

TELECOM ARGENTINA SA
Form 20-F
June 27, 2008

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, 2007

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

Date of event requiring this shell company report

Commission file number 1-13464

TELECOM ARGENTINA S.A.
(Exact name of Registrant as specified in its charter)

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Republic of Argentina
(Jurisdiction of incorporation or organization)

Alicia Moreau de Justo 50

(C1107AAB) - Buenos Aires

Argentina
(Address of principal executive offices)

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

| Title of each class | Name of each exchange on which registered |
|--|---|
| American Depositary Shares, representing Class B Ordinary Shares Class B Ordinary Shares, nominal value P\$1.00 per share | New York Stock Exchange 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**

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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 basis of accounting the Registrant has used to prepare the financial statements included in this filing:

US GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board
Other

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

Item 17 Item 18

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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

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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 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., Micro Sistemas S.A. and Publicom S.A. (entity sold on April 12, 2007). 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 and Internet services in Paraguay.

Consolidated Financial Statements. Our Consolidated Financial Statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005, and the notes thereto (the Consolidated Financial Statements) are set forth on pages F-1 through F-75 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 16 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 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\$ and pesos are to Argentine pesos and references to euro or 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, 2007 was P\$3.149=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 25, 2008, the exchange rate (ask price) was P\$3.018=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, 2007 for other currencies which are mentioned in this Annual Report, including the Japanese yen (P\$2.793=¥100), and the euro (P\$4.6315= 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 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.

Finally, 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. 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 both Argentine GAAP and US GAAP.

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 website are not part of this Annual Report.

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;
- 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;

- the impact of legal or regulatory matters or 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.

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

AMBA (Área Múltiple Buenos Aires): The area of the Federal District (or Buenos Aires city) 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 Rodríguez 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.

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 Argentina.

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 Estabilización 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 preventivo: 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.

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 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. GSM has supported the implementation of second generation services and is currently used to also provide third generation services.

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 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 telephone 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. Subsequently, in accordance with the Public Emergency Law, these rates were pesified at the exchange rate of US\$ 1.00 = P\$ 1.00. See Item 4 Information on the Company The Business Voice, Data and Internet Rates.

Núcleo: Núcleo S.A.

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 FACPCE. The RT 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 s commissions, advertising expenses and handset subsidies are usually called subscriber acquisition costs.

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 and its consolidated subsidiaries.

Telecom Argentina: Telecom Argentina S.A.

Telecom Italia: Telecom Italia S.p.A.

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

Telecom Personal: Telecom Personal S.A.

Telefónica: Telefónica de Argentina S.A.

Telefónica de España: Telefónica S.A. (from Spain).

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, automatic call routing, access to wireless internet and access to email via BlackBerry.

W de Argentina Inversiones: W de Argentina Inversiones S.L.

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, 2007. 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, 2007, 2006 and 2005 and the selected consolidated balance sheet data as of December 31, 2007 and 2006 have been derived from our Consolidated Financial Statements included elsewhere in this Annual Report. Our selected consolidated balance sheet data as of December 31, 2005 has been derived from our consolidated financial statements as of December 31, 2005 and 2004 and for the three years in the period ended December 31, 2005, which are not included in this Annual Report.

Our selected consolidated income statement data for the years ended December 31, 2004 and 2003 and our selected consolidated balance sheet data as of December 31, 2004 and 2003 have 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. The consolidated financial statements as of December 31, 2004 and 2003 and for the three years in the period ended December 31, 2004 are not included in this Annual Report.

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 16 to our Consolidated Financial Statements.

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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. 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, 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. 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.

On March 28, 2008, the FACPCE issued RT 24, Disclosures and auditing standards for cooperatives, which will be effective for fiscal years beginning on or after January 1, 2009. Since the Company is out of the scope of RT 24, its adoption will not have any impact on the Company's financial position, results of operations and disclosure.

Supplementary Unconsolidated Financial Information

For information regarding our financial and operating results on an unconsolidated basis, see Note 15 to our Consolidated Financial Statements.

CONSOLIDATED SELECTED INCOME STATEMENT AND BALANCE SHEET DATA

| | 2007 | As of and for the Year Ended December 31, | | | 2003 |
|---|---------|---|---------|---------|---------|
| | | 2006 | 2005 | 2004 | |
| | | (P\$ millions, except per share and per ADS data) | | | |
| INCOME STATEMENT DATA | | | | | |
| <i>Argentine GAAP Amounts</i> | | | | | |
| <u>Continuing operations</u> | | | | | |
| Net sales | 9,074 | 7,372 | 5,668 | 4,451 | 3,719 |
| Cost of services, general and administrative and selling expenses | (7,438) | (6,478) | (5,171) | (4,057) | (3,610) |
| Operating income | 1,636 | 894 | 497 | 394 | 109 |
| Other, net (1) | (562) | (685) | (471) | (1,248) | (143) |
| Gain on debt restructuring, net | | | 1,424 | 209 | 370 |
| Income tax (expense) benefit, net | (292) | 22 | (119) | (24) | 11 |
| Net income (loss) from continuing operations | 782 | 231 | 1,331 | (669) | 347 |
| <u>Discontinued operations</u> | | | | | |
| Net income from discontinued operations | 102 | 13 | 3 | 3 | 4 |
| Net income (loss) | 884 | 244 | 1,334 | (666) | 351 |
| Net income (loss) per share (2) | 0.90 | 0.25 | 1.36 | (0.68) | 0.36 |
| Net income (loss) per ADS (3) | 4.49 | 1.24 | 6.78 | (3.38) | 1.78 |
| <i>US GAAP Amounts (4)</i> | | | | | |
| Operating income | 1,592 | 814 | 440 | 430 | 65 |
| Net income (loss) | 1,148 | 572 | 1,138 | (782) | 485 |
| Net income (loss) from continuing operations per share (2) | 1.06 | 0.57 | 1.16 | (0.79) | 0.49 |
| Net income from discontinued operations per share (2) | 0.11 | 0.01 | | | |
| Net income (loss) per share (2) | 1.17 | 0.58 | 1.16 | (0.79) | 0.49 |
| Net income (loss) from continuing operations per ADS (3) | 5.31 | 2.84 | 5.77 | (3.99) | 2.44 |
| Net income from discontinued operations per ADS (3) | 0.52 | 0.07 | 0.01 | 0.02 | 0.02 |
| Net income (loss) per ADS (3) | 5.83 | 2.91 | 5.78 | (3.97) | 2.46 |
| BALANCE SHEET DATA | | | | | |
| <i>Argentine GAAP Amounts</i> | | | | | |
| Current assets | 2,384 | 1,767 | 1,542 | 4,439 | 3,184 |
| Fixed assets, net | 5,738 | 5,739 | 5,958 | 6,894 | 7,997 |
| Total assets | 9,171 | 8,720 | 8,563 | 12,335 | 12,270 |
| Current liabilities | 3,643 | 3,373 | 2,206 | 10,232 | 10,684 |
| Current debt | 1,474 | 1,395 | 905 | 9,434 | 9,996 |
| Non-current liabilities | 2,419 | 3,146 | 4,449 | 1,547 | 365 |
| Non-current debt | 1,724 | 2,703 | 3,996 | 1,219 | 86 |
| Minority Interest | 79 | 72 | 41 | 30 | 32 |
| Common stock | 984 | 984 | 984 | 984 | 984 |
| Total shareholders equity | 3,030 | 2,129 | 1,867 | 526 | 1,189 |
| Total liabilities, minority interest, and shareholders equity | 9,171 | 8,720 | 8,563 | 12,335 | 12,270 |
| <i>US GAAP Amounts (4)</i> | | | | | |
| Total assets | 9,112 | 8,814 | 8,711 | 12,688 | 11,630 |
| Current liabilities | 2,909 | 2,644 | 1,856 | 10,225 | 10,684 |
| Non-current liabilities | 3,609 | 4,727 | 6,000 | 2,758 | 456 |
| Minority interest | 56 | 56 | 36 | 31 | 34 |
| Total shareholders equity (deficit) | 2,538 | 1,387 | 819 | (326) | 456 |

- (1) Other, net includes gain on equity investees, financial results, net, other expenses, net and minority interest.
- (2) Calculated based on 984,380,978 shares outstanding during each year.
- (3) Calculated based on 196,876,196 ADSs outstanding during each year.
- (4) For a description of these differences please refer to Note 16 to the Consolidated Financial Statements. The following tables show the principal reconciling items between our consolidated selected Argentine GAAP and US GAAP amounts shown for all years presented.

| | 2007 | 2006 | As of December 31, 2005 (P\$ millions) | 2004 | 2003 |
|---|--------------|--------------|--|---------------|---------------|
| Total assets under Argentine GAAP | 9,171 | 8,720 | 8,563 | 12,335 | 12,270 |
| <i>Valuation differences:</i> | | | | | |
| Foreign-currency translation | (72) | (50) | (10) | 5 | 8 |
| Capitalization of foreign currency exchange differences | (106) | (210) | (314) | (443) | (566) |
| Other adjustments | 5 | (3) | 6 | 6 | 7 |
| Tax effects on US GAAP adjustments | 35 | 75 | 110 | 155 | 198 |
| Valuation allowance | | | | (285) | (357) |
| <i>Balance sheet classification differences:</i> | | | | | |
| Deferred income taxes | 88 | 295 | 363 | 935 | 70 |
| Other classifications (i) | (9) | (13) | (7) | (20) | |
| Total assets under US GAAP | 9,112 | 8,814 | 8,711 | 12,688 | 11,630 |

| | 2007 | 2006 | As of December 31, 2005 (P\$ millions) | 2004 | 2003 |
|---|--------------|--------------|--|---------------|---------------|
| Total current liabilities under Argentine GAAP | 3,643 | 3,373 | 2,206 | 10,232 | 10,684 |
| <i>Valuation differences:</i> | | | | | |
| Other adjustments | | | | 5 | |
| Tax effects on US GAAP adjustments | | | | (2) | |
| Valuation allowance | | | | 2 | |
| <i>Balance sheet classification differences:</i> | | | | | |
| Deferred income taxes | 173 | | | | |
| Financial indebtedness | (901) | (716) | (348) | | |
| Other classifications (i) | (6) | (13) | (2) | (12) | |
| Total current liabilities under US GAAP | 2,909 | 2,644 | 1,856 | 10,225 | 10,684 |

| | 2007 | 2006 | As of December 31, 2005 (P\$ millions) | 2004 | 2003 |
|---|--------------|--------------|--|--------------|------------|
| Total non-current liabilities under Argentine GAAP | 2,419 | 3,146 | 4,449 | 1,547 | 365 |
| <i>Valuation differences:</i> | | | | | |
| Foreign-currency translation | | (1) | (3) | (6) | (1) |
| Debt Restructurings | 579 | 875 | 1,300 | 235 | |
| Personal Pre APE Debt Restructurings | | | | | 20 |
| Other adjustments | 2 | 3 | 3 | | |
| Tax effects on US GAAP adjustments | (204) | (307) | (455) | (82) | (7) |
| Valuation allowance | | | | 137 | 7 |
| <i>Balance sheet classification differences:</i> | | | | | |

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| | | | | | |
|--|--------------|--------------|--------------|--------------|------------|
| Deferred income taxes | (85) | 295 | 363 | 935 | 70 |
| Financial indebtedness | 901 | 716 | 348 | | |
| Other classifications (i) | (3) | | (5) | (8) | |
| Total non-current liabilities under US GAAP | 3,609 | 4,727 | 6,000 | 2,758 | 456 |

(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 16.II.g and 16.II.h to the Consolidated Financial Statements.

