TELECOM ARGENTINA SA
Form 20-F
April 15, 2013
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As filed with the Securities and Exchange Commission on April 15, 2013.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2012**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**
	OR
o	**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 . . . .

For the transition period from to

Commission file number: 1-13464

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

Republic of Argentina
(Jurisdiction of incorporation or organization)

Alicia Moreau de Justo 50

(C1107AAB) - Buenos Aires

Argentina
(Address of principal executive offices)

Pedro Insussarry

(Tel: 54-11-4968-3743, Fax: 54-11-4968-3616, E-mail: pinsussa@ta.telecom.com.ar,

Alicia Moreau de Justo 50, 10th Floor, (C1107AAB), Buenos Aires, Argentina)
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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	New York Stock Exchange
Class B Ordinary Shares, nominal value P$1.00 per share	New York Stock Exchange*

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

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

None

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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	481,975,958
Class C Ordinary Shares, nominal value P$1.00 each	370,721

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o 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.

o Yes x 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.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o 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 x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

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PRESENTATION OF FINANCIAL INFORMATION

Telecom Argentina S.A. is a company incorporated under the laws of Argentina. As used in this Annual Report on Form 20-F (the Form 20-F or Annual Report), the terms the Company, Telecom, Telecom Group, we, us, and our refer to Telecom Argentina S.A. and its consolidat subsidiaries as of December 31, 2012. Unless otherwise stated, references to the financial results of Telecom are to the consolidated financial results of Telecom Argentina and its consolidated subsidiaries. The Telecom Group is engaged in the provision of fixed and mobile telecommunications services.

The term Telecom Argentina refers to Telecom Argentina S.A. excluding its subsidiaries, as of December 31, 2012, Telecom Personal S.A., Núcleo S.A., Springville S.A., Telecom Argentina USA, Inc. and Micro Sistemas S.A. Telecom Argentina is engaged in the provision of fixed telecommunication services in Argentina. The terms Telecom Personal or Personal refer to Telecom Personal S.A., our subsidiary engaged in the provision of mobile telecommunication services in Argentina. The term Núcleo refers to Núcleo S.A., Personal s consolidated subsidiary engaged in the provision of mobile telecommunication services in Paraguay.

Our Consolidated Financial Statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010, and the notes thereto (the Consolidated Financial Statements) are set forth on pages F-1 through F-66 of this Annual Report.

Our Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and have been approved by resolution of the Board of Directors meeting held on February 27, 2013.

Our Consolidated Financial Statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010, as included in this report, have been audited by our independent registered public accounting firm.

Telecom Argentina and our Argentine subsidiaries maintain their accounting records and prepare their financial statements in Argentine Pesos, which is their functional currency. Our subsidiaries Núcleo, Telecom USA and Springville, however, maintain their accounting records and prepare their financial statements in Guaraníes, U.S. dollars and Uruguayan pesos, respectively. Our Consolidated Financial Statements include the results of these subsidiaries translated into Argentine Pesos. Assets and liabilities are translated at year-end exchange rates and revenue and expense accounts at average exchange rates for the year.

Certain financial information contained in this Annual Report has been presented in U.S. dollars. This Annual Report contains translations of various Argentine Peso amounts into U.S. dollars at specified rates solely for convenience of the reader. You should not construe these translations as representations by us that the Argentine Peso amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Except as otherwise specified, all references to US$, U.S. dollars or dollars are to United States dollars and references to P$, Argentine Pesos or pesos are to Argentine Pesos. Unless otherwise indicated, we have translated the Argentine Peso amounts using a rate of P$4.918 = US$1.00, the U.S. dollar ask rate published by the Banco de la Nación Argentina (Argentine National Bank) on December 31, 2012. On April 12, 2013, the exchange rate was P$5.15 = US$1.00.

For the purpose of this Annual Report, billion means a thousand million.

Certain amounts and ratios contained in this Annual Report (including percentage amounts) have been rounded up or down 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 and other websites referred to herein are not part of this Annual Report.

This Annual Report contains certain terms that may be unfamiliar to some readers. You can find a glossary of these terms on page 3 of this Annual Report.

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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:

- our expectations for our future performance, revenues, income, earnings per share, capital expenditures, dividends, liquidity and capital structure;
- the implementation of our business strategy;
- the discussion of the changing dynamics and growth in the telecommunications market;
- our outlook for new and enhanced technologies;
- the effects of operating in a competitive environment;
- industry conditions;
- the outcome of certain legal proceedings;
- the impact of the emergency laws and subsequent related laws enacted by the Argentine government;
- regulatory and legal developments; and
- other factors identified or discussed under Item 3 Key Information Risk Factors.

This Annual Report contains certain forward-looking statements and information relating to the Telecom Group that are based on current expectations, estimates and projections of our Management and information currently available to the Telecom Group. These statements include, but are not limited to, statements made in Item 3 Key Information Risk Factors, Item 5 Operating and Financial Review and Prospects under the captions Critical Accounting Policies and Trend Information, Item 8 Financial Information Legal Proceedings 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, will and should and other similar expressions are generally intended to identify forward-looking statements.

These statements reflect the current views of the Management of Telecom Argentina S.A. (the Company) 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 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:

- our ability to successfully implement our business strategy;
- our ability to introduce new products and services that enable business growth;
- 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 final results of the contract renegotiation process with the Argentine government regarding the adjustment to our regulated rates in the fixed services;

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- the creditworthiness of our actual or potential customers;
- nationalization, expropriation and/or increased government intervention in companies;
- technological changes;
- the lack of additional mobile frequency bands;
- the impact of legal or regulatory matters, changes in the interpretation of current or future regulations or reform and changes in the legal or regulatory environment in which we operate; and
- the effects of increased competition.

Many of these factors are macroeconomic in nature and therefore beyond the control of the Company s Management. Should one or more of these risks or uncertainties materialize, or underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. The Company 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 our actual results, performance or achievements to differ materially from our future results, performance or achievements expressed or implied by such forward-looking statements. Readers are encouraged to consult the Company s filings made on Form 6-K, which are periodically filed with or furnished to the United States Securities and Exchange Commission.

GLOSSARY OF TERMS

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

2G (second-generation mobile system): Second-generation protocols using digital encoding and including GSM, D-AMPS (TDMA) and CDMA. These protocols support high bit rate voice and limited data communications. 2G networks technology offers auxiliary services such as data, fax and SMS. Most 2G protocols offer different levels of encryption.

3G (third-generation mobile system): Third-generation mobile service, designed to provide high speed data, always-on data access, and greater voice capacity. 3G networks allow the transfer of both voice data services (telephony, messaging) and non-voice data (such as downloading Internet information, exchanging email, and instant messaging). The high data speeds, measured in Mbps, are significantly higher than 2G, and 3G networks technology enable full motion video, high-speed Internet access and video-conferencing. 3G technology standards include UMTS, based on WCDMA technology (quite often the two terms are used interchangeably), and CDMA2000.

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

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.

ADS: Telecom Argentina s American Depositary Share, listed on the New York Stock Exchange, each representing 5 Class B Shares.

ADSL (Asymmetric Digital Subscriber Line): A type of digital subscriber line technology (DSL); a data communications technology that enables faster data transmission over copper lines than a conventional voiceband modem can provide.

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

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AFJP (Administradoras de Fondos de Jubilaciones y Pensiones): Private entities that were in charge of managing the funds of the Private Pension and Retirement System established by Law No. 24,241, until its nationalization in November 2008 pursuant to Law No. 26,425.

AMBA (Area Metropolitana 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 that is not digital, e.g., the representation of voice, video or other not in digital form.

ANSES: The Argentine administrator of social security pension and retirement benefits.

Argentina: Republic of Argentina.

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

Argentine GAAP: Generally Accepted Accounting Principles in Argentina, which we used before the adoption of IFRS.

ARBU (Average Revenue Billed per User): Calculated by dividing total monthly basic charges and traffic revenue excluding public telephony revenue by weighted-average number of fixed lines in service during the period.

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

ATM (Asynchronous Transfer Mode): A Broadband switching technology that permits the use of one network for different kinds of information (e.g., voice, data and video).

Backbone: Portion of telecommunication network with the highest traffic intensity and from which the connections for services in the local areas depart.

Basic telephone services: The supply of fixed telecommunications links that 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).

BCBA (Bolsa de Comercio de Buenos Aires): The Buenos Aires Stock Exchange.

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

Broadband services or Broadband: Services characterized by a transmission speed of 2 Mbps or more. These services include interactive services such as videotelephone/videoconferencing (both point-to-point and multipoint); videomonitoring; interconnection of local networks; file transfer; high-speed fax; e-mail for moving images or mixed documents; Broadband videotex; video on demand and retrieval of sound programs or fixed and moving images.

Broadcast: Simultaneous transmission of information to all nodes and terminal equipment of a network.

Carrier: Company that makes available the physical telecommunication network.

CAT: Compañía Argentina de Teléfonos S.A.

CDMA (Code Division Multiple Accesses): A digital wireless technology used in radio communication for transmission between a mobile handset and a radio base station. It enables the simultaneous transmission and reception of several messages, each of which has a coded identity to distinguish it from the other messages.

Cell: Geographical portion of the territory covered by a BTS: 850 MHz/1900 MHz.

Cellular: A technique used in mobile radio technology to use the same spectrum of frequencies in one network multiple times. Low power radio transmitters are used to cover a cell (i.e., a limited area) so that the frequencies in use can be reused without interference for other parts of the network.

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Channel: The portion of a communications system that connects a source to one or more destinations. Also called circuit, line, link or path.

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

CNDC (Comisión Nacional de Defensa de la Competencia): Argentine Antitrust Commission.

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

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 from 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 mobile handset rather than the mobile subscriber pays for the air time charges for the call.

D-AMPS (Digital-Advanced Mobile Phone Service): It is a digital version of AMPS (Advanced Mobile Phone Service), the original analog standard for mobile telephone service in the United States.

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 are rapidly replacing the older analog ones. 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.

DWDM (Dense Wavelength Division Multiplexing): Technology for multiplying and transmitting different wavelengths along a single optical fiber contemporaneously.

EDGE (Enhanced Data for GSM Evolution): Technology that increases the data transmission rate of the GPRS standard.

ENTel (Empresa Nacional de Telecomunicaciones): National Telecommunications Company which operated the telecommunications system in Argentina prior to the Transfer Date.

FCR: France Cables et Radio S.A.

France Telecom Group: FCR and Atlas Services Belgium S.A., collectively.

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 that 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.

Flat rate: The rate applied by providers to users accessing the internet. It is usually a fixed monthly rate for a subscription to a specific Internet Service Provider, aside from the number of connection hours to the internet.

Frame Relay: A data transmission service using fast protocols based on direct use of transmission lines.

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

*FTT Home, FTT Curb, FTT (Fiber to the)*It is the term used to indicate any network architecture that uses fiber optic cables in partial or total substitution of traditional copper cables used in telecommunications networks. The various technological solutions differ in the point of the distribution network where the fiber connection is made, with respect to the end-user s location. In the case of FTT Curb (Fiber to the Curb or Fiber to the Cabinet), the fiber connection reaches the equipment (distribution cabinet) located on the pavement, from where copper

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connections are run to the customer; in the case of FTT Home (Fiber to the Home), the fiber connection terminates inside the customer premises.

GDP: Gross Domestic Product.

GPRS (General Packet Radio Service): An enhanced second-generation mobile technology used to transmit data over mobile 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 mobile technology used worldwide, which works on 900 MHz and 1,800 MHz band.

HSPA (High-Speed Packet Access): Enhanced third-generation mobile telephony communications protocol which allows networks based on UMTS to have higher data transfer speeds and capacity.

HSPA+: Evolved HSPA that uses the spectrum more efficiently, allowing for higher peak data rates in data transmission.

IASB: International Accounting Standards Board.

ICT (Information and communication(s) technology): Broad area concerned with information technology, telecommunications networking and services and other aspects of managing and processing information, especially in large organizations.

IFRS: International Financial Reporting Standards as issued by the International Accounting Standards Board.

INDEC (Instituto Nacional de Estadísticas y Censos): The Argentine National Statistics and Census Institute.

Interactive: Allowing the user to change some aspect of the program.

Internet: The world s best-known data network. Initially used by the U.S. Department of Defense, the Internet now provides an interface for networks based on different technologies (LANs, WANs, data networks, etc.), but with the use of the TCP/IP protocol platform.

IP (Internet Protocol): A set of communications protocols for exchanging data over the Internet.

IPTV (Internet Protocol Television): The service provides the distribution of television channels over Internet connections using the IP protocol. More than just duplicating a distribution means, IPTV enables interactive services so that the viewer can interact with the show as it is broadcast.

ISP (Internet Service Provider): A vendor who provides access to the Internet and World Wide Web.

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

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 rate regulations and meet certain minimum annual standards regarding the expansion of its telephone system and improvements in the quality of its service 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 rate regulations and those related to the quality of service; the obligations related to the expansion of the network are no longer required.

Local Loop: Copper wire-couple, through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called last mile.

Micro Sistemas: Micro Sistemas S.A.

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MMS (Mobile Multimedia Services): Represent an evolution of the SMS and the Enhanced Messaging Service (EMS) using various mono-medial elements (text, design, photos, video-clips and audio), which are synchronized and combined allowing them to be packed together and sent to GSM-GPRS platforms.

Mobile service: A mobile 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.

Modem: Modulator/Demodulator. A device that modulates digital data to allow their transmission on analog channels, generally consisting of telephone lines.

MPLS-TP: Functionality and Management coincident with the operation of circuit-oriented transmission networks.

MPM: Best maintenance practices methodology.

Multimedia: A service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid products created through their interaction.

NDF (Non Deliverable Forward): A generic term for a set of derivatives that covers national currency transactions including foreign exchange forward swaps, cross currency swaps and coupon swaps in nonconvertible or highly restricted currencies. The common characteristics of these contracts are that they involve no exchange of principal, are fixed at a predetermined price and are typically settled in U.S. dollars (or sometimes in Euros) at the prevailing spot exchange rate taken from an agreed source, time, and future date.

Network: An interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. 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.

Node: Topological network junction, commonly a switching center or station.

Nortel: Nortel Inversora S.A., the parent company of Telecom Argentina 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 semiannually according to the U.S. consumer price index. The November Agreement was ratified by Decree No. 2,585/91 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 Regulatory Framework Regulatory Environment Rates.

Optical fiber: Thin glass, silica or plastic wires, building the infrastructure base for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of driving a signal (light impulse) at unlimited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer heavy data loads, and the signal reaches the recipient, protected from possible disturbances along the way. The driving capacity of optical fibers is higher than the traditional cable ones.

Outsourcing: Hiring outsiders to perform various telecommunications services, which may include planning, construction, or hosting of a network or specific equipment belonging to a company.

PCS (Personal Communications Service): A mobile 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 to which the service is available and expressed as a percentage.

Personal: Telecom Personal S.A.

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

Platform: The total input, including hardware, software, operating equipment and procedures, for producing (production platform) or managing (Management platform) a particular service (service platform).

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: Rate regulation mechanism applied to determine rate 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, Law No. 26,204, Law No. 26,339, Law No. 26,456, Law No. 26,563 and Law No. 26,729. 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.

Pulse: Unit on which the rate 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, of January 31, 1997, which provides for a significant reduction in domestic and international long-distance rates, 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.

Roaming: A function that enables mobile subscribers to use the service on networks of operators other than the one with which they signed their initial contract. The roaming service is active when a mobile device is used in a foreign country (included in the GSM network).

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.

SCI (Secretaría de Comercio Interior): Secretary of Internal Commerce.

SDH (Synchronous Digital Hierarchy): A hierarchical set of digital transport structures, standardized for the transport of suitably adapted payloads over physical transmission networks.

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

Service Provider: The party that provides end users and content providers with a range of services, including a proprietary, exclusive or third-party service center.

SMS (Short Message Service): Short text messages that can be received and sent through GSM-network connected mobile phones. The maximum text length is 160 alpha-numerical characters.

Sofora: Sofora Telecomunicaciones S.A.

Springville: Springville S.A.

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

STM (Servicio Telefónico Móvil): Mobile Telephone Service.

Switch: 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.

Synchronous: Type of data transmission in which there is permanent synchronization between the transmitter and the receiver.

TDM (Time-Division Multiplexing): A type of digital (or rarely analog) multiplexing in which two or more bit streams or signals are transferred apparently simultaneously as sub-channels in one communication channel, but are physically taking turns on the channel.

TDMA (Time Division Multiple Accesses): A technology for digital transmission of radio signals between, for example, a mobile handset and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information conduit at specific intervals and then reconstructs the pieces at the end of the conduit.

Telco S.p.A.: A joint company made up of Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefónica, S.A. (of Spain).

Telecom Argentina USA: Telecom Argentina USA, Inc.

Telecom Italia: Telecom Italia S.p.A.

Telecom Italia Group: Telecom Italia and its consolidated subsidiaries.

Telefónica: Telefónica de Argentina S.A.

Telefónica de España: Telefónica, S.A. (of Spain).

Telintar: Telecomunicaciones Internacionales de Argentina Telintar S.A.

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

Transfer Date: November 8, 1990, the date on 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 ENTel.

UMTS (Universal Mobile Telecommunications System): Third-generation mobile communication standard.

Unbundling: A process that allows telephone carriers (other than Telecom Argentina) to lease the last part of the telephone loop that is to say, the copper wire-cable, connecting Telecom Argentina central station to the user s home, by disconnecting the user from Telecom Argentina terminals and connecting him/her to the telephone carrier s terminals.

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

Value Added Services: Services that provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its handsets, which include wired or mobile switched-circuit analog voice communications; direct unrestricted digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct Broadband analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services performed by the network, the handsets or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletext; videotext and videotelephone.

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

WAN (Wide Area Network): A private network that covers a wide geographic area using public telecommunications services.

Wi-Fi: A service for mobile Internet connection and high-speed access.

Wi-Max (Worldwide Interoperability for Microwave Access): A technology that allows mobile access to Broadband telecommunications networks. It is defined by the Wi-Max Forum, a global consortium formed by major companies in the field of fixed and mobile telecommunications, which has the purpose to develop, test and promote the interoperability of systems.

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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 table presents our summary financial data for each of the years in the four-year period ended December 31, 2012.

The selected consolidated income statement data for the years ended December 31, 2012, 2011 and 2010 and the selected consolidated financial position data as of December 31, 2012 and 2011 have been prepared in accordance with IFRS as issued by the IASB (IFRS) and have been derived from our Consolidated Financial Statements included elsewhere in this Annual Report. The selected consolidated income statement data for the year ended December 31, 2009 and the selected consolidated financial position data as of December 31, 2010 prepared in accordance with IFRS have been derived from our consolidated financial statements as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 included in our Annual Report on Form 20-F for the year ended December 31, 2011, filed on April 30, 2012. The selected consolidated financial position data as of December 31, 2009 prepared in accordance with IFRS have been derived from our consolidated financial statements as of December 31, 2010 and 2009 and for the years then ended included in our Annual Report on Form 20-F for the year ended December 31, 2010, filed on June 29, 2011.

Our audited consolidated financial statements as of December 31, 2010 and for the year then ended were the first annual audited financial statements that are fully compliant with IFRS, as issued by the IASB. Before December 31, 2010, our consolidated financial statements were prepared in accordance with Argentine GAAP. Our financial statements as of December 31, 2009 and for the year then ended, originally issued under Argentine GAAP have been adjusted to fully comply with IFRS as issued by the IASB, and all of our subsequent audited consolidated financial statements fully comply with IFRS as issued by the IASB.

The mandatory adoption of IFRS for public companies in Argentina was effective for fiscal years beginning January 1, 2012. Therefore, the consolidated financial statements as of December 31, 2011 and 2010 for filing with the CNV were prepared in accordance with Argentine GAAP, which differs in certain respects from IFRS. According to the CNV regulations, financial statements under IFRS for the years 2011 and 2010 were presented as additional information to the consolidated financial statements prepared under Argentine GAAP.

You should read the information below in conjunction with our Consolidated Financial Statements and the notes thereto, as well as Presentation of Financial Information and Item 5 Operating and Financial Review and Prospects.

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CONSOLIDATED SELECTED INCOME STATEMENT AND FINANCIAL POSITION DATA

	2012(1) (US$ millions, except per share and per ADS data in US$)	2012	2011 (P$ millions, except per share and per ADS data in P$)	2010	2009
INCOME STATEMENT DATA					
Total revenues and other income	4,513	22,196	18,528	14,652	12,191
Operating expenses (without depreciation and amortization)	(3,177)	(15,626)	(12,535)	(9,785)	(8,043)
Operating expenses - depreciation and amortization	(531)	(2,612)	(2,158)	(1,712)	(1,545)
Gain on disposal of PP&E	2	8	22	7	13
Operating income	**807**	**3,966**	**3,857**	**3,162**	**2,616**
Other, net (2)	47	229	80	(137)	(401)
Income tax expense	(298)	(1,463)	(1,395)	(1,076)	(798)
Net income	**556**	**2,732**	**2,542**	**1,949**	**1,417**
Net income attributable to Telecom Argentina	*546*	*2,685*	*2,513*	*1,935*	*1,405*
Net income attributable to Noncontrolling Interest	*10*	*47*	*29*	*14*	*12*
Number of shares outstanding at year-end (in millions of shares)	984	984	984	984	984
Net income per share (basic and diluted) (3)	0.55	2.73	2.55	1.97	1.43
Net income per ADS(4)	2.77	13.64	12.76	9.83	7.14
Dividends per share(5)	0.17	0.82	0.93	1.07	
Dividends per ADS(5)	0.83	4.10	4.65	5.35	
FINANCIAL POSITION DATA					
Current assets	1,420	6,986	5,450	3,624	2,943
PP&E and intangible assets	2,145	10,549	9,735	8,598	7,839
Other non-current assets	56	274	134	101	77
Total assets	**3,621**	**17,809**	**15,319**	**12,323**	**10,859**
Current liabilities	1,196	5,883	5,519	4,510	4,201
Non-current liabilities	360	1,768	1,635	1,302	1,061
Total liabilities	**1,556**	**7,651**	**7,154**	**5,812**	**5,262**
Total equity	**2,065**	**10,158**	**8,165**	**6,511**	**5,597**
Equity attributable to Telecom Argentina	*2,025*	*9,959*	*8,021*	*6,404*	*5,509*
Noncontrolling Interest	*40*	*199*	*144*	*107*	*88*
Capital Stock	200	984	984	984	984

(1) Argentine Peso amounts were translated into U.S. dollars using ask rate published by the Banco de la Nación Argentina (National Bank of Argentina) as of December 31, 2012 (P$4.92 = US$1.00).

(2) Other, net includes Other income from investments and Finance income and expenses.

(3) Calculated based on the weighted average number of ordinary shares outstanding during the period.

(4) Calculated based on 196,876,196 ADSs, which is equivalent to the weighted average number of ordinary shares outstanding during the period.

(5) U.S. dollar amount was calculated based on the exchange rate prevailing on the dividend payment date.

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OTHER SELECTED DATA

	2012	2011	2010	2009
Number of installed fixed lines (thousands)(1)	4,851	4,793	4,689	4,595
Number of fixed lines in service (thousands)(2)	4,128	4,141	4,107	4,060
Fixed lines in service per 100 inhabitants(3)	21	21	21	21
Lines in service per employee	*371*	*373*	*379*	*366*
ARBU (in P$/month) (national + international)	*48.2*	*45.7*	*42.8*	*40.9*
Fixed Internet access lines (thousands)	1,629	1,550	1,380	1,214
Arnet subscribers (thousands)	1,622	1,540	1,377	1,184
ARPU/ADSL (access + ISP) (in P$/month)	*102.3*	*87.0*	*76.1*	*66.7*
Mobile subscribers in Argentina (thousands)	18,975	18,193	16,333	14,475
Subscribers at year-end per employee	*3,612*	*3,774*	*3,738*	*3,810*
ARPU (in P$/month)	*57.7*	*51.4*	*44.4*	*40.7*
Mobile subscribers in Paraguay (thousands)(4)	2,301	2,149	1,878	1,806
Subscribers at year-end per employee	*5,226*	*4,944*	*4,512*	*4,251*
ARPU (in P$/month)	*31.6*	*26.3*	*22.2*	*19.5*
Telecom Group Headcount(5)	16,808	16,346	15,647	15,330

(1) Reflects total number of lines available in Switches.

(2) Includes lines customers, own usage, public telephony and ISDN channels.

(3) Corresponds to the Northern Region of Argentina.

(4) Includes Wi-Max Internet customers.

(5) Includes temporary employees.

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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, 2008	3.45	3.03	3.18	3.45
Year Ended December 31, 2009	3.85	3.49	3.75	3.80
Year Ended December 31, 2010	3.99	3.84	3.92	3.98
Year Ended December 31, 2011	4.30	3.97	4.15	4.30
Year Ended December 31, 2012	4.92	4.30	4.55	4.92
Month Ended October 31, 2012	4.77	4.70	4.73	4.77
Month Ended November 30, 2012	4.84	4.77	4.80	4.84
Month Ended December 31, 2012	4.92	4.84	4.88	4.92
Month Ended January 31, 2013	4.98	4.93	4.95	4.98
Month Ended February 28, 2013	5.05	4.98	5.01	5.05
Month Ended March 31, 2013	5.12	5.05	5.09	5.12
April 2013 (through April 12, 2013)	5.15	5.13	5.14	5.15

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

Sources: *Banco de la Nación Argentina*

On April 12, 2013, the exchange rate was P$5.15=US$1.00.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

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Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this Annual Report. The risks described below are not the only ones that we face. Additional risks that we do not presently consider material, or of which we are not currently aware, may also affect us. Our business, results of operations, financial condition and cash flows could be harmed if any of these risks materialize and, as a result, the market price of our shares and our ADSs could decline. You should consider these 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 a portion of our assets and liabilities are denominated in foreign currencies. Accordingly, our financial condition, results of operations and cash flows depend to a significant extent on economic and political conditions prevailing in Argentina and on the exchange rates between the peso and foreign currencies. 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 the significant devaluation of the peso against major international currencies. Although Argentina has experienced economic growth and political conditions have shown improvement in the last decade, uncertainty remains as to whether the growth is sustainable, as well as how several factors would impact the Argentine economy, including among others inflation rates, exchange rates, commodity prices and healthy trade and fiscal balances.

