the agreement.

Telecom Argentina s indemnification obligations are subject to time limitations and a financial cap. The indemnity period for claims arising under clause (b) above is three years following the Closing Date, except for claims relating to tax matters, for which the indemnity period is extended to five years from the Closing Date. The maximum amount payable pursuant to Telecom Argentina s indemnification obligations related to such claims is capped at 20% of the adjusted sale price during the first year following the sale, 17.5% during the second year and 15% for subsequent years. Additionally, for those matters identified in the share purchase agreement as contingencies and/or claims, Telecom Argentina will only have to indemnify the purchaser for amounts in excess of P\$9 million in the aggregate up to the abovementioned limits.

On the Closing Date and after the stock transfer was effected, Telecom Argentina and Publicom negotiated terms relating to the publishing and distribution of the directories pursuant to which Telecom Argentina will:

engage Publicom to edit Telecom Argentina s white pages directories for a 5-year period, with an option to extend the term once it expires;

engage Publicom to distribute Telecom Argentina s white pages directories for a 20-year period, with an option to extend the term once it expires;

engage Publicom to maintain the Internet portal that provides web access to the white pages for a 20-year period, with an option to extend the term once it expires;

grant Publicom the rights to lease advertising space in Telecom Argentina s white pages directories for a 20-year period, with an option to extend the term once it expires; and

authorize the use of certain trademarks for the distribution and/or use on the Internet and/or advertising spaces agreements for the same specified period.

Telecom Argentina reserves the right to control Publicom s performance of the abovementioned tasks in order to ensure, among other things, the fulfillment of regulatory obligations during the term of such engagement. In case of non-compliance by Publicom, Telecom Argentina will be able to apply economic sanctions and, in the case of serious non-compliance, mandate an early termination.

The negotiated terms include prices for the publishing, printing and distribution of the 2007 directories and provide assurances that services for subsequent editions will be contracted at market prices.

Telecom Argentina shall continue to include in its own invoices the amounts to be paid by its customers to Publicom for the contracted services or those that may be contracted in the future, and subsequently collect the amounts for said services on behalf of Publicom, without absorbing any delinquency.

In addition, in accordance with the terms and conditions of Telecom Argentina s outstanding debt, the net cash proceeds from the sale of the Publicom shares had to be applied, within 45 days of completing the transaction, to the purchase or early redemption of the Notes. Accordingly, on May 24, 2007, Telecom Argentina cancelled an additional 42.2% of the scheduled principal amortization payable in April 2010 with the net cash proceeds from the sale of Publicom. After giving effect to that partial principal payment, Telecom Argentina has cancelled 74.0% of such

scheduled principal amortization payment due April 2010.

Table of Contents

The sale of Publicom shares generated approximately P\$167 million in pre-tax income which was recorded in the second quarter of 2007 under Discontinued Operations Results .

Dissolution of Cable Insignia

Since Cable Insignia had no operations, on April 25, 2003, the Extraordinary Shareholders Meeting of Cable Insignia approved the company's dissolution. On October 17, 2006, the Extraordinary Shareholders Meeting of Cable Insignia approved the closing financial statements and winding-up of assets and liabilities. Telecom Personal received P\$0.4 million in this transaction. As of the date of this Annual Report, the dissolution of the corporate existence of Cable Insignia is underway.

Voluntary Reduction of Capital Stock and Capitalization of Núcleo

On March 27, 2006, the Extraordinary Shareholders Meeting of Núcleo approved the voluntary reduction of capital stock by 104,000 million Guaraníes; of which 86,000 million Guaraníes were designated the absorption of accumulated losses and 18,000 million Guaraníes (approximately P\$10 million) were paid to Núcleo's shareholders as a liquidation dividend in August 2006.

Additionally, in November 2006, another Extraordinary Shareholders Meeting of Núcleo approved the partial capitalization of the balance of the adjustment of common stock account by the amount of 100,000 million Guaraníes.

Núcleo Dividend Payment

On May 3, 2007, Núcleo paid its shareholders a dividend in an amount in Guaraníes equivalent to US\$24 million, as stipulated by the General Shareholders Meeting held on April 2, 2007. Personal received US\$16.2 million in the distribution. In accordance with current tax law in Paraguay, Núcleo withheld 15% of the amount distributed to Personal as income tax. Consequently, Personal received US\$13.8 million in dividend proceeds and has a credit for taxes imposed on foreign earnings in an amount of US\$2.4 million.

Change of Enterprise Resource Planning (ERP) System: Successful Implementation of SAP

In the third quarter of 2005, the Company's management launched a project to replace its JD Edwards ERP software and other site planning and control systems with a single, fully-integrated multi-company software supplied by SAP.

Following a critical review of the business processes of Telecom Argentina, Personal and Publicom in 2006, the Company implemented use of the SAP software on a widespread basis on January 15, 2007. As of the date hereof, all of the Group's companies based in Argentina are using SAP for all of their processes in the areas of accounting, accounts payable, treasury, works in progress, logistics, fixed assets and materials and project management.

Debt Restructuring

On August 31, 2005 Telecom Argentina successfully completed a restructuring of its financial indebtedness pursuant to an APE by issuing debt with new payment terms and by paying cash consideration and making partial cash interest payments.

The Telecom Personal and Núcleo debt restructurings were successfully completed in November 2004. On December 22, 2005, Personal successfully concluded a refinancing of all of the debt instruments issued as a consequence of its financial restructuring process by issuing new notes and loans. In the first quarter of 2006, Núcleo also concluded a refinancing of its restructured debt.

More detail about the debt restructuring transactions and the terms of the notes issued pursuant thereto can be found in Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Debt Obligations and Debt Service Requirements.

Table of Contents

Regulatory Framework

On March 6, 2006, Telecom Argentina signed the Letter of Understanding 2006 with the Argentine Government relating to its regulated tariffs. Despite the agreement by year-end 2006, full implementation of the agreement had not yet occurred. As a result, during 2006, Telecom Argentina's regulated rates remained unchanged. See Item 4 Information on the Company Regulatory Framework .

Factors Affecting Our Results of Operations

Our results of operations continue to be affected by the Pesification and freeze of regulated tariffs and by the fluctuation of the exchange rate of the peso against the U.S. Dollar. For a discussion of these and other factors that may affect our results of operations, please see Years ended December 31, 2006, 2005 and 2004 and Trend Information below.

Critical Accounting Policies

Our Consolidated Financial Statements, prepared in accordance with Argentine GAAP and the reconciliation of our Consolidated Financial Statements from Argentine GAAP to US GAAP, are dependent upon and sensitive to accounting methods, assumptions and estimates that we use as a basis for the preparation of our Consolidated Financial Statements and reconciliation. We have identified the following critical accounting estimates and related assumptions and uncertainties inherent in our accounting policies, which we believe are essential to an understanding of the underlying financial reporting risks and the effect that these accounting estimates, assumptions and uncertainties have on our Consolidated Financial Statements.

Our accounting policies are fully described in the Notes to our Consolidated Financial Statements. We believe that the following are some of the more critical judgment areas in the application of policies that currently affect our financial condition and results of operations.

Use of estimates

Argentine GAAP requires management to make estimates that may significantly affect the reported amounts of assets and liabilities and any accompanying financial information.

Management considers financial projections in the preparation of the financial statements as further described below.

These financial projections anticipate scenarios deemed both likely and conservative based upon macroeconomic, financial and industry-specific assumptions. However, actual results may differ significantly from such estimates.

The most significant areas that have involved the use of financial projections are the following:

- a) recoverability assessment of long-lived assets and intangible assets;
- b) recoverability assessment of deferred tax assets, including tax loss carryforwards and the tax credit related to minimum presumed income;
- c) cash flow estimates resulting from Telecom Argentina's successful completion of its debt restructuring in 2005, in light of prepayment and excess cash requirements; and
- d) the effect of c) on the valuation and disclosure of the restructured financial indebtedness of Telecom Argentina at its present value.