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| | 2007 | 2006 | As of December 31, 2005 (P\$ millions) | 2004 | 2003 |
|---|-----------|-----------|--|-----------|-----------|
| Total minority interest under Argentine GAAP | 79 | 72 | 41 | 30 | 32 |
| <i>Valuation differences:</i> | | | | | |
| Foreign-currency translation | (23) | (16) | (5) | 1 | 2 |
| Total minority interest under US GAAP | 56 | 56 | 36 | 31 | 34 |

| | 2007 | 2006 | As of December 31, 2005 (P\$ millions) | 2004 | 2003 |
|--|--------------|--------------|--|--------------|--------------|
| Total shareholders equity under Argentine GAAP | 3,030 | 2,129 | 1,867 | 526 | 1,189 |
| <i>Valuation differences:</i> | | | | | |
| Foreign-currency translation | (72) | (49) | (7) | 11 | 7 |
| Capitalization of foreign currency exchange differences, net | (106) | (210) | (314) | (443) | (566) |
| Debt Restructurings | (579) | (875) | (1,300) | (235) | |
| Personal Pre-APE Debt Restructurings | | | | | (20) |
| Other adjustments | 3 | (6) | 3 | 1 | 7 |
| Tax effects on US GAAP adjustments | 239 | 382 | 565 | 239 | 205 |
| Valuation allowance | | | | (424) | (364) |
| Minority interest | 23 | 16 | 5 | (1) | (2) |
| Total shareholders equity (deficit) under US GAAP | 2,538 | 1,387 | 819 | (326) | 456 |

| | 2007 | 2006 | Year ended December 31, 2005 (P\$ millions) | 2004 | 2003 |
|---|--------------|------------|---|------------|------------|
| Operating income under Argentine GAAP | 1,636 | 894 | 497 | 394 | 109 |
| <i>Valuation differences:</i> | | | | | |
| Foreign-currency translation | 2 | 6 | 2 | 1 | (5) |
| Depreciation of foreign currency exchange differences | 104 | 104 | 117 | 119 | 121 |
| Inventories | (51) | (5) | (14) | (6) | (2) |
| Other adjustments | (1) | (1) | | | |
| <i>Income statement classification differences:</i> | | | | | |
| Other expenses, net as operating loss under US GAAP | (98) | (184) | (162) | (78) | (158) |
| Operating income under US GAAP | 1,592 | 814 | 440 | 430 | 65 |

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| | 2007 | 2006 | Year ended December 31, 2005 (P\$ millions) | 2004 | 2003 |
|--|--------------|------------|---|--------------|------------|
| Total net income (loss) under Argentine GAAP | 884 | 244 | 1,334 | (666) | 351 |
| <i>Valuation differences:</i> | | | | | |
| Foreign-currency translation | (4) | (17) | (10) | 9 | (53) |
| Depreciation of foreign currency exchange differences, net of reversal of its capitalization | 104 | 104 | 129 | 123 | 196 |
| Debt Restructurings | 296 | 418 | (1,230) | (235) | |
| Extinguishment of Personal s and Núcleo s restructured debts | | 7 | 165 | | |
| Personal Pre APE Debt Restructurings | | | | 20 | 23 |
| Other adjustments | 9 | (2) | (5) | (6) | 6 |
| Tax effects on US GAAP adjustments | (143) | (185) | 328 | 34 | (79) |
| Valuation allowance | | | 424 | (60) | 24 |
| Minority interest | 2 | 3 | 3 | (1) | 17 |
| Total net income (loss) under US GAAP | 1,148 | 572 | 1,138 | (782) | 485 |

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, 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 |
| Year Ended December 31, 2007 | 3.16 | 3.08 | 3.12 | 3.15 |
| Month Ended December 31, 2007 | 3.15 | 3.13 | 3.14 | 3.15 |
| Month Ended January 31, 2008 | 3.16 | 3.13 | 3.15 | 3.16 |
| Month Ended February 29, 2008 | 3.17 | 3.15 | 3.16 | 3.16 |
| Month Ended March 31, 2008 | 3.17 | 3.15 | 3.16 | 3.17 |
| Month Ended April 30, 2008 | 3.18 | 3.15 | 3.17 | 3.16 |
| Month Ended May 31, 2008 | 3.16 | 3.09 | 3.13 | 3.10 |
| Month Ended June 30, 2008 (through June 25, 2008) | 3.11 | 3.02 | 3.05 | 3.02 |

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

Sources: Banco Nación

On June 25, 2008, the closing exchange rate (ask price) quoted by Banco Nación was P\$3.018=US\$1.00.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

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 2001 and 2002 the Argentine economy experienced a severe recession as well as a political crisis. The abandonment of dollar-peso parity in 2002 led to significant devaluation of the peso against major international currencies and our need to restructure our financial indebtedness. Although general economic and political conditions have shown improvement in recent years, these conditions have affected and may continue to affect our financial condition and results of operations.

Devaluation of the peso will adversely affect our results of operations, our capital expenditure program 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. It should be noted, however, that the exposure to the risk of devaluation of the peso has significantly decreased as a result of the mandatory and optional prepayments on the notes of Telecom Argentina. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Debt Obligations and Debt Service Requirements and Item 11 Quantitative and Qualitative Disclosures About Market Risk.

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 the peso and, accordingly, on our financial condition and results of operations.

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

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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 years 2005 and 2006 and remained relatively high in year 2007. The accumulated Argentine consumer price index for the period 2003-2006 increased approximately 31% and the accumulated wholesale price index increased approximately 28%. In 2007, the Argentine consumer price index increased 8.5% and the wholesale price index increased 13.9%. In the five-month period ending on May 31, 2008, the consumer price index increased 4.0% and the wholesale price index increased 5%. It should be noted, however, that the *Instituto Nacional de Estadística y Censos* (the Argentine National Statistics and Census Institute or INDEC) has undergone changes both in its management and in the methodology used to calculate the CPI index (Consumer Price Index). As a result, public credibility of the INDEC

as a reference for publishing Argentine inflation indexes has been adversely affected as from year 2007. There is also a substantial disparity between the inflation indexes published by the INDEC and the overall evolution of prices in the economy. Additionally, the target wage increase set by the Government for 2008 amounts to approximately 19.5%.

The Argentine Government has implemented several actions in order to monitor and control prices of the most relevant goods and services, such as price controls and restrictions on exports. Despite such actions, the Argentine economy continues to experience significant inflation. 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 the peso cannot be stabilized by positive expectations for Argentina's economic future and/or strict fiscal and monetary policies, a significant increase in inflation rates can be expected. In addition, public sector spending has increased over the past years, 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.

Future policies of the Argentine Government are likely to 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 of 2001 and 2002, the Argentine Government promulgated numerous, far-reaching regulations affecting the economy and telecommunications companies in particular. Under the Kirchner administration, the CNC 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 the laws and regulations currently governing the economy or the telecommunications industry will not change, that the claims will be resolved in our favor, or that any changes to the existing laws and regulations will not adversely affect our business, financial condition or results of operations.

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 Argentina may return to a period of recession, higher inflation, unemployment and greater social unrest. In addition, financial crises such as the outbreak of the subprime mortgage in the U.S. may negatively affect emerging economies like Argentina. Moreover, the decision of the Government of Cristina Fernández de Kirchner to raise export taxes on certain agricultural products has resulted in conflicts between the Government and the agricultural sector during 2008. If economic instability returns, there could be a material adverse effect on our results of operations and financial condition.

In the event of further social or political crises, 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.

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.

As we operate in a context in which the governing law and applicable regulations change frequently, it is difficult to predict whether our commercial activities will be affected positively, negatively or at all by such changes.

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

The Argentine Government's history of fiscal deficit was aggravated by the devaluation of the Argentine peso in early 2002. Since almost all of the financial obligations of the Argentine Government were denominated in foreign currencies at the time the dollar-peso parity was eliminated, 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. Since the Government's fiscal revenues were denominated in large part in Argentine pesos, the Government was severely affected in its ability to carry out its payment obligations using foreign currency.

The Argentine Government defaulted on a significant part of its public debt in 2002. 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 (approximately 24% of them). The Argentine Government is still in negotiations on its defaulted debt with certain international multilateral institutions such as the Paris Club.

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 negatively affect the ability of private companies, including Telecom, to obtain access to capital markets or other forms of financing.

The Argentine banking system may be subject to instability.

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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, 40% in 2006 and

43% in 2007. However, during 2008 certain events such as conflicts between the Argentine Government and certain sectors of the economy have deteriorated depositors' confidence, which led to the decrease in deposits, the dollarization of certain deposits and an increase in interest rates.

Despite this recovery and the high level of reserves held by the BCRA, 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 growth 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 and uncollectible accounts.

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

Under Argentine law, a shareholder's liability for losses of a company is limited to the value of his or her shareholdings in the company. Under Argentine law, however, shareholders who vote in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or a company's bylaws (or regulations, if any) may be held jointly and severally liable for damages to such company, to other shareholders or to third parties resulting from such resolution. In connection with recommending any action for approval by shareholders, the Board of Directors of Telecom 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 Argentina 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 fully 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 all of 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 and optional prepayments made on the notes have resulted, as of the date of this Annual Report, in the cancellation of the principal mandatory amortizations scheduled through April 2011 and 45.0% of the scheduled principal amortization payable in October 2011, and have thus reduced the possible impact of this risk. As of May 31, 2008, the outstanding principal amount of Telecom Argentina's indebtedness was approximately equivalent to US\$521 million (which represents approximately 45.1% of Series A notes and 4.1% of Series B notes original principal amount), while its cash and cash equivalents amount approximately to US\$156 million.