Devaluation of the peso may adversely affect our results of operations, our capital expenditure program and the ability to service our liabilities and transfer funds abroad.

Since we realize a substantial portion of our revenues in Argentina in pesos (our functional currency), any devaluation in the peso may negatively affect the U.S. dollar value of our earnings while increasing, in peso terms, our expenses and capital costs denominated in foreign currency. A depreciation in the Argentine Peso against major foreign currencies may also have an adverse impact on our capital expenditure program and increase the peso amount of our trade liabilities denominated in foreign currencies. Telecom seeks to manage the risk of devaluation of the peso by entering from time to time into certain NDF contracts to purchase U.S. dollars at a fixed rate to partially hedge its exposure to foreign currency fluctuations caused by its liabilities denominated in foreign currencies. The Company also has cash and cash equivalents denominated in U.S. dollars that contribute to reduce the exposure to trade payables in foreign currencies. See 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 fluctuations in the future. In the three-month period ended March 31, 2013, the devaluation of the peso against the U.S. dollar was 4%, according to the exchange rate published by the Banco de la Nación Argentina.

In order to ensure the level of reserves of the Banco Central de la República Argentina (BCRA) that are often used to fulfill payment obligations of public debt, the Argentine government implemented in late 2011 a series of measures aimed at maintaining the level of the BCRA reserves. To that effect, during the last quarter of 2011 and 2012, new measures were implemented to limit the purchase of foreign currency made by private companies and individuals; the need for an authorization of the tax authorities to access the foreign exchange market became required, among other restrictions. As a result, the implied exchange rate in the quotation of Argentine securities that trade in foreign markets and in the local market increased significantly. Given the economic and political conditions in Argentina, we cannot 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, which could partially or totally reduce the current gap between the exchange rate published by the Banco de la Nación Argentina and the implied exchange rate. We cannot predict how these conditions will affect the consumption of services provided by the Telecom Group or our ability to meet our liabilities denominated in currencies other than the peso. Moreover, we cannot predict whether the Argentine government will further modify its monetary, fiscal, and exchange rate policy and, if so, what impact any of these changes could have on the value of the peso and, accordingly, on our financial condition, results of operations and cash flows, and on our ability to transfer funds abroad in order to comply with commercial or financial obligations or dividend payments to shareholders located abroad.

Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom s margins.

In the past, Argentina has experienced periods of high inflation. Inflation has increased since 2005 and remained relatively high since then.

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The INDEC estimates that the Argentine consumer price increased by 7.7% in 2009, 10.9% in 2010, 9.5% in 2011and 10.8% in 2012; and the wholesale price index increased 10.0% in 2009, 14.6% in 2010,12.7% in 2011 and 13.1% in 2012. In the two months ending February 28, 2013, the consumer price index in Argentina increased 1.6% and the wholesale price index increased 2.1%. There is a substantial disparity between the inflation indexes published by the INDEC and those higher estimated by private consulting firms.

The Argentine government continued implementing several actions to monitor and control prices for the most relevant goods and services. Despite such actions, the Argentine economy continues to experience consumer inflation above 10%, according to the INDEC. If the BCRA issues significant amounts of currency to finance public sector spending, to service public debt, to intervene in the foreign exchange market or to assist any financial institutions in distress, or if the value of the peso cannot be stabilized through fiscal and monetary policies, a significant increase in inflation rates could be expected.

Moreover, high inflation may undermine Argentina s foreign competitiveness in international markets, negatively affecting the level of economic growth, exports, balance of payments and employment. In addition, public sector spending has increased over the past years, which will continue reducing the fiscal surplus causing a fiscal deficit and leading to higher inflation.

Since the majority of our revenues are denominated in pesos, any further increase in the rate of inflation not accompanied by a parallel increase in our prices 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 and Personal s ability to increase its rates could also be negatively impacted by the governmental policy of freezing of prices that was extended to non-regulated sectors. We cannot guarantee that any possible rate increase will be sufficient to counter the effect of inflation, and we cannot assure you that the results of any future regulated rate negotiations of Telecom Argentina will be favorable to us and to our financial condition.

Also, higher inflation leads to a reduction in the purchasing power of the population, mainly those unemployed and with low salary levels, thus increasing the risk of a lower level of service consumption from our fixed and mobile customers in Argentina.

Future policies of the Argentine government may 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. In this context, 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 Regulatory 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 mobile networks. Provinces have increased, and are continuing to increase, their tax rates, particularly the turnover tax rates, resulting in the highest rates in history. Municipal, provincial and federal tax authorities have also brought an increasing number of claims against us. We disagree with these proceedings and we are contesting them. See Item 8 Financial Information Legal Proceedings Tax Matters for more information. 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, results of operations and cash flows.

In particular, in recent years the Argentine government has taken several actions to re-nationalize concessions and public services companies that were privatized in the 1990 s, such as Aguas Argentinas S.A. and Aerolíneas Argentinas S.A. Additionally, in May 2012, Law No. 26,741, established the expropriation of the 51% of the capital stock of YPF S.A. and the 51 % of the capital stock of YPF GAS S.A., which were directly or indirectly owned by Repsol YPF S.A. (Repsol). To date, the Argentine Government has not compensated any of the expropriated investors. These actions had a negative effect on the markets. We cannot provide any assurance that similar actions of the Argentine government will not be extended to other private companies or other sectors in the near future.

The Argentine government may exercise greater intervention in private sector companies, including Telecom Argentina.

The global economic and financial crisis in the recent years has resulted in a significant reduction in global GDP growth and a loss in consumer confidence in the financial sectors of many countries. To improve the countries financial condition and assist certain troubled industries, certain governments have responded with

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extraordinary intervention in the private sector. Certain governments of the leading industrialized nations have implemented various financial rescue plans outlining new regulatory frameworks that would be expected to remain in effect at least until market conditions and investor and consumer confidence have stabilized.

In November 2008, Argentina nationalized, through Law No. 26,425, its private pension and retirement system, which had been previously administered by the AFJP, and appointed ANSES as its administrator. Argentina s nationalization of its pension and retirement system constituted a significant change in the government s approach to exercising influence over Argentina s main publicly traded companies. A significant portion of the public float of these companies was owned by the AFJP and is currently held by ANSES.

The government could exercise influence over corporate governance decisions of companies in which it owns shares by combining its ability to exercise its shareholder voting rights to designate board and supervisory committee members with its ability to dictate tax and regulatory matters. Additionally, since the AFJP were significant institutional investors in Argentina, the nationalization of the private retirement system affected the way to access of financing in capital markets for publicly traded companies.

On April 13, 2011, the Presidential Decree No. 441/11 was published in the Argentine Official Bulletin annulling Article 76(f) of Law No. 24,241, which limited ANSES voting power to 5% of the company s total voting shares, even if ANSES held a greater ownership position. Consequently, ANSES would be able to exercise the total voting power corresponding to its shares in all resolutions to be adopted at those companies shareholders meetings where it has share participation, including decisions related to the allocation of retained earnings and the election of directors and Supervisory Committee members, among others.

In addition during 2012, Decree No. 1,278/12 stated that the Secretary of Economic Policy and Development Planning of the Ministry of Economy and Public Finance is responsible for the implementation of policies and actions regarding the exercise of shareholder rights of the equity shares of companies where the Argentine Government is a minority shareholder and approved for that purpose a Regulation of officers and directors appointed by the shares or equity interests of the Argentine Government, establishing the rules that they must follow in performing their duties.

Subsequently, the Secretary of Economic Policy and Development Planning approved Resolution No. 110/12 which assigns the responsibilities, powers and duties set forth in Decree No. 1,278/12 to the National Department of Companies whenever the Government is a shareholder.

In January 2013, a new Capital Market Act (No. 26,831) came into effect, granting new intervention powers to the CNV. See Item 9 The Offer and Listing The Argentine Securities Market New Capital Market Act No. 26,831 .

These matters could create uncertainties for investors of public companies in Argentina, including Telecom Argentina.

Argentina s economy may contract in the future due to international and domestic conditions.

The effects of the global economic and financial crisis in recent years and the general weakness in the global economy may negatively affect emerging economies like Argentina s. Although Argentina has experienced economic growth in recent years, current global financial instability has impacted and may continue to impact the Argentine economy and cause Argentina a slowdown of the growth rate or could led a recession generating fiscal deficit and increased unemployment.

Several international economic, social and political factors could affect the global financial markets, such as, among other factors, a growing concern regarding government deficits, governments abilities to honor their respective sovereign debts, social unrest and general uncertainty about the global economic recovery.

Moreover, the growth trend that the Argentine economy has experienced in the most recent years might be negatively affected by several domestic factors such as an appreciation of the real exchange rate, which could affect its competitiveness, diminishing or even reversing the country s positive trade balance and, if coupled with an increase in capital outflows, might reduce consumption and investment levels as a result of increased pressure on the foreign exchange rates. Additionally, abrupt changes in monetary and fiscal policies or foreign exchange regime could rapidly affect local economic output, while lack of appropriate levels of investment in certain economy sectors could reduce long term growth. Because access to the international financial market could be limited, an increase in public spending not correlated with an increase in public revenues could affect the country s fiscal results and generate uncertainties that might affect the economy s level of growth.

If international and domestic economic conditions for Argentina were to worsen, Argentina could be negatively affected as a result of lower international demand and lower prices for its products and services, higher international interest rates, lower capital inflows and higher risk aversion, which may also adversely affect our business, results of operations, financial condition and cash flows.

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Economic and legal conditions in Argentina could be uncertain.

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 nature of the changes in the Argentine political, economic and legal environment over the past several years has given rise to uncertainties about the country s business environment.

In the event of any economic, social or political crises, companies in Argentina may face the risk of strikes, expropriation, nationalization, forced 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 requiring companies to assume increasing responsibility for and assumption of costs and risks associated with utilizing sub-contracted labor and how to calculate salaries, severance payments and social security contributions. Also, there was an increase in claims regarding compensations for work accidents over the cap established by the current relevant legislation. Since 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.

Substantially all of our operations, properties and customers are located in Argentina, and, as a result, our business is, to a large extent, dependent upon economic conditions prevailing in Argentina. If economic conditions in Argentina were to deteriorate, they would be expected to have an adverse effect on our financial condition, results of operations and cash flows.

Argentina s past fiscal problems and the incomplete restructuring of Argentina s sovereign debt may negatively affect the macroeconomic environment.

Although Argentina has shown improved fiscal results in recent years, it has a history of fiscal deficits. 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 in early 2002, there was an increase in the cost of financial services (in terms of Argentine Pesos) of the debt of the Argentine government. Also, since the Argentine government s fiscal revenues were denominated in large part in Argentine Pesos, the Argentine government was severely affected in its ability to carry out its payment obligations using foreign currency and defaulted on a significant part of its public debt in 2002. The Argentine government s sovereign debt default and its consequences may continue to negatively affect the ability of private companies, including Telecom, to access the capital markets or other forms of financing.

The Argentine government implemented a debt restructuring effort mainly through two debt exchange offers. The first and largest was closed on February 25, 2005 and the second took place in 2010. Nonetheless, a number of bondholders who held out from the exchange offers have initiated legal actions against the Argentine government. In late 2012, further rulings favoring the holdout positions and putting into risk the ability to serve its debt under foreign legislation has exacerbated uncertainties and increased sovereign risk. A judgment against the Argentine government in these pending cases could lead to a default of its public debt and reduce the sources of funding and investment capital and could potentially impact the government s ability to adopt measures that promote economic growth.

After the economic crisis in 2002, 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.

As of June 30, 2012, the outstanding principal amount of Argentina s public debt was equivalent to US$175.5 billion (of which approximately 61% was denominated in foreign currency) of which US$11.1 billion were not presented to the exchange offers and are still pending for restructuring.

There can be no assurance that the Argentine government will not default on its obligations under its bonds if it experiences another economic crisis. A new default by the Argentine government could lead to a new recession, higher inflation, restrictions on Argentine companies to access financing and funds, limit the operations of Argentine companies in the international markets, higher unemployment and social unrest, which would negatively affect our financial condition, results of operations and cash flows.

The Argentine banking system may be subject to instability.

The Argentine banking system collapsed in 2001 and 2002, when the Argentine government restricted bank withdrawals and required mandatory conversion of dollar deposits to pesos. From 2005 to 2007, a period of economic growth coupled with relative stability of the country s exchange rate and inflation resulted in the restoration of public confidence, a gradual accumulation of deposits in Argentine financial institutions, and improved liquidity of the financial system. However, since 2008 certain events like internal conflicts with certain sectors of the economy, the international financial crisis and finally, the increased regulation on the foreign exchange market, decreased depositors confidence. These events led to a slowdown in the growth of deposits,

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initially increased the dollarization of private deposits and were followed by substantial withdrawals of the dollarized deposits. Despite improvements in stability since 2002 we cannot be certain that another collapse will not occur in the future.

Financial institutions are particularly subject to significant regulation from multiple regulatory authorities, all of whom may, amongst other things, establish limits on commissions and impose sanctions on the institutions. The lack of a stable regulatory framework could impose significant limitations on the activities of the financial institutions and could create uncertainty with respect to the financial system stability.

A new crisis of the Argentine banking system or the consequent instability of one or more of the larger banks, public or private, could 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 uncollectible accounts or increase the credit risk of the counterparties regarding the Company investments in local financial institutions.

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, Telecom Argentina s Board of Directors occasionally obtains and plans to obtain opinions of counsel concerning the compliance of its 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 noncontrolling shareholder voting in good faith and without a conflict of interest in favor of such a resolution and 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.

Delays in the attribution and allocation of radio spectrum can adversely affect Argentina s mobile industry.

The SC is the authority responsible for administering the use of radio electric spectrum and, consequently, for the attribution of new segments of frequencies and the reallocation of the existing ones for the mobile service. Additionally, the regulation of administration, management and control of radio spectrum provides for the prior intervention of the CNDC, and for a joint performance with the SC, in certain circumstances, for example, in determining the safeguards designed to prevent the concentration of spectrum and the occurrence of a dominant position. Delays in the allocation of new frequencies, the reallocation of the existing ones and their subsequent auction could affect the quality of services, the future development of the sector and the implementation and commercialization of new advanced services, among others, such as mobile broadband and its applications.

Risks Associated with Telecom and its Operations

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 that Telecom Argentina may charge in the future will be determined by negotiations 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 service and investment plans of service providers, as contractually agreed. The Argentine government must also consider consumer protection, accessibility of the services and the profitability of public service providers such as Telecom Argentina. The Public Emergency Law has been subsequently extended through December 31, 2013. See Item 4 Information on the Company Regulatory Framework Regulatory Environment Rates.

On March 6, 2006, Telecom Argentina executed a 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, the only agreed-upon adjustments to the rate structure were the rate increases to the termination charge for international incoming calls and the extension of the time bands for peak-hour rates

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applied to local and domestic long distance calls. See Item 4 Information on the Company Regulatory Framework Regulatory Environment Rates.

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 of this Annual Report, such fulfillment has yet to occur. Although we expect such fulfillment to occur, 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 satisfy them.

Rate restrictions for regulated services 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, these efforts has not offset the significant decline in profit margins and operating results that resulted from mandatory rate freezing and the increase in costs due to high levels of investment in capital expenditures and higher operating costs.

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 that 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 likely have a material adverse impact on our financial condition, results of operations and cash flows. Our dissolution and the declaration of bankruptcy, among others, are events that 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 SC 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 7.64% 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 as of the date of this Annual Report. 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.

Compliance with conditions in our license and related regulations and laws may be affected by events or circumstances outside of our control, and therefore we cannot predict whether such events or circumstances will occur and if any do occur, this could result in an adverse effect on our financial condition, our operations and cash flows.

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

We compete with licensed provider groups, composed of, among others, independent fixed line service providers, mobile and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina. As of December 31, 2012, more than 1000 licenses for local and/or long distance services, payphones and Value Added Services had been granted since the end of the exclusivity period.

Internet and mobile services, 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 fixed telecommunications market, we must invest in our fixed-line network and information technology. Specifically, in the Internet services market, we must constantly upgrade our access technology and software in order to increase the speed, embrace emerging transmission technologies and improve the responsiveness, functionality, coverage and features of our services. Also, to remain competitive in the mobile telecommunications market, we must enhance our mobile networks by expanding our network infrastructure and extending 3G (and HSPA+) technology and bandwidth in mobile data transmission. In addition, a key factor for

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Personal s competitiveness is to be awarded with new mobile frequency bands. 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, mobile and Internet network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. These enhancements and the implementation of new technologies will continue requiring increased capital expenditures.

We also anticipate that we will have to devote significant resources to the refurbishment and maintenance of our existing network infrastructure to comply with regulatory obligations particularly regarding fixed line services and to remain competitive with the quality of our services in both Internet and mobile business. We also expect to continue to devote resources to customer retention and loyalty in such segments.

As a result of the implementation of the Number Portability regulation that took place in March 2012 for the Personal Mobile Service segment, there was an increase in competition among service providers, also there were higher customer retention costs and increased churn amongst high value customers in the Argentine mobile market. This increased competition is expected to continue.

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 and/or faster than we are, our competitive position will be adversely impacted.

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

We also expect that the level of competition in our markets will continue to increase in the future, particularly as a result of the emergence of the operator Argentine Satellite Solution Corporation S.A. (ARSAT a company wholly owned by the Argentine Government) which could initially result, among other things, in a decline in governmental agency customers regarding fixed and mobile services due to a potential preference of public entities to hire ARSAT. Competition is and will continue to be affected by our competitors business strategies and alliances. Accordingly, we may face additional pressure on the rates that we charge for our services or experience a loss of market share of fixed and mobile services. In addition, the general business and economic climate in Argentina may affect us and our competitors differently; thus our ability to compete in the market could be adversely affected.

Even though the Company grew and developed in recent years in a highly competitive market, because 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 drop in our customer s consumption which could result in a reduction of our revenue market share, 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, results of operations and cash flows.

Changes in the laws and regulations of the Argentine mobile industry or restrictions on rate increases could adversely affect Personal

The Argentine mobile industry is currently subject to an important set of regulations that has enabled the development of a highly competitive and intense capital expenditure environment. Notwithstanding that, in the last few years several bills were introduced in the Argentine Congress proposing a substantial change through the declaration of the mobile industry as a public service which could result in deeper and specific regulations regarding rates, quality of service, coverage areas or other core aspects of our business. Other bills were also presented in the Congress proposing changes to specific rules that regulate Personal s services, such as changes in billing processes and customer service. In December 2012, a bill proposing that remaining unused credit should be available for 180 days before expiration, achieved Lower Chamber approval and, if adopted by the Senate in 2013, it may become law, which could have an adverse effect on Personal s operations, financial situation, results of operations and cash flows. We cannot assure that similar initiatives will not be proposed in the future and will not obtain the approval of the National Congress.

In addition, in early 2013 the Argentine government adopted certain initiatives in order to reduce current inflation rates, including price agreements with certain non-regulated sectors such as supermarkets and retailers. In this context and taking into account the current situation of the mobile telecommunications market, Personal could not implement the rate increases announced at the end of 2012 (to be effective as from March 2013) for postpaid and cuentas claras customers. Although mobile telephony is a non rate regulated industry, we cannot predict whether current or new factors— including governmental initiatives in order to reduce inflation rates-would negatively impact Personal s ability to apply rate increases, thus negatively affecting the profit margins and the level of cash flows.

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

Telefónica Móviles Argentina S.A. returned to the Argentine government the frequency bands exceeding an aggregate 50 MHz, as a result of the combination of operations of Unifón and Movicom in 2004, in accordance with the current laws and pursuant to a plan to be subsequently issued. In 2005, the SC issued its plan relating to the return of those frequency bands although it did not stipulate how the returned bands would be reallocated or assigned to other operators.

The launch of the auction to reassign the 850 MHz and 1900 MHz frequency bands returned by Telefónica Móviles Argentina S.A. was postponed several times. Finally, the auction was launched by Resolution No. SC 57/11.

Personal took part in the spectrum auction process and expected to acquire additional spectrum to complete its Spectrum cap throughout Argentina, but, on September 5, 2012, Personal was notified of SC Resolution No. 71, by which, as provided for in Article 10 of the List of Conditions, the auction approved by SC Resolution No. 57/11 was canceled for reasons of opportunity, merit and convenience of the Argentine Government. As part of that process, the CNDC issued an opinion as requested by the SC, by which it recommended against assigning additional frequency bands that were subject to auction to Personal regardless of the cap established by the regulatory authority in order to avoid the risks that such additional spectrum could cause. However, this recommendation was not considered in evaluating Personal s background in the auction nor in the reasons for cancelling the auction. Personal believes that the grounds of this opinion are clearly contrary to the current regulatory framework and to the previous actions of the Government.

By Presidential Decree No. 2426/12 issued in December 2012, the current spectrum and telecommunication license general regulation was modified to allow the SC to allocate spectrum directly to Government organizations (or organizations where the state is the main owner) without proceeding with a public auction as was required before this modification. It also mandates the SC to allocate the spectrum from the recently cancelled auction (which represents approximately 20% of current mobile spectrum available) to Argentine Satellite Solution Corporation S.A. (ARSAT a company wholly owned by the Argentine Government). See Item 4 Information on the Company Regulatory Framework Regulatory Bodies and General Legal Framework for a description of the dispositions of Decree No. 2426/12.

In December 2012 the President announced the launching of a new state owned mobile service branded libre.ar . The business plan has not been presented and details of these operations were not disclosed yet.

The government s dual-role, as both regulator and competitor, represents a significant change in the mobile industry. We cannot assure that it could not open several risks to Personal s business including possible adverse changes in the regulatory framework and the current market rules. The lack of allocation of additional frequency bands is negatively affecting the quality of service of all the Argentine mobile operators and the evolution of the sector. It could also adversely affect Personal s competitive position and may require higher capital expenditures for Personal to continue providing high quality mobile services to its customers. See Item 4 Information on the Company Regulatory Framework Other Regulations Regulations Applicable to PCS Services for a detailed description of Personal s license.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from mobile handsets will finally not be identified as a health risk.

Although Argentine mobile operators comply with the international security standards established by the World Health Organization and Argentine regulations, which are similar, our mobile business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, these concerns may cause regulators and municipalities to impose restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

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Operational risks could adversely affect Telecom Argentina s reputation and our profitability.

Telecom Argentina faces operational risks inherent in its business, including those resulting from inadequate internal and external processes, fraud, employee errors or misconduct, failure to comply with applicable laws, failure to document transactions properly or systems failures. In addition, unauthorized access to Telecom Argentina s information systems or institutional sites could cause the loss or improper use of confidential information, unauthorized changes in Telecom Argentina s information and network systems or alterations to Telecom Argentina s information published on these sites. These events could result in direct or indirect losses, technical failures in Telecom Argentina s ability to provide its services, inaccurate information for decision making, adverse legal and regulatory proceedings, and harm its reputation and operational effectiveness, among others.

Telecom Argentina has risk management practices at the highest levels designed to detect, manage and monitor the evolution of these kind of operational risks, and for this purpose it established a Risk Management Committee in September 2012.

However, there is no guarantee that these measures will be successful in effectively mitigating the operational risks that Telecom Argentina faces and such failures could have a material adverse effect on its results of operations and could harm its reputation.

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 78.38% of the total capital stock of Nortel as of the date of this Annual Report. Sofora is 68% owned by Telecom Italia Group and 32% owned by W de Argentina Inversiones.

Through their ownership of Sofora and the Shareholders Agreement between them, the Telecom Italia Group and W de Argentina Inversiones have, as a general matter, the ability to determine the outcome of any action requiring our shareholders approval, including the ability to elect a majority of directors and members of the Supervisory Committee. In addition, we have been informed that, pursuant to the shareholders agreement entered into between the Telecom Italia Group and the Werthein Group, the Telecom Italia Group and W de Argentina Inversiones have agreed among themselves to certain matters relating to the election of our directors and those of Nortel and Sofora and have given W de Argentina Inversiones veto power with respect to certain matters relating to us. See Item 7 Major Shareholders and Related Party Transactions Shareholders Agreement.

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, all related parties transactions were made on an arm s length basis and those which exceed 1% of Telecom Argentina s shareholders equity are subjected to a prior approval process established by Decree No. 677/01 (replaced since January 28, 2013 by Law No. 26,831) 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 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 negotiations.

In Argentina, labor organizations have substantial support and have considerable political influence. In recent years, the demands of our labor organizations have increased mainly as a result of the increase in the cost of living (which was affected by increased inflation) and a decline in the population s purchasing power.

In addition to the recategorization process executed in 2012 for Telecom Argentina s nonunionized employees, certain labor organizations have advocated that some of our nonunionized employees should be represented by trade unions. Unions have also requested that we delegate currently outsourced tasks to Company s employees.