Variations in the assumptions regarding exchange rates, rates of inflation, level of economic activity and consumption, creditworthiness of our actual and potential customers, aggressiveness of our actual or potential competitors and technological, legal or regulatory changes could also result in significant differences from financial projections used by the Company for valuation and disclosure of items described above under Argentine GAAP and US GAAP.

Table of Contents***Income Taxes Deferred income tax and tax on minimum presumed income******Income tax***

We are required to estimate our income taxes in each of the companies of Telecom Group. This process involves the jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of temporary differences resulting from the different treatment of certain items, such as certain accruals and amortization, for tax and financial reporting purposes. These differences result in deferred-tax assets and liabilities, which are included in our stand-alone and consolidated balance sheets. We must assess in the course of our tax planning procedures, the fiscal year of the reversal of our deferred-tax assets and liabilities, and if there will be future taxable profits in those periods taking into account its expiration date. Significant management judgment is required in determining our provisions for income taxes, deferred-tax assets and liabilities. The analysis is based on estimates of taxable income in the jurisdictions in which we operate and the periods over which the deferred tax assets and liabilities will be recoverable. If actual results differ from these estimates, or we adjust those estimates in future periods, our financial position and results of operations may be affected materially.

Our income tax rate is currently 35% of taxable net income for the companies located in Argentina and 10% for Núcleo. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated.

As of December 31, 2006, we have significant tax loss carryforwards which were generated principally by the devaluation of the peso during 2002. The recoverability of deferred tax assets, including tax loss carryforwards, is assessed periodically. Due to the outcome of the debt restructuring and based on its current future projections, the Company partially reversed the valuation allowance previously provided for. As of December 31, 2006, a valuation allowance has still been provided for a portion of tax loss carryforwards of Telecom Argentina and Publicom, as the future realization of the tax benefit is not considered by management to be more likely than not. The estimate of tax loss carryforwards recoverability of each of the companies of Telecom Group is performed based on our best estimates of future taxable income at the issuance date of the respective financial statements. These estimates could significantly differ from actual taxable income in the future.

Tax on minimum presumed income

We are subject to a tax on minimum presumed income for the companies located in Argentina. Management considered that the tax credit related to minimum presumed income will be realized based on current projections and legal expiration term (10 years). The credit is classified as a non-current receivable in the consolidated balance sheets.

Accounting for and Recoverability of Long-Lived Assets

Our accounting for long-lived assets and intangible assets involves the use of estimates for determining the fair value at the acquisition date and the useful lives of the assets over which the costs of acquiring are depreciated.

Initial Valuation and Depreciation

We record purchased property, plant and equipment, and purchased intangible assets (other than goodwill) at acquisition or construction cost (adjusted for inflation as necessary see Note 3.c. to the Consolidated Financial Statements). Fixed assets received from ENTel have been valued at their transfer price. Subsequent additions have been valued at cost. Construction costs include directly allocable costs, an appropriate allocation of material and interest accrued during the construction period. However, general and administration expenses are not capitalized. Property, plant and equipment and intangible assets are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the estimated useful lives involves significant judgment. The Company periodically reviews the estimated useful lives of its property, plant and equipment and purchased intangible assets based on the opinion of an independent appraiser.

Table of Contents

Recoverability

Under both Argentine GAAP and US GAAP, we review long-lived assets, including property, plant and equipment, and amortizing intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Under Argentine GAAP, the carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows from such asset, discounted and without interest cost, are less than its carrying value. In such event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily by using the anticipated cash flows discounted at a rate commensurate with the risk involved. Once an impairment loss is identified and recognized under Argentine GAAP, future reversal of impairment loss is permitted only if the original conditions which generated such impairment disappear or are no longer in existence.

Under U.S. GAAP, recoverability of assets that are held and used is measured by comparing the sum of the future undiscounted cash flows without interest cost to their carrying value. If the carrying value of the assets exceeds the sum of the future undiscounted cash flows, impairment is considered to exist. If an impairment is considered to exist on the basis of undiscounted cash flows, the impairment charge is measured using an estimation of the assets' fair value, typically using a discounted cash flow method. Once an impairment loss is identified and recognized subsequent write-ups are prohibited because an impairment loss establishes a new cost for written down long-lived assets.

As mentioned above, a possible valuation difference between Argentine GAAP and US GAAP has been identified in relation to the Company's long-lived assets recoverability assessment. Once the impairment loss is identified and recognized, under Argentine GAAP, future reversal of impairment loss is permitted if the original conditions which generated such impairment disappear or are no longer in existence. However, under US GAAP, subsequent write-ups are prohibited because an impairment loss establishes a new cost for written down long-lived assets.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or groups of assets) requires management to make significant judgments concerning the validation of impairment indicators, expected cash flows and applicable discount rates.

The Company has made certain assumptions in the determination of its estimated cash flows to evaluate a potential impairment of its long-lived assets in relation to each operating segment. Based on the foregoing, the Company considered an impairment charge not to be necessary for its long-lived assets in each operating segment.

However, changes in our current expectations and operating assumptions, including changes in our business strategy, technology, competition and/or changes in market conditions, as well as changes in expected applicable discount rate and future undiscounted cash flows estimates due to, among other things, the competition and the outcome of the tariff negotiations with the Argentine Government, could significantly impact these judgments and could require future adjustments to the recorded assets.

Intangible assets with indefinite useful life - PCS license

Under Argentine GAAP and US GAAP, the Company determined that its PCS license met the definition of indefinite-lived intangible assets for the periods presented. Therefore, the Company ceased amortizing its license cost, and tested it annually for impairment. Under Argentine GAAP and US GAAP, an impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value arising from discounted future expected cash flows. These evaluations determined that the carrying amount of the PCS license did not exceed the fair value of the assets. As a result, no impairment has been recognized for US GAAP and Argentine GAAP purposes.

The recoverability of an indefinite lived intangible asset such as the PCS license requires our management to make assumptions about the future cash flows expected to be derived from such asset. Our judgments regarding future cash flows may change due to future market conditions, business strategy, technology evolution and other factors. These changes, if any, may require material adjustments to the book value of the PCS license.

Table of Contents***Contingencies***

We are subject to proceedings, lawsuits and other claims related to labor, civil, tax, regulatory and other matters. In order to determine the proper level of reserves relating to these contingencies, we assess the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. We consult with internal and external legal counsels on these matters. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. Our determination of the required reserves may change in the future due to new developments in each matter, changes in jurisprudential precedents and Tribunal decision or changes in our method of resolving such matters, such as a change in settlement strategy.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to account for estimated losses resulting from the inability of our customers to make required payments. We base our estimates on the aging of our accounts receivable balances and our historical write-off experience, customer credit worthiness and changes in our customer payment terms when evaluating the adequacy of our allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, our actual write-offs might be higher than we expect.

Asset Retirement Obligations

We are subject to asset retirement obligations (ARO) associated with our cell and switch site operating leases. We have the right to renew the initial term of most of these leases. Under Argentine GAAP, there are no specific standards for the recognition of asset retirement obligations. Therefore, we record a liability for an ARO with respect to the leases following the guidance provided by SFAS 143. When the liability is initially recorded, we capitalize a cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the estimated useful life of the related asset. Subsequent to the initial measurement, we should recognize changes in the ARO that result from (1) the passage of time and (2) revisions made to either the timing or amount of estimated cash flows. Changes resulting from revisions in the timing or amount of estimated cash flows are recognized as increases or decreases in the carrying amount of the ARO and the associated capitalized retirement cost. Increases in the ARO as a result of upward revisions in undiscounted cash flow estimates are considered new obligations and initially measured using current credit-adjusted risk-free interest rates. Any decreases in the ARO as a result of downward revisions in cash flow estimates are treated as modifications of an existing ARO, and are measured at the historical interest rate used to measure the initial ARO.