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Under Argentine law, noteholders 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.

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, 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, 2007, our subsidiaries' indebtedness was approximately equivalent to US\$277 million, while our subsidiaries' cash and cash equivalents as of December 31, 2007 amounted to approximately US\$75 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 contains 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.

Our failure to comply with the covenants and restrictions in our indenture could accelerate the repayment of the notes which could have an adverse effect on our liquidity and our business.

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.

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 April 2011 and 45.0% of the principal amortization payments scheduled to be made in October 2011 have been paid and the outstanding principal amount of Telecom Argentina indebtedness as of May 31, 2008 is approximately equivalent to US\$521 million (which represents approximately 45.1% of Series A notes and 4.1% of Series B notes original principal amount). 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.

We are leveraged in foreign currency.

As of December 31, 2007, our total nominal consolidated bank and financial indebtedness, denominated in dollars, euro, yen and guaraníes amounted to the equivalent of approximately US\$1,015 million, including accrued but unpaid interest and related derivatives. Our total consolidated peso-denominated debt amounted to P\$63 million, equivalent to US\$20 million. As of December 31, 2007, our total consolidated cash and banks and financial investments denominated in dollars, euro, yen and guaraníes amounted to the equivalent of approximately US\$266 million and our total consolidated peso-denominated cash and banks and financial investments amounted to P\$155 million, the equivalent of US\$49 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 in foreign currency. As of December 31, 2007, Telecom Personal's stand-alone outstanding debt was the equivalent of approximately US\$265 million, of which a significant portion is denominated in U.S. dollars. As of December 31, 2007, Telecom Personal's total cash and banks and financial investments denominated in dollars amounted to approximately US\$36 million and Telecom Personal's total peso-denominated cash and banks and financial investments amounted to P\$107 million, the equivalent of US\$34 million.

It should be noted, however, that the exposure to the risk of devaluation of the peso has significantly decreased as a result of the mandatory and optional prepayments on the notes of Telecom Argentina and the strong financial performance of Personal which has reduced its indebtedness. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Debt Obligations and Debt Service Requirements and Item 11 Quantitative and Qualitative Disclosures About Market Risk.

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

In accordance with the Public Emergency Law, in January 2002, rates for Basic telephone 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 its 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. The effectiveness of the Public Emergency Law was subsequently extended by Laws No. 26,077, 26,204 and 26,339 through December 31, 2008.

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 the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary steps. As of the date hereof, such fulfillment has yet to occur. 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 may continue for a number of years and may affect 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 has implemented various measures to control inflation such as price controls of certain goods and services. In addition to price pressure from the competition, 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, and regulations and laws related thereto, and such compliance may at times be 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. Such laws and regulations are often governed by considerations of public policy. 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, among others, 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. 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.

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. In addition, the Telecom Italia Group and W de Argentina Inversiones (a company that is part of the Argentine Werthein Group) are each required to maintain direct ownership of at least 15% of the common stock of Sofora.

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. As of December 31, 2007, more than 500 licenses for local and/or long-distance services had been granted since the end of the exclusivity period.

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 Móviles S.A. (Movicom) which resulted in Telefónica Móviles becoming Argentina's largest wireless operator in terms of numbers of subscribers at that time. 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. Specifically, 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. To remain competitive in the wireless telecommunications market, we must enhance our wireless networks principally by expanding our GSM network coverage, provide 3G services, provide high service quality and attractive plans and facilitate the synergy between fixed and mobile communications. 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 and higher subscriber retention costs. 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 order to comply with regulatory obligations regarding fixed line services and to remain competitive in the quality of our services. 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 adversely affect 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 capital 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 competitors' 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 changes in levels of 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.

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. Telecom Personal cannot guarantee that its 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 controlling shareholder, and Sofora as Nortel's controlling shareholder, exercise control over significant matters affecting us.

Nortel is our direct controlling shareholder. Sofora owns 100% of the common stock of Nortel, which represents 67.79% of the total capital stock of Nortel. As of December 31, 2007 Sofora was 50% owned by Telecom Italia Group, 48% owned by W de Argentina Inversiones and 2% owned by France Telecom Group.

Telecom Argentina has been informed by W de Argentina Inversiones that its option to purchase France Telecom Group's 2% interest in Sofora was exercised on February 1, 2008. Additionally, Sofora has notified Telecom Argentina that: (i) on February 12, 2008, Sofora received from France Câbles et Radio and from Atlas Services Belgium a letter notifying Sofora of such companies' transfer of the 2% interest in Sofora, and requesting that such transfer be registered in favor of W de Argentina Inversiones; (ii) Sofora replied to the letter sent by France Câbles et Radio and Atlas Services Belgium by requesting a copy of the prior authorization from the SC to said transfer of shares, arguing that a prior authorization of the SC was necessary in accordance to rules and regulations in effect; to this date, Sofora has not received any answer, and neither the buyers nor the sellers have submitted any proof of such authorization; (iii) with the goal of protecting the interests of Sofora, its controlled companies and their respective shareholders, a petition was submitted to the SC requesting it to determine if, in accordance to rules and regulations in effect, the parties participating in said transaction had to request the prior authorization of the relevant authorities; (iv) this request to the SC was submitted as well to enable Sofora to determine what to do with respect to the registration of the transfer requested by the interested parties; (v) as soon as the SC decides upon this matter, Sofora will take the steps necessary to comply with such decision. Likewise, W de Argentina Inversiones has submitted a note to Sofora stating that it is its position that prior authorization by the SC was not necessary and requesting Sofora to immediately register the interest transfer. Additionally W de Argentina Inversiones has informed Sofora that they have brought legal actions accordingly. As of the date of this Annual Report, Telecom Argentina cannot predict how the SC will decide on the petition submitted by Sofora nor the outcome of the legal action brought by W de Argentina Inversiones.

Additionally, in 2003 the Telecom Italia Group acquired for an aggregate purchase price of US\$60 million two call options on W de Argentina Inversiones' entire interest in Sofora, one for the purchase of 48% of Sofora's share capital, which can be exercised within 15 business days after December 31, 2008, and an additional call option on 2% of Sofora's share capital, which can be exercised between December 31, 2008 and December 31, 2013. At the time these call options were granted, the Argentine Antitrust Commission resolved and notified Telecom Italia International NV and W de Argentina-Inversiones that in the event the options granted under the Call Option Agreement executed on September 9, 2003 were to be exercised, such exercise will need to be notified in accordance with Sections 6 and 8 of Law No. 25,156. As of the date of this Annual Report, Telecom Argentina cannot predict whether Telecom Italia will exercise these options. See Item 7 Major Shareholders

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and Related Party Transactions for additional information on the exercise of this option.

Through their ownership of Sofora, the Telecom Italia Group and W de Argentina Inversiones currently 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 Wertheim 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 Telecom Argentina's capital stock and as parties with interests in these related party contracts.

Nevertheless, any transactions with related parties for an amount of over 1% of the shareholders' equity of Telecom Argentina 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.

In Argentina, labor organizations have substantial support and have considerable political influence. The demands of our labor organizations have increased as a result of the general labor dissatisfaction resulting from the disparity between the cost of living (which was significantly affected by the increased level of inflation over the last three 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 by increasing the minimum legal wage, imposing salary amounts which will initially be treated as non remunerative and setting target annual wage increases). Certain claims initiated in 2005 by labor organizations with respect to fixed line services led to negotiations that resulted in the improvement of salary levels and a reduction of working hours. See Item 8 Financial Information Legal Proceedings Other Labor Claims. 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, 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.

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 has discussed certain modifications to labor regulations that, if approved, could materially impact our relationship with our employees by 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 recent 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 Act 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. Some of these claims have been settled and others are still 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.

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), those relating to the provision of new customer services and those resulting from the 2000 and 2001 Price Cap SC reviews still pending. 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 enforcement of regulations aimed at protecting consumers might have an adverse effect on us.

The Consumer Protection Act No. 24,240, as amended and/or supplemented (the Consumer Protection Act) establishes a series of principles and rules for the protection of consumers and users. The Consumer Protection Act applies to the telecommunications industry and to any other industry in which consumers and users are involved.

On March 12, 2008, the Argentine Congress passed the legislative bill to reform the Consumer Protection Act, which was promulgated by the Executive Branch in Decree No. 565/2008 dated April 3, 2008, and published in the Official Bulletin on April 7, 2008.

This reform substantially amends various aspects of the Consumer Protection Act, the most important of which are: (i) the extension of the definition of a consumer; (ii) an increase in the fines that could be imposed to providers and the possibility that relevant administrative authorities may order providers to pay direct damages up to a maximum amount; (iii) the courts may order providers to pay punitive damages to consumers up to a maximum amount of P\$5 million, depending on the seriousness of the breach, among other circumstances; and (iv) provisions governing the possibility that consumer associations commence class actions in representation of the rights of an indeterminate group of consumers.

These amendments might substantially increase the number of legal actions commenced against various companies that provide goods and services to individual users or consumers or to various groups or associations of consumers. This possibility might entail risks for Telecom Argentina and Personal concerning, among others, the collection of prices charged for its services, or the obligation to return amounts charged for its services. If such were the case, any of such consequences could have an adverse effect on our financial situation and on the results of our operations.

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 and trade liabilities.

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 or limitations on the access to foreign exchange markets and transfer of funds abroad, including for purposes of paying principal and interest on debt and trade liabilities to foreign suppliers. Although these restrictions or limitations have generally been eliminated, restrictions on the access to foreign exchange markets and transfer of funds have in the past limited and may in the future limit our ability to make payments on our debt to creditors and trade liabilities outside of Argentina. There can be no assurance that the BCRA will not impose again similar restrictions for principal, interest and/or trade liabilities payments by us to our foreign creditors, or require its prior authorization for such purposes, which would limit our ability to service our debt and/or comply with payments related to trade contracts with foreign suppliers. 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.

While the value of Telecom Argentina's shares has increased over the past five fiscal years, their value has declined during 2008. See Item 9 The Offer and Listing.