If the number of employees covered by trade unions increases or Personal s employees (currently included in the collective bargain agreement of the Argentine Federation of Commercial and Service Employees FAECyS) are included in the new collective bargain agreement for the mobile industry, this could result in reduced flexibility in our relationship with Personal s employees and increased costs, including the higher compensation that we may need to pay. See Item 6 Directors, Senior Management and Employees Employees and Labor Relations.

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). We cannot guarantee that the government will not adopt measures, as it did in the past, which will increase

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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 rates in our fixed services segments, continue reducing our profit margins.

Moreover, there are certain bills pending in the Argentine Congress regarding modifications to labor regulations such as increasing severance payments or considering amounts paid to employees that are currently not subject to social security contributions as part of the normal and usual employees salaries, increasing liability of the companies for the contractor s and sub-contractor s employees in outsourced tasks and the implementation of a regime that would entitle employees to participate in the profits of companies that employ them.

If such bills are approved, the modifications in current labor regulations and conditions could materially impact our relationship with our employees by increasing the labor cost and in some cases decreasing the flexibility to provide services to our clients.

The Regulatory Authorities may impose increased penalties on Telecom Argentina and Personal

The Regulatory Authorities have increased the number of cases and the amount of fines applied to Telecom Argentina mainly in connection with alleged delays in the fixed lines installation and maintenance of services. Additionally, the Regulatory Authorities have initiated different administrative procedures against Telecom Argentina and Personal related to temporary interruptions of services caused by different incidents. Lately the Authorities have threatened Telecom Personal with the applications of fines and the obligation to pay compensation to the clients involved. In many of these cases, we believe that the Authorities are misinterpreting of the legal framework of our telecommunication license or exceeding the legal terms of the service provision. Final administrative nor judicial decisions on these cases have not been made yet. We cannot foresee whether the Regulatory Authorities based on the increased number of administrative complaints will seek to apply significant sanctions to Telecom Argentina or Telecom Personal, any of which could have an adverse effect on Telecom Argentina or Personal´s operations, financial situation, results of operations and cash flows.

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. Responding to the demands of litigation may divert Management s time and attention and financial resources.

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 contractor or subcontractor may file a direct action against the company 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 that an employee can bring a lawsuit against the employer because of changes in working conditions. Additionally, the Company is exposed to claims of employees of contractors and subcontractors and commercial agents claiming direct or indirect responsibility of Telecom based on a broad interpretation of the rules of labor law.

Also, the Company is subject to various lawsuits initiated by some employees and former employees who claim wage differences caused by the impact of the concepts non-remunerative sums (amounts not subject to social security contributions) and food vouchers over the settlement of items such as overtime, productivity, vacation, supplementary annual salary and other additional benefits provided by the Collective Bargaining Agreement and, in certain cases, have obtained favorable rulings for these claims. Additionally, we cannot assure that after the recategorization process executed by Telecom Argentina in 2012 as a result of the agreements reached with the labor organizations, individual employee claims will not be filed regarding such recategorization process.

In the past, Personal was subject, and currently is subject, to claims by former representatives (commercial agents) who end their business relationship by making claims for reasons that are not always justified by contract terms.

As a result, Telecom Argentina and Personal may face increased risk of employment and commercial litigation. If this occurs, we cannot guarantee that it will not have an adverse effect on our results of operations, financial condition and cash flows, despite the provisions that the Company has recorded to cover from these matters, as it is described in Item 8 Financial Information.

The CNC regulates telecommunications services in Argentina and in its capacity is empowered to apply economic sanctions against licensees for breaches of the current regulatory framework. Recently, there has been a growing trend of imposing sanctions on Telecom Argentina for technical reasons, mainly related to the delay in repairing defective lines and/or installing new lines. In addition, there was an increased number of sanctions on

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Telecom Argentina and Personal regarding service failures. Although penalties are appealed in the administrative stage, if the appeals are not solved in our favor in the administrative or judicial stage, or the penalties imposed by the CNC increased, it could have an adverse effect on our financial situation, results of our operations and cash flows.

In 2009, the environmental agency required Telecom Argentina to be registered in the National Registry of Generators and Operators of Hazardous Waste as a result of alleged problems with our liquid drainage at an underground chamber (as it had been previously required to do in 1999). This registration would require Telecom Argentina to pay an annual fee calculated in accordance with a formula that takes into consideration the extent of the hazard and the quantity of the waste. Telecom Argentina filed a request for administrative review seeking to obtain rejection of the environmental agency s ordinance. We cannot guarantee that the rejection will be obtained. In addition, changes in environmental legislation or the evolution of products and services we offer could require Telecom Argentina to be registered in the National Registry of Generators and Operators of Hazardous Waste. In that case or if the rejection of the environmental agency s ordinance is not obtained, Telecom Argentina would face increased costs which may include retroactive fees.

See Item 8 Financial Information Legal Proceedings Civil, commercial, labor, regulatory, tax and other matters proceedings.

The enforcement of regulations aimed at protecting consumers may have an adverse effect on us.

The Consumer Protection Act No. 24,240 (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.

Telecom Argentina and Personal have received several customer complaints in connection with the provisions of the Consumer Protection Act that were filed with different law enforcement bodies (national, provincial or municipal). In the last few years there was also an increase in legal actions brought by consumer associations. See Item 8 Financial Information Legal Proceedings Civil, commercial, labor, regulatory, tax and other matters proceedings General Proceedings Consumer Trade Union Proceedings.

This situation may entail risks for Telecom Argentina and Personal concerning, among others, the 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, results of our operations and cash flows.

The BCRA has imposed restrictions on the transfer of funds outside of Argentina in the past; some restrictions currently exist and may increase in the future, which could prevent us from making payments on dividends and liabilities.

In the past, the Argentine government has imposed a number of monetary and currency exchange control measures, including temporary restrictions on the free availability of funds deposited with banks and restrictions or limitations on the access to foreign exchange markets and transfers of funds abroad, including for purposes of paying principal and interest on debt, trade liabilities to foreign suppliers and dividend payments to foreign shareholders. Between the end of 2001 and 2002, the Argentine government implemented a unified exchange market

(Mercado Único y Libre de Cambios MULC) with significant regulations and restrictions for the purchase and transfer of foreign currency.

Since late 2011 the Argentine government implemented a series of measures aimed to increase controls on the foreign trade and capital flows. To that effect, certain measures were implemented to control and limit the purchase of foreign currency, such as the prior approval of the AFIP for any purchase of foreign currency made by private companies and individuals for saving purposes. In addition, the BCRA expanded the controls and measures to make payments abroad accessing the local foreign exchange market, regarding trade payables and financial debt, and also established demanding procedures that must be met to pay certain trade payables with related parties. Although there are no regulations that prohibit making dividend payment to foreign shareholders, in practice authorities have substantially limited any purchase of foreign currency to pay dividends since these exchange controls were implemented. There can be no assurance that the BCRA or other government agencies will not increase controls and restrictions for making payments to foreign creditors or dividend payments to foreign shareholders, which would limit our ability to comply in a timely manner with payments related to our liabilities to foreign creditors or non-resident shareholders. See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina.

Pursuing the same objective, in October 2011 Decree No. 1,722 eliminated an exception for oil, gas and mining companies, and thus requires these companies to liquidate all their export receipts in the local foreign exchange market. Moreover, in October 2011 the National Insurance Bureau issued Resolution No. 36,162 imposing the obligation for insurance companies to repatriate all investments and liquid assets allocated outside Argentina. We cannot ensure that similar measures will not be implemented for other private companies or other sectors in the future.

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In addition, starting in February 2012 all import operations of goods and services must be filed and approved in advance by AFIP. Such procedure could also negatively affect our supply chain, as some raw materials, equipment and handsets are imported by our suppliers.

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

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, financial and political situation in Argentina, the way the Ministry of Economy and Public Finance (in exercise of shareholders rights that belong to ANSES, according to Decree No. 1,278/12) will exercise its political rights and manage its share ownership in Telecom Argentina, and changes in measures used by investors or analysts to value our stock or market trends unrelated to our performance and operations. We cannot predict when such external factors will affect our stock price or whether their effects will be positive or negative.

In addition, currency fluctuations could impact the value of an investment in Telecom Argentina. Although Telecom Argentina s ADSs 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.

ITEM 4. INFORMATION ON THE COMPANY

INTRODUCTION

The Company

Telecom is one of the largest private-sector companies in Argentina in terms of revenues, net income and number of employees. Telecom Argentina has a non-expiring license (the License) to provide fixed-line telecommunications services in Argentina, and it also provides other telephone-related services such as international long-distance service, data transmission, IT solutions outsourcing and Internet services. Through our subsidiaries, we also provide mobile telecommunications services and international wholesale services.

As of December 31, 2012, we had approximately 4.1 million fixed lines in service. This is equivalent to approximately 21 lines in service per 100 inhabitants in the Northern Region of Argentina and 371 lines in service per employee.

As of December 31, 2012, our Internet business reached approximately 1.6 million accesses and our mobile business had approximately 19.0 million subscribers in Argentina and approximately 2.3 million subscribers in Paraguay.

Business Strategy

The Telecom Group pursues a business strategy focused on increasing its profitability and maximizing value generation for its customers, shareholders, employees and the broader community it serves. In order to promote the achievement of its goals in a sustainable and consistent manner, the Telecom Group develops business plans according to the telecommunications market and macroeconomic environment and invests in products and services innovation aimed at improving its customers user experience by adding content, interactivity and convenience to communication.

Our priority focuses on operational efficiency and the effectiveness of planning and control processes. We view these as key competitive factors for our Company and its long-term corporate sustainability.

We invest in our human resources through communication, training and development programs, promoting work-life balance, enabling telecommuting and providing open and transparent relationships with individual employees and trade unions. We conduct our activities in accordance with the principles and values in our Code of Business Conduct and Ethics, which applies to all managers and employees in the Telecom Group, and which our suppliers are required to comply with. We have an experienced Management team that has demonstrated flexibility and aimed at achieving operational and economic goals.

We also consider the integrated vision of processes and technology to be a key factor of efficiency in our corporate Management and market competitiveness, thereby enabling us to provide high-value service options to the individual and business consumer.

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Our investments in technology are designed to continuously adapt our coverage and capacity of our infrastructure and implement new service platforms. We aim to provide higher quality service to our increasing traffic volumes and demand for bandwidth, caused by the expansion of our customer base, the access to the network applications and to Value Added Services, access to social networks and content distribution. We intend to align these investments with cutting edge technologies and those that have been previously implemented in other parts of the world, capturing the benefits of international experience.

Through our Broadband and mobile Internet services, we offer our customers continuous Internet access, regardless of the users physical location. We also provide our consumers with mobile equipment and applications that enhance personal communication, social relations, entertainment and professional performance.

For the corporate segment, we integrate communication solutions with information technology services by providing virtual access to applications and platforms at our datacenters.

We maintain affordable prices commensurate with the market s purchasing power, focusing on achieving our revenue growth by expanding and developing our customer base and by offering new services and products. We simplified our price structure by developing service packages targeted to different consumer profiles, which provide customers with a clear view and control over their communication expenses.

The penetration of communication services in the Argentine market has continued to show sustained growth positioning above the regional average. Our growth rate is currently positioned above the market rate. New market development opportunities could result from a more favorable environment for investment and competition in the sector.

Our mobile operations under the Personal brand, which has been increasing its market share, has successfully addressed Number Portability, implemented in early 2012.

We believe that the strategy implemented by our Management sets the foundations for the Telecom Group to reach its goals of continuous service quality improvement, strengthening its market position and increasing its operating efficiency in light of new regulations for telecommunications and other rules of general application affecting the private sector in Argentina.

Organizational Structure

The following chart shows our subsidiaries as of December 31, 2012, and jurisdiction of organization.

(*) Dormant entity as of December 31, 2012.

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Consolidated Subsidiary Information

The following table presents information relating to our consolidated subsidiaries for the year ended as of December 31, 2012:

Subsidiary (1)	Activity	Segment	Percentage of Ownership	Percentage of Telecom s Total Revenues and other income(4)
Telecom Personal S.A.	Mobile Services	Personal Mobile Services	99.99	68.6
Núcleo S.A. (2)	Mobile Services	Núcleo Mobile Services	67.50	3.9
Springville S.A. (2) (3)	Mobile Services	Personal Mobile Services	100.00	
Telecom Argentina USA, Inc.	International Wholesale Services	Fixed Services	100.00	0.2
Micro Sistemas S.A. (3)	Electronic Equipment Sales	Fixed Services	99.99	
Total				**72.7**

(1) Personal and Micro Sistemas are incorporated in Argentina while Núcleo, Springville and Telecom Argentina USA are incorporated in Paraguay, Uruguay and the United States, respectively.

(2) Interest held indirectly through Personal.

(3) Dormant subsidiary as of December 31, 2012.

(4) Includes service revenues, equipment sales and other income with third parties.

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

Administrative complaints in connection with Telecom Personal s service cuts

On March 11, 2013, the CNC notified Telecom Personal of an administrative complaint related to a network incident that took place on March 8, 2013, affecting only the 3G service in Buenos Aires City and some clients of few localities in the North Region of the country. The incident lasted only around 2½ hours.

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Telecom Personal filed its defenses against such penalty procedures, based on the arguments by which such penalties should be released, but, on April 5, 2013, the CNC notified Telecom Personal a Resolution applying a sanction of P$6 million, and imposing the obligation to repay the sum of P$30 to each affected customer.

The Management of Telecom Personal, with the advice of their legal counsels, believes that there are solid arguments to file defenses against such penalty. However, it cannot be assured that we will have a favorable result in the administrative stage. Otherwise, we cannot assure what actions the company would take to defend its rights at court.

Additionally, on April 4, 2013, the CNC notified Telecom Personal of an administrative complaint related to a network incident that took place on April 2, 2013, and affected the provision of the services in the City of La Plata, due to the floods resulting from the devastating storm that occurred across the city on that day.

Telecom Personal will file its defenses against such penalty procedure, based on the arguments by which such penalties should be released.

SC Resolution No. 1/13

On April 8, 2013, the SC Resolution No. 1/13 was published in the Official Bulletin, establishing that all mobile operators should guarantee the service provision, even in emergencies or catastrophe situations, in which case the normal service provision should be restored in a maximum term of 1 hour. Mobile operators, must, in all cases, prioritize the access to emergency services in the affected areas. Moreover, Resolution No. 1/13 requires that mobile operators present within 45 days a contingency plan that includes, among other things, an equipment replacement system or redundance system in order to assure the service continuity. As of the date of this Annual Report, Personal is analyzing the effects that this new resolution could have in its operations, financial situation and cash flows, as well as the actions that could be taken.

Personal Annual Shareholders Meeting

Personal s shareholders, at their meeting held on April 10, 2013, approved, in accordance with the requirements established by Resolution No. 593/11 and No.609/12 (See Item 8 Financial Information Dividend Policy) among other items, the allocation of retained earnings as of December 31, 2012 as follows: (i) the constitution of a Special Reserve for implementation of IFRS according to Resolution CNV No. 609/12 by P$405 million, (ii) the constitution of a voluntary reserve for the finance of working capital and capital expenditures in Argentina by P$233 million and (iii) the allocation of P$1,950 million to the reserve for future cash dividends. The shareholders also approved the delegation of authority in Personal s Board of Directors to determine the amount, time, terms and conditions to allocate the reserve for future cash dividends and the reserve for the finance of working capital and capital expenditures in Argentina.

Telecom Argentina Board of Directors called for the Annual Shareholders Meeting

Telecom Argentina s Board of Directors, at their meeting held on March 18, 2013, called a shareholders meeting to be held on April 23, 2013, to consider among other issues: (i) the allocation of Telecom Argentina s non-appropriated retained earnings as of December 31, 2012 as follows: P$153 million to the legal reserve; P$351 million to the constitution of a Special Reserve for implementation of IFRS according to Resolution CNV No. 609/12; P$1,000 million as a Reserve for future dividends in cash; P$1,200 million to the constitution of a voluntary reserve for investments in own shares and P$351 million to a voluntary reserve for future capital expenditures; (ii) The election of directors and alternate directors for a three years term; and (iii) The election of members of the Supervisory Committee for the year 2013 and their appointment.

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 corporation (*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 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 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 by a consortium of investors including Telecom Italia, among others. In 2003, Nortel s common stock was transferred to an Argentine company named Sofora. As of the date of this Annual Report, Sofora is held 68% by

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the Telecom Italia Group and 32% by W de Argentina Inversiones, a holding company incorporated in the Kingdom of Spain, and a company of the Werthein Group. See Item 7 Major Shareholders and Related Party Transactions Shareholders of Nortel.

Pursuant to the Privatization Regulations, 10% of Telecom Argentina s common stock was transferred to a Share Ownership Plan for certain former 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. A portion of the shares in the Share Ownership Plan has been sold in the public market, and the remaining shares in the Share Ownership Plan are being gradually sold in the public market. See Item 6 Directors, Senior Management and Employees Share Ownership Share Ownership Plan.

On the Transfer Date, Telecom Argentina entered into a Management agreement (the Management Agreement) with Telecom Italia and FCR, a subsidiary of France Telecom S.A. (jointly, the Operators). In December 2003, the Telecom Italia Group became the sole operator (the Operator) of Telecom Argentina. In October 2010, the SC decided, through Resolution No. 136, that the figure of the Operator established under the Bidding Terms and Conditions (Decree No. 62/90 as amended) was no longer effective for Telecom Argentina.

Through September 30, 1999, Telecom Argentina provided domestic and international communication 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 services market. See Regulatory Framework Liberalization of the Argentine Telecommunications Industry below. 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 local operators.

THE BUSINESS

General

As of the date of this Annual Report, we conduct our business through six legal entities, each representing a distinct operating segment. We aggregate these operating segments into three segments Fixed Telecommunications Services (Fixed Services), Personal Mobile Telecommunications Services (Personal Mobile Services) and Núcleo Mobile Telecommunications Services (Núcleo Mobile Services) according to the type of products and services provided and taking into account the regulatory and economic framework under which each entity operates.

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

Segment	Consolidated Company / Operating Segment
Fixed Services	Telecom Argentina
	Telecom Argentina USA
	Micro Sistemas (1)
Personal Mobile Services	Personal

	Springville (1)
Núcleo Mobile Services	Núcleo

(1) Dormant entity as of December 31, 2012.

Fixed Services. Telecom Argentina owns a local telephone line network, public long-distance telephone transmission facilities and a data transmission network in the Northern Region since the market was open to competition. Telecom Argentina expanded its network in the Southern Region of Argentina providing nationwide services. Fixed services are comprised of the following:

- *Basic telephone services.* Telecom Argentina provides Basic telephone services, including local, domestic and international long-distance telephone services and public telephone services. As of December 31, 2012, Telecom Argentina had approximately 4.1 million lines in service;

- *Interconnection services.* Telecom Argentina provides interconnection services, which primarily include access, termination and long-distance transport of calls;

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- *Data transmission and Internet services.* Telecom Argentina provides data transmission and Internet services, including traditional Broadband and mobile Internet, Internet dedicated lines, private networks, national and international video streaming, transportation of radio and TV signals and videoconferencing services. As of December 31, 2012, Telecom Argentina had approximately 1.6 million Internet accesses;

- *Information and Communication Technology Services.* Telecom Argentina provides ICT services, datacenter services, telecommunications consulting and value-added solutions;

- *Other telephone services.* Other services provided by Telecom Argentina include supplementary services such as call waiting, call forwarding, conference calls, caller ID, voice mail, itemized billing and maintenance services; and

- *Sale of equipment.*

Personal Mobile Services and Núcleo Mobile Services. We provide mobile services through our subsidiaries in Argentina and Paraguay. Our subsidiary, Personal, provides mobile telephone service throughout Argentina via cellular and PCS networks. Personal s service offerings include:

- *Voice, data and Internet services.* Voice communications, GSM and 3G mobile communications over UMTS / HSPA / HSPA+ networks (including high-speed mobile Internet, content and applications download, multimedia messaging, online streaming, corporate e-mail, social network access and cloud backup services); and

- *Sale of mobile communication devices* (handsets, 3G modems, and tablets).

We also provide mobile services in Paraguay through Núcleo, a subsidiary of Personal. As of December 31, 2012, Personal had approximately 19.0 million mobile subscribers in Argentina and Núcleo had approximately 2.3 million in Paraguay.

See Note 28 to our Consolidated Financial Statements and Item 5 Operating and Financial Review and Prospects Years ended December 31, 2012, 2011 and 2010 Results of Operations by Segment for additional information as to our results of operations by segment.

Fixed Services

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

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

The Argentine government has taken certain measures that have affected revenues from the services we provide. Since the enactment of the Public Emergency Law in January 6, 2002, the rates charged by Telecom Argentina for fixed line services such as measured service, monthly basic charges, public telephone service, domestic, national and international long-distance, installation charges and most of supplementary services (except for lines and equipment maintenance) have been pesified (Regulated Services since the Transfer Date). 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 Regulatory Framework Rate Regulations below and Item 5 Operating and Financial Review and Prospects Economic and Political Developments in Argentina.

On the other hand, interconnection services, data transmission, Internet services, ICT services and sale of equipment are not regulated services subject to a price cap regulation.

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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 deployment of Telecom Argentina s telephone network:

	December 31, 2012	**December 31, 2011**	**December 31, 2010**	**December 31, 2009**	**December 31, 2008**
Number of installed lines (1)	4,850,554	4,792,530	4,688,977	4,595,043	4,442,629
Net lines installed (during each year)	58,024	103,553	93,934	152,414	204,087
Net lines installed cumulative (2)	3,279,590	3,221,566	3,118,013	3,024,079	2,871,665
Number of lines in service (3)	4,127,858	4,141,135	4,107,082	4,060,260	4,010,056
Net lines in service added for the year	(13,277)	34,053	46,822	50,204	92,526
Net lines in service added cumulative	2,725,889	2,739,166	2,705,113	2,658,291	2,608,087
Lines in service per 100 inhabitants (4)	21	21	21	21	21
Pending applications (5)	152,210	133,977	83,984	77,172	67,429
Public phones installed	36,813	40,079	44,846	50,275	58,375

(1) Reflects total number of lines available in Switches.

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

(3) Includes lines customers, own usage, public telephony and ISDN channels.

(4) Corresponds to the Northern Region of Argentina.

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

Revenues

Fixed services include, among other charges, monthly basic charges, measured service charges, installation charges, public telephone services and interconnection services related to essential facilities. The rates for these charges are regulated by rules governing our license, which establish 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 certain of the services offered.

The remaining services included in the Fixed Services segment are not subject to regulation and, as a result, Telecom Argentina is able to set the corresponding rates. Market conditions limit rate increases.

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. The number of pulses varies depending on the type of customer. As of December 31, 2012 approximately 82% of lines in service were for residential customers and public telephony and approximately 18% were for professional, commercial and government customers, while in 2011, approximately 83% of lines in service were for residential customers and public telephony and approximately 17% were for professional, commercial and government customers. Additionally, due to the regulatory regime, Telecom Argentina is obliged to offer discounts to certain retired individuals and low-consumption residential 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 unit of time. 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 semi-flat rate plans that include a set quantity of minutes for a fixed charge.

Local minutes were approximately 10.6 billion in 2012, 11.5 billion in 2011 and 12.2 billion in 2010. During the past three years, despite increased economic activity in Argentina the volume of local minutes has decreased slightly due to the strong growth in mobile telephony and the resulting migration of traffic to mobile service. During 2012, revenues from local traffic continued to increase leveraged by the growth of lines with minutes included in the plan and subscription plans, despite the slight drop in traffic volume. Also, and to adjust the portfolio to customers needs, new local calling plans were launched to lower-consumption customers.

Domestic long-distance minutes were approximately 2.6 billion in 2012, 2.8 billion in 2011 and 2.9 billion in 2010. Ever since the Northern Region was opened to competition in 1999, Telecom Argentina has maintained its position as the regional market leader for domestic long-distance traffic. During 2012, deploying a similar strategy to that which was adopted for local traffic, we maintained sales of targeted and selective flat-rate plans positioned to maintain average revenues generated by customers.

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In the year ended December 31, 2012 approximately 79% of measured service revenue was generated by residential customers, and approximately 21% was generated by business, professional and government customers and, in 2011, 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 237 million in 2012 from 226 million in 2011 and from 213 million in 2010, mainly due to an increase in the MOU (Minutes of Use) of residential customers.

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

Installation Charges. Revenues from installation charges consist primarily of fees levied for installation of new fixed 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. The penetration of fixed-line telephony has been affected by the maturity of the Argentine market.

Public Telephone Services. As of December 31, 2012, there were 36,813 public lines installed of which 2,600 are in the Southern Region. Local and domestic long-distance traffic experienced a systematic reduction as a result of a strong development in the mobile industry in Argentina. As a result, public telephony traffic for 2012 fell to 166 million minutes, from 202 million minutes in 2011 and 247 million minutes in 2010. The traffic in domestic long-distance public telephony was 97 million minutes in 2012, 120 million minutes for 2011and 139 million minutes for 2010. The traffic in international long-distance public telephony has experienced a fell to 60 million minutes in 2012 from 70 million minutes in 2011 and 68 million in 2010.

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/inter-urban lines. These revenues are calculated according to the price for long-distance codes of urban/interurban calls. Additionally, other national telephone services include charges for supplementary services (such as call waiting, call forwarding, conference calls, caller ID, voicemail and itemized billing).