As of December 31, 2006, our asset retirement obligations included in other non current liability amounted to P\$24 million and the related net carrying value of the capitalized cost included in fixed asset amounted to P\$10 million.

Debt Restructuring Results

On August 31, 2005 Telecom Argentina completed a restructuring of its financial indebtedness on a stand-alone basis pursuant to APE by issuing debt instruments with new payment terms and by paying cash consideration and making partial cash interest payments.

Additionally, in November 2004, our subsidiaries, Telecom Personal and Núcleo, completed the restructuring of their outstanding indebtedness by issuing new debt instruments, which were subsequently refinanced on a stand-alone basis.

Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment and that the old debt instrument be derecognized. Argentine GAAP clarifies that from a debtor's perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the

Table of Contents

present value of the remaining cash flows under the terms of the original instrument. If this condition is met, the new debt instrument should be initially recorded at fair value and that amount should be used to determine the original debt extinguishment gain or loss. Fair value should be determined by the present value of the expected future cash flows to be paid under the terms of the new debt instrument discounted at an estimated prevailing market interest rate.

In accordance with Argentine GAAP, Telecom Personal initially recorded its restructured debt issued in 2004, discounting its expected future cash flows to be paid under terms of contracts at an estimated prevailing market annual interest rate of 11% in U.S. dollars. The discount amounted to P\$41 million and was recognized as gain on discounting of debt for the year 2004, which was fully reversed as a loss on accretion for the year 2005 as a result of subsequent refinancing of all such restructured debt in December 2005. Telecom Argentina also completed its debt restructuring in August 2005 and has initially recorded its newly restructured debt, discounting its expected future cash flows to be paid under terms of contracts at an estimated prevailing market annual interest rate of 10.5% in U.S. dollars and the equivalent in other currencies. The discount amounted to P\$352 million and has been recognized as gain on discounting of debt in the consolidated statement of income for the year ended December 31, 2005. The new restructured debt is subsequently accreted to their respective face value using the interest method and, consequently, a loss on accretion is recorded in the statement of income. The estimate of present value of the debt requires management to periodically make certain assumptions in the determination of its expectations regarding future cash flows to be paid, mainly due to mandatory prepayment features provided in the terms of our restructured debt contracts. Changes in our current expectations about future cash flows of Telecom Argentina could significantly impact our estimate about future financial debt prepayment and present value of debts.

As of December 31, 2006, the total consolidated debt, excluding derivatives, recorded on the consolidated balance sheet was P\$4,093 million, net of the effect on discounting of Telecom Argentina's debt of P\$146 million.

New Accounting Standards under Argentine GAAP

On December 29, 2005 and January 26, 2006, the CNV approved, with certain amendments, Resolution CD No. 93/05 issued by the CPCECABA, which established new accounting and disclosure standards under Argentine GAAP. These standards are effective for the Company as from January 1, 2006. Following is a brief summary of the most significant provisions of the new accounting pronouncements which affect the Company:

Impairment of Long-lived Assets

Under the old accounting standard, the Company periodically evaluated the carrying value of its long-lived assets for impairment when certain circumstances occurred. The carrying value of a long-lived asset was considered impaired by the Company when the expected cash flows, undiscounted and without interest, from such asset were separately identifiable and less than its carrying value. In that event, a loss was recognized based on the amount by which the carrying value exceeded the fair market value of the long-lived asset. Fair market value was determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Under the new accounting standard, the carrying value of a long-lived asset will be considered impaired when the expected discounted cash flows from such asset are less than its carrying value. The adoption of this standard did not have impact in its long-lived assets valuation.

Disclosure of Foreign Currency Translation Adjustments

Resolution CD No. 93/05 also requires disclosure of the adjustments resulting from foreign currency translation as a component of equity. Under the old accounting standard, foreign currency translation adjustments were accumulated and reported as a separate line item between the liability and equity sections of the balance sheet. Foreign currency translation adjustments amounted to P\$49 million, P\$31 million, P\$24 million, P\$21 million and P\$28 million as of December 31, 2006, 2005, 2004, 2003 and 2002, respectively. As required by Argentine GAAP, prior year balances have been reclassified to conform with this new criteria. See Note 14 to our Consolidated Financial Statements for a discussion of the differences between US GAAP and Argentine GAAP.

Additionally, in December 2006, the CNV approved RT 23 of the FACPCE, which had been adopted by the CPCECABA, Accounting for post-employment and other long-term employee benefits. This standard will be

Table of Contents

effective for the Company as from January 1, 2008. However, as permitted by the CNV, we made use of the early adoption provision and applied the standard as of January 1, 2007. The adoption of RT 23 did not have any impact on the Company's financial position, results of operations and disclosure.

Years ended December 31, 2006, 2005 and 2004

For purposes of these sections the fiscal years ended December 31, 2006, 2005 and 2004 are called year 2006, year 2005 and year 2004, respectively.

Our results of operations are prepared in accordance with Argentine GAAP, which differs in certain aspects from US GAAP. See Note 14 to our Consolidated Financial Statements.

The Telecom Group provides customers with a wide range of telecommunication services. To fulfill its purpose, it conducts different activities that are distributed among the companies in the Group. Each company represents an operating segment which have been aggregated into three reportable segments according to the nature of the products and services provided. These reportable segments, and their operating segments are:

Reportable Segment	Company of the Telecom Group / Operating Segment
Voice, Data and Internet	Telecom Argentina S.A. Telecom Argentina USA, Inc. Micro Sistemas S.A. (*)
Wireless	Telecom Personal S.A. Núcleo S.A.
Directories Publishing	Publicom S.A. (**)

(*) Dormant entity at December 31, 2006.

(**) Entity sold on April 12, 2007. See Management Overview.

The main products and services in each reportable segment are:

Voice, Data and Internet: local area, national long-distance and international communications, supplementary services (including call waiting, itemized invoicing and voicemail), interconnection with other operators, data transmission (including private networks, point-to-point traffic, radio and TV signal transmission) and Internet services (dial-up and high-speed broadband).

Wireless: local area, national long-distance and international communications, data transmission, sale of handsets, and Value Added Services, such as call waiting, voicemail, short message systems, multimedia and Internet access.

Directories Publishing: advertising in phone directories and on the Internet.

The following table shows our principal sources of revenues as a percentage of total consolidated net sales within our reportable segments for the year ended December 31, 2006:

Reportable segment	Net Sales (millions P\$)	Percent of Consolidated Net Sales
Voice, Data and Internet	3,053	41.0
Wireless	4,319	58.1
Directories Publishing(*)	65	0.9

TOTAL

7,437

100.0

(*) Entity sold on April 12, 2007. See Management Overview.

Additional information regarding reportable segments is disclosed in Note 12 to our Consolidated Financial Statements.

Table of Contents

Factors Affecting Results of Operations

Described below are certain factors that may be helpful in understanding our operating results. These factors are based on the information currently available to our management and may not represent all of the factors that are relevant to an understanding of our current or future results of operations. Additional information regarding trends expected to influence our results of operations in 2007 are analyzed below under Trend Information .

Impact of Political and Economic Environment in Argentina. Levels of economic activity affect the volume of local and long-distance traffic, the demand for new fixed lines and for Cellular services and the levels of uncollectible accounts and disconnections. Demand for our services and the amount of revenues we collect is also affected by inflation.