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 the economic and political situation of Argentina, 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 an investment in Telecom Argentina. 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.

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 Telecom Argentina 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 Telecom Argentina'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 year ended December 31, 2007, but we still had accumulated losses amounting to P\$708 million as of December 31, 2007. 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. In this regard, we have included a description of the principal differences between Argentine GAAP and US GAAP as they relate to us in Note 16 to the Consolidated Financial Statements.

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,

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international wholesale services, and telephone directory publishing (until the sale of Publicom's subsidiary in April 2007).

As of December 31, 2007, our telephone system included approximately 4.21 million lines in service. This is equivalent to approximately 22 lines in service per 100 inhabitants in the Northern Region of Argentina and 367 lines in service per employee.

As of December 31, 2007, our Internet business has approximately 83,000 customers of its dial-up and private virtual network services (in these networks links between nodes are carried by open connections or virtual circuits) and approximately 783,000 customers of its ADSL service. Our Wireless reportable segment has approximately 10.67 million customers in Argentina and approximately 1.63 million customers in Paraguay.

Business Strategy

Our goal is to be a leading provider of integrated communications, providing a wide variety of fixed and mobile telecommunication services, mainly in the territory of Argentina. 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.

Markets for fixed basic telecommunication services are either mature or close to maturity, resulting in tight competition, increased costs for operators, and declining prices. The use of high-technology exacerbates this situation even more by facilitating the entry of new players, the so-called technology competitors, which, with low and highly focused investments, fuel competitive pressure and reduce the industry's profitability.

Customers, for their part, are starting to place value on the increasing levels of empowerment, personalization and interactivity in telecommunication services with an emphasis on simplicity. Increasingly, the services for which consumers are willing to pay a premium are value-added, and the price of connectivity—either fixed or mobile—no longer represents a determining factor in the purchase decision.

In this context, in which the industry is evolving towards an ICT (Information & Communication Technology) paradigm, the convergence of services constitutes a key opportunity to achieve market positioning by keeping abreast of emerging demands and counteracting the erosion of traditional revenue streams.

Conceptually, the convergence of services comprises different implementation stages ranging from simple commercial integrations to more complex structures in which different access networks and wide-ranging applications and services are combined to meet customers' needs in a simple way.

We are in a privileged position to benefit from the convergence of services provided to fixed and mobile customers, which represents an advantage vis-à-vis companies operating purely in one of the fixed, mobile or cable businesses. In this regard, Telecom Argentina has undergone organizational changes, which have enabled it to launch several packages for customers, including broadband access and local calls, innovative wireless digital handsets, SMS services compatible with the fixed and mobile networks, Wi-Fi connectivity for home broadband, and recently, fixed video-telephony.

From an operating perspective, we aim to improve synergies, to which end we are designing and executing a plan to coordinate the development of our networks and information systems—an essential element for the provision of a broad portfolio of integrated services.

Key components of our strategy include:

- Retain customers and traffic on fixed networks through flat-rate offerings that target a broad market and increase ARPU on well-established products, maximizing profitability in mature businesses;

- Continue to migrate our traditional telephone infrastructure to the unified NGN architecture, which already has approximately 350,000 lines deployed with the new technology;
- Increase the penetration and deployment of broadband, which should enable us to speed up the convergence of fixed and mobile services and increase the Company's ability to offer innovative multimedia services;
- 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;
- Expand coverage of our mobile service, completing the migration of mobile TDMA customers to GSM, and continuing the deployment of 3G mobile broadband technology;
- Prioritize customer service and quality; and
- Explore new technologies, such as IMS (IP Multimedia Subsystem), Wimax (Worldwide Interoperability for Microwave Access), Home Networking (which allows multiple computers to share files, printers and Internet connection) and IPTV (Internet Protocol Television) and mobile TV services, so as to be prepared to offer such advanced services when and as permitted by the Regulatory Bodies.

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, 2007, and jurisdiction of organization.

(*) On April 12, 2007, Telecom Argentina sold its entire share participation in Publicom (99.99% of capital and voting shares of the subsidiary).

(**) Dormant entity.

Consolidated Subsidiary Information

The following table presents information relating to our consolidated subsidiaries for the fiscal year ended as of December 31, 2007:

| Subsidiary (1) | Activity | Reportable Segment | Percent Ownership | Percentage of Telecom s Total Consolidated |
|-----------------------|-----------------|---------------------------|--------------------------|---|
|-----------------------|-----------------|---------------------------|--------------------------|---|

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| | | | | Net Sales |
|----------------------------|----------------------------|--------------------------|--------|-------------|
| Telecom Personal S.A. | Wireless Services | Wireless | 99.99 | 58.8 |
| 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 |
| Micro Sistemas S.A. (3) | Electronic Equipment Sales | Voice, Data and Internet | 99.99 | |
| Total | | | | 64.0 |

(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) Dormant subsidiary as of December 31, 2007.

As a consequence of the sale of our equity interest in Publicom on April 12, 2007, the former reportable segment Directory publishing has been accounted for as discontinued operations and included in a separate line in the reportable segment Voice, Data and Internet. See Note 12 to our Consolidated Financial Statements.

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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

Telecom Personal and Núcleo Dividend Payments

On March 31, 2008, Telecom Personal paid its shareholders a dividend in an amount of P\$220 million, as stipulated by the General Shareholders Meeting held on March 27, 2008, of which P\$219.98 million were received by Telecom Argentina.

On April 15, 2008, Núcleo paid its shareholders a dividend in an amount in guaraníes equivalent to US\$20.7 million, as stipulated by the General Shareholders Meeting held on March 14, 2008, of which US\$14.0 million were received by Telecom Personal. In compliance with Paraguayan tax law, Núcleo withheld 15% of the amount distributed to Telecom Personal as income tax. Consequently, Telecom Personal received US\$11.9 million in dividend proceeds and has a credit for taxes imposed on foreign earnings in an amount of US\$2.1 million.

Mandatory and optional prepayment on the Notes

Due to the cash generation from operations in 2007 amounting to P\$2,946 million, the Company has continued reducing its consolidated financial indebtedness. Telecom Argentina made mandatory prepayments amounting to P\$889 million in 2007 and made an additional prepayment on April 15, 2008 amounting to P\$822 million (which includes P\$427 million of mandatory prepayment corresponding to excess cash). After giving effect to the principal prepayment made in April 2008, Telecom Argentina has cancelled all scheduled amortizations of the Series A notes and Series B notes payable through April 2011 and 45.0% of the scheduled principal amortization payments due October 2011. Consequently, as of the date of this Annual Report 45.087% of the original principal amount of Series A notes and 4.125% of the original principal amount of Series B notes remaining outstanding. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Debt Obligations and Debt Service Requirements.

New Universal Service Regulation

Decree No. 558/08, published on April 4, 2008, recently caused certain changes to the Universal Service regime.

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Decree No. 558/08 establishes that, with respect to obligations originated under Decree No. 764/00, the SC will assess the value of those that were complied with, and the level of funding from the Universal Service Fiduciary

Fund for those that are still pending. Likewise, the SC could choose to consider as Universal Service other undertakings which are carried out by the telecommunication services providers, and provide for their compensation so as to guarantee their continuity.

In defining Universal Service, the new regulation establishes two categories: a) areas with uncovered or unsatisfied needs; and b) customer groups with unsatisfied needs. It also determines that the SC will have exclusive responsibility for the issuance of general and specific resolutions regarding the new regulation, as well as for interpreting and applying it.

The Decree requires Telecom Argentina and Telefónica to extend the coverage of their fixed line networks, within their respective original region of activity, within 60 months from the effective date of publication of the Decree. The SC will determine on a case by case basis if the providers will be compensated with funds from the Universal Service Fiduciary Fund.

The Decree also requires telecommunications service providers to propose, within 60 days from its effective date of publication, a procedure to select a fiduciary institution and to provide a fiduciary agreement proposal, both subject to the SC approval.

The level of financing of Universal Service programs which were established under the previous regulation and are still ongoing will be determined by the SC, whereas telecommunications providers appointed to participate in future Universal Service programs will be selected by competitive bidding.

The Decree requires telecommunications service providers to contribute 1% of their revenues (from telecommunications services, net of taxes) to the Universal Service Fiduciary Fund and keeps the pay or play mechanism for compliance with the mandatory contribution to the Universal Service Fiduciary Fund.

Decree No. 558/08 also mandates the creation of the Universal Service Fiduciary Fund and orders that it must be established within 180 days from the date of publication. The providers of telecommunications services shall act in their capacity as trustors in this trust, which shall rely on the assistance of a Technical Committee made up by seven members (two members shall be appointed by the SC, one member shall be appointed by the CNC, three members shall be appointed by the telecommunication services providers – two of which shall be appointed by Telecom Argentina and Telefónica and one by the rest of the providers – and another member to be appointed by cooperative operators). This Technical Committee will be informed by the SC of the programs to be financed and will be entrusted with administrating and controlling the Universal Service Fiduciary Fund, carrying out technical-economic evaluations of existing projects and supervising the process of competitive bidding and adjudication of new Universal Services programs, with the prior approval of the SC.

At the date of issuance of this Annual Report, the management of Telecom Argentina and Personal have started to analyze the impact of this new regulation, which is still subject to further specifications to be issued by the SC. See Regulatory Framework Decree No. 764/00 Universal Service Regulation.

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

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In January 2007, the Telecom Group successfully implemented its new SAP-based ERP system. The implementation replaced the previous ERP system and other works planning and control systems with a single, fully-integrated piece of multi-company software whose success has been proven in telecommunication companies all round the world.

The processes within the implementation scope of SAP included accounting, accounts payable, treasury, works in progress, logistics, fixed assets and materials and project management. During 2007 and the beginning of 2008 we continued with the implementation process by adding new features, including human resources management, foreign trade, real estate, float maintenance and special services which were successfully implemented during March and April 2008.

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, its 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.

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, 2007, Nortel's common stock was owned by an Argentine company named Sofora, which was organized in September 2003 and, as of December 31, 2007, was held 50% by the Telecom Italia Group, 48% by W de Argentina Inversiones, 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. Since December 2003 and until the expiration of the Management Agreement on October 10, 2004, the Telecom Italia Group continued performing the Management Agreement as sole operator. The Telecom Italia Group has thereafter continued being 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.