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

During 2012, we maintained our focus on ICT solutions and the sale of data services and dedicated Internet accesses. This strategy is supported by the World Class multi-site network of Datacenters focused on communications, with over 7,000 square meters used to keep computer technology services throughout Argentina. Through this infrastructure, we offer a broad services portfolio including dedicated hosting and housing, connectivity, cloud services which enable our customers to optimize their costs by increasing the security of their information and avoiding hardware and software obsolescence issues. All the services are provided with support, security, connectivity and the ability to engage further Management, professional, monitoring, storage and backup services.

In addition, we continued making additional investments at the major data center in Pacheco, consolidating its position as leader in the market and enhancing the level of services supplied. Such investments will enable Telecom Argentina to support business growth in the next few years with the highest market standards.

Internet. Telecom Argentina has been providing residential Internet services under the brand name Arnet since 1998. 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 access, Arnet service and Dial-Up. However, during the past several years we have seen a constant decrease in Dial-Up access that has been more than offset by increased Broadband accesses. As a result, Dial-up access represents a marginal percentage of Telecom Argentina s revenues.

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The following table illustrates the evolution of Internet services:

	December 31, 2012	2011	2010
Fixed access lines (1)	1,629,294	1,550,098	1,380,052
Arnet subscribers	1,621,643	1,539,719	1,377,326

(1) Includes accesses in the Northern Region and the Southern Region. Accesses refer to connections to Internet services offered by Telecom Argentina.

The market for Broadband has experienced significant growth in 2010, 2011 and 2012 throughout the country, increasing 17%, 15% and 10%, respectively. Broadband can be delivered through three technologies: cable modem, ADSL and mobile; cable modem and ADSL being the most widely used. In the local market, ADSL connections exceeded the number of cable modem and mobile connections. Telecom Argentina markets its ADSL service through its Arnet brand and in partnership with other ISPs.

During the last five years, Telecom Argentina continued to increase its customer base in line with or exceeding the market s expansion. As of December 31, 2012, we reached approximately 1.6 million accesses. During 2012, our efforts to communicate effectively with our customers and special offers with competitive prices according to segment helped us to maintain the leadership of our products under the brand Arnet.

Continuing the evolution of Internet access services, during the year 2012 Arnet expanded its portfolio by launching High Speed products (20 and 30 Mb).

In November 2011, we launched a value-added broadband access service called Arnet Play , the first video streaming service for residential customers of Telecom Argentina. Throughout 2012 we significantly expanded our selection of available content, providing customers with access to approximately three thousand options, including high-definition content and access to titles from the major Hollywood studios.

Internet revenues include both Internet access services and the provision of Internet service.

A small portion of Internet access services is provided by Telecom Argentina s 0610, 0611 and 0612 services. The 0610 service is provided at rates reflecting up to a 30% discount compared to regular urban rates for connections lasting 30 minutes, depending on the time and day of the connection. After the implementation of an agreement reached with the Argentine government, by the end of fiscal year 2009, Telecom Argentina offered Internet dial-up access to 100% of the users of fixed lines located in its coverage region. Although Internet dial-up service represents a marginal percentage of Telecom Argentina s revenues, we continue to provide this service to a small market where Broadband service is not available.

b) Corporate Customers

The large customer segment includes leading companies in the Argentine market as well as the National Government, Provincial Governments and Municipalities. These customers demand cutting-edge technology and solutions tailored to their needs, including voice, data, Internet and Value-Added services.

In response to the constant changes demanded by the market, Telecom Argentina maintained its strategy to position itself as the integrated provider for large customers through the offer of convergence ICT solutions, including fixed and mobile voice, data, Internet, multimedia, ICT, datacenter and application services through a sales consulting Management and specialized and targeted post-sale customer services.

The main solutions and businesses developed during 2012 included:

- Renewal of a contract for the management of 911 emergency calls in a northern province of Argentina. It involves the upgrade of the emergency system software, provision of equipment and a hardware upgrade.

- Telecom Argentina was awarded a major data MPLS (Multiprotocol Label Switching) network, linking 16 major hospitals in the capital and inside a province in the littoral region of Argentina with the headquarters of the Ministry of Public Health. This included training, installation of proprietary applications, attendance control and stock control.

- Telecom Argentina was awarded the MPLS network (data transport mechanism standard) of the branch offices, head office and processing center of the largest state bank in Argentina, with 302 sites throughout the country and 625 links.

- Telecom Argentina was awarded the largest MPLS network of the most important institute of agricultural technology in Argentina, for its branch offices and headquarters network, with 250 sites and Internet of 250Mb.

- Implementation of the project for a 911 public safety system in the littoral region of Argentina.

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Additionally, the following projects are underway and are expected to be completed in 2013:

- implementation and billing of an emergency calls system for a province in the northern region of Argentina. It consists of the installation of an integrated attention center and emergency dispatch to the province, with initial coverage in and around the capital city. Some components of the solution are the installation of optical fiber and radio links for redundant data communications between government agencies.

- installation of a trunked communication network for subways network in metropolitan area.

c) Wholesale

Interconnection Revenues. Telecom Argentina collects fees from other operators for interconnection services. These fees primarily include local access, termination and long-distance transport of calls, rentals of network capacity and commissions on calling party pays fees. These fees are payable by mobile operators as well as fixed-line operators.

Additionally, Telecom Argentina remained one of the leading providers of wholesale telecommunications solutions for various fixed and mobile operators, independent operators, local operators, public telephony licensees, cable operators, ISP, TV and radio channels, production companies and other service providers. The services marketed by Telecom Argentina include, among others, traffic and interconnection resources, third-party billing, dedicated Internet access services, transport of video signals in standard definition and high definition, streaming audio and video, dedicated links, backhaul links for mobile operators, Internet Protocol Virtual Private Network and data center hosting services.

Telecom Argentina continued to strengthen its position as a provider of solutions for the broadcasting segment by offering transportation solutions for audio and video signals both as dedicated private links and on the Internet. We provided solutions to cable operators and TV channels for the distribution of video signals. During 2012, we continued to increase the number of clients connected to Telecom Argentina s video matrix located in the city of Buenos Aires.

In 2012 Telecom Argentina was awarded a contract to transport and distribute signals in Open Digital TV (Television Digital Abierta) for ARSAT. Also Telecom Argentina has transmitted The Four Nations Rugby Championship from the places where the events took place to central distribution in the British Telecom Tower in London.

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 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;
- bandwidth capacity under an Indefeasible Right of Use (IRU) basis;
- international point-to-point leased circuits; and
- international data services.

Operating revenues from international long-distance service depend on the volume of traffic, the rates charged to local customers and the rates charged by each party under agreements between the Argentine provider and foreign telecommunications carriers. Settlements among carriers are usually made on a net basis. Incoming traffic with carriers measured in minutes accounted for 676 million minutes in 2012, 727 million in 2011 and 607 million minutes in 2010.

Telecom Argentina is connected to international telecommunications networks mainly through the following submarine Fiber Optic cables: Americas 2 (USA), Columbus 3 (Europe), Atlantis 2 (Brazil Europe), Sea-Me-We (Europe Asia), Bicentenario (Uruguay), Latin American Nautilus (LAN), a company in the Telecom Italia Group, and other minor cables.

In order to meet the growth in our Internet access base, Telecom Argentina has acquired several IRUs on a submarine facility of Latin America Nautilus (LAN) (a subsidiary of Telecom Italia), 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 Miami. Telecom Argentina has also contracted Transit IP en BsAs to ensure better performance regarding regional traffic.

Through 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

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Communications Commission, or the FCC, which allows us to provide international long-distance telecommunications services in the United States. Telecom Argentina USA, routes the majority of its traffic through its own switching capabilities. Its business, at the moment, is focused mainly on wholesale long-distance international traffic. Additionally, it serves the retail market through sales of prepaid cards and A.N.I. recognition services (a technology similar to caller ID that allows customer identification of a particular prepaid card). In 2012, Telecom Argentina USA, Inc., continued operating a node of high-definition video in Miami, thus extending the Telecom video matrix to the international market.

Network and Equipment

In line with the previous years, coverage, capacity, quality and availability have been the focus of the development of our network strategy in 2012.

Within this context, we continued the deployment of fiber optic connections to ensure that Broadband availability in each city satisfies our customers increasing demands. By the end of 2012, over 94% of our customers were served through premises interconnected by fiber optic networks, which ensure a lower cost per bit and increase future availability. For 6% of our customers in small areas where fiber optic service is not available, we provide high-capacity SDH radio links and use the new adaptive modulation IP radios, which permits Ethernet connectivity.

We continued our strategy of having a single transmission backbone for the fixed, mobile, Broadband and mobile Internet and corporate connectivity services. Also, we continued to deploy DWDM on the national long-distance network as the main supplier of transmission capacity in order to avoid the use of SDH equipment. This reduces the number of layers and keeps the network as simple as practicable.

With regard to the fixed access network, we have identified two needs: (i) the need to maintain 100% digitalized TDM lines in operational status, in coordination with the deployment of NGN networks to satisfy the demand for new lines and (ii) the need to reach customers homes with an increasingly higher capacity. In order to ensure proper TDM equipment operation, we continued with a Service Level Agreement (SLA) with the TDM technology providers, which expire in 2015. Over 25% of our active customers use NGN technology as of the date of this Annual Report.

In response to our customers need for more bandwidth, we implemented a plan to shorten the loop, which involves the installation of outdoor cabinets with DSLAM of VDSL2 technology and will allow us to provide competitive services. Shortening the loop is a strategic project for Telecom Argentina, as it will provide fixed Broadband customers with world-class performance services, positioning Arnet among the best suppliers in the market. This project not only enhances current Broadband capacity, but also allows us to provide customers with fiber optic technology at even greater speeds. Additionally, it allows us to offer value-added services that require greater bandwidth, such as high-definition videos available from the *Arnet Play* portfolio. Also, the FTTC strategy has continued in areas with saturated copper cabinets and the FTTB strategy has continued in certain major buildings. During 2012, we installed three buildings with FTTB, and one of them was operating in late 2012.

As of December 2012 19 of 31 multiservice network nodes had been installed in the Buenos Aires Metropolitan Area, which include MPLS-TP technology and enable the same connection site to provide various services with high-capacity levels.

Regarding operations, MPM continued to be implemented on the access network. When a cabinet area needs to be restored, MPM helps maintain the improvements achieved over time. In 2012, about 1,400 areas were restored, reaching a cumulative 5,800 restored areas using all the restoration methodologies available.

Work also continued to replace telephone posts. During 2012 we have replaced 40,000 posts (including replacement of wooden posts by others of wood or cement).

Personal Mobile Services and Núcleo Mobile Services

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

Mobile Telecommunication Services in Argentina Personal

The market for mobile telecommunications services in Argentina is characterized by constant growth and intense competition. Operators are generally free from regulation to determine the pricing of services, with the limited exception of calling party pays (CPP) charges for termination of calls originating on a fixed line network. See Regulatory Framework Other Regulations Calling Party Pays CPP. There are currently three mobile operators offering nationwide service. The penetration of mobile service in Argentina has increased from approximately 126.7% of the population as of December 31, 2010, to approximately 134.2% in 2011 and to 139.4% in 2012. This information regarding penetration of mobile service is an estimate, as there are no official statistics published in Argentina, and only considers lines serviced by the three operators providing nationwide mobile telecommunications services (i.e., it does not include Nextel).

Service providers in Argentina are making significant capital expenditures in new network infrastructure for the deployment of 3G (and HSPA+) technology, which allows for the higher transmission speeds required for Value Added Services such as data transfer, video calling and Internet browsing.

Our mobile telecommunications services in Argentina are provided through our subsidiary, Personal. We provide mobile services throughout Argentina via STM, SRMC and PCS networks. Personal utilizes GSM and 3G technologies 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.

Personal s business continues growing. From December 31, 2011, to December 31, 2012, its subscriber base in Argentina grew approximately 4%. As of December 31, 2012, Personal had approximately 19.0 million subscribers compared with approximately 18.2 million subscribers as of December 31, 2011, and approximately 16.3 million subscribers as of December 31, 2010.

a) Residential and Business Customers

Personal subscribers are offered a variety of flexible pricing options for mobile services. These options include prepaid, post-paid and mixed plans.

Prepaid Plans. Under prepaid plans, the subscriber pays in advance for telephone calls and Value Added Services using prepaid credit. When the subscriber runs out of credit, he or she can purchase prepaid cards using a prepaid system or can purchase virtual credit on Personal s website, by phone, at ATMs and drugstores, or through authorized agents. Since there are no monthly bills, prepaid plans allow subscribers to communicate with maximum flexibility while maintaining control over their consumption. A subscriber can add credit to the card and make and receive local, national and international calls.

Post-Paid Plans. Personal offers a National Flat Rate post-paid plan and a Local Flat Rate post-paid plan. Post-paid plans include caller ID, voicemail and a personalized greeting, call forwarding, data services, a multimedia personalized greeting, telephone technical support and call waiting. The plans deploy Personal Digital Invoicing, enabling subscribers to view, download and print their invoices from the web. Depending on the plan, and the monthly fee, they might include Value Added Services such as social network access, e-mail or data allowance for browsing the Internet, as well as specific contacts (on-net numbers) that can be contacted by voice or SMS for free.

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 a specified number of free minutes per month. Once the free minutes have been used, the subscriber can continue using the mobile service 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.

Cuentas Claras . 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 credit by recharging the phone card through the prepaid system. Under this plan, a subscriber can use its monthly minutes or its pre-paid credits for Value Added Services, such as social network access, e-mail or data allowance for browsing the Internet, as well as specific contacts (on-net numbers) that can be contacted by voice or SMS on a free basis.

The following table presents information regarding Personal s post-paid, prepaid, Cuentas Claras and total mobile subscriber bases for the periods indicated:

	As of December 31,					
	2012	**% of Total**	**2011**	**% of Total**	**2010**	**% of Total**
Mobile subscribers:(1)						
Prepaid	12,720,001	*67.0*	12,414,127	*68.2*	11,425,761	*70.0*
Post-paid	2,386,656	*12.6*	2,178,645	*12.0*	1,805,521	*11.0*
Cuentas Claras	3,476,512	*18.3*	3,138,755	*17.3*	2,796,116	*17.1*
Mobile Internet	392,081	*2.1*	461,950	*2.5*	305,872	*1.9*
Total	18,975,250	*100.0*	18,193,477	*100.0*	16,333,270	*100.0*

(1) Mobile subscribers mean total registered and active mobile subscribers at the end of the relevant period. An active mobile subscriber is a mobile subscriber who made or received three phone calls within the last 90 days of such relevant period.

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New products and services. Personal continued to deepen its strategy based in the concept C*ada Persona es un Mundo* Each Person is a World with the launch of various products, promotions and benefits to meet the diverse communication needs of different types of customers. The quality in customer experience was the strategic axis that crossed all the initiatives developed by Personal during 2012.

As part of the implementation of Number Portability in March 2012, Personal anticipated reaching users with transparent information on this new regulatory issue. Commercial offers launched in relation to Number Portability reached not only to new customers who decided to choose Personal, but also to Company subscribers, as part of loyalty actions.

Personal also increased the granting of benefits in recharges and service packages for its customers, optimizing their plans convenience. It also introduced a new benefit for customers with monthly bills, allowing unused minutes in a month to be used in the next month.

This was the year of the consolidation of unlimited Internet service per day, an innovative offer launched by Personal in early 2011. This service increased by approximately 100% customer access to data usage and reduced the digital gap by better informing consumers about data service options.

Furthermore, *Club Personal*, the loyalty program with more than 4.5 million members and over 500 participating businesses, continued to evolve from its base resegmenting, expanding the differential benefits for its members.

In relation to the strategy of contacts with customers, Personal presented a new model of personal assistance in commercial offices around the country, which is based on the experience and education of each customer, to respond to their needs and increase its satisfaction. During 2012, nine sales offices were opened with the new model across the country. Thus, the sales network of Personal reached 65 offices with a presence in several major cities.

Finally, Personal continued its strategy of repositioning its brand, with the realization of the 8th edition of *Personal Fest*, the most important international music festival in Argentina, which attracted more than 40,000 people over two days. This event was broadcast online, reaching more than 500,000 people who enjoyed the festival virtually.

As a result of the strategies implemented during 2012, Personal led the portable market (Portaciones netas) by expanding its market share based on the acquisition of high-value customers, thus increasing the ARPU of all its products.

Personal s ARPU was approximately P$57.7 per month for 2012 and P$51.4 per month for 2011.

b) Wholesale

International Business. During 2012, Personal continued to position itself as a leader and benchmark in international roaming services, expanding 3G data coverage in order to provide a better user experience to its subscribers. We entered into over 253 data agreements (GPRS/EDGE) reaching over 120 3G launchings of a total of 305 international roaming agreements, which provide service in 155 countries.

We implemented the service *Llamá sin prefijos,* which allows customers to make international roaming calls from their address books as if they were in Argentina without entering the international dialing codes. This simplified international dialing, while increasing customer satisfaction.

Additionally, Personal launched during 2012 the new pricing model data per day, by which the client pays a defined fee per day for data consumption in neighboring countries and the U.S. This change provided predictability in spending and encouraged the use of international roaming. Also, we accompanied sponsored events abroad (London Olympics and Personal Rugby Championship) with 2G/3G coverage reinforced in strategic locations and developed dedicated roaming offers.

Finally, Personal expanded the service packs in its portfolio, allowing it to leverage growth in the volume of minutes consumed abroad by user.

Domestic Business. During 2012, Personal continued to strengthen its relationship with operators and suppliers of telecommunication services, Cooperatives Federations and clearing house services suppliers (information distribution centers). We continued to renew contracts with existing operators of such services.

Also in 2012, progress was made in negotiations with Cooperatives to install new sites in their townships in order to achieve or improve mobile coverage in these areas.

Finally, Personal expanded agreements with other operators of resources and facilities, who contributed to the development of our mobile network, with a positive effect in the quality and quantity of the services offered to its customers. Such resources and facilities include data link and transmission, interconnection resources, origination, termination, minute transport, site leases and domestic roaming.

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Personal s Network and Equipment

Personal is the operator of mobile networks at a national level, and uses world-class technology providing GSM and third-generation services.

The mobile network infrastructure and the fixed network infrastructure are complementary. Therefore, the development strategy for Personal s network aims to maximize the synergies of investments of the Telecom Group as an integrated operator group.

To this end, Personal s radio access network is supported by a regional transmission network that is shared with the fixed telephony business. To the extent possible, the switching core shares the facilities with other switches in the Telecom Group, and all data services are supported by the public backbone of the Group.

The access network is in a constant process of improvement, to increase the number of cities covered and to improve the capacity to meet simultaneous customer demands. In order to continuously guide this process, Personal measures relevant parameters and benchmarks its network against those of its competitors.

The 2G network continued growing primarily in terms of capacity to accompany the increase in customer traffic, especially the increase in data traffic as a result of various marketing actions. By the end of 2012, we had over 3,300 2G sites distributed throughout the country.

We continued to deploy a 3G access network that enables a general roll-out of mobile Internet services. This network operates in coordination with our GSM accessibility and is tailored to provide customers with adequate resources for the type of services it demands. As of December 31, 2012 there were more than 2,700 sites.

During 2012, we continued with the plan to replace and modernize equipment in the mobile network. The capacity increase required to satisfy the growing demand for mobile bandwidth is based on a substantial increase in the number of radio base sites, and on the implementation of six sectors technology, that allows a more effective use of the spectrum.

In order to ensure bandwidth availability to address current and future needs, our strategy is to maximize the deployment of fiber optic to the radio bases. In 2012, most mobile long-distance connections were sent over the IP network of the Group.

As to the operation, the MPM began to be used on the mobile network. During 2012, the MPM was used on 26 sites throughout the country. The expansion process is expected to continue during 2013. Also, Personal s mobile network deployment continued, based on the use of sites with low height, on posts of Telecom Argentina or third parties, or on urban roofs. This allows Personal to shorten the average height of the facilities, attending community needs.

Mobile Telecommunications Services in Paraguay Núcleo

We provide nationwide mobile telecommunications services in Paraguay through our subsidiary, Núcleo, under the commercial name of Personal. Núcleo is 67.5% owned by Personal and 32.5% owned by ABC Telecomunicaciones S.A., a Paraguayan corporation. Núcleo has been granted licenses to provide commercial mobile services, Internet access and videoconference and data transmission services in Paraguay.

During 2012, The telecommunications sector in Paraguay showed good performance, with growth levels above 10% for the second year in a row. As of December 31, 2012, Núcleo had approximately a 33% share of the market for mobile telecommunications services in Paraguay (an increase of 1% compared to 2011). The subscriber base increased 7% as compared to the previous year. As of December 31, 2012, Núcleo had 1,872,219 pre-paid subscribers, 260,471 subscribers with the service plan Plan Control, 30,064 post-paid subscribers and 131,580 Mobile Internet subscribers.

Núcleo has changed its logo and launched its new brand image through the campaign *Cada Persona es un Mundo*. The main products offered in this campaign were the bundling of calls, messages and data, targeted to prepaid segment and tailored plans for postpaid and Plan Control subscribers, which allowed them to combine calls, messages and data on a fixed monthly payment.

Núcleo also consolidated its leadership in Mobile Internet based on bundled offers for prepaid customers at very convenient prices. At a strategic level, Núcleo performed retention and loyalty actions for high-value customers mainly through a major campaign to replace handsets.

In addition, Núcleo focused on Number Portability, effective from November 30, 2012, to educate the market about its process and benefits. With portability, a new proposition arose, *Personal Unlimited*, where each

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product or service purchased by customers incorporates an unlimited element to communicate through calls and SMSs to any mobile operator customer.

Núcleo s Network and Equipment

The primary milestone in 2012 was the commencement of the *Dream Paraguay* project, which consists of modernizing the access network of Núcleo and adding a new supplier that will install its equipment during the next three years, based on the MSR (multi-station radio) solution.

Other major developments in 2012 include the following:

Coverage Expansion: During the first quarter of 2012, Núcleo commissioned 22 cell sites in the department of Caaguazú, which added 117 new townships to its GSM network. Apart from these sites, Núcleo completed the installation of another 68 sites in different regions in Paraguay, ending the year with an increase of 17% in the number of cell sites.

Quality and Capacity Improvement: Núcleo expanded its network to address the traffic increase in 2012. In the city of Pedro Juan Caballero, it commissioned 11 new sites, which doubled the number of sites in this township, which has ensured utility quality in an area where spectrum management poses multiple issues, since it is a border city.

3G Network: In early 2012, Núcleo implemented the DC-HSPA+ (Release 8) solution, the latest recommended by the 3GPP (3rd Generation Partnership Project) for 3G networks, being the only operator in Paraguay and the second in South America to provide this solution to its customers.

Core: Núcleo continued to expand its circuit core and package core by upgrading the hardware and software at all network nodes. In order to meet the demand expected due to the implementation of the Number Portability, Núcleo has replaced HLR (Home Location Register a node that consists of a cell-phone network that stores user data and profiles) in Asunción by another with larger capacity. In this way, Núcleo is completing the replacement of the MSC (Mobile Switching Center a main node in a cell-phone network responsible for commuting all voice and data calls) in Asunción with a new network called Blade Cluster, which is the latest version of hardware and software launched by Ericsson in the mobile telecommunication market.

VAS: during 2012, Núcleo updated and expanded all its service platforms, largely by implementing the PCRF (Policy Charging Rules Function) node, which enables controlling policies for the use of the 3G network, so that personalized commercial plans could be launched.

Transmission: While expanding the transmission network, Núcleo expanded coverage of its network by providing Internet access services to the Corporate sector. By the end of the first half of 2012, Núcleo added all of Northern and Northwestern Paraguay to its DWDM network, by commissioning about 970 km of fiber-optic cable of its own, which increased data traffic capacity and service quality in the departments of Concepción, Amambay, San Pedro, Canindeyú and Alto Paraná, which account for 47% of total traffic on the network.

Competition

Fixed Services

Basic Telephony and International Long-Distance Services. Before 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 (commercially known as Telmex), Impsat (commercially known as Global Crossing), IPlan, Comsat, Telecentro, 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, Gigared, Cablevisión (Fibertel) and Telecentro (providing a triple-play offer), 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.

Mobile Telecommunications Services

Mobile Telecommunications Services in Argentina. The mobile telecommunications market in Argentina has been open to competition since 1993 and was expanded to include PCS services in 1999. During recent years, GSM technology has created intense competition for subscribers among the various service providers, including giving rise to severe pricing pressure, significant handset subsidies and increased sales incentives provided to dealers. The introduction of 3G technology since May 2008 has allowed operators to focus competition on Value Added Services.

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Currently, there are three operators providing nationwide mobile telecommunications services. These three operators are Personal, Telefónica Móviles Argentina and América Móvil. Nextel competes on a limited level, offering trunking telephony services in Buenos Aires and selected cities in the interior, in addition to offering mobile telecommunication services in those cities.

América Móvil, operating in Argentina under the trade name Claro (formerly CTI), is one of the country s largest mobile operators in terms of number of subscribers and has provided STM cellular services 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 a 20 MHz license for PCS in each of the Northern and Southern Regions.

Telefónica Móviles, operating in Argentina under the trade name Movistar, is another of the largest mobile operators in Argentina in terms of number of subscribers. Movistar is the result of Telefónica s merger of Unifón and Movicom in 2005. Movistar operates in the AMBA through the 850 MHz band with a total of 37.5 MHz (25 MHz + 12.5 MHz), and a total of 50 MHz (20 MHz + 30 MHz) for PCS. It also holds a total of 80 MHz (40 MHz + 40 MHz) for its PCS licenses for the Northern Region, and a total of 60 MHz (20 MHz + 40 MHz) for its PCS license in the Southern Region. This Southern Region is Unifon s original service area, where it also holds a 25 MHz license for STM. The economic concentration that resulted from Unifon and Movicom s merger exceeded 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 Article 1 of Decree 266/1998. In Regulation No. 343/05, regulatory authorities approved the merger on the condition that the resulting entity decreases its spectrum holdings to the permitted levels in accordance with a schedule ending at year-end 2008. Movistar has completed the required decrease in its spectrum.