Rate Regulation. Revenue from our Voice, Data and Internet reportable segment will depend principally on the number of lines in service, the minutes of use or traffic for local and long-distance services and the rates charged for services. The rates that Telecom Argentina charges in its fixed telephony service (including both monthly basic charges and measured service charges), installation charges in the fixed telephony business, public telephone charges and charges for Internet dial-up traffic are subject to regulation. These rates were pesified and rate increases were frozen by the Argentine Government in 2002. Telecom Argentina has been in discussions with regulators with respect to rate adjustments and on March 6, 2006, Telecom Argentina signed the Letter of Understanding 2006 with the Argentine Government whereby we agreed to comply with the current regulatory framework in exchange for the ability to raise certain of our regulated rates. In particular, the government has agreed that Telecom Argentina can increase the termination charges applied to incoming international calls and reduce the time bands for off-peak local tariffs. The agreement is subject to the implementation of certain administrative steps and the pending approval by the legislative branch. Although the Company's Management expects that the contract renegotiation process will be satisfactorily completed, to date there is no certainty regarding either its outcome or the timing of such resolution.

Competition. The Argentine telecommunications market has become increasingly competitive, particularly as the Argentine economy recovers from the economic crisis of 2001-2002. In our Voice, Data and Internet reportable segment, competition is mainly focused in long-distance and Internet service as well as in government and corporate accounts. The Argentine wireless market has been characterized by rapid growth and increasingly competitive conditions as the Argentine economy continues to recover from the 2001 economic crisis. We expect that the Wireless reportable segment will continue to be affected by competitive pricing pressure, at least in the short to medium term.

Technology Developments. Improvements in technology influence demand for services. For example, demand for fixed line telecommunications services has been affected by continued significant growth in the Wireless reportable segment. Growth in the Voice, Data and Internet reportable segment at present is being driven by expansion of ADSL, which permits increased use of VoIP technology, as well as wireless interconnection revenues. The increase in broadband adoption has also proven a critical factor in facilitating the offering of Value Added Services to customers and the bundling of services. In the Wireless reportable segment, we have seen an increase in the number of subscribers due to the implementation of GSM technology and related services supported by GSM technology. Continued investment in GSM infrastructure is expected to fuel demand for Cellular services because it supports a wide variety of enhanced services such as SMS, data transmission and 3G services.

Capital Expenditures. Beginning in 2002, we implemented a cost reduction plan as part of our financial restructuring process. This plan included significant restriction on capital expenditures and network maintenance. Since the completion of Telecom Argentina's restructuring in August 2005, the Company is in the process of making significant investments designed to take advantage of growth opportunities in our businesses. In the Voice, Data and Internet reportable segment, our focus is on continued development of our broadband assets, including the ADSL high speed network and Fiber Optic infrastructure, as well as upgrading and enhancing information technology systems. In the Wireless reportable segment, we are in the process of expanding our GSM network. Our maintenance expenses have increased in 2004, 2005 and 2006 as we made investments to satisfy our operational needs arising from under-investment in 2002 and 2003.

Wireless Subscriber Acquisition Costs and Promotional Expenditures. The cost reduction plan that we implemented in the 2002-2004 period also involved restrictions on subscriber acquisition costs in the Wireless reportable segment and on other promotional activities such as advertising and promotional campaigns. Our

Table of Contents

Wireless reportable segment has experienced a significant increase in subscriber acquisition costs as a result of higher subscription levels in the market for wireless services and intense competition. The Voice, Data and Internet reportable segment also has increased its promotional activities, particularly with respect to ADSL services, where our competitors have intensified their marketing campaigns.

Currency Effects. The majority of our revenues are received in pesos whereas the majority of our financial indebtedness is substantially denominated in U.S. dollars. Additionally, a significant portion of the materials and supplies related to the construction and maintenance of our networks are incurred in foreign currencies. Consequently, the Pesification of our rates and subsequent fluctuations in the exchange rates between the peso and the U.S. dollar and other currencies will continue to affect the amount of our revenues in comparison to our debt service obligations and other costs incurred in foreign currencies. Our financial results, net mainly include gains and losses arising from net currency exchange differences and interest income and loss.

(A) Consolidated Results of Operations

In the year ended December 31, 2006, we reported a net income of P\$244 million, compared to a net income of P\$1,334 million for the year ended December 31, 2005. The year-to-year difference of net income was mainly due to the one-time gain of P\$1,424 million in 2005 resulting from the completion of Telecom Argentina's debt restructuring process.

We reported consolidated net sales of P\$7,437 million in year 2006 compared to P\$5,718 million in year 2005. The increase of P\$1,719 million can be largely attributed to the increase in the customer base, particularly in the Wireless reportable segment and in the ADSL access base.

In 2006, operating costs (including depreciation and amortization) totaled P\$6,525 million representing a P\$1,311 million increase (25% increase) due to the higher agent's commissions for handset sales, costs of handsets, TLRD costs, advertising expenses, salaries and social security charges and taxes, among other reasons. These costs are associated with the increase in sales and particularly with growing competition in the wireless market in Argentina.

Although the economic situation in Argentina continued showing signs of improvement, our fixed telephone service is still affected by the Pesification of the rates in early 2002; as a result, the increase in the structure of disbursement costs for the Voice, Data and Internet reportable segment (which was 20%) is higher than the rise in net sales (which was 6%). Consequently, our operations continue to be influenced by the Pesification and freezing of regulated tariffs and macroeconomic factors (particularly exchange rates and inflation). See Trend Information below.

(A.1) Year 2006 Compared to Year 2005

	Year Ended December 31,		Total Change		Change by segment		
	2006	2005			Voice, Data and Internet	Wireless	Directories Publishing
	(P\$ millions)	(P\$ millions)	%	(P\$ millions)			
Net sales	7,437	5,718	30.1	1,719	182	1,522	15
Cost of services, general and administrative and selling expenses	(6,525)	(5,214)	25.1	(1,311)	(144)	(1,163)	(4)
Operating income	912	504	81.0	408	38	359	11
Financial result, net	(482)	(306)	57.5	(176)	(258)	82	
Gain on debt restructuring, net		1,424	(100.0)	(1,424)	(1,424)		
Other, net (1)	(203)	(166)	22.3	(37)	(34)	(4)	1
Income tax benefit (expense), net	17	(122)	N/A	139	252	(111)	(2)
Net income (loss)	244	1,334	(81.7)	(1,090)	(1,426)	326	10

(1) Other, net includes gain (loss) on equity investees, other expenses, net and minority interest.

Table of Contents**Net Sales**

The principal factors which affect our net sales are rates, the volume of use of services in fixed line services and the growth in wireless telecommunication and Internet services.

During year 2006, net sales increased approximately 30.1% to P\$7,437 million from P\$5,718 million in 2005. The increase can be largely attributed to the increase of P\$1,522 million in revenues generated by the Wireless reportable segment. It should be noted that all three reportable segments showed revenue increases, but at different growth rates.

In the Voice, Data and Internet reportable segment, voice sales grew by 4% due to the increase in the customer base, but saw a slight reduction in traffic volume. Regulated voice services are still affected by the Pesification of rates to pesos as discussed in Item 4 Information on the Company The Business General Voice, Data and Internet (b) Wholesale Rates in more detail. Data sales grew by 11% due to the increase in the customer base and expanded corporate offerings. Internet sales led growth in this segment, with a 25% rise due to the fact that the customer base experienced 102% annual growth. It is worth pointing out that Internet revenues are affected by major discounts offered to new customers in the first three months of subscription.

Wireless revenues increased by 54% compared to 2005. In Argentina, revenues, net of intercompany sales, grew by 54% as a result of a 37% increase in the customer base and a 11% rise in ARPU. In Paraguay, sales grew by 61% due to a 79% increase in the customer base and a steady ARPU.