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

As of the date of this Annual Report, we conduct our business through five legal entities which represent five operating segments. We aggregate these operating segments into two reportable segments Voice, Data and Internet and Wireless- 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 S.A. (i) |
| Wireless | Telecom Personal Núcleo |

- (i) Dormant entity at December 31, 2007.

As a consequence of the sale of our equity interest in Publicom on April 12, 2007, the former reportable segment *Directory publishing* has been accounted for as a *discontinued operation* and included in a separate line in the reportable segment *Voice, Data and Internet*. See Note 12 to our Consolidated Financial Statements.

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 telephone services.* Telecom Argentina provides Basic telephone services, including local and domestic long-distance telephone services and public telephone services. As of December 31, 2007, Telecom Argentina had approximately 4.21 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, 2007, Telecom Argentina had approximately 83,000 dial-up and private virtual network services subscribers (in these networks links between nodes are carried by open connections or virtual circuits) and approximately 783,000 ADSL subscribers to our Internet service; and
- *Other Basic telephone services.* Other services provided by Telecom Argentina include supplementary services such as call waiting, call forwarding, conference calls, caller ID, voice mail, video calls and itemized billing, and telecommunications consulting and telecommunications equipment and maintenance services.
- *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, 2007, Telecom Personal had approximately 10.67 million wireless subscribers in Argentina and approximately 1.63 million in Paraguay.

See Note 14 to our Consolidated Financial Statements and: Item 5 Operating and Financial Review and Prospects Years ended December 31, 2007, 2006 and 2005 Results of Operations by Reportable Segment for additional information as to our results of operations by reportable segment.

Voice, Data and Internet

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.

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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 Telephone Network

Telecom Argentina's 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 telephone network:

| | December 31, 2007 | December 31, 2006 | December 31, 2005 | December 31, 2004 | December 31, 2003 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Number of installed lines(1) | 4,238,542 | 3,896,637 | 3,828,147 | 3,803,006 | 3,800,085 |
| Net lines installed (during each year) | 341,905 | 68,490 | 25,141 | 2,921 | (2,379) |
| Net lines installed cumulative(2) | 2,667,578 | 2,325,673 | 2,257,183 | 2,232,042 | 2,229,121 |
| Number of lines in service(3) | 4,207,744 | 4,094,653 | 3,949,911 | 3,790,298 | 3,655,859 |
| Net lines in service added for the year | 113,091 | 144,742 | 159,613 | 134,439 | 65,575 |
| Net lines in service added cumulative | 2,805,775 | 2,692,684 | 2,547,942 | 2,388,329 | 2,253,890 |

| | December 31, 2007 | December 31, 2006 | December 31, 2005 | December 31, 2004 | December 31, 2003 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Lines in service per 100 inhabitants(4) | 22 | 21 | 21 | 20 | 20 |
| Pending applications(5) | 65,700 | 60,800 | 52,000 | 44,800 | 74,800 |
| Public phones installed | 70,550 | 81,568 | 82,771 | 83,847 | 80,127 |

(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 (under the so called principle of non-discrimination). In accordance with this ability, Telecom Argentina charges lower prices than the maximum regulated prices for many of the services offered.

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.

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 of US\$1.00 = P\$1.00. The number of pulses varies depending on the type of customer. As of December 31, 2007, approximately 78% of lines in service were for residential customers

and public telephony and approximately 22% 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 of US\$1.00 = P\$1.00. 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 13.6 billion in 2007, 13.8 billion in 2006 and 13.9 billion during 2005. 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 relatively 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 2007, 3.0 billion in 2006 and 2.9 billion during 2005. The modest but 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 in the region.

In the years ended December 31, 2007 and 2006, approximately 77% of measured service revenue 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 198 million in 2007 from 130 million in 2006 and 125 million in 2005. Despite the competition and VoIP (Voice Over Internet Protocol) the volumes of this traffic shows a positive trend due to promotions to target the sector.

Since 1992, international tariffs have been reduced annually as a consequence of the application of the Price Cap described in Rates 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 market share in that region due to strong growth in prepaid cards and the adoption of VoIP technology at competitive rates. 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, 2007, there were 70,550 public lines installed of which 6,799 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 2007 fell to 556 million minutes compared to 702 million minutes for the year 2006 and 844 million minutes for the year 2005. Domestic long-distance public-telephony traffic over the same period was 243 million minutes, 306 million minutes and 379 million minutes for 2007, 2006 and 2005, respectively. In contrast, international long-distance public-telephony traffic has experienced consistent increases reaching 64.0 million minutes during the year 2007, from 52.4 million minutes in the year 2006 and 44.5 million minutes in the year 2005 due to several promotions, used to generate increased demand.

Other National Telephone Services. Telecom Argentina provides dedicated lines 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, which are calculated per number of pulses used, according to the price of urban/interurban calls applicable to calls of that distance.

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

New Voice Products and Services. Throughout 2007, Telecom Argentina introduced new products and services in the market, in response to customer needs and in line with its goal to increase ARPU in its access lines. The new products and services include the new line of Aladino handsets, and the offering of value-added packages for voice. Additionally, Telecom Argentina was the first fixed operator in Argentina to provide customers with SMS from fixed and video-call phones.

Data Transmission Services. The data services business includes nationwide data transmission services, virtual private networks, symmetric Internet access, 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.

In response to market needs, Telecom Large Customers was created to serve as the integrated provider of convergence and ICT solutions. The new strategy is supported by the Data Center, a key component in this process, and by the creation of the Delivery Management Data Center and Value Added Services Support center. As a result of these efforts, we provide convergence solutions in which traditional voice and data services are bundled with Internet access, web, multimedia, ICT and Data Center services.

We have developed many successful partnerships with global IT leaders, allowing us to provide high-quality solutions. For example, we act as Positron's exclusive representative in Argentina for the provision of 911 services.

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.

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

| | 2007 | December 31, 2006 | 2005 |
|-------------|---------|----------------------|---------|
| ADSL (1) | 783,000 | 457,000 | 226,000 |
| Dial-Up (2) | 83,000 | 95,000 | 125,000 |

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

(2) Includes private virtual network services.

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

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The market for broadband has experienced significant growth in the years 2006 and 2007 throughout the country, increasing 68% and 60% respectively to reach approximately 2,504,000 connections at December 31, 2007.

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 exceeded the number of 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 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 28.7 % in December 2006 to 30.7% in December 2007.

Telecom also implemented a new product that enables small to medium-sized companies to increase adoption of broadband, offering Internet access at speeds of up to 20Mb. In June 2007, a new broadband product Arnet Free was introduced, targeted at non-intensive users. With this product launch, Telecom Argentina

became the first Internet provider to introduce a broadband offering with no fixed charge. In September 2007, Telecom Argentina doubled the bandwidth for customers in the Interior, leveling it with the rest of the portfolio nationwide while a new product portfolio, offering integrated access solutions and Value Added Services for the stores, SME and Corporate segments was launched.

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 5.9 billion minutes in 2005, to 4.0 billion minutes in 2006 and to 2.3 billion minutes in 2007 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.

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;
- 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

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are usually made on a net basis. Incoming traffic with carriers measured in minutes accounted for 605 million in year 2007, 578 million in year 2006 and 517 million in year 2005.

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), Latin American Nautilus (LAN), a company of the Telecom Italia Group, and other minor cables.

In order to meet the growth in our ADSL customer base, Telecom Argentina has acquired several Indefeasable Rights of Use (IRUs) on LAN s submarine cable, which connects Argentina with the U.S. (Miami) in a submarine fiber optic ring. These rights, which last for 15 years, allow the interconnection of the IP backbone of Telecom Argentina with IP Transit providers in the U.S.

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 customer identification of a particular prepaid card).

Throughout 2007, commercial and interconnection relationships were established with 22 new operators in the United States, Western and Eastern Europe and Asia, enabling us to compensate for natural operator turnover.

Rates

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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, 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;
- 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

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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 Resolution No. 4,269/99. In December 2007, the regulatory authority notified the Company of its intention to offset this amount with the Resolution No. 41/07 receivables. As a result, as of December 31, 2007, the Company recorded a reserve on the CNC final results, which was shown as a deduction from the Resolution No. 41/07 receivables.

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, 2007 | December 31, 2006 | December 31, 2005 | December 31, 2004 | December 31, 2003 |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 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 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 notified Telecom Argentina of the completion of the Price Cap 1998 audit which did not show a balance to be applied. In September 2007, the Regulatory Bodies finalized the 1999 Price Cap audit resulting in an amount payable by Telecom Argentina of P\$10.2 million, the calculation of which is currently being reviewed by the management of Telecom Argentina. Telecom Argentina intends to offset this balance with the credit resulting from SC Resolution No. 41/07. See Regulatory Framework Tax Stability: Social Security Contribution Variations.

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 telephone 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

- 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.

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 2000 Price Cap audit results are still pending. Should the determination result in an amount payable by Telecom Argentina, it will be offset with the Resolution No. 41/07 receivables.

In April 2001, the Argentina 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.

The Public Emergency Law 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. Average levels of promotional installation charges in 2007 were P\$69.

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.

Tax on deposits to and withdrawals from bank accounts (IDC). On February 6, 2003, the Ministry of Economy, through Resolution No. 72/03, defined the mechanism to allow, going forward, tariff increases on Basic telephone services reflecting the impact of the IDC. The amount of tax charged must be shown separately in customers' bills. Telecom Argentina has determined a remaining unrecovered amount of approximately P\$23 million that arose before the issuance of Resolution No. 72/03. Prior to the issuance of Resolution No. 41/07, Telecom Argentina planned to claim such amount within the tariff renegotiation process. See Regulatory Framework Letter of Understanding 2006. In April 2007, Telecom Argentina provided the CNC with supporting documentation on this amount for its audit. Telecom Argentina had access to documentation of the Regulatory Body's audits that corroborates the amounts claimed by Telecom Argentina and the application of a similar offsetting mechanism pursuant to Resolution N° 41/07. Therefore, Telecom Argentina recorded as Other receivables a total of P\$23 million.

Network and Equipment

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Telecom has continually prioritized network development, focusing on four fundamental pillars: range, capacity, quality and availability. Based on those premises, it has deployed more than 12,000 km of Fiber Optics, trying to reach the largest number of locations and customers, and has made progress in ensuring service availability, even in the most remote areas of the territory in which we operate.

Our unique Fiber Optic backbone is used by the Group's fixed, mobile and broadband services, and by third parties that lease our Internet access and transport capacity, including in many locations where no other company can provide such facilities.