Nextel Argentina provides trunking telephony and other telecommunications services in Buenos Aires and cities in the interior. Nextel Argentina s service currently focuses on business subscribers in the principal cities of Argentina.

With the introduction of Number Portability in early 2012, competition has intensified. The acquisition and retention of high-value customers continues to be a key factor to Personal s strategy, which is focused on maintaining customer s consumption through the launch of new products and services that enable retention of existing customers and take advantage of the opportunities that Number Portability generates.

See Regulatory Framework Regulatory Environment Decree No. 764/00 for a description of Number Portability and also Regulatory Framework Other Regulations Regulations Applicable to PCS Services for additional details on Personal s license.

Mobile Telecommunications Services in Paraguay. Currently, there are four participants in the mobile telecommunications services market in Paraguay. As of December 31, 2012, Núcleo s major competitor was Tigo (a Millicom International Cellular subsidiary).

REGULATORY FRAMEWORK

Regulatory Bodies and General Legal Framework

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

The activities of Telecom Argentina and 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 and 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 approve the frequency band scheme, 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, among others.

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

- the Privatization Regulations, including the List of Conditions;
- the Transfer Agreement;
- the Licenses granted to Telecom Argentina and its subsidiaries;

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- the Rate Agreements; and

- various governmental decrees, including Decree No. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum Management.

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 Argentina s subsidiary in the United States, is supervised by the Federal Communications Commission (FCC).

Licenses granted as of December 31, 2012

To the Company

As of December 31, 2012, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

- local fixed telephony;

- public telephony;

- domestic and international long-distance telephony;

- domestic and international point-to-point link services;

- domestic and international telex services;

- Value Added Services, data transmission, videoconferencing and transportation of audio and video signals; and

- Internet access.

To the Company s subsidiaries

As of December 31, 2012, the Company s subsidiaries have been granted the following licenses:

- Personal has been granted a non-exclusive, non-expiring license to provide mobile telecommunication services (STM) in the Northern Region of Argentina and data transmission and Value Added Services throughout the country. In addition, Personal owns licenses to provide mobile radio communication services (SRMC) in the Federal District and Greater Buenos Aires areas, as well as a non-expiring license to provide PCS services throughout the country, and it is registered to provide national and international long-distance telephone services; and

- Núcleo has been granted a renewable five-year period license to provide mobile telecommunication services (STM) in Paraguay as well as PCS services in certain areas of that country. In addition, Núcleo has been granted a five-year renewable license to provide Internet services, data transmission and videoconferencing throughout the country.

Radio electric spectrum auction

In May 2011, the SC through Resolution No. 57/11 launched an auction to reassign the 850 MHz and 1900 MHz frequency bands returned by Telefónica Móviles de Argentina S.A. because this company had exceeded its 50 MHz spectrum cap. The SC had postponed the auction of the spectrum, and it was estimated that it would take place in May 2012.

On September 5, 2012, Personal was notified of SC Resolution No. 71/12, by which, as provided for in Article 10 of the List of Conditions, the auction approved by SC Resolution No. 57/11 was canceled for reasons of opportunity, merit and convenience of the Argentine Government.

On December 13, 2012, the PEN, through Decree No. 2,426/12, amended the Regulation on Management and Control Spectrum (See Decree No. 764/00 below), incorporating paragraph 8.5 to Article 8 of that Regulation, establishing: Notwithstanding the provisions of Article 8.1., the Regulatory Authority may assign frequencies directly to National Organizations, State Agencies and Entities majority-owned by the Argentine Government.

Also, the mentioned Decree conferred to Argentine Satellite Solution Corporation S.A. (ARSAT a company wholly owned by the Argentine Government) the authorization for the use of the frequencies involved in the auction approved by Resolution SC No. 57/11.

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The mentioned decree also amended Article 8 of the Regulation for Telecommunications Services Licenses in force, incorporating the following provision: Article 8 bis - Mobile Virtual Network Operator. Those interested in offering mobile services that do not have radio spectrum frequencies assigned for the provision of these services must have the license for telecommunications services and the registration as Mobile Virtual Network Operator. Mobile services operators will be responsible for the services rendered to its customers and are liable for the application of the respective sanction system. The Regulatory Authority may issue the application and interpretation acts that it deems appropriate.

The same decree instructs the SC to implement the appropriate measures in order to attribute the bands between 1,710-1,755 MHz; 2,110-2,155 MHz and 698-806 MHz exclusively for terrestrial mobile telecommunications services.

On December 13, 2012, the PEN, through Decree No. 2,427/12, declared of public interest the development, implementation and operation of the Federal Wireless Network, in charge of the Ministry of Federal Planning, Public Investment and Services, to be executed through ARSAT, under the National Telecommunications Plan Argentina Conectada, which provides the infrastructure necessary for this purpose, according to the general guidelines established in the Decree s Annex.

In addition, by Article 2 of Decree 2,427/12, the PEN instructed the Ministry of Federal Planning, Public Investment and Services, as major shareholder of ARSAT, to take the necessary corporate actions and decisions, that allow the execution of works and services required as a result of the implementation of the Federal Wireless Network.

Also, on December 21, 2012, the SC Resolution No. 222/09 was published in the Official Bulletin, which assigned ARSAT the telecommunication services license that authorizes the state company to provide any kind of telecommunication services with or without owned infrastructure. It also provided the authorization for the provision of value-added services, data transmission and transportation of audio and video signals.

By Resolution No. 9/13, published on February 7, 2013, the SC granted ARSAT the registration of Mobile Services and National and International Long Distance Services and the Provision of Telecommunication Facilities.

Personal s Management continues evaluating the implications of SC Resolution No. 71/12 and Decree No. 2,426/12 in the Company, as well as the necessary actions which allow Personal to continue providing high quality standards mobile services.

Revocation of the License

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

- an interruption of all or a substantial portion of service;

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

- a 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;

- a reduction of ownership of Nortel in the capital stock of Telecom Argentina to less than 51%, or the reduction of ownership of Sofora in the capital stock with voting power of Nortel to less than 51%, in either case 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; and

- a bankruptcy of Telecom Argentina.

If Telecom Argentina s license is revoked, Nortel must transfer its interest in Telecom Argentina s capital stock to the Regulatory Bodies, in trust for subsequent sale through public auction. Once the sale of the shares to a new management group is performed, the Regulatory Bodies may renew the license of the Company under the terms to be determined.

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

- repeated interruptions of Personal s services as set forth in the List of Conditions;

- any transfer of the license and/or the related rights and obligations, without the prior approval of the Regulatory Authority;

- any encumbrance of the license;

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- any voluntary insolvency proceedings or bankruptcy of Personal; and
- a liquidation or dissolution of Personal, without the prior approval of the Regulatory Authority.

Núcleo s licenses are revocable mainly in the case of:

- repeated interruptions of the services;
- any voluntary insolvency proceedings or bankruptcy of Núcleo; and
- non-compliance with certain obligations.

Liberalization of the Argentine Telecommunications Industry

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 telephone services until sometime between October 8, 1999, and November 8, 1999, depending on the particular region. The Plan also provided for: (i) the immediate liberalization of paid 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. 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, mobile operators and cable television operators were permitted to offer services. These new operators, together with the existing licensees of Basic telephone services, allowed customers to choose from four operators until the full liberalization of services occurred. The Plan also granted data transmission operators existing before the privatization of ENTel the right to operate domestic and international long-distance services by the end of 2000.

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 mobile services.

As long-distance services were liberalized, competition was introduced by Pre-subscription 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 obligated the telephone companies to make significant investments and modifications to their networks.

During 1999, competition in local, 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 Claro), the two new national operators permitted to offer services by Decree No. 264/98. Some provisions of Decree No. 264/98 and related resolutions were modified by Decree No. 764/00, mainly provisions related to licensing conditions, interconnection and Universal Service. Decree No. 764/00 established the general regulation of licenses and provided that each licensed company was allowed to launch its services in November 2000 when the full liberalization of the telecommunications market began. As of the date of this Annual Report, the main licensees providing local and/or fixed long-distance telephone service are Techtel (Telmex), Impsat (Global Crossing), Comsat, IPlan, Telecentro, Telefónica and Telecom Argentina.

Pursuant to the Plan, the liberalization of public telephone services began. On December 9, 1998, Telecom Argentina was granted (upon the subsequent issuance of SC General Resolution No. 2,627/98) a license to provide public telephone services in the Southern Region.

Regulatory Environment

Decree No. 764/00

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

- the regulation of licenses for telecommunications services;
- the interconnection regulation;
- the regulation governing the administration, management and control of the radioelectric spectrum; and
- the Universal Service regulation.

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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, mobile, 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 and there are no restrictions on participation by foreign companies. In addition, the regulation does not establish any minimum investment or coverage requirements. Broadcasting service companies may also apply for a license to provide telecommunications services. The regulation further authorizes the resale of telecommunications services subject to obtaining a license. This regulation governs the license through which Telecom Argentina offers services in the Southern Region and is complementary to Telecom Argentina s obligations pursuant to its preexisting licenses.

Interconnection Regulation. Compared to the prior interconnection regulation (Decree 266/98), this regulation provides for a reduction of approximately 50% in the reference interconnection prices in effect at the time. The regulation also increases the number of infrastructure elements and services that the dominant operator is required to provide, including interconnection at the local exchange level, billing services and unbundling of local loops. 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 were subject to future regulations.

Related to the Regulation for the call by call selection of the providers of long-distance services, the former Ministry of Infrastructure and Housing issued General Resolution No. 613/01 which approved this Regulation, subsequently modified by Resolution No. 75/03 of the Ministry of Economy and Public Finance, which introduced several changes related to the obligation of service provision and habilitation and blockage modality and the availability of the service on December 6, 2003. The Company has fulfilled with all its obligations, nevertheless, as of the date of this Annual Report, this long-distance service modality is not implemented.

Regarding the number portability, on January 22, 2009, the SC issued Resolution No. 8/09 pursuant to which an ad hoc Working Commission was created with representatives of the SC and the CNC, for the purpose of preparing a draft of the Number Portability Regime.

On August 19, 2010, through SC Resolution No. 98/10, the SC approved the Number Portability Regime (NP), covering the STM, SRMC, PCS and SRCE (trunking) mobile services, defined in the resolution as portable services.

On June 14, 2011, the SC issued Resolution No. 67/11 replacing several sections of the NP regime. It also approved the Processes and Technical and Operational Specifications relating to the implementation and correct application of the NP, the Bidding Specifications for the selection of the Database Administrator and the model contract, and the Network Technical Specification for the implementation of the NP in the Networks Mobile Communications.

On October 12, 2011, and under the provisions of SC Resolution No. 98/10 and No. 67/11, the contract for the integration and management of the Database, between the four service providers and the Administrator of the Portability was formalized with the selection of the joint offer by Telcordia Technologies Inc. and its Argentine affiliate Telmark S.A.

Personal and the other mobile service providers finalized the adjustments of their respective networks as well as developments and testing of the necessary information technology applications, implementing the NP during March 2012.

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

Universal Service (SU) Regulation. The Universal Service regulation requires entities that receive revenues from telecommunications services to contribute 1% of these revenues (net of taxes) to the Universal Service Fiduciary Fund (the SU Fund). The regulation adopted a pay or play mechanism for compliance with the mandatory contribution to the SU fund. The regulation established a formula for calculating the subsidy for the SU liability which takes into account the cost of providing this service and any foregone revenues. Additionally, the regulation created a committee responsible for the administration of the SU fund and the development of specific SU programs.

On June 8, 2007, the SC issued Resolution No. 80/07 which stipulated that until the SU Fund was effectively implemented, telecommunication service providers, such as Telecom Argentina and Personal, were

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required to deposit any contributions accrued since the issuance of such Resolution into a special individual account held in their name at Banco de la Nación Argentina. CNC Resolution No. 2,713/07, issued in August 2007, established how these contributions are to be calculated.

New Universal Service Regulation

Decree No. 558/08, published on April 4, 2008, introduced certain changes to the SU Fund regime created by Decree No. 764/00. Decree No. 558/08 established that the SC would assess the value of service providers direct program contributions in compliance with obligations promulgated by Decree No. 764/00. It would also determine the level of funding required in the SU Fund for programs pending implementation. In the same manner, in order to guarantee the continuity of certain projects, the SC was given the choice to consider as SU contributions certain other undertakings made by telecommunication services providers and compensate providers for these undertakings.

In defining Universal Service, the new regulation established two categories: (a) areas with uncovered or unsatisfied needs and (b) customer groups with unsatisfied needs. It also determined that the SC would have exclusive responsibility for the issuance of general and specific resolutions regarding the new regulation, as well as for its interpretation and application.

It also established that the SC will review SU programs which were established under the previous regulation, guaranteeing the continuity of SU programs already being administered and implementing programs that had been under review. The financing of SU ongoing programs which were recognized as such will be determined by the SC, whereas telecommunications providers appointed to participate in future SU Programs will be selected by competitive bidding.

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 the Decree s publication. The SC will determine on a case-by-case basis if the providers will be compensated with funds from the SU Fund.

The Decree requires telecommunications service providers to contribute 1% of their revenues (from telecommunication services, net of taxes) to the SU Fund and keeps the pay or play mechanism for compliance with the mandatory monthly contribution to the SU Fund or, to claim the correspondent receivable, as the case may be.

Providers of telecommunications services shall rely on the assistance of a Technical Committee made up of seven members (two members appointed by the SC, one member appointed by the CNC, three members 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 appointed by independent local operators). This Technical Committee is informed by the SC of the programs to be financed and is responsible for managing and controlling the SU Fund, carrying out technical-economic evaluations of existing projects and supervising the process of competitive bidding and adjudication of new SU programs, with prior approval by the SC.

The Technical Committee has been created and it is fully operative. Additionally, telecommunications service providers had already sent the proposed Fiduciary agreement to the SC. The SC approved it in January 2009 through Resolution No. 7/09.

On April 4, 2009, by means of SC Resolution No. 88/09, the SC created a program denominated Telephony and Internet for towns without provision of Basic Telephone services that will be subsidized with funds from the SU Fund. The program seeks to provide local telephony, domestic long-distance, international long-distance and Internet services in towns that did not provide Basic telephone services. The proposed projects approved by the SC would be sent to the Technical Committee of the SU Fund so that availability of funds can be evaluated and they can be included in a bidding process provided for in Decree No. 558/08.

On December 1, 2010, the SC issued Resolutions No. 147/10 and No. 148/10, approving Internet for educational institutions and Internet for public libraries programs, respectively. These programs aim to provide the Broadband Internet service to state-run educational institutions and public libraries, respectively, and would be implemented using SU Fund resources, through public biddings. As of the date of this Annual Report, the first bidding for the Internet for educational institutions program has already been conducted. Telecom Argentina was awarded the project and is finishing the installation of the last project facilities, which will reach 1,540 schools and generate revenue to us from the FFSU of approximately P$5 million per year for a period of 5 years. On the other hand, the auction Internet for public libraries program was cancelled by the Regulatory Authority to be redefined. Also, during 2012, the auction Telephony and Internet for towns without provision of Basic Telephone Service took place according to Resolution No. 88/09, which involved the service provision in 430 locations. Personal presented its offer to the auction. As of the date of this Annual Report, the auction is in pre-award stage.

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On November 11, 2010, the SC issued Resolution No. 154/10 adopting the methodology for the deposit of the SU contributions to the trustee s escrow account. The Resolution includes several provisions related to the determination of the contributions that correspond to the periods before and after Decree No. 588/08 was issued. It also states that telecommunication providers may discount the amounts incurred in the implementation of the SU Initial Programs from the contributions to the SU Fund until the SC determines if those Initial Programs qualify as such. However, if as a result of the SC s verification some amounts are not recognized as Initial Programs, those amounts would have to be contributed into the SU Fund or would have to be allocated to develop SU projects previously approved by the SC.

On December 30, 2010, the trustee notified Telecom Argentina and Personal of the trustee s escrow account number in which they shall deposit the SU contributions under the provisions of SC Resolution No. 154/10.

On January 26, 2011, the SC issued Resolution No. 9/11 establishing the Infrastructure and Equipment Program. The Resolution provides that telecommunication service providers can contribute to the projects in this program only the amounts corresponding to their pending SU contributions under Annex III of Decree No. 764/00, before the effective date of Decree No. 558/08.

In Telecom Argentina

By the end of 2002, the SC formed a working group responsible for analyzing the method to be applied for measuring the net costs of SU performance particularly, the application of the Hybrid Cost Proxy Model (the HCPM Model), based on the incremental cost of a theoretical network. The working group was also tasked with defining non-monetary benefits and determining the methodology for its calculation, in order to assess the costs that would be offset due to performance of SU obligations. The working group decided that, given the complexity of this methodology, efforts should be made to continue the initial programs independently from application of the HCPM Model, and that there was a need to carry out a comprehensive review of the present general regulations relating to SU to ensure that these regulations were operative in the near term considering the existing social needs.

Several years after the deregulation of the market and effectiveness of the first SU regulations, incumbent operators have not received any set-offs for the services rendered under the SU regime.

Pursuant to Resolutions SC No. 80/07, SC No. 154/10 and CNC No. 2,713/07, Telecom Argentina has estimated a receivable of P$1,212 million (unaudited) for the period initiated in July 2007 through December 31, 2012, and has filed its calculations for approval by the SC. This receivable has not yet been recorded since it is subject to approval of the SU programs, review of the SC and availability of funds in the SU Fund.

On April 8, 2011, the SC issued Resolution No. 43/11 notifying Telecom Argentina that investments associated with High-Cost Areas amounting to approximately P$999 million since July 2007 and included in the above-mentioned receivables are not considered an Initial Indicative Program. Such resolution was appealed by Telecom Argentina. As of the date of this Annual Report, the outcome of this appeal is still pending.

On July 12, 2012, Telecom Argentina was notified of the SC Resolutions No. 53 and 54/12 and on July 25, 2012, it was notified of SC Resolutions No. 59, 60, 61 and 62/12, pursuant to which the Special Service of Information 110, the Discounts for Retired People, Pensioners and Low Consumption Households , the services of Social Public Telephony and Loss-Making Public Telephony, the Services and Discounts relating to the Information Society Program argentina@internet.todos, the Services for Deaf-Mute People and the Free Access to Special Emergency Services and Special Community Services, provided by Telecom Argentina did not qualify as an Initial Indicative Program, pursuant to the terms of Article 26 of Annex III of Decree No. 764/00, and that, taking into account the conditions and legal framework within which such services were developed by Telecom Argentina, they did not constitute different services involving a SU provision, and therefore cannot be financed with SU funds, pursuant to the terms of Section 2 of Decree No. 558/08.

On August 21, 2012, the Company was notified of SC Resolutions No. 69 and 70/12, pursuant to which the Value Added Service 0611 and 0612 and the Long Distance Semipublic Service provided by Telecom Argentina did not qualify as an Initial Indicative Program, pursuant to the terms of Article 26 of Annex III of Decree No. 764/00, and that, taking into account the conditions and legal framework within which such services were developed by Telecom Argentina, they did not constitute different services involving a SU provision, and therefore cannot be financed with SU funds, pursuant to the terms of Article 2 of Decree No. 558/08.

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Telecom Argentina s Management, with the advice of its legal counsel, has filed appeals against SC Resolutions Nos. 53, 54, 59, 60, 61, 62, 69 and 70 presenting the legal arguments based on which such resolutions should be revoked. The deductions that were objected by the SC Resolutions amount to approximately P$450 million and are included in the credit balance mentioned in the third paragraph of this section.

On September 13, 2012, the CNC required Telecom Argentina to deposit approximately P$208 million. Telecom Argentina has filed a recourse refusing the CNC s request on the grounds that appeals against the SC Resolutions are still pending of resolution. However, it cannot be assured that these issues will be favorably resolved in the administrative stage. Otherwise, we cannot assure what actions the Company would take to defend its rights at court.

In Personal

Since January 2001, Personal has been recording a liability related to its obligation to make contributions to the SU Fund. In addition, since July 2007 and in compliance with SC Resolution No. 80/07 and No. 154/10 and CNC Resolution No. 2,713/07, Personal deposited the correspondent contributions of approximately P$112 million into an account held under their name at the Banco de la Nación Argentina.

During the first quarter of 2011, the abovementioned funds were transferred to the trustee s escrow account, in compliance with the provisions of SC Resolution No. 154/10 previously described. Since January 2011, the SU Fund monthly contributions are now being made into such escrow account.

In March 2011, Personal submitted to the SC a P$70 million investment project, pursuant to SC Resolution No. 9/11, for the development of network infrastructure in locations in the Northern Region of Argentina with no mobile coverage. As of the date of this Annual Report, this program is still pending the approval of the SC.

On July 5, 2012, the SC issued Resolution No. 50/12 pursuant to which it notified that the services referred to by the Mobile Communications Services Providers, which were filed as High Cost Areas or services provided in non-profitable areas, services provided to clients with physical limitations (deaf-mute and blind people), rural schools, and the request relating to the installation of radio-bases and/or investment in the infrastructure development in various localities, do not constitute items that may be discounted from the amount of contributions to the SU pursuant to Article 3, last part, of Resolution No. 80/07, or Article 2 of Decree No. 558/08. It also provides that certain amounts already deducted may be used for investment projects within the framework of the Program of SC Resolution No. 9/11, or deposited in the SU Fund, as applicable.

Personal has filed an administrative action against SC Resolution No. 50/12 requesting its nullity. As of the date of this Annual Report, the resolution of this matter is still pending.

On October 1, 2012, responding to an SC s requirement, Personal deposited under protest approximately P$23 million in the SU Fund, corresponding to the assessment of the SU services provided by Personal since the issuance of Decree No. 558/08, reserving its right to take all actions it may deem appropriate to claim its reimbursement, as informed to the SC and the CNC on October 15, 2012. Since August 2012, Personal has paid its monthly calculations under protest of those concepts.

It cannot be assured that this issue would be favorably resolved in the administrative stage. Otherwise, we cannot assure what actions the Company would take to defend its rights at court.

Administrative complaint in connection with the service cuts affecting Telecom Argentina and Personal s customers

On June 25, 2012, the CNC notified Telecom Argentina of an administrative complaint relating to an incident that took place on June 12, 2012, in an optic fiber link of Telecom Argentina, caused by a construction company for which Telecom Argentina is not liable, which affected the interurban and ADSL services in localities at the North Region of the country and also affecting the mobile communication services provided by Personal. Such services were quickly restored, after slightly more than two hours of labor, due to the networks redundancy. On the same date, within the same procedure, the CNC also notified Personal of an administrative complaint in connection with the problems affecting its mobile communication services.

Telecom Argentina and Personal filed their defense against such penalty procedures, arguing that these penalty procedures should not be triggered. On October 11, 2012, the CNC notified Telecom Argentina and Personal that the procedures begun on June 25, 2012 were not triggered because the regulations on which the

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complaint was based (Article 10.1 of Annex I of Decree No. 764/00) were not applicable to Telecom Argentina nor to Personal. Nevertheless, the CNC filed a new complaint against both companies for the alleged non-compliance of the regulations provided in the List of Conditions of the Basic Telephone Service and the Mobile Telephone Service, respectively.

The Management of Telecom Argentina and Personal, with the advice of their legal counsels, believes that there are solid arguments to defend themselves against the new complaint. This incident is different from other cases reviewed by the CNC regarding network outages of other mobile operators that occurred during the second quarter of 2012. Management believes that any possible sanctions would not materially affect the financial and economic position of Telecom Argentina and Personal. However, it cannot be assured that the new procedure will not result in administrative penalties that will make it necessary for Telecom Argentina and Personal to defend their rights at court.

Assessment of Mobile Services: SC Resolution No. 45/12

On May 31, 2012, the SC issued Resolution No. 45/12 providing that the assessment time of calls originated in users of mobile services shall start from the moment in which the call s recipient answers the phone in person or through a voice mail, until the moment in which the communication ends, and that any communications that are not answered by the recipient (either in person or through a voice mail) shall not be invoiced or charged in any way.

The assessment provided by Resolution No. 45 was successfully implemented by Personal as October 11, 2012.

Rates

The Price Cap was a rate regulation mechanism applied to calculate changes in Telecom Argentina s basic services rates using the U.S. Consumer Price Index (the U.S. C.P.I.) and an efficiency factor. However, in October 2001, a preliminary injunction prohibited Telecom Argentina from applying rate increases by applying the U.S. C.P.I.

Public Emergency Law No. 25,561 explicitly prohibited rate adjustments. As of the date of this Annual Report, the pesification and the freeze of regulated rates remain in force. Therefore, the Price Cap regime is suspended and it is unknown if and when it will come back into effect or be replaced by other rate regulation procedures.

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 negotiations between Telecom Argentina and the Argentine government. The Public Emergency Law has been subsequently extended through December 31, 2013.

On March 6, 2006, Telecom Argentina executed a Letter of Understanding (the Letter of Understanding 2006) with the Argentine government pursuant to which Telecom Argentina will be permitted to raise the termination charge for international incoming calls, increase the time bands for peak-hour rates applied to local and domestic long-distance calls and incorporate certain modifications to the current 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 administrative steps. As of the date of this Annual Report, such fulfillment has yet to occur. Although we expect such fulfillment to occur, we cannot guarantee whether 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 future rate scheme. Also, 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 satisfy them.