In 2006, service revenues in the Wireless reportable segment amounted to P\$3,775 million, representing 53% growth from 2005. Year 2006 service revenue growth was 52.1% in Argentina and 64.5% in Paraguay.

The 30% increase in the Directories Publishing reportable segment is mainly attributable to the growth of this segment in the provinces due to the recovery of regional economies in recent years.

For the first time in the Company's history, 2006 Wireless reportable segment net sales represented more than 50% of the Company's consolidated net sales (reaching 58%).

For a further breakdown of our consolidated net sales, see Results of Operations by Reportable Segment below.

Cost of Services, General and Administrative and Selling Expenses

Total cost of services, general and administrative and selling expenses increased by 25.1% to P\$6,525 million in 2006 from P\$5,214 million in 2005. The increase was mainly due to the increase in disbursement costs in the three reportable segments as a result of the rise in direct cost of sales, the effect of inflation in the overall cost structure and heavy competition in the wireless and broadband businesses in Argentina. Depreciation and amortization expenses evidenced a P\$106 million reduction mainly in the Voice, Data and Internet reportable segment.

	Year Ended December 31,		Total Change		Change by segment		
	2006	2005			Voice, Data and Internet	Wireless	Directories Publishing
	(P\$ millions)		%		(P\$ millions)		
Salaries and social security	840	685	22.6	155	105	53	(3)
Taxes	540	395	36.7	145	10	135	
Maintenance, materials and supplies	367	309	18.8	58	46	9	3
Bad debt expense	64	29	120.7	35	11	24	
Interconnection costs	159	144	10.4	15	15		
Costs of international outbound calls	111	94	18.1	17	17		
Fees for services	250	158	58.2	92	28	63	1
Advertising	228	152	50.0	76	29	46	1

Table of Contents

	Year Ended December 31,				Change by segment		
	2006	2005	Total Change		Voice, Data	Wireless	Directories
	(P\$ millions)		%		and Internet		Publishing
					(P\$ millions)		
Cost of wireless handsets	973	613	58.7	360		360	
Agent commissions and distribution of prepaid cards commissions	548	386	42.0	162	4	158	
Other commissions	121	82	47.6	39	3	35	1
Roaming	137	115	19.1	22		22	
TLRD	445	271	64.2	174		174	
Others	350	283	23.7	67	25	41	1
Depreciation of fixed assets and amortization of intangible assets	1,392	1,498	(7.1)	(106)	(149)	43	
Total Cost of Services, General and Administrative and Selling Expenses	6,525	5,214	25.1	1,311	144	1,163	4
<i>Salaries and Social Security</i>							

During year 2006, salaries and social security charges were approximately P\$840 million, representing a 22.6% increase from 2005. This was primarily due to the increase in salary levels implemented during the year. Additionally, labor costs rose as a consequence of the increase in headcount in the Wireless reportable segment, where increased demand for wireless services and the improvement of customer support required Telecom Personal to increase its number of employees. As of December 31, 2006, we had 15,340 employees compared to 14,542 employees as of December 31, 2005.

For year 2006, salaries and social security payments were approximately 11.3% of net sales. For year 2005, salaries and social security payments were approximately 12% of net sales.

Taxes

Expenses related to taxes increased 36.7% to P\$540 million in year 2006 from P\$395 million in year 2005, mainly due to the impact of taxes that are calculated on the basis of revenues and higher fees paid to the regulator in connection with the wireless telephony activity.

Maintenance, Materials and Supplies

Maintenance, materials and supplies expense increased by 18.8% to P\$367 million in year 2006 from P\$309 million in year 2005. This increase was due to higher maintenance costs across segments, particularly in Voice, Data and Internet reportable segment.

Bad Debt Expense

During year 2006, bad debt expense increased to P\$64 million from P\$29 million in year 2005. The allowance for doubtful accounts represented 0.9% of net sales for 2006, as compared to 0.5% of net sales in 2005. This increase was due mainly to growth in the wireless customer base and reduction in levels of collection and the lower recovery of past due accounts in Voice, Data and Internet reportable segment.

Fees for Services

Our fees for various services, including legal, security, and auditing services, totaled approximately P\$250 million for year 2006 and P\$158 million for year 2005. This increase was due mainly to services relating to the technology replacement project in our Wireless reportable segment. In 2006, fees for services include P\$16 million paid to the Operator as compensation for the services of highly qualified personnel and technical assistance provided to us in accordance with an agreement entered into between Telecom and Telecom Italia at the beginning of 2005. Such amounts were charged based on hours of service at international market rates for such services.

Table of Contents

Advertising

Costs related to advertising increased by P\$76 million, or 50%, to P\$228 million, mainly due to higher media advertising expenses for wireless and Internet services.

Agent Commissions and Distribution of Prepaid Card Commissions

Sales commissions increased to P\$548 million in year 2006 from P\$386 million in year 2005. The increases in agent commissions and distribution of prepaid cards commissions year over year were mainly due to Telecom Personal's efforts to expand its high-value subscriber base and to the increase in the prepaid subscriber base, respectively.

Other Commissions

Other commissions increased by 47.6% to P\$121 million in year 2006 from P\$82 million in year 2005. This increase was mainly due to higher commissions paid as a result of the growth in our wireless subscriber base.

Others

Others increased by 23.7% to P\$350 million from P\$283 million mainly due to the increase in other operating expenses in the Wireless Reportable Segment as a result of increased revenues and an increase in the customer base.

Depreciation of Fixed Assets and Amortization of Intangible Assets

Depreciation of fixed assets and amortization of intangible assets decreased by P\$106 million, or 7.1%, to P\$1,392 million during 2006 mainly as a consequence of the end of the amortization period of certain assets in the Voice, Data and Internet reportable segment partially offset by an increase in the depreciation in increased investment of assets in the Wireless reportable segment. Depreciation expense was equal to approximately 18.7% of net sales for year 2006 and 26.2% of net sales for year 2005.

For an analysis of interconnection and international outbound call costs, see Results of Operations by Reportable Segment Voice, Data and Internet Reportable Segment below. For an analysis of wireless handset, roaming and TLRD costs, see Results of Operations by Reportable Segment Wireless Reportable Segment below.

Operating Income

During the year ended December 31, 2006, consolidated operating income was P\$912 million, with a P\$408 million increase, or 81%, compared to 2005. Operating income represents 12.3% of net sales in 2006. Improvement in operating income in terms of sales margin was seen across all segments. Voice, Data and Internet grew from 10% to 11% of net sales due to the systematic decline of fixed asset depreciation; Wireless reportable segment almost doubled its margin, growing from 7% to 13% of net sales in 2006, while the Directories Publishing reportable segment doubled its profitability, reaching 28% of its net sales in 2006.

The increase in operating income in 2006 is mainly due to strong growth in the Wireless segment resulting from higher net sales, partially offset by higher costs associated with tax related expenses, fees for services, pre-paid card commission roaming and TLRD.

Financial Results, Net

Financial and holding results were negative by P\$482 million, reporting a 57.5% increase over the net loss of the year 2005.

Table of Contents

As a result of a P\$908 million reduction in the net financial debt or 21% compared to the net financial debt at the end of the previous year, interest accrued on the net financial debt diminished by P\$147 million. This financial cost represents 6.1% of consolidated sales in year 2006, up from 10.5% in year 2005.

Unlike the prior year, in 2006, the devaluation of the peso against the US dollar was 1% and against the Euro, 12.6%. This caused a net foreign currency exchange loss of P\$198 million, which was softened by the effectiveness of the derivative financial instruments entered into in order to limit the risk of an increase in the Euro and Yen against the US dollar. These instruments created a P\$114 million gain in the year 2006, unlike the prior year in which a P\$83 million loss was recorded. In 2005, penalty interest that had accrued on Telecom Argentina's financial debt was fully waived by creditors as part of the restructuring that took place on August 31, 2005.