Over the last two years, the introduction of DWDM (Dense Wavelength Division Multiplexing) has accelerated, leading to an increase in Fiber Optic transmission capacity. Additionally, in cases where we believe that future demand will be high, we have deployed SDH (Synchronous Digital Hierarchy) network rather than low-capacity PDH (Plesiochronous Digital Hierarchy) in order to increase future accessibility to broadband services.

Telecom is committed to maintaining and increasing the value of its network. To that end, it has conducted selective upgrades of the platforms that it believes will continue supporting both current and future services. It has accelerated the introduction of NGN-type customer lines, both replacing old generation equipment and meeting customer needs with new offerings. Additionally, it has increased broadband service capacity and coverage to address competitive offerings from other operators. It has also continued to develop its IP network and its interconnection with the main backbones of the U.S.

During 2007, there was significant new service activity, in terms of the variety and complexity of newly introduced services in the fixed telephony area. As regards 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. We have also commenced a planning process for introducing new technologies to facilitate the deployment of new advanced services.

Milestones for 2007 include:

New Generation Switching (NGN or Next Generation Networks): The Company continued the deployment of NGN customer lines based on IP technology (Class 5) at an accelerated pace, both as a replacement for existing TDM technology and for the development of new areas (such as gated neighborhoods and country clubs). During the year, more than 350,000 new lines based on IP technology were installed.

Transmission: Broadband services have been disruptive in transmission networks designed for telephony. The availability of Fiber Optics, combined with the early introduction of DWDM, have enabled us to address the challenge of meeting annual growth rates in excess of 50% with transmission requirements that are seven times higher than those of telephone customers. During the year, new DWDM tracks were installed and the new SDH ring speed was increased to STM64.

Metroethernet: Having exceeded a 90% coverage of technical buildings in Buenos Aires, Rosario and Córdoba, the project has been broadened, taking metro switch deployments to more than 18 cities, where the combination of NGN, mobile and broadband services so require it. This deployment, together with the capacity to transmit Ethernet traffic in the long-distance network, is critical for future network development.

Backbone IP: The upgrade of the main nodes in the network was completed. Additionally, a large-scale IP access node deployment plan was started to facilitate the connection of business customers and the IP migration of voice services. This, coupled with a four-fold increase of the inter-urban transmission capacity, made it possible to serve the broadband needs of our customers, and prepared us for future deployment of new IP services. Additionally, in coordination with other national operators, we created a backup of procedures and links that aims to provide partial disaster recovery of Internet traffic.

ADSL: The deployment of ADSL services pursued two main objectives: a) to ensure the availability of the number of ports needed to meet growing connection demand, and b) to ensure quality in our ADSL services. To that end, we continued with the deployment of DSLAM (Digital Subscriber Line Access Multiplexor) 100% IP, and a constant adjustment of the transmission capacity of existing and new equipment was undertaken, monitoring the increase in service speed and the launch of 20 Mbit service. All the ADSL ports on the switching site were ADSL2+. To meet current traffic demands, 12 new BRAS (ADSL session aggregators) were installed, representing more than double the stock installed in late 2006.

Access network: During the year, progress was made with respect to our objective to ensure that all operations executed on external plant use the shortest loop possible from the switch to the subscriber. This requires taking active elements outside the switch, and prepare the network for high speed and bandwidth-demanding services like IPTV.

Atmosphere/RDS: On the ATM (Asynchronous Transfer Mode) network, which mainly supports corporate services, the new software was rolled out on 40 CPE (Customer Personal Equipment) nodes of NewBridge technology. Additionally, as part of the network maintenance plan, 46 new nodes of this technology were installed.

New Services: Several new services became technically available during the year, and changes were introduced to existing services, including, among others, video-calls, SMS on the fixed network, ADSL Access Evolution (20Mb) and Fixed GSM (provision of fixed telephony services through mobile telephony infrastructure).

At the National Supervision Center, Telecom Argentina conducts its control on networks and services. In 2007, the physical integration of supervisory positions for all networks in a single integrated department was completed. The Center's infrastructure was modernized, with an overhaul of its facilities and IT equipment.

Wireless

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

Wireless Telecommunication Services in Argentina Telecom Personal

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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 55% of the population as of December 31, 2005 to approximately 76% and 96% as of December 31, 2006, and 2007, 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, GSM technology and 3G 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 S.A. 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 were initially 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 now provides nationwide service in the Southern Region of Argentina as well.

Telecom Personal's business is growing rapidly. From December 31, 2006 to December 31, 2007, its subscriber base in Argentina grew approximately 27%. As of December 31, 2007, Telecom Personal had approximately 10.67 million subscribers. At December 31, 2006, Telecom Personal had approximately 8.43 million subscribers and at December 31, 2005, Telecom Personal had approximately 6.15 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 2007, 2006 and 2005 were P\$5,339 million, P\$3,964 million and P\$2,576 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 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 approximately P\$39 per month for years 2007 and 2006.

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, 2007, Telecom Personal had approximately 10.67 million subscribers. Of these, approximately 7.06 million were prepaid subscribers, representing 66.2% of Telecom Personal's total customer base, approximately 1.13 million were post-paid subscribers, representing 10.6% of Telecom Personal's total customer base and approximately 2.47 million were *cuentas claras* plan subscribers, representing 23.2% 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 and drugstores 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.

As of December 31, 2007, Telecom Personal's prepaid subscribers accounted for 66.2% of its total customer base, post-paid subscribers represented 10.6% of Telecom Personal's total customer base and *cuentas claras* plan subscribers represented the remaining 23.2% of Telecom Personal's total customer base. From December 31, 2006 to December 31, 2007, the percentage of prepaid and post-paid subscribers out of Telecom Personal's total customer base increased while the percentage of *cuentas claras* plan subscribers decreased. 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%.

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

| | 2007 | As of December 31, 2006 | 2005 |
|--------------------------|------------|----------------------------|-----------|
| Cellular subscribers:(1) | | | |
| Prepaid | 7,062,000 | 5,539,000 | 4,038,000 |
| Post-paid | 1,134,000 | 759,000 | 546,000 |
| Cuentas Claras | 2,470,000 | 2,127,000 | 1,566,000 |
| Total | 10,666,000 | 8,425,000 | 6,150,000 |

(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.

Network and Equipment

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Personal currently provides digital mobile telephony services throughout the country, with service quality indicators comparable to those of world-class operators. Personal's network structure consists of a wireless access segment, a call switching and routing core, and several Value Added Services platforms.

In recent years, Value Added Services such as text messaging, multimedia messaging and improvements in data connectivity, have become increasingly relevant. New services are being developed and implemented every year: Blackberry (mobile e-mail), Ring Back Tones, mobile intranet (wireless access to the corporate network), and services provided by the 3G network, such as wireless broadband data connectivity, video calls, and the possibility of downloading and playing music and video clips.

Currently, such services are provided throughout Argentina, through a network of more than 2,200 points of coverage. Access technologies now supported range from the analog to the digital standard with the highest worldwide penetration: GSM.

The new GSM network infrastructure, known as 3G, provides a substantial increase in voice and data traffic capacity, higher speed and flexibility for introducing new services.

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 mobile services equipment is part of the Fixed-Mobile Convergence initiative undertaken by the Telecom Group.

The Value Added Services network is made up of a set of specialized servers and nodes, interconnected by a data network that is in constant development to enable the implementation of new services.

A major challenge during 2007 was the extension of the GSM network and its continued evolution to 3G, which will continue to consolidate in the next fiscal year.

Year-to-year growth in terms of GSM customer base and traffic was possible through the migration to distributed architecture, with no need for an increase in switches. In 2007, implementation of distributed

architecture continued, reaching fourteen switching points. Additionally, the total number of radio transmitters in service on the GSM network increased from 15,800 to approximately 21,500. Finally, three new nodes were installed to manage the GSM customer database, totaling eight nodes.

The circuit switching, signaling and package network was upgraded both in terms of hardware and software. In 2007, we migrated 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 70% increase in the number of base stations. Coverage in the Northern region was reinforced through the addition of 140 new transmission points.

In Buenos Aires city and Greater Buenos Aires, we improved service quality for residential customers through the deployment of GSM in a new, broader range frequency band (850 MHz).

With respect to Value Added Services, the Intelligent Network (*Red Inteligente*) migration was completed. Previously operated by a supplier, it has now been implemented internally with next generation equipment, enabling the provision of innovative services for the business and corporate segments, and effectively controlling node operation.

Interoperability with the rest of Argentine mobile carriers has enhanced the functions of the multimedia messaging service and has triggered the launch of offerings that use this functionality, such as photo albums and the transmission of news content. The introduction of the latest generation platform has enabled us to provide such enhanced services.

Finally, the launch of GPS or location-based services, allows customers to access general information on their location.

Wireless Telecommunications Services in Paraguay Núcleo

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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, 2007, Núcleo had an approximate 38% share of the cellular services market in Paraguay, with approximately 1,626,000 customers, an increase of approximately 462,000 customers, or approximately 39.7%, from December 31, 2006. 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. Núcleo had 651,000 customers as of December 31, 2005. For the year ended December 31, 2007, Núcleo had net sales of P\$433 million. 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.

The wireless service market in Paraguay continued experiencing a significant level of competition in 2007, one marked by price reductions, marketing promotions and launches of new products and services. In February 2007, Núcleo introduced per second billing in its calls. Currently, all mobile operators have implemented this tariff system.

With respect to commercial strategy, Núcleo increased efforts in the segmentation of plan and service offerings, and in the diversification of Value Added Services and products, initiatives supported by major promotion and advertising campaigns to consolidate the brand and strengthen its name recognition and market share.

During 2007, Núcleo completed the major commercial restructuring initiated in 2006 in its corporate segment, in which customers demand high-technology services, personalized care and customized solutions. The restructuring

entailed a segmentation of the commercial structure into large accounts, SME and government. This process enabled Núcleo to leverage the business sector and resulted in a year of growth.

Among the services and products launched in 2007 for the residential segment, emphasis was placed on the Value Added Services market. Offerings were tailored to customer segments and young subscribers were prominently targeted with the Personal Manía program. In 2007, Maxicarga the program aimed at facilitating the refilling of prepaid airtime minutes and increasing the number of locations for such refilling, was consolidated. In December 2007, it represented 60% of Núcleo's prepaid credit sales. Additionally, international roaming service coverage was extended to the main destinations around the world, as a result of the development efforts made in previous years. In the business sector, efforts were geared to achieving higher competitiveness in Núcleo's offerings, introducing value-added products to enhance Núcleo's reputation for quality.