Rate Regulations

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 methods to implement a new rate 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

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the Argentine telecommunications industry. One of the main principles of the Rate Rebalancing was to have a neutral effect on the licensee s revenues.

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. Decree No. 2,585/91 established that the Rate Rebalancing should have a neutral effect on the licensees revenues. In developing the rate 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 methods 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 a method 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, during fiscal year 2007, Telecom Argentina recorded a liability on the CNC final results, which was shown as a deduction from the Resolution No. 41/07 receivables. In April 2009, the CNC notified the offsetting of the P$9.5 million Rate Rebalancing amount with the Resolution No. 41/07 receivables (See Tax Stability: Social Security Contribution Variations), thus ratifying the registration made by Telecom Argentina.

Historical Rates. The following table sets forth certain of our maximum monthly rates for various components of local service and domestic long-distance service which have been in effect since 1999:

	Maximum rate (1)	
Residential:		
Installation charge per line	P$	150
Monthly Basic Charge per line	U.S. Dollars (2)	13.23
Commercial:		
Installation charge per line	U.S. Dollars (2)	150
Monthly Basic Charge per line	U.S. Dollars (2)	27.30
Prices:		
Price per pulse (nominal)	U.S. Dollars (2)	0.0469

(1) Figures shown do not include value added tax charged to customers.

(2) In accordance with Public Emergency Law, these rates were pesified at the exchange rate US$1.00 to P$1.00.

The Letter of Understanding 2006 described under Rates above 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 undergo an annual reduction until the Regulatory Bodies determine that there is effective competition in the markets we serve. The Price Cap was a regulation method applied in order to calculate changes in Telecom Argentina s rates, based on changes in the U.S. C.P.I. and an efficiency factor. 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 was maintained pursuant to the Rate Agreement, whereby Telecom Argentina was 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 CNC notified Telecom Argentina of the completion of the Price Cap 1998 audit which did not show any balance that needed to be applied. As a result of the 1999 Price Cap audit process and Telecom Argentina s reviews, the Regulatory Authority notified us, in August 2009, of the existence of an outstanding balance of P$3.1 million plus interest which has yet to be applied. This amount was offset with the credit resulting from SC Resolution No. 41/07. See Tax Stability: Social Security Contribution Variations.

On April 6, 2000, the Argentine government, Telefónica and Telecom Argentina signed an agreement (Price Cap 2000) that set the price cap efficiency factor at 6.75% (6% set by the SC and 0.75% set by Telecom Argentina and Telefónica) for the period of November 2000 to October 2001.

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The 2000 Price cap audit results are still pending. Should the outcome of these audit results yield a payable by Telecom Argentina, this payable can be offset with the receivables generated by Resolution No. 41/07. See Tax Stability: Social Security Contributions Variation.

In April 2001, the Argentine government, Telefónica and Telecom Argentina signed an agreement (2001 Price Cap) that set an efficiency factor for reduction of rates at 5.6% for the period from November 2001 to October 2002.

However, in October 2001, a preliminary injunction against Telecom Argentina disallowed Telecom Argentina to apply rate increases by reference to the U.S. C.P.I. Telecom Argentina appealed this injunction arguing that if one part of the formula could not be applied, the Price Cap system should be nullified. Finally, Public Emergency Law No. 25,561 explicitly prohibited rate adjustments. As of the date of this Annual Report, the pesification and the freeze of the regulated rates are still in force, therefore the price cap regime is suspended and it is unknown if and when it will come back into effect or be replaced by other rate regulation procedures. See Item 8 Financial Information Legal Proceedings Civil, commercial, labor, regulatory, tax and other matters proceedings General Proceedings Consumer Trade Union Proceedings.

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 could not exceed the amount charged in mature international markets. According to 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 2012 were P$66.8.

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 result of the application of Decree No. 92/97 and in order to offset rate reductions for 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 rate that is available to certain retired people and low-consumption residential customers.

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

Letter of Understanding Relating to Basic Services. Pursuant to the Letter of Understanding 2006, described under Rates, 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 rates. 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 Rates for a description of the status of the letter of understanding 2006.

Tax on Deposits to and Withdrawals from Bank Accounts (IDC). On February 6, 2003, the Ministry of Economy and Public Finance, through Resolution No. 72/03, defined the method to allow, going forward, rate 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 the existence of a remaining unrecovered amount of approximately P$23 million that arose before the issuance of Resolution No. 72/03. Telecom Argentina planned to claim such amount within the rate renegotiation process (See Rates). In April 2007, Telecom Argentina provided the CNC with supporting documentation about this amount for its audit. Telecom Argentina had access to the CNC s audit documentation which corroborates the amounts claimed by Telecom Argentina and its application of a similar offsetting method pursuant to Resolution No. 41/07 described below. As a result, the Company recorded as Non-current Other receivable a total of P$23 million.

Tax Stability: Social Security Contribution Variations. On March 23, 2007, the SC issued Resolution No. 41/07 relating to the impact of variations in social security contributions occurring over the past several years and the proposed use for the resulting savings and increases in contribution rates that have occurred. Pursuant to Resolution No. 41/07, Telecom Argentina may offset the impact of costs caused by increases in social security contribution rates that have been implemented in accordance with the applicable regulations against the savings caused by reductions in the levels of social security contributions initially earmarked for the argentina@internet.todos Program.

Telecom Argentina s implementation of Resolution No. 41/07 was subject to CNC audits, which were carried out during the third quarter of 2007. Telecom Argentina gained access to the documentation related to the CNC s audits and it showed no significant differences as compared to the net amounts that Telecom Argentina had determined.

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Consequently, Telecom Argentina recorded a receivable from increases in social security contributions and canceled payables stemming from reductions in social security contribution rates and other fines due by the Company. As of December 31, 2012, Telecom Argentina has a net receivable of P$62 million which, in addition to the receivable of P$23 million corresponding to the IDC, is included in the line item Other receivables as non-current receivables.

Since Resolution No. 41/07 gives Telecom Argentina the right to offset receivables with existing and/or future regulatory duties and, given its intention to exercise this right, the receivable was recorded net of allowances. As of December 31, 2012, the allowances corresponding to these regulatory duties amounted to P$85 million.

In 2012, Telecom Argentina continued billing customers the increases in its social security contribution rate accrued from October 2008, applying the same method used to bill the IDC.

Other Regulations

Regulation for the Call-by-Call Selection of the Providers of Long-Distance Services. On December 28, 2001, the former Ministry of Infrastructure and Housing issued General Resolution No. 613/01, approving 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 claims submitted by several carriers objecting to General Resolution No. 613/01, the Ministry of Economy and Public Finance issued General Resolution No. 75/03, which introduced several changes to the regulations setting forth the 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 related to 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, this long-distance service modality has not been implemented.

Buy Argentine Act. 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 priority 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 Basic telephone services. Priority must be given to national goods and services as 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 information necessary for them to participate. This mandatory publication requires considerable lead time before 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 by 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 biannual returns addressing its compliance with these rules. Non-compliance with this obligation is subject to administrative sanctions. Since this regulation requires Telecom Argentina to make bids for goods and services and/or to obtain any necessary approvals by a relevant authority, and given the higher administrative expenses derived from the obligation to present biannual returns, this regulation reduces Telecom Argentina s operating flexibility.

Rendering of Fixed Telephony Through Mobile Telephony Access Infrastructure. In August 2007, through SC Resolution No. 151/07, fixed telephony was granted access to particular frequency bands, with the purpose of providing Basic telephone services in rural and suburban areas through the mobile access infrastructure used for

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the provision of mobile telephony service. Telecom Argentina and Telefónica provide this service within their respective fixed telephony service original regions. Telecom Argentina has installed fixed lines based on this technology in order to satisfy service demand in rural and suburban areas.

Calling Party Pays CPP. As from April 15, 1997, pursuant to Decree No. 92/97 and SC General Resolutions No. 263/97 and No. 344/97, mobile telephone services apply the calling party pays, or CPP, system, whereby the party placing a call from a fixed-line to a mobile 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 mobile party pays for the call received.

In March 2002, 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 other s networks at agreed prices.

In accordance with SC General Resolution No. 124/02, since January 2003, mobile operators can charge the CPP for international calls whereby overseas calls that terminate in mobile 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 mobile number.

The price per minute for the CPP (for fixed-line to mobile calls) is regulated by the SC based on average traffic volume and costs, as reported by the mobile 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, the SC has yet to complete these revisions.

The CPP price per minute for international calls has been agreed upon by the mobile 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. This regulation intends to regulate the commercial distribution of mobile services and includes mandated registration of personal data for all customers, creating a Public Registry in the SC named *Registro Público Nacional de Clientes y Usuarios de Comunicaciones Móviles.*

Regulations Applicable to PCS Services

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

AMBA. In June 1999, 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. Personal and Unifón have divided the 40

MHz license awarded to the two companies and the additional 20 MHz license granted to Miniphone (10 per company).

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

In August 2006, the CNC issued Resolution 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. 1,040/06 which enabled Personal to recover the promissory notes used to guarantee the granted PCS licenses and, therefore, all such notes have been recovered.

Personal also has licenses for Data Transmission and Value Added Services (granted by Resolution SC No. 18/96 and confirmed by Resolution SC No. 55/96), and for National and International Long Distance Telephony Service (Registered by Resolution SC No. 502/01).

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. This authorization was conditioned upon the return, without charge, of frequency bands exceeding an aggregate 50 MHz in accordance with the effective laws and pursuant to a plan to be subsequently issued. See Regulatory Framework

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Regulatory Bodies and General Legal Framework Licences granted as of December 31, 2012 Radio electric spectrum auction for a description of the reassignment of the 850 Mhz and 1900 Mhz frequency bands returned by Telefónica Móviles Argentina S.A.

DISCLOSURE PURSUANT TO SECTION 219 OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 (ITRSHRA)

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the Government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

In accordance with our Code of Ethics and Conduct, we seek to comply with all applicable laws.

Activities relating to Iran

Telecom Group

The only activity we have that, to our knowledge, relates in any way to Iran is our roaming agreement with Mobile Company of Iran (MCI) (formerly TCI).

Our roaming agreements allow our mobile customers to use his or her mobile device on a network outside the subscriber s home network. (See Glossary of Terms Roaming).

Like all major mobile networks, in response to the competition and customers demands Personal has entered into roaming agreements with many foreign mobile networks, including MCI, to allow their customers to make and receive calls abroad.

Roaming agreements are, including the one relating to Iran, on standard terms and conditions. Entering into roaming agreements is an activity carried out in the ordinary course of business by a mobile network operator.

Roaming agreements are, generally, reciprocal. Pursuant to a roaming agreement when our mobile customers are in a foreign country covered by the network of an operator with which we have a roaming agreement (the Foreign Operator), our mobile customers may make and receive calls on their mobile phone using the Foreign Operator s network. Likewise, the Foreign Operator s customers may make and receive calls using our networks when these customers are in Argentina.

The Foreign Operator bills us for the calls made and received by our roaming customers at the rate agreed upon in the applicable roaming agreement. We then bill these customers according to the specific roaming fees in their subscription agreement. Likewise, we bill the Foreign Operator at the roaming rate agreed upon in the applicable roaming agreement. The Foreign Operator bills its clients for the calls made and received using our networks according to customer agreements. Roaming agreements do not, generally, contemplate other fees or disbursements.

In 2012, the consolidated impact on net profit (loss) arising from our roaming agreements with MCI was as follows:

- our total revenues received under roaming agreements with MCI were approximately US$11 (eleven U.S. dollars).
- our total charges paid under roaming agreements with MCI were approximately US$369 (three hundred and sixty-nine U.S. dollars).

These revenues and charges are immaterial to our consolidated revenues and operating expenses, respectively. Because we do not separately allocate costs directly attributable to the service provision or other overhead costs to these transactions, the amount of our consolidated net profits earned under these agreements is not determinable, but it does not exceed our gross revenues from the agreements.

The purpose of our roaming agreements is to provide our customers with coverage in areas where we do not own networks. For that purpose, we intend to continue maintaining our roaming agreements.

Telecom Italia

We are also required to disclose our affiliates activities relating to Iran. We have been informed that other members of the Telecom Italia Group also have entered into roaming agreements with Iranian telecommunications operators. The information in this section is based solely on information provided to us by our Parent Telecom Italia S.p.A. for purposes of complying with our obligations under Section 13(r) of the Exchange Act. Information set forth below is for the consolidated Telecom Italia Group and includes the impact of our revenues and charges described above.

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The Telecom Italia Group operates one of the largest mobile network in Italy. Through its foreign subsidiaries, Telecom Italia also has large mobile operations in Brazil (Tim Participações S.A. by means of its subsidiary TIM Celular S.A.) and Argentina (Telecom Argentina S.A. by means of Telecom Personal S.A.).

Telecom Italia informs us that the only activities that Telecom Italia has that, to its knowledge, relate in any way to Iran are:

- roaming agreements with the following Iran mobile phone operators: Taliya, KFZO TKC (formerly Payam Kish), Irancell (MTN) and Mobile Company of Iran (MCI) (formerly TCI); and

- commercial relationship for the delivery of traffic from Iran to its networks and from its networks to Iran (International Carrier Agreements). To this end, its subsidiary Telecom Italia Sparkle S.p.A. (TI Sparkle) directly and through its subsidiaries entered into agreements with Telecommunication Infrastructure Company (TIC) in Iran.

Roaming. Telecom Italia informs us that in 2012, the impact on Telecom Italia Group net profit (loss) arising from such roaming contracts is analyzed as follows:

- its total revenues from roaming agreements with Iranian networks were approximately 330 thousand euros (of which 322 thousand euros recorded by Telecom Italia S.p.A.);
- its total charges from roaming agreements with Iranian networks were approximately 319 thousand euros (of which 296 thousand euros recorded by Telecom Italia S.p.A.).

The purpose of these agreements is to provide coverage in areas where Telecom Italia does not own networks. For that purpose, it intends to continue maintaining these roaming agreements.

International Carrier Agreements. As a rule in the modern telecommunication business, when traffic from a specific network is placed to or transported through another carrier s network (the Host Network), the Host Network receives a fee from the incoming network.

Telecom Italia informs us that in 2012, the impact on its net profit (loss) arising from the above International Carrier Agreements is analyzed as follows:

- its total revenues from traffic from networks located in Iran to its networks were approximately 9.3 million euros;

- its total charges from traffic to networks in Iran from its networks were approximately 0.4 million euros.

The purpose of this agreement is to allow exchange of international traffic. Consequently, Telecom Italia intends to continue maintaining this agreement.

Furthermore, in 2012 its subsidiary Olivetti I-Jet in liquidation recorded 2,500 euros for the sale of a printer together with the related print heads.

All such amounts of revenues and charges are de minimis with respect to Telecom Italia consolidated revenues and operating expenses, respectively.

CAPITAL EXPENDITURES

Capital expenditures (investment in Property, Plant and Equipment PP&E and intangible assets) amounted to P$3,257 million in the year ended December 31, 2012, P$3,192 million in the year ended December 31, 2011, and P$2,493 million in the year ended December 31, 2010.

The following table sets forth our Total Additions (Capital Expenditures plus Materials) for the years ended December 31, 2012, 2011 and 2010, amounting to P$3,416, P$3,359 and P$2,534, respectively.

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	Year ended December 31, 2012	2011 (P$ millions)(1)	2010
Land and buildings	88	184	143
Switching and transmission	558	640	548
Equipment and infrastructure for special projects	94	23	1
Access and outside plant	732	710	595
Computer equipment and software	636	589	495
Other	307	172	139
Subtotal tangible capital expenditures (2)	**2,415**	**2,318**	**1,921**
Rights of use, exclusivity agreements and licenses		106	20
Service connection or habilitation costs	21	22	18
Subscribers acquisition costs	821	746	534
Subtotal intangible capital expenditures	**842**	**874**	**572**
Total capital expenditures	**3,257**	**3,192**	**2,493**
Materials **(3)**	159	167	41
Total additions in PP&E and intangible assets	**3,416**	**3,359**	**2,534**

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

(2) Includes materials transferred amounting to P$209 million, P$231 million and P$282 million as of December 31, 2012, 2011 and 2010, respectively.

(3) Each year increase is calculated as the net amount between additions and transfers to work in progress during the year.

In addition, the following table shows capital expenditures for the years ended December 31, 2012, 2011 and 2010 broken down by Fixed Services and Mobile Services:

	Year ended December 31, 2012	2011 (P$ millions)	2010
Fixed Services			
Land and buildings	56	74	70
Switching and transmission	265	310	247
Equipment and infrastructure for special projects	94	23	1
Outside plant	491	455	347
Computer equipment and software	270	194	161
Other	171	131	92
Subtotal tangible capital expenditures	**1,347**	**1,187**	**918**
Rights of use, exclusivity agreements and licenses		105	16
Service connection or habilitation costs	21	22	18
Subscribers acquisition costs	61	49	42
Subtotal intangible capital expenditures	**82**	**176**	**76**
Total Fixed Services capital expenditures	**1,429**	**1,363**	**994**

Personal Mobile Services and Núcleo Mobile Services			
Land and buildings	32	110	73
Switching and transmission	293	330	301
Mobile network access	241	255	248
Computer equipment and software	366	395	334
Other	136	41	47
Subtotal tangible capital expenditures	**1,068**	**1,131**	**1,003**
Rights of use, exclusivity agreements and licenses		1	4
Subscribers acquisition costs	760	697	492
Subtotal intangible capital expenditures	**760**	**698**	**496**
Total Personal Mobile Services and Núcleo Mobile Services capital expenditures(1)	**1,828**	**1,829**	**1,499**
Total capital expenditures	**3,257**	**3,192**	**2,493**

(1) Includes P$193 million, P$171 million and P$209 million of capital expenditures in Paraguay as of December 31, 2012, 2011 and 2010, respectively.

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During 2012, capital expenditures in the Fixed Services segment were focused on the expansion of fiber optic and DWDM technology in the long-distance national network to improve transmission capacity and access speed assigned to customers and on the IP Backbone evolution through the installation of new-generation routers to cope with traffic growth. Such investments are shown in the lines of Outside plant and Switching and transmission. Additionally, focusing on the need for greater bandwidth, the deployment of a loop shortening plan continued. This plan involves the installation of outdoor cabinets with DSLAM of VDSL2 technology and will allow us to provide competitive services.

With respect to the Personal Mobile Services segment, capital expenditures have been made to extend 3G network capacity and coverage to many cities in the interior of Argentina, to expand Value Added Services platforms included in the Mobile network access and Switching and to the implementation of Number Portability. In addition, investments were allocated to direct and incremental costs incurred for the acquisition of new post-paid and Cuentas Claras subscribers with a minimum contractual period, which are included in the item subscriber acquisition costs. As a result of the expected evolution in our services, we expect to increase our capital expenditures in order to maintain the quality of our services and 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.

We estimate that our capital expenditures will be approximately P$4.7 billion for 2013 (P$3.6 billion in tangible assets and P$1.1 billion in intangible assets, particularly SAC). See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures.

The Company continues to make significant investments designed to take advantage of growth opportunities in our businesses. In the Fixed Services segment, we invest to sustain the growth in Broadband and new initiatives of VAS, to supply mobile operators with the necessary infrastructure and to continue updating commercial and support systems. We expect to continue expanding the network infrastructure and extending the 3G technology coverage and bandwidth for mobile data transmission and to adapt is commercial and support systems.

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

PROPERTY, PLANT AND EQUIPMENT

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

	As of December 31, 2012		
	Fixed Services	**Personal and Núcleo Mobile Services**	**Total**
	(P$ millions)(*)		
Land and buildings	867	98	965
Switching and transmission	1,383	1,332	2,715
Access and outside plant	2,158	994	3,152

Computer equipment and software	660	934	1,594
Materials	186	80	266
Other	145	198	343
Total PP&E, net carrying value	**5,399**	**3,636(**)**	**9,035(***)**

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

(**) Includes P$785 million located in Paraguay.

(***) Net of valuation allowance for materials for P$14 million.

All of the above-mentioned assets were used to provide service to our customers as described below.

	2012	2011 (thousands)	2010
Fixed lines in service	4,128	4,141	4,107
Fixed Internet access lines	1,629	1,550	1,380
Mobile subscribers(*)	21,276	20,342	18,211

(*) In 2012, 2011 and 2010, includes 2,301, 2,149 and 1,878 thousand Núcleo mobile subscribers, respectively, of which 6, 8 and 10 thousand were Internet (Wi-Max) customers.

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As of December 31, 2012, we have entered into purchase commitments relating to PP&E totaling P$971 million primarily for switching equipment, external wiring, network infrastructure, inventory and other goods and services. In general, the contracts are financed, directly or indirectly, by domestic and foreign vendors.

Our current major suppliers of fixed assets are Cía. Ericson S.A.C.I, Brightstar Argentina S.A., BGH S.A., IATEC S.A., Huawei Tech Investment Co. Ltd. Argentina, L.G. Electronics Argentina S.A., I.B.M. Argentina S.R.L., Alcatel-Lucent de Argentina S.A., Hewlett Packard Argentina S.R.L. and Italtel Argentina S.A.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion in conjunction with our Consolidated Financial Statements, including the notes to those financial statements, which appear elsewhere in this Annual Report. Our Consolidated Financial Statements have been prepared in accordance with IFRS. See Item 3 Key Information Selected Financial Data. The following discussion and analysis is presented by the Management of our company and provides a view of our financial condition, operating performance and prospects from Management s perspective. The strategies and expectations referred to in this discussion are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives that we implement and other factors. Since much of this discussion is forward-looking, you are urged to review carefully the factors referenced elsewhere in this Annual Report that may have a significant influence on the outcome of such forward-looking statements. We cannot provide assurance that the strategies and expectations referred to in this discussion will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to Forward-Looking Statements and Item 3 Key Information Risk Factors for descriptions of some of the factors relevant to this discussion and other forward-looking statements in this Annual Report.

Management Overview

The Telecom Group ended the 2012 fiscal year in a solid financial situation as well as with a strong market position. The Telecom Group has continued to expand its Internet accesses base, reaching 1.6 million fixed Internet accesses, and its mobile subscribers base, reaching 21.3 million mobile subscribers (including Personal and Núcleo). To promote the expansion of business total additions in PP&E and intangible assets amounted to P$3,416 million in 2012, representing 15% of consolidated total revenues in 2012.

Telecom is considered one of the leading companies in the Argentine telecommunications sector. The Company has attained this position without neglecting its commitment to generate economic value for its shareholders, demonstrating good performance in terms of revenues and profitability. Telecom Argentina had consolidated net financial assets of P$3,648 million as of December 31, 2012, compared to consolidated net financial assets of P$2,684 million and P$1,224 million as of December 31, 2011 and 2010, respectively. The strong cash flow generation has allowed Personal and Telecom Argentina to maintain the high level of capital expenditures and has allowed Telecom Argentina to pay P$807 million in cash dividends during 2012 without incurring any financial indebtedness.

The following discussion and analysis summarizes relevant measures of results of operations presenting items by nature. The Company believes that the presentation of the measure operating income before depreciation and amortization provides investors and financial analysts with appropriate information that is relevant to understanding the Company s past, present and future performance. Moreover, operating income before depreciation and amortization is one of the key performance measures used by Telecom s Management for monitoring the Company s profitability and financial position, at each segment and at consolidated levels.

Continuing the trend of prior years, revenues in 2012 grew by 20% compared to 2011, reaching P$22,117 million, and grew by 26% in 2011 compared to 2010, reaching P$18,498 million. Operating income before depreciation and amortization in 2012 increased P$577 million as compared to 2011, reaching P$6,570 million (equivalent to 30% of total revenues), while in 2011 it increased P$1,126 million as compared to 2010, reaching P$5,993 million (equivalent to 32% of total revenues). Operating income increased P$109 million in 2012 as

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compared to 2011, reaching P$3,966 million (equivalent to 18% of total revenues) while in 2011 it increased P$695 million as compared to 2010, reaching P$3,857 million (equivalent to 21% of total revenues). Net income increased P$190 million in 2012 as compared to 2011, reaching P$2,732 million (equivalent to 12% of total revenues), while it increased P$593 million in 2011 as compared to 2010, reaching P$2,542 million (equivalent to 14% of total revenues).

Our results of operations continue to be affected by the Pesification and freeze of regulated rates in the Fixed Services segment and macroeconomic factors. For a discussion of these and other factors that may affect our results of operations. See Years ended December 31, 2012, 2011 and 2010 Factors Affecting Results of Operations and Trend Information below.

For a detailed analysis of our results of operations for fiscal year 2012, see Years ended December 31, 2012, 2011 and 2010 below.

Economic and Political Developments in Argentina

In the second half of 2001 and through the first half of 2002, Argentina experienced a deep economic recession together with an overwhelming financial and political crisis. The rapid and radical nature of changes in the Argentine social, political, economic and legal environment created a very unstable macroeconomic environment. In January 2002, the Argentine government abandoned the Convertibility regime which had fixed the peso / U.S. dollar exchange rate at 1:1 and adopted emergency economic measures which converted and froze our rates for the voice-regulated services in the Fixed Services segment into pesos at a 1:1 peso / U.S. dollar ratio (referred to herein as Pesification), among other measures. Capital outflows increased sharply, leading to a massive devaluation of the peso and an upsurge in inflation. By the end of 2002, the peso had devalued by 237% (having devalued 280% as of June 30, 2002) while the wholesale price index increased 118% and the consumer price index increased 41%.