Gain on Debt Restructuring, Net

In 2005, Telecom Argentina concluded the restructuring of its financial debt, generating an unusual profit of P\$1,424 million. Additional information on the debt restructuring process is included in Notes 5.p and 8 to the Consolidated Financial Statements. See also Critical Accounting Policies Debt Restructuring Results above.

Other, Net

Gain (Loss) on Equity Investees

In 2006, a P\$5 million gain was reported, mainly due to the realization of P\$6 million exchange differences generated by the P\$10 million capital reimbursement made by Nucleo to its shareholders. Furthermore, in 2005, the Company obtained a P\$7 million gain on the sale of its equity interest in Intelsat.

Other expenses, net

Other expense, net, increased P\$21 million or 13% from the year 2005, reaching P\$186 million in 2006 mainly due to increases in litigation and other contingencies and higher slow-moving and obsolescence provisions.

Litigation and other contingency charges have increased at Telecom Argentina due to higher costs connected with labor and fiscal complaints. In contrast, in Personal there are reductions mainly attributable to the settlement of commercial lawsuits.

During years 2006 and 2005, approximately P\$49 million and P\$57 million of other expenses, net, respectively, were recorded related mainly to accrued severance payments and special termination benefits costs for employees who were dismissed during the period or voluntarily retired pursuant to our employee reduction program.

Income Tax Benefit (Expense), Net

The income tax charge includes three effects: (i) the current tax for the year payable according to fiscal legislation applicable to each company in the Telecom Group; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to fiscal versus accounting criteria; and (iii) the analysis of recoverability of deferred tax assets, particularly, the loss carry-forwards accumulated by Telecom Argentina and Personal.

Deferred income taxes result from temporary differences in the recognition of expenses for tax and financial reporting purposes and are accounted for in accordance with Argentine GAAP, which is consistent with SFAS No. 109. Argentine GAAP requires the asset and liability method of computing deferred income taxes.

With respect to assessed taxes, since 2005, Publicom and Nucleo have generated accounting and fiscal income that requires them to pay taxes at the rates of 35% and 10%, respectively. On the other hand, Telecom Argentina and Personal have loss carry-forwards, which, although they have been diminishing since 2002, have not yet been fully absorbed thus allowing Telecom Argentina and Personal to avoid any income tax obligation for the periods under review. The Company has received claims from the tax authority based on different ex-officio assessments that determined the accrual of P\$25 million in 2005 and subsequent payment. For additional information on these claims, see Note 11.c to the Consolidated Financial Statements.

Table of Contents

Furthermore, the profits made by all companies in the Telecom Group have generated negative charges on deferred taxes, particularly in Telecom Argentina for the year 2005, in which the profit on the restructuring of the financial debt reduced by P\$498 million the loss carry forward recognized.

With respect to the recoverability of loss carry-forwards, the Telecom Group recognized, as of December 31, 2006, P\$722 million of loss carry-forwards, of which P\$653 million expire in 2007 (P\$518 million for Telecom Argentina and P\$135 million for Personal). According to estimates of taxable income for next year, it is estimated that Personal will be able to fully use its loss carry-forward, while for Telecom Argentina it is likely that it will lose a substantial portion. For that reason, as of December 31, 2006, a valuation allowance of P\$195 million was recorded in Telecom Argentina, representing for 2006 a reduction of P\$81 million in its valuation allowance (in 2005, the reduction amounted to P\$419 million mainly as a result of the taxability of income due to the debt restructuring).

Net Income (Loss)

For year 2006, we recorded net income of approximately P\$244 million. The Voice, Data and Internet reportable segment accounted for a loss of P\$153 million, the Wireless reportable segment contributed a P\$384 million gain and the Directories Publishing reportable segment contributed a P\$13 million gain to our consolidated net income in 2006. This result is not affected by unusual items like the gain on financial debt restructuring, which amounted to P\$1,424 million in 2005, without taking into account the tax effect.

(A.2) Year 2005 Compared to Year 2004

	Year Ended December 31,		Total Change %	Total Change	Change by segment		
	2005 (P\$ millions)	2004			Voice, Data and Internet (P\$ millions)	Wireless	Directories Publishing
Net sales	5,718	4,494	27.2	1,224	153	1,064	7
Cost of services, general and administrative and selling expenses	(5,214)	(4,094)	27.4	(1,120)	36	(1,150)	(6)
Operating income	504	400	26.0	104	189	(86)	1
Financial result, net	(306)	(1,172)	(73.9)	866	872	(7)	1
Gain on debt restructuring, net	1,424	209	581.3	1,215	1,445	(230)	
Other, net (1)	(166)	(77)	115.6	(89)	(36)	(52)	(1)
Income tax expense, net	(122)	(26)	369.2	(96)	(219)	124	(1)
Net income (loss)	1,334	(666)	N/A	2,000	2,251	(251)	

(1) Other, net includes gain (loss) on equity investees, other expenses, net and minority interest.

Net Sales

During year 2005, net sales increased approximately 27.2% to P\$5,718 million from P\$4,494 million in 2004. The increase can be largely attributed to the increase of P\$1,064 million in revenues generated by the Wireless reportable segment.

In the Voice, Data and Internet reportable segment, revenues generated by the data transmission and Internet business increased by P\$51 million, due to the increase in ADSL connections as a consequence of commercial policies, an enhanced portfolio of products and increased coverage of the services. Additionally, monthly charges increased by P\$41 million, mainly due to the increase of 4% in customer lines and new Value Added Services. Revenues from interconnection services increased by P\$44 million, mainly due to the increases in wireless traffic transported by and terminated on Telecom Argentina's fixed line network.

Revenues for the Wireless reportable segment reached P\$2,797 million, increasing by 61.4%, due to growth in the customer base, total traffic, and sales of handsets. In 2005, the economic environment and the implementation of new technologies and services fueled significant growth in the wireless market, resulting in an increase in the customer base and increased consumption of wireless services. As of December 31, 2005, total wireless subscribers of Telecom Personal in Argentina reached approximately 6,150,000 representing an increase of approximately 2,315,000 customers from 2004.

Table of Contents

For a further breakdown of our consolidated net sales, see Results of Operations by Reportable Segment below.

Cost of Services, General and Administrative and Selling Expenses

Total cost of services, general and administrative and selling expenses increased by 27.4% to P\$5,214 million in 2005 from P\$4,094 million in 2004. The increase was mainly due to the increase in sales, the effect of inflation in the overall cost structure and competition in the wireless business in Argentina. Additionally, in the Wireless reportable segment, selling expenses and the cost of wireless handsets increased significantly.

	Year Ended December 31,				Change by segment		
	2005 (P\$ millions)	2004	Total Change %		Voice, Data and Internet (P\$ millions)	Wireless	Directories Publishing
Salaries and social security	685	593	15.5	92	67	23	2
Taxes	395	301	31.2	94	17	77	
Maintenance, materials and supplies	309	233	32.6	76	23	49	4
Bad debt expense	29	5	480.0	24	13	11	
Interconnection costs	144	135	6.7	9	9		
Costs of international outbound calls	94	82	14.6	12	12		
Fees for services	158	102	54.9	56	(2)	59	(1)
Advertising	152	93	63.4	59	14	45	
Cost of wireless handsets	613	237	158.6	376		376	
Agent commissions and distribution of prepaid cards commissions	386	177	118.1	209	(1)	210	
Other commissions	82	61	34.4	21	3	16	2
Roaming	115	65	76.9	50		50	
TLRD	271	137	97.8	134		134	
Others	283	227	24.7	56	6	48	2
Depreciation of fixed assets and amortization of intangible assets	1,498	1,646	(9.0)	(148)	(197)	52	(3)
Total Cost of Services, General and Administrative and Selling Expenses	5,214	4,094	27.4	1,120	(36)	1,150	6
<i>Salaries and Social Security</i>							

During year 2005, salaries and social security charges were approximately P\$685 million, representing a 15.5% increase from 2004. This was primarily due to the increase in salary levels implemented during the year. Additionally, labor costs rose as a consequence of the increase in headcount, particularly in the Wireless reportable segment, where increased demand for wireless services and the improvement of customer support required Telecom Personal to increase its number of employees. As of December 31, 2005, we had 14,542 employees compared to 14,053 employees as of December 31, 2004.