With respect to customer service, ISO quality certification was revalidated for the second year in a row. During 2007, a new Contact Center platform was implemented to support the new segmentation and self-service model. Additionally, new communication channels were introduced, the most innovative of which is SMS-based customer service.

The customer retention and loyalty strategy in 2007 was organized along two lines of action: promotions and Club Personal, with the aim of establishing a competitive edge in the market. In 2007, Club Personal, in line with Núcleo's strategy, continued to introduce unprecedented promotions, prizes and discounts to the market.

With respect to network infrastructure, 2007, like 2006, was characterized by the extension of GSM network capacity needed to provide the growing customer base with the quality standards required to achieve a competitive edge. Coverage continues to be a competitive advantage, and in 2007 the network was extended to new areas of inner Paraguay. Currently, Núcleo provides coverage for approximately 85% of the Paraguayan population. As regards transmission, the SDH network was completed in the region located between Asunción, Ciudad del Este and Encarnación, securing traffic from the main towns in the interior. Additionally, Personal implemented the New Generation core network called Layered Architecture / Mobile Softswitch.

Núcleo's internet business consolidated in 2007. The service, with Wimax technology capability, enabled major progress in data transmission. Núcleo's commitment in this area to make Internet access available to all through affordable pricing- allowed the Hipuu! brand to achieve major acceptance and solid market positioning, evidenced by significant growth in the number of subscribers.

Directory Publishing Publicom

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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 Sale of equity interest in Publicom Discontinued operations in Note 12 to the Consolidated Financial Statements for more detail.

Description of the Operator

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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, 2007, the Telecom Italia Group was one of the world's largest wireline operators, with approximately 22.1 million fixed network connections in Italy. In addition, the Telecom Italia Group was the leading mobile operator in Italy, with 36.3 million mobile telephone lines in Italy at December 31, 2007. As of the

same date, the Telecom Italia Group had 31.3 million mobile telephone lines in Brazil. It has significantly expanded into broadband in recent years and, at December 31, 2007, it had 11.1 million broadband points of access, of which 7.6 million were in Italy and 3.5 million were elsewhere in Europe (France, Germany and The Netherlands).

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

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 (commercially known as Global Crossing), Claro, 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 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 (which was recently acquired by Telmex) and Cablevisión (Fibertel), among others. Our data services business faces competition from Telefónica, Comsat, Grupo Telmex Argentina, and from several providers of niche data services such as Impsat, 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, Telefónica Móviles and América Móvil. Nextel offers trunking telephony services in Buenos Aires and selected cities in the interior in addition to offering wireless telecommunication services.

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 assignation (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 decreases its spectrum holdings to the permitted level in accordance with a schedule culminating at year-end 2008.

América Móvil which operates in Argentina under the trade name Claro (formerly 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). Claro 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 Claro and has since made significant investments in the modernization of Claro's technology.

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

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

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, 2007, Núcleo had approximately 1.6 million subscribers, Telefónica Celular del Paraguay S.A. (a Millicom International Cellular subsidiary) had approximately 2.0 million subscribers, Hola Paraguay S.A. had approximately 0.2 million subscribers and América Móvil (under the brandname Claro) had approximately 0.5 million subscribers. Official statistics are not published in Paraguay and therefore this subscriber information is estimated.

As of December 31, 2007, Núcleo had the capability to provide GSM technology to 85% of the Paraguayan population and believes that this wide coverage capability proved to be one of its principal competitive advantages.

REGULATORY FRAMEWORK

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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;
- SC Resolution 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;
- SC Resolution 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;

- SC Resolution 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;
- 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;
- SC Resolution No. 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 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);
- SC Resolution No. 242/06, establishing the regulation of prepaid calling cards;
- SC Resolution No. 41/07, addressing 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 therefrom; and
- Decree No. 558/08, replacing the relevant section of Decree No. 764/00 regarding mechanics of the Universal Service.

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.

Núcleo, Personal's Paraguayan controlled company, is supervised by the Comisión Nacional de Telecomunicaciones de Paraguay, the National Communications Commission of Paraguay (CONATEL). Telecom Argentina USA, Telecom's subsidiary, is supervised by the Federal Communications Commission (FCC).

Decree No. 92/97

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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 telephone 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.

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 Tectel (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, 2007, Telecom Argentina had installed 7,661 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

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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.

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 Fiduciary Fund, which as of the date of this Annual Report has not yet been created. 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 Fiduciary 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 Fiduciary Fund, although it establishes a mechanism for exemption from contribution for Basic telephone service licensees, which combines loss of revenues and market share.

As of the date of this Annual Report, the regulatory authority has not yet implemented the Universal Service Fiduciary Fund, and the approval of the initial Universal Service programs to be subsidized is also pending.

On June 8, 2007, the SC issued Resolution No. 80/07 which stipulates that until the Universal Service Fiduciary Fund is implemented, telecommunication service providers, such as Telecom Argentina and Personal, are required to deposit any contributions accrued since the issuance of such Resolution into the special individual account held in their name at Banco Nación. CNC Resolution No. 2,713/07, issued in August 2007, established how these contributions are to be calculated. See "New Universal Service Regulation" below for information on new developments in the implementation of the Universal Service Fiduciary Fund.

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 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 several years from the opening of the market and the coming into effect of the first Universal Service 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, since the regulatory authority has not issued any rules or regulations with regard to the Universal Service mechanics in general and the trust fund in particular, no contributions have been made to said fund. In compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713 /07, Telecom Argentina has estimated a receivable of P\$140 million for the period July 2007 - December 2007 and filed the calculations for review by the regulatory authority. This receivable has not yet been recorded since it is subject to the review of the regulatory authority and the availability of funds in the Universal

Service Trust. Such receivable arose due to Telecom Argentina's obligation to provide telecommunication services in areas which are unprofitable.

On April 4, 2008 Decree No. 558/08 was issued. Such Decree replaces the relevant section of Decree No. 764/00 regarding mechanics of the Universal Service. The management of Telecom Argentina has started to analyze the impact of this new regulation, which is still subject to further specifications to be issued by the SC. See "New Universal Service Regulation" below.

In Personal

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the Universal Service Fiduciary Fund. As of December 31, 2007, this provision amounted to P\$97 million. Personal, like the other wireless providers, is currently awaiting the establishment of the Universal Service Fiduciary Fund. Meanwhile, the telecommunication service providers were required under SC Resolution No. 80/07 issued on June 8, 2007, to deposit into an owned bank account the corresponding contribution beginning from July 2007.

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 Fiduciary 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 Fiduciary 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 Fiduciary 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 Fiduciary Fund amounts to customers, reimburse all collected Universal Service Fiduciary 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 Fiduciary Fund amounts billed to post-paid customers from January 1, 2001 through June 28, 2005, the date on which Personal ceased billing Universal Service Fiduciary 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 Fiduciary 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.

In compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713/07, Personal has determined an account payable of P\$14 million for the period July 2007 - December 2007. Personal has recorded a liability because it has discretion whether to invest or not in the non profitable areas. Accordingly, the pay or play mechanism requires Personal to pay a fee in lieu of investing in those areas.

As of December 31, 2007, Personal had duly deposited such contributions (amounting to P\$9 million) in the special individual account held in their name at Banco Nación, and they have been recorded as a receivable in the line item Other receivables of the consolidated balance sheets.

The management of Personal has started to analyze the impact of Decree No. 558/08, which was issued on April 4, 2008, and is still subject to further specifications to be issued by the SC. See New Universal Service Regulation below.

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 telephone 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

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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 mobile, 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

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;

- 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

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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 provinces of Argentina. This agreement was implemented by several SC Resolutions (Resolutions N° 261, 272 and 273).

Letter of Understanding 2006

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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 will provide the framework for the signing of the *Acta Acuerdo de Renegociación del Contrato de Transferencia de Acciones* or Minutes of Agreement of the Renegotiation of the Transfer Agreement (the Minutes of Agreement of the Renegotiation) approved by Decree No. 2,332/90, as stated in Section 9 of the Public Emergency Law.

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;
- 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 will provide the framework for the signing of the Minutes of Agreement of the Renegotiation. These Minutes of Agreement of the 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.

During 2007, the regulatory authority made progress on resolving certain pending items, such as the completion of certain Price Cap audits, and the issuance of resolutions addressing the treatment of the impact of changes in Social Security contributions during the past several years and the treatment of the amounts of Tax on deposits and withdrawals from bank accounts accrued before the issuance of Resolution No. 72/03.

As of the date of this Annual Report, Telecom Argentina continues to await completion of the administrative steps required for the National Executive to 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 the outcome or the timing of the resolution of the negotiations.

Buy Argentine Act

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In December 2001, the Argentine Government passed Public Law No. 25,551 (the *Compre Trabajo Argentino* or Buy Argentine Act), and in August 2002, Decree No. 1,600/02 approved and brought such Act into effect.

The Act requires Telecom Argentina to give preference to national goods and services, as defined in Public Laws No. 25,551 and No. 18,875, in any procurement related to the rendering of public telephone services. Preference must be given to national goods and services so long as the price of such goods is equal to or lesser than the price of a foreign good (including customs duties, taxes and other expenses that are linked to the nationality of goods) increased by 7% (when the Argentine offeror is a small or medium size company) or 5% (when the Argentine offeror is any other company).

The Buy Argentine Act also mandates that Telecom Argentina publish any bid for services in the Official Bulletin in order to provide any and all prospective offerors with the information necessary for them to participate. This mandatory publication requires considerable lead-time prior to the issuance of the purchase order and has had

the result of extending the period needed to complete certain purchases. Non-compliance with the Act is subject to criminal sanctions.

Public Law No. 18,875 establishes the obligation to exclusively contract services, as defined in such law, with local companies and professionals. Any exception must receive the prior approval of the relevant Ministry.

In August 2004, CNC Resolution No. 2,350/04 enacted the Procedure for the fulfillment of the Buy Argentine Act, which requires Telecom Argentina to present half-year affidavits addressing the fulfillment of these rules. Non-compliance with this obligation is subject to administrative sanctions.

This regulation, thus, reduces the operating flexibility of Telecom Argentina due to the time required to request bids for services and/or to obtain an approval of the relevant authority when necessary, and the higher administrative expenses derived from the obligation to present half-year affidavits.