After the abovementioned crisis, the Argentine economy began a new period of rapid growth. Argentina s GDP increased for six consecutive years, from 2003 to 2008, at an average rate of 8.5%. However, the international financial crisis affected the country decreasing its growth rate significantly to 0.9% in 2009. Throughout 2010 and 2011, the economy showed a rapid and strong recovery growing at a 9.2% and 8.9% annual rate respectively, but in 2012 a slowdown affected the economy. Inflation emerged as a main concern for the economy. According to official statistics reported by the INDEC, the consumer price index rose, 7.7% in 2009, 10.9% in 2010,9.5% in 2011 and 10.8% in 2012, while the wholesale price index increased 10.0% in 2009, 14.6% in 2010, 12.7% in 2011 and 13.1% in 2012. Nonetheless, since 2007, the public credibility of the INDEC as a reference for reporting Argentine economic statistics has been challenged. For further detail regarding Argentine economic conditions see Item 3 Key Information Risk Factors Risks relating to Argentina Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom s margins.

During the period between 2005 and 2007, the peso remained relatively stable against the U.S. dollar, with US$1.00 trading within a range of P$2.86 to P$3.16. However, the international financial crisis created uncertainty that affected the Argentine exchange rate, as reflected by a peso/dollar exchange rate increase of 9.5% and 10.1% per year in 2008 and 2009, respectively. The peso/dollar exchange rate was relatively stable in 2010 and 2011, ending 2010 at P$3.98 per US$1.00 and 2011 at P$4.30 per US$1.00, increasing 4.7% and 8.0% respectively. In 2012, the pace of peso devaluation accelerated to 14.4% and the official exchange rate ended the year at a P$4.92 per US$1.00. Increasing restrictions on the foreign exchange (FX) market has been established, and an authorization from the AFIP (National Tax Authority) is now required to access the FX market to acquire foreign currencies. These restrictions intensified the gap between the FX rate and the implicit FX rate, reached through the valuation of securities trading in the local market in pesos and those trading in an external market in other currency.

After a vigorous growth in 2010—2011, several factors influenced the slowing in the Argentine economy in 2012. The global economy did not expand as strong as expected, and financial volatility continued at high levels. Locally, key agricultural sectors suffered from a heavy drought, reducing production and Argentine s exports. Investment levels were hit by import restrictions and by a significant deterioration in the construction sector, mainly due to the increasing restrictions in the FX market, disturbing the normal functioning of the housing market. Private consumption remained positive, although growing at a much slower pace. In the second half of the year, the economy started showing some signs of recovery, ending 2012 with an economic growth of 1.9% over 2011.

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The most important factors for the economy in 2012 can be summarized as follows:

- The fiscal and debt difficulties in developed countries continued affecting global growth and financial stability. Particularly, in the euro area, the return to recovery after a protracted contraction is delayed, while developing countries showed a less dynamic level of growth. On the other hand agricultural commodities prices reached high levels, mainly due to climatic problems across the globe, giving support to the already reduced Argentine crop harvest. The Brazilian economy suffered a significant deceleration that reduced imports from Argentine products by 1.2% year-on-year.

- Private consumption still remained positive and continued moving the demand forward, although slower than previous years, due to lower consumer confidence. Consumption was encouraged mainly by expansive fiscal policies and lax monetary policy that maintained real interest rates at low levels and promoted consumption. On the other hand, investment levels were affected by uncertainties in the access to the FX market and by limitations on equipments and parts purchased from abroad. Inflation remained high and, according to INDEC, the annual inflation as of December 2012 was 10.8%, which is substantially lower than private estimates.

- Argentine international commerce contracted in 2012, due to lower levels of exports of 3%, amounting to US$ 81.2 billion and reduced imports of 7%, totaling US$68,5 billion. As a result, the trade balance totaled US$12.7 billion increasing 27% over 2011. The strong drought affected agricultural production and its exports, while industrial exports dropped 4% year over year, mainly due to a weaker demand from the Brazilian economy. The imports reduction is due to the lower levels of investments and the decelerated economic growth.

- Expansive fiscal spending continued through 2012, growing by 31%. Despite efforts to cap public subsidies and transfers to the provinces, the increase on public social spending contributed to record high spending as a percent GDP. Fiscal revenues expanded 30% over 2011, due to a slowing economy and diminished export taxes, which helped to reach the first non-Financial Public Sector deficit in decades, of 4.4 billion pesos or 0.2% of GDP. When public debt services (interests and GDP Warrants) are considered the Fiscal Deficit reached 55.6 billion pesos, close to 2.5% in GDP terms. A significant portion of government revenues were obtained from transfers from the Central Bank and the National Pension Funds.

- The official exchange rate slightly accelerated through 2012 with depreciation of 14.4%, ending 2012 at P$4.92 per US$1.00 dollar. The BCRA intervened in the exchange market acquiring and selling foreign currency when supply and demand grew strongly, avoiding a nominal appreciation or depreciation and reducing the volatility on the exchange rate. The Government continued implementing measures to increase control over the exchange market, such as the need for prior authorization from the tax authorities (AFIP) when acquiring foreign currency in the market. The new restrictions deepened the gap between the official FX rate and the implicit FX rate already mentioned.

- Monetary indicators continued to show signs of expansion; the monetary base rose 38% in 2012. This expansion was mainly driven by increasing assistance from the Central Bank to the National Treasury and the Central Bank s positive net purchases of foreign currencies in the exchange market, part of which were then transferred to the national government to serve service the national debt. Private deposits in pesos rose 41% annually, helped by the growth in time deposits, on the contrary deposits in dollars decreased 35% when compared to the end of 2011. As a result, interest rates on placements (Private Badlar rate) performed at an average rate of 14%. Despite the economic slowdown, loans granted in pesos continued expanding due to the high liquidity of the financial system and BCRA initiatives to foster lending, thus encouraging private consumption. Finally, international reserves totaled 43,292 million dollars as of December 31, 2012, showing a 7% year over year decrease.

- The labor market was relatively stable despite a slowing economy, reaching an unemployment rate of 6.9% in the final quarter of 2012, a small increase from the same quarter a year ago. Furthermore, salaries in nominal terms expanded 24.5% annually, as of December 2012.

- According to public figures, the Gross National Public Debt amounted to US$183 billion as of June 2012, which represented approximately 41.5% of Argentina s GDP, not including those securities that were eligible for, but not tendered in 2005 and 2010 Debt Exchanges of its 2002 defaulted debt. The holdouts situation has not been resolved and is subject to continued litigation, which is disturbing the normal access to the international financial markets and impacting sovereign risk. Nonetheless, Argentina holds a solid position in terms of public indebtedness; its level of debt to GDP is relatively

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low, and a significant amount is held by National Public Sector Agencies (54.9% of the total National Debt) like ANSES. As a result, the portion of public debt exposed to market risk represents nearly one third of the total debt.

The Argentine economy faced many changes in 2012 and showed a strong deceleration that had an impact on the telecommunication sector. An improved scenario is expected for 2013, hopefully aided by the recovery of the agricultural production and the Brazilian economy.

Because the substantial majority of our property and operations are located in Argentina, macroeconomic and political conditions in Argentina will continue to affect us. The Argentine government has exercised and continues to exercise significant influence over many aspects of the Argentine economy. Accordingly, Argentine governmental actions concerning the economy could significantly affect private sector entities in general and our operations in particular, as well as affect market conditions, prices and returns on Argentine securities, including ours. While our business continued growing in 2012, our operating results, financial condition and cash flows remain vulnerable to fluctuations in the Argentine economy. See Item 3 Key Information Risk Factors Risks relating to Argentina .

Critical Accounting Policies

Our Consolidated Financial Statements, prepared in accordance with IFRS, are dependent upon and sensitive to accounting methods, assumptions and estimates that we use as a basis for its preparation. We have identified critical accounting estimates and related assumptions and uncertainties inherent in our accounting policies (that are fully described in Note 3 to our Consolidated Financial Statements), which we believe are essential to an understanding of the underlying financial reporting risks. Additionally we have identified the effect that these accounting estimates, assumptions and uncertainties have on our Consolidated Financial Statements.

Use of estimates

IFRS involves the use of assumptions and estimates that may significantly affect the reported amounts of assets, liabilities and results of operations and any accompanying financial information.

Management considers financial projections in the preparation of the financial statements as further described below. These financial projections anticipate scenarios deemed both likely and conservative based upon macroeconomic, financial and industry-specific assumptions. However, actual results may differ significantly from such estimates.

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

The most important accounting estimates, those which require a high degree of subjective assumptions and judgments, are the following:

Revenue recognition

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Telecom Group and their amount can be measured reliably. Revenues are stated net of estimated discounts and returns.

Revenues from upfront connection fees for fixed, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred over the term of the contract or, in the case of indefinite period contracts, over the average period of the customer relationship (approximately nine years for the fixed telephony customers). Therefore, these revenues are influenced by the estimated expected duration of customer relationships for indefinite period contracts.

Revenues are also subject to estimations of the traffic measures. Unbilled revenues from the billing cycle dating to the end of each month are calculated based on the traffic and are accrued at the end of the month. In addition, revenues from unexpired prepaid calling cards are recognized on the basis of the minutes used, at the contract price per minute.

Changes in these estimations, if any, may require adjustments to recorded revenues.

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PP&E and intangible assets

Useful lives and residual value

We record PP&E and intangible assets at acquisition or construction cost. PP&E and intangible assets, except for indefinite useful life intangibles, are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the depreciable amount of the assets and their useful lives involves significant judgment. We periodically review, at least at each financial year-end, the estimated useful lives of its PP&E and amortizable intangible assets.

Recoverability assessment of PP&E and intangible assets with finite useful life

At least at every annual closing date, we assess whenever events or changes in circumstances indicate that PP&E and amortizable intangible assets may be impaired.

Under IFRS, the carrying value of a long-lived asset is considered impaired by the Company when the recoverable amount of such asset is lower than its carrying value. In such event, a loss would be recognized based on the amount by which the carrying value exceeds the recoverable amount of the long-lived asset. The recoverable amount is the higher of the fair value (less costs to sell) and its value in use (present value of the future cash flows expected to be derived from the asset, group of assets or cash generating unit). Once an impairment loss is identified and recognized, future reversal of impairment loss is permitted only if the indicators of the impairment no longer exist or have decreased.

The identification of impairment indicators and the estimation of the value in use for assets (or groups of assets or cash generating units) require Management to make significant judgments concerning the validation of impairment indicators, expected cash flows and applicable discount rates. Estimated cash flows are based on significant Management s assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, capital cost, etc.

For the years presented, we estimated that there are no indicators of impairment of assets that are subject to amortization.

However, changes in our current expectations and operating assumptions, including changes in our business strategy, technology, competition, changes in market conditions or regulations, and the outcome of the rates negotiations for regulated fixed services with the Argentine government, could significantly impact these judgments and could require future adjustments to the carrying amount of recorded assets.

Intangible assets with indefinite useful life PCS license

We determined that Personal s PCS license met the definition of an indefinite-lived intangible asset for the years presented. Therefore, Personal does not amortize the cost of its license. However, Personal tests it annually for impairment. An impairment loss is recognized when the carrying amount exceeds the recoverable amount. The recoverability assessment of an indefinite-lived intangible asset such as the PCS license requires our Management to make assumptions about the future cash flows expected to be derived from such asset.

Such estimated cash flows are based on significant Management s assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, discount rate, etc.

Personal s net cash flows projection is denominated in Argentine Pesos, its functional currency. However, due to the fact that there is no prevailing long-term discount rate in pesos available in the market, Personal: (a) has converted such peso-denominated cash flows into US dollars using future estimated exchange rates applicable to each period; and (b) has discounted these US dollar-denominated cash flows at an annual US dollar rate of approximately 14% in order to obtain the recoverable value of intangible assets with indefinite useful life. Future cash flows estimates are based on Management s projections for a period not to exceed five years and then taken to perpetuity assuming a growth rate of 2% per annum.

Through this evaluation, it was determined that the carrying amount of the PCS license did not exceed the recoverable amount of the asset. As a result, no impairment has been recognized.

Our judgments regarding future cash flows may change due to future market conditions, competition, business strategy, the evolution of technology, changes in regulations and other factors. These changes, if any, may require material adjustments to the carrying amount of the PCS license.

Income Taxes and Recoverability assessment of deferred income tax assets

We are required to estimate our income taxes (current and deferred) in each of the companies of the Telecom Group according to a reasonable interpretation of the tax law in effect in each jurisdiction where the companies operate. This process may involve complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized for all deductible temporary differences to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets requires estimating future taxable income based on the Company s projections and takes into account conservative tax planning. If actual results differ from these estimates due to changes in tax authority s interpretations and the new fiscal jurisprudence, or we adjust those estimates in future periods, our financial position, results of operation and cash flows may be materially affected.

The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law as of the end of the reporting period and the effects of future changes in tax laws or rates are not anticipated.

Receivables and payables valued at amortized cost

Receivables and payables valued at amortized cost are initially recorded at their fair value, which is generally determined by using a discounted cash flow valuation method. The fair value under this method is estimated as the present value of all future cash flows discounted using an estimated discount rate, especially for long-term receivables and payables. The estimated discount rate used to determine the discounted cash flow of long-term receivables and payables is an annual rate in pesos ranging between 19% and 28% for years 2012 and 2011. Additionally, an annual U.S. dollar rate of approximately 8% was used for discounting long-term receivables denominated in U.S. dollars during 2012 and 2011. The difference between the initial fair value and the nominal amount of receivables and payables is recognized as finance income or expense using the effective interest method over the relevant period.

Changes in these estimated discount rates could materially affect our financial position and results of operations.

Provisions

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

Allowance for Doubtful Accounts

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

Years ended December 31, 2012, 2011 and 2010

For purposes of these sections, the fiscal years ended December 31, 2012, 2011 and 2010 are called 2012, 2011 and 2010, respectively.

Our results of operations are determined in accordance with IFRS. The Telecom Group provides customers with a broad range of telecommunication services. To fulfill its purpose, it conducts different activities that are distributed among the companies in the Group. Each company represents an operating segment. These operating

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segments have been aggregated into the following segments according to the nature of the products and services provided and economic characteristics:

Segment	Company of the Telecom Group / Operating Segment
Fixed Services	Telecom Argentina S.A. Telecom Argentina USA, Inc. Micro Sistemas S.A. (i)
Personal Mobile Services	Telecom Personal S.A. Springville S.A. (i)
Núcleo Mobile Services	Núcleo S.A.

(i) Dormant entity at December 31, 2012.

The main products and services in each segment are:

- Fixed Services: local area, national long-distance and international communications, supplementary services (including call waiting, itemized invoicing, voicemail, etc.), interconnection with other operators, data transmission (including private networks, point-to-point traffic, radio and TV signal transmission), Internet services (Broadband and Arnet Mobile), IT solution outsourcing and sales of equipment.

- Personal Mobile Services and Núcleo Mobile Services: voice communications, GSM and 3G mobile communications over UMTS / HSPA / HSPA+ networks (including high-speed mobile Internet content and applications download, multimedia messaging, online streaming, corporate e-mail, social network access and contacts save services) and sale of mobile communication devices (handsets, 3G modems and tablets).

The following table shows a breakdown of our revenues by business segment for the year ended December 31, 2012:

Segment	Revenues (1) (P$ million)	Percentage of Consolidated Revenues
Fixed Services	6,023	27.2
Personal Mobile Services	15,227	68.9
Núcleo Mobile Services	867	3.9
TOTAL	**22,117**	**100.0**

(1) Includes service revenues and equipment sales and the effect of elimination of intersegment transactions.

Management s explanations under (B) Results of Operations by Segment below regarding changes in financial condition and results of operations for years 2012, 2011 and 2010 related to segments of the Company have been provided based on financial information under IFRS as disclosed in Note 28 to our Consolidated Financial Statements. For the year 2011, the CEO assessed the operating segments performance both under Argentine GAAP and IFRS. During the year 2010, the financial information provided to the CEO was based on Argentine GAAP. However, we believe that Management discussion based on IFRS for years 2011 and 2010 provides a more useful and easier understanding of the Company s business and represents the measurement principles most consistent with those used in measuring the corresponding amounts in our Consolidated Financial Statements.

Factors Affecting Results of Operations

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

Impact of Political and Economic Environment in Argentina. Levels of economic activity affect our customers consumption of local and long-distance traffic, the demand for new fixed lines, Broadband and mobile services and the levels of uncollectible accounts and disconnections. Demand for our services and the amount of revenues we collect is also affected by inflation, exchange rate variations and the rate of unemployment, among others. The same factors, but to a lesser degree, affect the activity of Núcleo, that operates in Paraguay.

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Rate Regulation. Revenue from our Fixed Services segment will depend principally on the number of lines in service, the minutes of use or traffic for local and long-distance services and the rates charged for services. The rates that Telecom Argentina charges in its fixed telephony service (including both monthly basic charges and measured service charges), installation charges, public telephone charges and charges for Internet Dial-Up traffic (Regulated Services) are subject to regulation. These rates were pesified and rate increases were frozen by the Argentine government in 2002. Telecom Argentina has been in discussions with regulators with respect to rate adjustments and, on March 6, 2006, Telecom Argentina signed the Letter of Understanding 2006 with the Argentine government which permits Telecom Argentina to raise certain of its regulated rates. However, the agreement is still subject to the implementation of certain administrative steps and the pending approval by the legislative branch. Although the Company s Management expects that the contract renegotiation process will be satisfactorily completed, to date there is no certainty regarding either the outcome of the negotiations or the timing of such outcome. The impact of the rates pesification on Telecom Argentina s results of operations has been particularly relevant in recent years as a result of inflationary pressures on Telecom Argentina s costs structure. See Item 3 Key Information Risk Factors and Economic and Political Developments in Argentina.

The mobile business is not a rate-regulated industry. However, certain social or political factors could negatively affect rate adjustments, thus delaying their application to set-off the cost increases and higher capital expenditures that are required to maintain the quality of services. See Item 3 Key Information Risk Factors Risks associated with Telecom and its operations.

Competition. The Argentine telecommunications market has become increasingly competitive. Competition is mainly focused on fixed services for large customers, small enterprises and government, Internet and mobile services. To remain competitive, we must devote significant resources to capital expenditures, subscriber acquisitions costs and trade expenses (including advertising and selling commissions).

Personal and Núcleo subscribers bases are expected to continue expanding in 2013 although at more moderate rates than those of recent years, especially in Broadband and mobile Internet subscribers. We aim to obtain high-value mobile subscribers and encourage consumption through the launch of new products and services. Value Added Services will continue to be one of the main drivers of revenue growth in the mobile services business.

Also, competition has increased as a result of the implementation of the Number Portability Regulation in March 2012, which also resulted in higher subscriber retention costs.

Technology Developments and Capital Expenditures. Improvements in technology influence demand for services and equipment by our customers. For example, demand for fixed-line telecommunications services has been affected by continued significant growth in mobile business. Growth in the fixed-services business at present is being driven by the expansion of Broadband for individuals and corporations and our continuous updating of commercial and support systems. The increase in Broadband adoption has also proven to be a critical factor in facilitating the offering of Value Added Services to customers and the bundling of services. In the fixed-services business, we must invest in our fixed-line network and information technology. Specifically, in Internet services, we must constantly upgrade our access technology and software, embrace emerging transmission technologies and improve the responsiveness, functionality, coverage and features of our services.

In the mobile business, to provide its subscribers with new and better services, Personal has to enhance its mobile networks by expanding the network infrastructure and extending 3G and HSPA+ technology and bandwidth for mobile data transmission.

In addition, as new technologies develop, equipment may need to be replaced or upgraded and network facilities (in particular, mobile and Internet network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. These enhancements and the implementation of new technologies will continue requiring increased capital expenditures.

Devaluation of the peso. The peso has been subject to significant devaluations in the past. The majority of our revenues are received in pesos whereas a portion of the materials and supplies related to the construction and maintenance of our networks and services are incurred in foreign currencies. Consequently, the Pesification of our regulated rates in the fixed services and the high level of competition limits our ability to transfer to our customers the fluctuations in the exchange rates between the peso and the U.S. dollar and other currencies. In addition, any devaluation of the peso against foreign currencies may increase operating costs and capital expenditures, which will adversely affect our results of operations, considering the net effect on revenues and costs.

Increase in inflation. In the past, Argentina has experienced periods of high inflation. In recent years, inflation levels have been increasing and have remained relatively high. The economic recovery, a higher

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increase in public spending or a fast devaluation of the Argentine peso could lead to higher inflation. Any increase in inflation levels not accompanied by an increase in the rates we charge our customers could adversely affect our results of operations in nominal and real terms.

Tax pressures and litigation. Local municipalities in the regions where we operate have introduced regulations and proposed various taxes and fees for the installation of infrastructure, equipment and expansion of fixed-line and mobile networks. Local and federal tax authorities have brought an increasing number of claims against us. We disagree with these proceedings and we are contesting them. Also, jurisprudential changes in labor and pension matters have generated higher claims from employees and former employees and also increased claims from employees of a contractor or subcontractor alleging joint liability. 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, results of operations and cash flows as well.

(A) Consolidated Results of Operations

In the year ended December 31, 2012, we reported net income of P$2,732 million, compared to net income of P$2,542 million for the year ended December 31, 2011, and net income of P$1,949 million for the year ended December 31, 2010.

Consolidated revenues in 2012 were P$22,117 million compared to P$18,498 million in 2011 and P$14,627 million in 2010. The increase of P$3,619 million in 2012 (a 20% increase) can be largely attributed to the growth in the Personal Mobile Services segment and in Internet services included in the Fixed Services segment.

In 2012, operating expenses (including depreciation and amortization) totaled P$18,238 million, representing an increase of P$3,545 million, or 24%. The most significant changes in operating expenses included increases in employee benefit expenses and severance payments, taxes and fees with the Regulatory Authority (mainly caused by the increase in revenues), cost of equipments and handsets (due to an expansion of the subscriber base and customer upgrade of mobile handsets), commissions (as a result of the increase in prepaid subscriber base), energy fees, restructuration costs and in fees for services, maintenance, materials and supplies (attributable to increased service costs related to call centers, and the effect of inflation on prices).

In 2011, operating expenses (including depreciation and amortization) totaled P$14,693 million, representing an increase of P$3,196 million, or 28% compared to 2010. The most significant changes in operating expenses included increases in employee benefit expenses and severance payments, taxes and fees with the Regulatory Authority (mainly caused by the increase in revenues), cost of equipments and handsets (due to an expansion of the subscriber base and customer upgrade of mobile handsets), commissions, advertising (mainly as a result of Personal s rebranding and other promotional campaigns) and in fees for services, maintenance, materials and supplies (attributable to increased service costs related to call centers, higher supplies consumption and the effect of inflation on prices).

Our fixed telephony service (10% of the consolidated revenue in 2012 vs. 12% in 2011) is still affected by the Pesification and freezing of regulated rates in early 2002; as a result, the increase in the 2012 structure of operating expenses for the Fixed Services segment (18%) is higher than the increase in revenues (14%).

Since fiscal year 2012, the Company s Management has changed the calculating method of the Operating income before Depreciation and Amortization by not considering within it the Gain on disposal of PP&E previously disclosed within the line Revenues and other income and from this fiscal year are shown below Operating income before Depreciation and Amortization, as part of Operating income. Accordingly, comparative figures for years ended December 31, 2011 and 2010 have been adapted in the consolidated income statements.

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(A.1) 2012 Compared to 2011

	Years Ended December 31,				Change by segment (1)		
	2012	2011	Total Change		Fixed Services	Personal Mobile Services	Núcleo Mobile Services
	(P$ millions)		%		(P$ millions)		
Revenues	22,117	18,498	20	3,619	694	2,772	153
Other income	79	30	163	49	55	(6)	
Operating expenses (without depreciation and amortization)	(15,626)	(12,535)	25	(3,091)	(860)	(2,146)	(85)
Operating income before depreciation and amortization (2)	**6,570**	**5,993**	**10**	**577**	**(111)**	**620**	**68**
Depreciation and amortization	(2,612)	(2,158)	21	(454)	(111)	(336)	(7)
Gain on disposal of PP&E	8	22	(64)	(14)	(13)	(1)	
Operating income	**3,966**	**3,857**	**3**	**109**	**(235)**	**283**	**61**
Financial results, net	229	80	186	149	83	64	2
Income tax expense	(1,463)	(1,395)	5	(68)	5	(67)	(6)
Net income	**2,732**	**2,542**	**7**	**190**	**(147)**	**280**	**57**
Net income attributable to:							
Telecom Argentina (Controlling Company)	*2,685*	*2,513*	*7*	*172*			
Noncontrolling interest	*47*	*29*	*62*	*18*			

(1) Includes the effect of eliminations of Intersegment transactions.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Revenues

During 2012, total consolidated revenues increased by 20% to P$22,117 million from P$18,498 million in 2011, mainly driven by our mobile, Broadband and data transmission businesses.

Consolidated revenues for 2012 and 2011 are comprised as follows:

Years Ended December 31,				Change by segment(1)		
2012	2011	Total Change		Fixed Services	Personal Mobile Services	Núcleo Mobile Services
(P$ millions)		%		(P$ millions)		

Voice	9,927	9,184	8	743	110	572	61
Data	6,767	5,316	27	1,451	152	1,283	16
Internet	3,395	2,411	41	984	440	474	70
Service Revenues	**20,089**	**16,911**	**19**	**3,178**	**702**	**2,329**	**147**
Equipment (2)	2,028	1,587	28	441	(8)	443	6
Revenues	**22,117**	**18,498**	**20**	**3,619**	**694**	**2,772**	**153**

(1) Net of the Intersegment revenues effect.