For year 2005, salaries and social security payments were approximately 12% of net sales. For year 2004, salaries and social security payments were approximately 13.2% of net sales.

Taxes

Expenses related to taxes increased 31.2% to P\$395 million in year 2005 from P\$301 million, mainly due to the impact of taxes that are calculated on the basis of revenues and higher fees paid to the regulator in connection with the wireless telephony activity.

Table of Contents

Maintenance, Materials and Supplies

Maintenance, materials and supplies expense increased by 32.6% to P\$309 million in year 2005 from P\$233 million in year 2004. This increase was due in part to higher maintenance costs across segments, and in part to increased costs associated with the growth in our Wireless reportable segment.

Bad Debt Expense

During year 2005, bad debt expense increased to P\$29 million from P\$5 million in year 2004. The allowance for doubtful accounts represented 0.5% of net sales for 2005, as compared to 0.1% of net sales in 2004. This increase was due mainly to growth in the wireless customer base and changes in levels of collection and the lower recovery of past due accounts in the Voice, Data and Internet reportable segment.

Fees for Services

Our fees for various services, including legal, security and auditing services, totaled approximately P\$158 million for year 2005 and P\$102 million for year 2004. This increase was due mainly to services relating to the upgrading of information technology systems in our Wireless reportable segment and outsourcing of call center services. In 2005, fees for services includes P\$15 million paid to the Operator as compensation for the services of highly qualified personnel and technical assistance provided to us in accordance with an agreement entered into between Telecom and Telecom Italia at the beginning of 2005. Such amounts were charged based on hours of service at international market rates for such services.

Advertising

Costs related to advertising increased by P\$59 million, or 63.4%, to P\$152 million, mainly due to higher media advertising expenses for wireless and Internet services.

Agent Commissions and Distribution of Prepaid Card Commissions

Sales commissions increased to P\$386 million in year 2005 from P\$177 million in year 2004. This increase was mainly due to increased commissions paid for the acquisition of new customers in the Wireless reportable segment and to higher distribution costs of prepaid cards. The migration to GSM technology has also influenced these expenses as it has been necessary to pay higher commissions to attract and retain high value customers.

Other Commissions

Other commissions increased by 34.4% to P\$82 million in year 2005 from P\$61 million in year 2004. This increase was mainly due to higher commissions paid for the invoicing and collection process as a result of the growth in our wireless subscriber base.

Others

Others increased by 24.7% to P\$283 million from P\$227 million mainly due to increase in other operating expenses in the Wireless reportable segment.

Depreciation of Fixed Assets and Amortization of Intangible Assets

Depreciation and amortization are calculated using the straight-line method based on the estimated useful life of the relevant asset. Fixed assets acquired after the Transfer Date are being depreciated over an average of 10 years.

Depreciation of fixed assets and amortization of intangible assets decreased by P\$148 million, or 9%, to P\$1,498 million during 2005 as a consequence of the end of the amortization period of certain assets in the Voice, Data and Internet reportable segment partially offset by the increase in investment in assets and accelerated depreciation derived principally by the reduction in the useful life of the TDMA network equipment. Depreciation and amortization expenses were equal to approximately 26.2% of net sales for year 2005 and 36.6% of net sales for year 2004.

Table of Contents

For an analysis of interconnection and international outbound call costs, see Results of Operations by Reportable Segment Voice, Data and Internet Reportable Segment below. For an analysis of wireless handset, roaming and TLRD costs, see Results of Operations by Reportable Segment Wireless Reportable Segment below.

Operating Income

In 2005, our consolidated operating income was P\$504 million compared to P\$400 million in year 2004. Our operating income for the year 2005, as a percentage of net sales, was similar to year 2004. In 2005, the Voice, Data and Internet reportable segment contributed P\$289 million, the Wireless reportable segment contributed P\$208 million and the Directories Publishing reportable segment contributed P\$7 million to consolidated operating income. During 2005, the Voice, Data and Internet reportable segment and Directories Publishing reportable segment showed improvements of P\$189 million and P\$1 million, respectively, while the Wireless reportable segment had a P\$86 million decrease as compared to 2004.

The increase in operating income in 2005 is mainly due to the decrease in our amortization charges in the Voice, Data and Internet reportable segment, which were partially offset by the decrease in operating margins in our Wireless reportable segment resulting from a substantial increase in handset subsidies and selling expenses.

Financial Results, Net

Financial results, net resulted in a loss of P\$306 million for year 2005 compared to a loss of P\$1,172 million in year 2004. The difference can be largely attributed to net foreign currency exchange results, which have a positive variation of P\$865 million in 2005 compared to 2004. The gain from currency exchange differences in 2005 was mainly a consequence of the fluctuation of the peso-to-euro exchange rate during the year.

Gain on Debt Restructuring, Net

On August 31, 2005, Telecom Argentina successfully completed its debt restructuring process by issuing new notes and paying cash consideration in exchange for extinguishment of its outstanding debt, in accordance with the terms of the APE entered into by Telecom Argentina and its financial creditors. As a result, the Company registered a P\$1,424 million gain in year 2005. The gain on debt restructuring, net for year 2004 was P\$209 million, representing the results of debt restructuring by Telecom Personal and Núcleo completed in November 2004. See Note 8 to our Consolidated Financial Statements. See also Critical Accounting Policies Debt Restructuring Results above.

Other, Net

Other, net includes gain (loss) on equity investees, other expenses, net and minority interest. The increase in other, net corresponds mainly to increased other expenses, net, which rose to P\$165 million in 2005 from P\$78 million in 2004 largely due to higher provisions for lawsuits and other contingencies.

During years 2005 and 2004, approximately P\$57 million and P\$59 million of other expenses, net, respectively, were recorded these expenses related mainly to accrued severance costs for employees who were dismissed during the period or voluntarily retired pursuant to our employee reduction program.

Income Tax Expense, Net

Deferred income taxes result from temporary differences in the recognition of expenses for tax and financial reporting purposes and are accounted for in accordance with Argentine GAAP, which is consistent with SFAS No. 109. Argentine GAAP requires the asset and liability method of computing deferred income taxes.

During the year 2005, we recorded a higher income tax expense as compared to year 2004 due to higher taxable net income in 2005 as a consequence of the significant gain on debt restructuring, net. Such higher income tax expense was offset in part by reversal of a portion of the valuation allowance of its deferred income tax asset.

Table of Contents**Net Income (Loss)**

For year 2005, we recorded net income of approximately P\$1,334 million. The Voice, Data and Internet reportable segment contributed P\$1,273 million in 2005, principally as a result of the P\$1,424 million gain on debt restructuring, net. The Wireless reportable segment contributed P\$58 million and the Directories Publishing reportable segment contributed P\$3 million to our consolidated net income in 2005.