Regulation of Prepaid Calling Cards

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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.

CNC Resolution No. 1/07 approved the operation of the Telecommunications Prepaid Calling Cards Registry and established that said Registry will report to the Engineering Department of the CNC. In July 2007, by means of Resolution No. 2,275/07 all prepaid calling cards issued by Telecom Argentina and Telecom Personal were registered.

Tax Stability: Social Security Contribution Variations

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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 may 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 No. 41/07 is subject to tax audits by the regulatory authority. During the third quarter of 2007, the CNC performed its audits. Telecom Argentina had access to documentation of the regulatory authority's audits, which resulted in no significant differences from the net amounts it had determined.

At December 31, 2007, Telecom Argentina identified a receivable of approximately P\$91 million and a payable from the argentina@internet.todos Program of P\$23 million. As provided by Resolution No. 41/07, Telecom Argentina offset both amounts, resulting in a net receivable of P\$68 million. Additionally, on September 19, 2007, the regulatory authority authorized Telecom Argentina to offset fines amounting to P\$1.6 million with the net receivable as of that date, affirming the effectiveness of the offsetting mechanism provided by Resolution No. 41/07.

Therefore, at December 31, 2007, Telecom Argentina has a net receivable of P\$66 million, recorded as Other receivables (P\$12 million as current receivables and P\$54 million as non-current receivables). The net effect of the application of the Resolution was a pretax gain of P\$87 million (P\$18 million in Salaries and social security and P\$69 million in Other expenses, net, as recorded in the consolidated statement of income).

Since the Resolution allows Telecom Argentina to offset the receivables with existing and/or future regulatory duties and the intention of Telecom Argentina is to exercise its offsetting rights, the receivable was recorded net of provisions that were previously shown in Contingencies.

Public telephony in penal institutions

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In June 2006, Decree No 690/06 was issued, granting the SC with authority to adopt regulations applicable to public telephony services rendered in penal institutions. In August 2007, the SC issued Resolution No. 155/07, where it approves the Regulation for Communications that are initiated in Penal Institutions, establishing technical requirements for the system and the telephone lines installed in penal institutions, so that all communications carried out are registered.

Such Regulation shall be in effect in the term of one year, which may be extended to a similar period, counting as from sixty days from the date in which the technical definitions the CNC must issue are actually available.

At the date of issuance of this Annual Report, the Company is evaluating the technical and economic impacts resulting from complying with this new rule.

Rendering of fixed telephony through mobile telephony infrastructure

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In August 2007, by means of Resolution No. 151/07, fixed telephony was granted access to particular frequency bands, with the purpose of enabling Basic telephone services to be rendered through the wireless infrastructure used for the provision of mobile telephony service in rural and suburban areas. Telecom Argentina and Telefónica will provide such service within their respective fixed telephony service regions.

During the last quarter of 2007, Telecom Argentina has installed fixed lines based on the new fixed wireless technology in order to render such service.

New Universal Service Regulation

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Decree No. 558/08, published on April 4, 2008, recently caused certain changes to the Universal Service regime.

Decree No. 558/08 establishes that, with respect to obligations originated under Decree No. 764/00, the SC will assess the value of those that were complied with, and the level of funding from the Universal Service Fiduciary Fund for those that are still pending. Likewise, the SC could choose to consider as Universal Service other undertakings which are carried out by the telecommunication services providers, and provide for their compensation so as to guarantee their continuity.

In defining Universal Service, the new regulation establishes two categories: a) areas with uncovered or unsatisfied needs; and b) customer groups with unsatisfied needs. It also determines that the SC will have exclusive responsibility for the issuance of general and specific resolutions regarding the new regulation, as well as for interpreting and applying it.

The Decree requires Telecom Argentina and Telefónica to extend the coverage of their fixed line networks, within their respective original region of activity, within 60 months from the effective date of publication of the Decree. The SC will determine on a case by case basis if the providers will be compensated with funds from the Universal Service Fiduciary Fund.

The Decree also requires telecommunications service providers to propose, within 60 days from its effective date of publication, a procedure to select a fiduciary institution and to provide a fiduciary agreement proposal, both subject to the SC approval.

The level of financing of Universal Service programs which were established under the previous regulation and are still ongoing will be determined by the SC, whereas telecommunications providers appointed to participate in future Universal Service programs will be selected by competitive bidding.

The Decree requires telecommunications service providers to contribute 1% of their revenues (from telecommunications services, net of taxes) to the Universal Service Fiduciary Fund and keeps the pay or play mechanism for compliance with the mandatory contribution to the Universal Service Fiduciary Fund.

Decree No. 558/08 also mandates the creation of the Universal Service Fiduciary Fund and orders that it must be established within 180 days from the date of publication. The providers of telecommunications services shall act in their capacity as trustors in this trust, which shall rely on the assistance of a Technical Committee made up by seven members (two members shall be appointed by the SC, one member shall be appointed by the CNC, three members shall be appointed by the telecommunication services providers – two of which shall be appointed by Telecom Argentina and Telefónica and one by the rest of the providers – and another member to be appointed by cooperative operators). This Technical Committee will be informed by the SC of the programs to be financed and will be entrusted with administrating and controlling the Universal Service Fiduciary Fund, carrying out technical-economic evaluations of existing projects and supervising the process of competitive bidding and adjudication of new Universal Services programs, with the prior approval of the SC.

At the date of issuance of this Annual Report, the management of Telecom Argentina and Personal have started to analyze the impact of this new regulation, which is still subject to further specifications to be issued by the SC.

Penalties for Non-Compliance

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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.

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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.

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.

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

Law No. 25,891. Law No. 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

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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.

CAPITAL EXPENDITURES

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Capital expenditures (investment in fixed assets and intangible assets excluding materials (net of amounts transferred to fixed assets) and asset retirement obligations) amounted to P\$1,302 million in the year ended December 31, 2007, P\$1,055 million in the year ended December 31, 2006 and P\$572 million in the year ended December 31, 2005.

The following table sets forth our actual consolidated capital expenditures for the years ended December 31, 2007, 2006 and 2005.

| | 2007 | Year ended December 31, 2006 (P\$ millions)(1) | 2005 |
|---|--------------|--|------------|
| Land and buildings | 68 | 42 | 25 |
| Switching and transmission | 416 | 382 | 105 |
| Access and outside plant | 277 | 285 | 273 |
| Computer equipment | 397 | 207 | 110 |
| Rights of use and exclusivity agreements | 27 | 52 | 19 |
| Other | 117 | 87 | 40 |
| Subtotal capital expenditures(2)(3) | 1,302 | 1,055 | 572 |
| Materials | 139 | 170 | 56 |
| Asset retirement obligations | 2 | 3 | 8 |
| Total fixed assets and intangible assets capital expenditure | 1,443 | 1,228 | 636 |

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

(2) Includes capitalized interest on fixed assets of P\$23 million, P\$14 million and P\$6 million as of December 31, 2007, 2006 and 2005, respectively.

(3) Includes materials consumption amounting to P\$381 million, P\$334 million and P\$191 million as of December 31, 2007, 2006 and 2005, respectively.

In addition, the following table shows capital expenditures, for the years ended December 31, 2007, 2006 and 2005 by reportable segment:

| | 2007 | Year ended December 31, 2006 (P\$ millions) | 2005 |
|--|------------|---|------------|
| <u>Voice, Data and Internet</u> | | | |
| Land and buildings | 20 | 16 | 7 |
| Switching and transmission | 267 | 170 | 64 |
| Access and outside plant | 131 | 106 | 91 |
| Computer equipment | 162 | 112 | 73 |
| Rights of use and exclusivity agreements | 27 | 52 | 19 |
| Other | 82 | 37 | 25 |
| Subtotal | 689 | 493 | 279 |
| Materials | 110 | 99 | 41 |
| Asset retirement obligations | 1 | 1 | 1 |
| Voice, Data and Internet | 799 | 593 | 321 |

Wireless

| | | | |
|---|--------------|--------------|------------|
| Land and buildings | 48 | 26 | 18 |
| Switching and transmission | 149 | 212 | 41 |
| Access and outside plant | 146 | 179 | 182 |
| Computer equipment | 235 | 95 | 37 |
| Other | 35 | 50 | 15 |
| Subtotal | 613 | 562 | 293 |
| Materials | 29 | 71 | 15 |
| Asset retirement obligations | 2 | 2 | 7 |
| Wireless | 644 | 635 | 315 |
| Total fixed assets and intangible assets capital expenditure | 1,443 | 1,228 | 636 |

During 2007, capital expenditures in the Voice, Data and Internet reportable segment were targeted mainly at the enhancement of broadband for local, regional and national long-distance transmission, aimed at extending our customer base and the installed capacity for the provision of Internet and new generation services, and supporting the expansion of the wireless network in the Southern Region.

With respect to the Wireless reportable segment, capital expenditures have been deployed to address the increase in traffic, which has been fueled by the addition of new customers in the Southern Region, the AMBA and the Northern Region. Additionally, new technology platforms were added and existing ones extended.

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 regulatory, 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\$1.6 - P\$1.7 billion for 2008. 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 to ensure the fulfillment of regulatory services and continue to be competitive in the provision of non-regulated services and to position ourselves for increasing competition by offering new services at competitive prices, satisfying demand in our service area, taking advantage of leading 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, and expand our GSM network to the southern area of Argentina to support our commercial plan to increase market share in that area.

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

PROPERTY, PLANT AND EQUIPMENT

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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, 2007 | | |
|--|-----------------------------|-------------------------------|--------------|
| | Voice, Data and Internet | Wireless (P\$ millions)(*) | Total |
| Land and buildings | 777 | 122 | 899 |
| Switching and transmission | 1,104 | 595 | 1,699 |
| Access and outside plant | 1,527 | 467 | 1,994 |
| Computer equipment | 336 | 480 | 816 |
| Other | 73 | 56 | 129 |
| Fixed assets, net carrying value without materials and asset retirement obligations | 3,817 | 1,720 | 5,537 |
| Asset retirement obligations | | 6 | 6 |
| Materials | 110 | 85 | 195 |
| Total fixed assets, net carrying value | 3,927 | 1,811 | 5,738 |

(*) 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.

| | 2007 | 2006 (thousands) | 2005 |
|---------------------------|-------|---------------------|-------|
| Fixed telephony customers | 3,849 | 3,750 | 3,625 |
| Internet (*) | 873 | 552 | 351 |