(B) Results of Operations by Reportable Segment***(B.1) Voice, Data and Internet Reportable Segment***

Results of operations for our Voice, Data and Internet reportable segment for years 2006, 2005 and 2004 are comprised as follows:

	Year Ended December 31,			% of Change	
	2006	2005	2004	2006-2005	2005-2004
	(P\$ millions)			Increase/(Decrease)	
Net sales	3,053	2,871	2,718	6.3	5.6
Cost of services, general and administrative and selling expenses	(2,726)	(2,582)	(2,618)	5.6	(1.4)
Operating income	327	289	100	13.1	189.0
Financial result, net	(375)	(117)	(989)	220.5	(88.2)
Gain (loss) on debt restructuring, net		1,424	(21)	(100.0)	N/A
Other, net (1)	(138)	(104)	(68)	32.7	52.9
Income tax benefit (expense), net	33	(219)		N/A	N/A
Net (loss) income	(153)	1,273	(978)	N/A	N/A

(1) Other, net includes equity gain (loss) on equity investees and other expenses, net.

Net Sales

During year 2006, net sales from our Voice, Data and Internet reportable segment increased 6.3% to P\$3,053 million from P\$2,871 million in year 2005. During year 2005, net sales increased approximately 5.6% from P\$2,718 million in year 2004. The increase in each year was due to several factors, including an increase in the customer base, which in turn generated greater basic and supplementary monthly charges. Specifically, in 2006, the ADSL access base grew 102.2% over the ADSL access base in 2005 and the number of Arnet customers in 2006 grew by 136% over the number of Arnet customers in 2005. These increases were offset by a reduction in Dial-Up 0610 Internet traffic in 2006 that reduced revenue by P\$23 million as compared to 2005. Other factors in the growth in net sales in 2006 were the increase in our revenues from Internet services and the increase in our provision of interconnection services as a consequence of the general expansion of the wireless business.

Revenues from our Voice, Data and Internet reportable segment for years 2006, 2005 and 2004 are comprised as follows:

	Year Ended December 31,			% of Change	
	2006	2005	2004	2006-2005	2005-2004
	(P\$ millions)			Increase/(Decrease)	
Measured service charges	964	973	959	(0.9)	1.5
Monthly basic charges	716	676	635	5.9	6.5
Internet revenues	396	317	265	24.9	19.6
Interconnection revenues	312	254	210	22.8	21.0
International long-distance service	243	224	215	8.5	4.2
Public telephone service	131	155	170	(15.5)	(8.8)

Table of Contents

	Year Ended December 31,			% of Change	
	2006	2005	2004	2006-2005	2005-2004
	(P\$ millions)			Increase/(Decrease)	
Data transmission	167	150	151	11.3	(0.7)
Installation charges	26	31	30	(16.1)	3.3
Other national telephone services	98	91	83	7.7	9.6
Total Voice, Data and Internet	3,053	2,871	2,718	6.3	5.6

Measured Service Charges and Monthly Basic Charges

Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. Most of our customers are billed monthly. Monthly basic charges differ for residential, professional and commercial customers.

Revenues from measured service and monthly basic charges also include charges for supplementary services (which include call-waiting, call-forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others).

Revenues from measured service and monthly basic charges represented 55% of our total segment net sales for year 2006, compared to 57.4% of our total segment net sales for year 2005. Revenues from traffic increased 1.9% to P\$1,680 million in year 2006 from P\$1,649 million in year 2005. Measured service charges decreased 0.9% to P\$964 million in year 2006 from P\$973 million in year 2005.

Monthly basic charges increased 5.9% to P\$716 million in year 2006 when compared with year 2005, mainly due to the increase in customer lines. Lines in service as of December 31, 2006 increased to approximately 4,095,000 compared to approximately 3,949,000 as of December 31, 2005 due to the recovery in demand. However, fixed telephony tariffs remained stable after the Pesification and freeze enforced by the Argentine Government on January 6, 2002.

Revenues from measured service and monthly basic charges represented 57.4% of our total segment net sales for year 2005, compared to 58.6% of our total segment net sales for year 2004. Revenues from traffic increased 3.5% to P\$1,649 million in year 2005 from P\$1,594 million in year 2004. Measured service charges increased 1.5% to P\$973 million in year 2005 from P\$959 million in year 2004.

Monthly basic charges increased 6.5% to P\$676 million in year 2005 when compared with year 2004, mainly due to the increase in customer lines. Lines in service as of December 31, 2005 increased to approximately 3,949,000 compared to approximately 3,790,000 as of December 31, 2004 due to the recovery in demand.

Internet Revenues

Revenues from Internet subscription fees and Internet-related Value Added Services increased by 24.9% to P\$396 million in year 2006 compared to P\$317 million in 2005 and increased by 19.6% in year 2005 compared to P\$265 million in 2004, mainly due to an increase in the number of ADSL subscribers in each year.

As of December 31, 2006, the number of ADSL subscribers reached approximately 457,000 compared to 226,000 as of December 31, 2005, increasing by 102.2% while Internet dial-up customers were approximately 95,000 as of December 31, 2006 compared to 125,000 as of December 31, 2005, decreasing by 24.0%. As of December 31, 2006 and 2005, Internet minutes represented 20.1% and 26.6% of total traffic measured in minutes transported over the fixed-line network. The Internet minutes have fallen due to the steady migration of customers to the ADSL services.

Table of Contents

Interconnection Revenues

During year 2006, revenues from interconnection services, which primarily include access, termination and long-distance transport of calls, increased by 22.8% to P\$312 million from P\$254 million in 2005, mainly due to the increase in wireless traffic transported and terminated on Telecom's fixed line network.

During year 2005, revenues from interconnection services increased 21.0% to P\$254 million from P\$210 million in 2004, mainly due to the increase of traffic handled by fixed and wireless networks.

International Long-Distance Service

Revenues from international long-distance service reflect payments made under bilateral agreements between the Company and foreign telecommunications carriers covering inbound international long-distance calls and earnings from outbound phone calls made by customers.

During year 2006, international long-distance service revenues increased by 8.5% to P\$243 million from P\$224 million in year 2005. During year 2005, international long-distance service revenues increased by 4.2% to P\$224 million from P\$215 million in year 2004. The increase in each year was mainly due to higher incoming and outgoing traffic partially offset by a decrease in prices.

Public Telephone Service

Revenues from public telephone service decreased by 15.5% to P\$131 million in year 2006 from P\$155 million in year 2005. Revenues from public telephone service decreased by 8.8% to P\$155 million in year 2005 from P\$170 million in year 2004. The decrease each year is mainly due to reduced traffic on public telephones and decreased use of telecommunication centers as a result of expanded cellular usage.

Data Transmission

Revenues from data transmission services increased by 11.3% to P\$167 million in year 2006 from P\$150 million in year 2005 mainly due to the increase in data transmission services required by our customers. Revenues from data transmission services remained stable at P\$150 million in year 2005 compared to P\$151 million in year 2004.

Installation Charges

During year 2006, installation charges from new customers decreased by 16.1% to P\$26 million from P\$31 million in year 2005 while during year 2005 installation charges from new customers increased by 3.3% to P\$31 million from P\$30 million in year 2004. The decrease in installation charges in year 2006 is due to a 22% decrease in the average installation charge per connection in 2006 compared to year 2005, partially offset by a 2% increase in connected lines.

Other National Telephone Services

Revenues from other national telephone services are derived mainly from dedicated lines, Access charges and miscellaneous customer charges. During year 2006, revenues from other national telephone services increased by 7.7% to P\$98 million from P\$91 million in year 2005. During year 2005, revenues from other national telephone services increased by 9.6% to P\$91 million from P\$83 million in year 2004. The increase in each year is mainly due to higher revenues related to billing and collection services charged to other operators.

Cost of Services, General and Administrative and Selling Expenses

During year 2006, total cost of services, general and administrative expenses for the Voice, Data and Internet reportable segment increased 5.6% to P\$2,726 million compared to P\$2,582 million in year 2005. This is mainly due to increases in salaries and social security charges, maintenance, materials and supplies costs, fees for services, interconnection costs and advertising, partially offset by lower depreciation.

Table of Contents