(2) This item is composed of voice, data and Internet equipment in each year.

Voice

Revenues from voice services increased 8% to P$9,927 million in 2012 from P$9,184 million in 2011. Such increase is largely due to a growth in the mobile subscriber base, as well as an increase in the prices of our services in the Personal Mobile Services segment. Revenues from voice services represented 45% of our total consolidated revenues for 2012 compared to 50% of our total consolidated revenues for 2011.

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Fixed services

Revenues from voice services represented 53% of our total Fixed Services segment revenues attributable to third parties for 2012 compared to 58% for 2011.

Voice services mainly include revenues from monthly basic charges, charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call waiting, call forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. Most of our customers are billed monthly. They also include interconnection services (which primarily include access, termination and long-distance transport of calls), international long-distance service (which reflect payments made under bilateral agreements between the Company and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Revenues from voice retail increased 5% to P$ 2,475 million and are still affected by the Pesification and freezing of regulated rates in early 2002. Revenues from regulated rate services represented 36% of our total segment revenues in 2012 compared with a 41% in 2011.See (B) Results of Operations by Segment (B.1) Fixed Services Segment Revenues Voice-Retail for a description of the services included as Voice-retail).

Monthly basic charges increased P$75 million or 8% to P$1,032 million in 2012 from P$957 million in 2011. Such growth was due to the increase of non-regulated services during the period.

Measured service charges for supplementary services increased 5% to P$1,306 million in 2012 from P$1,242 million in 2011. Such increase was due to the effect of the flat rate packs. In relative terms, revenues from local measured service increased 6% vs. 2011 and domestic long distance increased 5% vs. 2011.

Voice wholesale revenues (including fixed and mobile interconnection revenues, together with the revenues generated by the subsidiary Telecom USA amounting to $43) amounted to $739 (-1% vs. 2011).

Interconnection services decreased 2% to P$516 million in 2012 from P$525 million in 2011. Other wholesale revenues reached P$223 million in 2012 and P$222 million in 2011.

Personal Mobile services

Revenues from voice services represented 41% of our total Personal Mobile Services segment revenues attributable to third parties for 2012 compared to 46% for 2011.

Voice services mainly include revenues from monthly basic charges, airtime usage charges and roaming charges to our customers for their use of our and other carriers networks, CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

Voice retail revenues reached P$4,461 million in 2012 (+11% vs. 2011). The increase was mainly due to increase in prices and an increase in the subscriber base.

Voice wholesale revenues reached P$1,838 million in 2012 (+6% vs. 2011). The increase was mainly due to higher traffic with mobile operators (TLRD) and an increase in roaming revenues, also due to higher traffic.

In Núcleo Mobile Services segment, voice revenues increased 17% to P$414 million in 2012 compared to P$353 million in 2011 mainly due to an increase in the subscriber base.

Data and Internet

Revenues from data and Internet services increased 32% to P$10,162 million in 2012 from P$7,727 million in 2011. Revenues from data and Internet represented 46% of our total consolidated revenues for 2012 compared to 42% of our total consolidated revenues for 2011.

Internet revenues in the Fixed segment increased 28% to P$1,993 million in 2012 from P$1,553 million in 2011. The increase was mainly due to the substantial expansion of the Broadband service (+5% of customers vs. 2011), an increase in average prices resulting in an improvement in the Average Monthly Revenue per User (ARPU) amounted to P$102.3 in 2012 vs. P$87 in 2011. As of December 31, 2012, the number of Internet accesses reached approximately 1,629,000 equivalent to 39% of fixed lines in service of Telecom Argentina (vs. 37% in 2011), compared to 1,550,000 as of December 31, 2011, increasing by 5%.

Revenues from data services in the Fixed segment increased 26% to P$735 million in 2012 from P$583 million in 2011, where the focus was to strengthen Telecom Argentina s position as an integrated TICs provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was mainly due to an increase in virtual private network services (private data network services replacing the point-to-point service), leases of circuits, dedicated lines and the growth in data center services. The majority of our revenues from data transmission services is denominated in U.S. dollars and, consequently, in 2012 and 2011, was affected by the fluctuations in the exchange rate between the peso and the U.S. dollar resulting in an increase in data transmission revenues.

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In the Mobile Services segments, data and Internet services mainly include SMS, MMS, GPRS and Internet. Revenues from data and Internet in the Personal Mobile segment increased 33% to P$7,013 million in 2012 from P$5,256 million in 2011.

Mobile data revenues reached $5.765 (29% vs. 2011). This increase is mainly due to the SMS traffic performance, related to the increase in the subscriber base and higher prices of this service, both in prepaid or postpaid customers.

As a consequence of the voice traffic increase, the usage of VAS (Internet and data) and the prices increase implemented in 2012, the ARPU increased to P$57.7 in 2012 (vs. P$51.4 in 2011).

Mobile Internet revenues in the Personal Mobile segment increased 61% to P$1,248 million in 2012 from P$774 million in 2011. Such increases were mainly due to an increase in the subscriber base.

Equipment

Revenues from equipment increased by 28% to P$2,028 million in 2012 from P$1,587 million in 2011. This increase is mainly related to the Personal Mobile services segment in the retail business with an increase of $443 vs. 2011 and was due to a mix between the increase in the average price of the handsets of 34% and the decrease of 5% in the handsets sold.

Other Income

Other income mainly includes penalties collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided. During 2012, other income increased 163% to P$79 million from P$30 million, mainly due to an increase in penalties collected from suppliers.

Operating expenses (without depreciation and amortization)

Total operating expenses increased by P$3,091 million totaling P$15,626 million in 2012, representing a 25% increase as compared to 2011. The increase was mainly due to increases in employee benefit expenses and severance payments, fees for services, maintenance, materials and supplies, taxes and fees with the Regulatory Authority, commissions, energy fees, restructuring costs and cost of equipments and handsets.

Employee benefit expenses and severance payments	3,269	2,609	25	660	431	220	9
Interconnection costs and other telecommunications charges	1,707	1,497	14	210	(5)	199	16
Fees for services, maintenance, materials and supplies	2,109	1,719	23	390	135	245	10
Taxes and fees with the Regulatory Authority	2,018	1,595	27	423	82	337	4
Commissions	1,949	1,515	29	434	30	396	8
Cost of equipments and handsets	2,043	1,640	25	403	(15)	396	22
Advertising	660	599	10	61	17	36	8
Provisions	153	225	(32)	(72)	(75)	4	(1)
Bad-debt expense	275	169	63	106	28	77	1
Restructuring Costs	90		n/a	90	83	7	
Other operating expenses	1,353	967	40	386	149	229	8
Total operating expenses (without depreciation and amortization)	**15,626**	**12,535**	**25**	**3,091**	**860**	**2,146**	**85**

(1) Net of the Intersegment transactions effect.

Employee benefit expenses and severance payments

During 2012, employee benefit expenses and severance payments were P$3,269 million, representing a 25% increase from 2011. This was primarily due to salary increases that Telecom implemented across all segments and the increase in Telecom s headcount. In the Fixed Services segment, the increases were mainly due to salary increases and severance payments and termination benefits, as a result of an increase in the number of employees who retired or were dismissed. In the Personal Mobile Services segment there was a 9% increase in the number of employees (from 4,820 employees in 2011 to 5,254 employees in 2012).

With a total headcount of 16,808 at the end of 2012 (+3% vs. 2011), lines in service per employee reached 371 in the Fixed Services segment (slightly lower to 2011), 3,612 in the Personal mobile services segment (-4% vs. 2011) and 5,226 in the Núcleo mobile services segment (+6% vs. 2011).

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunications charges includes interconnection costs, lease of circuits and costs of international outbound calls, which reflect payments made under bilateral agreements between Telecom Argentina and international carriers in connection with outgoing calls made by our customers. Additionally, the cost of roaming and TLRD is included in the Mobile Services segments. In 2012, interconnection costs and other telecommunications charges amounted to P$1,707 million compared with P$1,497 million in 2011. The increase was mainly due to higher traffic volume.

Fees for services, maintenance, materials and supplies

Expenses related to fees for services, maintenance, materials and supplies increased 23% to P$2,109 million in 2012 from P$1,719 million in 2011. This increase was mainly due to higher maintenance costs across all segments, and to higher fees for services related to call centers (a P$173 million increase from 2011 to 2012).

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority (including turnover tax, IDC, municipal and other taxes) increased 27% to P$2,018 million in 2012 from P$1,595 million in 2011, mainly due to charges of turnover tax (P$222 million increase from 2011 to 2012) as a result of the increase in revenues during 2012 and from taxes with the Regulatory Authority (an increase of P$92 million from 2011).

Commissions

Commissions increased by P$434 million, or 29%, to P$1,949 million in 2012 from P$1,515million in 2011. The increase was mainly due to higher commissions related to commercial agents associated with increased revenues because of major acquisition and retention costs, higher card sales, and prepaid recharges and collections.

Commissions are net of agent commissions capitalized as SAC, which totaled P$314 million (+P$66 million or 27% vs. 2011), and are directly related to the increase in the postpaid subscribers base in the Personal Mobile Services segment.

Cost of equipments and handsets

During 2012, the cost of equipments and handsets increased to P$2,043 million from P$1,640 million in 2011, representing a 25% increase. The increase in costs of mobile handsets in both Mobile Services segments was P$418 million and was mainly due to higher average unit cost of sales (+26% vs. 2011) offset by a decrease in the number of handsets sold (-5% vs. 2011).

Cost of equipments and handsets are net of costs capitalized as SAC (P$463 million in 2012, P$7 million or 1% lower than 2011).

Advertising

Costs related to advertising increased by P$61 million, or 10%, to P$660 million in 2012. During 2012, Telecom Argentina continued its focus on advertising campaigns as a result of competition in the Internet services market while Personal recorded higher media advertising expenses to strengthen the brand position of the Telecom Group.

Provisions

During 2012, we recorded P$153 million in provisions compared to P$225 million recorded in 2011, representing a 32% decrease. The decrease in 2012 was mainly due to a decrease in labor claims amounting to

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P$68 million and in regulatory tax proceedings amounting to P$24 million, partially offset by an increase in civil and commercial proceedings amounting to P$20 million.

Bad Debt Expense

In 2012, bad debt expense amounted to P$275 million, an increase of 63% as compared to 2011, representing 1% of consolidated revenues in 2012 and less than 1% in 2011. The increase was mainly due to higher revenues in 2012 (+ 20%) as compared to 2011 and higher aging of the accounts receivables, mainly in voice retail customers in the Personal Mobile Services segment.

Restructuring Costs

In the last quarter of 2012 the Company s Management decided to implement a restructuring plan aimed to improve the efficiency of the Telecom Group s organizational structure. This plan contemplates the removal and / or merger of management structures in various areas of Telecom Argentina and Personal. The plan involves the dismissal of about 90 employees with a total estimated cost of P$90 million. As of December 31, 2012, 45 dismissals have been made effective, 40 employees of Telecom Argentina and 5 employees of Personal, for a total amount of P$36 million. The remaining P$54 million has been accrued.

Other Operating Expenses

Other operating expenses, which include costs associated with Value Added Services, transportation costs, energy and rentals, among others, increased 40% to P$1,353 million in 2012 from P$967 million in 2011 primarily as a result of the subsidies elimination on certain public services. Other operating expenses also were higher due to higher costs associated with the provision of Value Added Services, higher costs of site leases and international and satellite connectivity.

Operating income before depreciation and amortization

Our consolidated operating income before depreciation and amortization was P$6,570 million in 2012, representing an increase of P$577 million or 10% from P$5,993 million in 2011. It represented 30% and 32% of total consolidated revenues, respectively.

Depreciation and Amortization

Depreciation of PP&E and amortization of intangible assets increased by P$454 million, or 21%, to P$2,612 million during 2012. The increase in PP&E depreciation reached P$254 million, in amortization of SAC and Service connection or habilitation costs totaled P$195 million and in amortization of other intangible assets totaled P$5 million.

For a further breakdown of our consolidated operating expenses, see Results of Operations by Segment below.

Gain on disposal of PP&E

The gain amounted to P$8 million, a reduction of P$14 million vs. 2011 and mainly corresponds to the Fixed Services segment.

Operating income

During 2012, consolidated operating income was P$3,966 million, representing an increase of P$109 million or 3% from 2011. Operating income represented 18% of consolidated revenues in 2012 versus 21% in 2011. The decrease in the margin was mainly due to the increase of operating expenses (including depreciation and amortization) of 24% partially offset by the increase in revenues of 20%.

	Years Ended December 31,		% of Change
	2012	2011	2012-2011
	(P$ million / %)		Increase/(Decrease)
Operating income before depreciation and amortization (1)	**6,570**	**5,993**	**10**
As % of revenues	*30*	*32*	
Depreciation and amortization	(2,612)	(2,158)	21
As % of revenues	*(12)*	*(12)*	
Gain on disposal of PP&E	8	22	(64)
Operating income	**3,966**	**3,857**	**3**
As % of revenues	*18*	*21*	

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

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Financial results, net

During 2012, Telecom recorded a net financial gain of P$229 million compared to a net financial gain of P$80 million in 2011. The positive change in the net financial results was mainly due to higher gains from net financial position of P$135 million and lower interest loss on provisions of P$ 34 million, partially offset by higher net foreign currency exchange losses by P$31 million as compared to 2011 (including the effect of loss on derivatives).

Income tax expense

The Company s income tax charge includes three effects: (i) the current tax payable for the year pursuant to fiscal legislation applicable to each company in the Telecom Group; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to fiscal versus accounting criteria; and (iii) the analysis of recoverability of deferred tax assets.

(i) Regarding current tax expenses, Telecom Argentina, Telecom Argentina USA, Personal and Núcleo generated tax profit in fiscal year 2012, resulting in an income tax payable of P$1,522 million versus P$1,434 million in 2011. Fixed Segment income tax expense assessed in 2012 amounted to P$312 million as compared to P$379 million in 2011; Personal s, in 2011, amounted to P$1,187 million compared to P$1,039 million in 2011; and Núcleo s, in 2012, amounted to P$23 million compared to P$16 million in 2011.

(ii) Regarding the deferred tax, in 2012 and 2011, the Fixed Segment recorded a deferred tax benefit of P$39 million and P$101 million, respectively; Personal recorded a deferred tax benefit of P$20 million and a deferred tax loss of P$59 million in 2012 and 2011, respectively; and Núcleo generated a P$3 million gain in 2012 and a P$2 million gain in 2011, totaling P$62 million of deferred tax benefit in 2012 and P$44 million of deferred tax benefit in 2011.

(iii) Regarding the analysis of recoverability of deferred tax assets, Personal recorded a valuation allowance for deferred tax assets of P$3 million and P$5 million in 2012 and 2011, respectively, while no charges were recorded for Telecom Argentina, Telecom Argentina USA and Núcleo in those years.

Net income

For 2012, we recorded net income of P$2,732 million (12% of total consolidated revenues), of which P$2,685 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P$502 million, the Personal Mobile Services segment accounted for a P$2,085 million gain and the Núcleo Mobile Services segment accounted for a gain of P$145 million, representing 7%, 14% and 17% of the total segment revenues, respectively.

For 2011, we recorded net income of P$2,542 million (14% of total consolidated revenues), of which P$2,513 million are attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P$517 million, the Personal Mobile Services segment accounted for a P$1,936 million gain and the Núcleo Mobile Services segment accounted for a gain of P$89 million, representing 8%, 15% and 12% of the total segment revenues, respectively.

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(A.2) 2011 Compared to 2010

	Years Ended December 31,				Change by segment (1)		
	2011	2010	Total Change		Fixed Services	Personal Mobile Services	Núcleo Mobile Services
	(P$ millions)		%		(P$ millions)		
Revenues	18,498	14,627	26	3,871	669	2,954	248
Other Income	30	25	20	5	5		
Operating expenses (without depreciation and amortization)	(12,535)	(9,785)	28	(2,750)	(859)	(1,752)	(139)
Operating income before depreciation and amortization (2)	**5,993**	**4,867**	**23**	**1,126**	**(185)**	**1,202**	**109**
Depreciation and amortization	(2,158)	(1,712)	26	(446)	(42)	(349)	(55)
Gain on disposal of PP&E	22	7	214	15	15		
Operating income	**3,857**	**3,162**	**22**	**695**	**(212)**	**853**	**54**
Financial results, net	80	(137)	n/a	217	(30)	247	
Income tax expense	(1,395)	(1,076)	30	(319)	51	(366)	(4)
Net income	**2,542**	**1,949**	**30**	**593**	**(191)**	**734**	**50**
Net income attributable to:							
Telecom Argentina	*2,513*	*1,935*	*30*	*578*			
Noncontrolling interest	*29*	*14*	*107*	*15*			

(1) Includes the effect of eliminations of Intersegment transactions.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Revenues

During 2011, total consolidated revenues increased by 26% to P$18,498 million from P$14,627 million in 2010, mainly driven by our mobile, Broadband and data transmission businesses.

Total consolidated revenues for 2011 and 2010 are comprised as follows:

	Years Ended December 31,				Change by segment(1)		
	2011	2010	Total Change		Fixed Services	Personal Mobile Services	Núcleo Mobile Services
	(P$ millions)		%		(P$ millions)		
Voice	9,184	8,247	11	937	206	632	99

Data	5,316	3,641	46	1,675	95	1,485	95
Internet	2,411	1,643	47	768	349	383	36
Service Revenues	**16,911**	**13,531**	**25**	**3,380**	**650**	**2,500**	**230**
Equipment (2)	1,587	1,096	45	491	19	454	18
Revenues	**18,498**	**14,627**	**26**	**3,871**	**669**	**2,954**	**248**

(1) Net of the Intersegment revenues effect.

(2) This item is composed of voice, data and Internet equipment in each year.

Voice

Revenues from voice services increased 11% to P$9,184 million in 2011 from P$8,247 million in 2010. Such increase is largely due to a growth in the mobile subscriber base, as well as an increase in (i) the number of lines in service and (ii) the prices of our services in the Personal Mobile Services segment. Revenues from voice services represented 50% of our total consolidated revenues for 2011 compared to 56% of our total consolidated revenues for 2010.

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Fixed services

Revenues from voice services represented 58% of our total Fixed Services segment revenues attributable to third parties for 2011 compared to 62% of our total segment revenues attributable to third parties for 2010.

Voice services mainly include revenues from monthly basic charges, charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call waiting, call forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. Most of our customers are billed monthly. They also include interconnection services (which primarily include access, termination and long-distance transport of calls), international long-distance service (which reflect payments made under bilateral agreements between the Company and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Revenues from voice retail increased 7% to P$2,357 million in 2011. Revenues from regulated rate services represented 41% of our total segment revenues in 2011 compared with 45% in 2010.

Monthly basic charges increased 1% to P$957 million in 2011 from P$944 million in 2010. Such growth was due to an increase in the number of lines in service and in the level of service packages sold as well as increased prices for non-regulated services during the period.

Measured service charges increased 12% to P$1,242 million in 2011 from P$1,110 million in 2010. Such increase was due to higher local calls and an increase in the number of lines in service. However, some fixed services rates remained unchanged since 2002 as a result of the Pesification and freeze of rates imposed by the Argentine government.

Interconnection services increased 1% to P$525 million in 2011 from P$522 million in 2010. The increase in 2011 was due to higher fixed traffic transported and terminated on Telecom s fixed-line network.

Personal Mobile services

Revenues from voice services represented 46% of our total Personal Mobile Services segment revenues to third parties for 2011 compared to 54% for 2010.

Voice services mainly include revenues from monthly basic charges, airtime usage charges and roaming charges to our customers for their use of our and other carriers networks, CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

Voice retail revenues reached P$4,001 million in 2011 (+16% vs. 2010). The increase was mainly due to increases in prices and the growth of our subscriber base.

Voice wholesale revenues reached P$1,726 million in 2012 (+5% vs. 2010). The increase was mainly due to higher traffic with mobile operators (TLRD) and an increase in roaming revenues.

In *Núcleo Mobile Services* segment, voice revenues increased 39% to P$353 million in 2011 compared to P$254 million in 2010 mainly due to an increase in the subscriber base and the appreciation of the Paraguayan currency with respect to the Argentine Peso.

Data and Internet

Revenues from data and Internet services increased 46% to P$7,727 million in 2011 from P$5,284 million in 2010. Revenues from data and Internet represented 42% of our total consolidated revenues for 2011 compared to 36% of our total consolidated revenues for 2010.

Internet revenues in the Fixed segment increased 29% to P$1,553 million in 2011 from P$1,204 million in 2010. The increase was mainly due to the growth in the number of Internet accesses and to the increase in the average price of fixed charge services as a result of the completion of promotions granted to customers in the first months of subscription (ARPU amounted to P$87 in 2011, vs. P$76 in 2010). As of December 31, 2011, the number of Internet accesses reached approximately 1,550,000 (equivalent to 37% of lines in service) compared to 1,380,000 as of December 31, 2010 (33% of lines in service), increasing by 12%.

Revenues from data services in the Fixed segment increased 19% to P$583 million in 2011 from P$488 million in 2010. The increase was mainly due to an increase in virtual private network services (private data network services replacing the point-to-point service), leases of circuits, dedicated lines and the growth in data center services. The majority of our revenues from data transmission services is denominated in U.S. dollars and,

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consequently, in 2011 and 2010, was affected by the fluctuations in the exchange rate between the peso and the U.S. dollar resulting in an increase in data transmission revenues.

In the Mobile Services segments, data and Internet services mainly include SMS, MMS, GPRS and Internet. Revenues from data and Internet in the Personal Mobile segment increased 55% to P$5,256 million in 2011 from P$3,388 million in 2010.

Mobile data revenues reached P$4,482 million (50% vs. 2010). This increase is mainly due to the SMS traffic performance, related to the increase in the subscriber base and higher prices of this service, both in prepaid and postpaid customers.

Mobile Internet revenues in the Personal Mobile segment increased 98% to P$774 million in 2011 from P$391 million in 2010. Such increase was mainly due to an increase in the subscriber base.

Equipment

Revenues from equipment increased by 45% to P$1,587 million in 2011 from P$1,096 million in 2010. In the Fixed Services segment, the increase was mainly due to higher sales of Aladino telephone sets and data equipment. In the Mobile Services segments, the increases were primarily due to the expansion of the subscriber base and a higher selling price of handsets sold. Additionally, as a result of technological advances and our provision of state-of-the-art services, more subscribers upgraded their mobile handsets.

For a further breakdown of our consolidated revenues, see Results of Operations by Segment below.

Other Income

Other income mainly includes penalties collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided. During 2011, other income increased 20% to P$30 million from P$25 million in 2010.

Operating expenses (without depreciation and amortization)

Total operating expenses increased by P$2,750 million totaling P$12,535 million in 2011, representing a 28% increase as compared to 2010. The increase was mainly due to increases in employee benefit expenses and severance payments, fees for services, maintenance, materials and supplies, taxes and fees with the Regulatory Authority, commissions and cost of equipments and handsets.

	Years Ended December 31,				Change by segment(1)		
	2011	2010	Total Change		Fixed Services	Personal Mobile Services	Núcleo Mobile Services
	(P$ millions)		%		(P$ millions)		
Employee benefit expenses and severance payments	2,609	1,978	32	631	444	172	15
Interconnection costs and other telecommunications charges	1,497	1,377	9	120	8	83	29
Fees for services, maintenance, materials and supplies	1,719	1,333	29	386	129	245	12
Taxes and fees with the Regulatory Authority	1,595	1,254	27	341	63	271	7
Commissions	1,515	1,155	31	360	25	296	39
Cost of equipments and handsets	1,640	1,197	37	443	14	429	
Advertising	599	441	36	158	12	134	12
Provisions	225	130	73	95	93	2	
Bad-debt expense	169	119	42	50	4	42	4
Other operating expenses	967	801	21	166	67	78	21
Total operating expenses (without depreciation and amortization)	**12,535**	**9,785**	**28**	**2,750**	**859**	**1,752**	**139**

(1) Net of the Intersegment transactions effect.

Employee benefit expenses and severance payments

During 2011, employee benefit expenses and severance payments were P$2,609 million, representing a 32% increase from 2010. This was primarily due to salary increases that Telecom implemented across all segments and the increase in Telecom s headcount. In the Fixed Services segment, the increases were mainly due to salary increases and severance payments and termination benefits, as a result of an increase in the number of employees

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who retired or were dismissed. In the Personal Mobile Services segment there was a 10% increase in the number of employees (from 4,370 employees in 2010 to 4,820 employees in 2011).

With a total headcount of 16,346 at the end of 2011 (+4% vs. 2010), lines in service per employee reached 373 in the Fixed Services segment (2% lower than 2010), 3,774 in the Personal mobile services segment (+1% vs. 2010) and 4,944 in the Núcleo mobile services segment (+10% vs. 2010).

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunications charges includes interconnection costs, lease of circuits and costs of international outbound calls, which reflect payments made under bilateral agreements between Telecom Argentina and international carriers in connection with outgoing calls made by our customers. Additionally, the cost of roaming and TLRD is included in the Mobile Services segments. In 2011, interconnection costs and other telecommunications charges amounted to P$1,497 million compared with P$1,377 million in 2010. In the Fixed Services segment, the increase was mainly due to higher traffic volume in Telecom Argentina s network and price increases resulting from inflation and an increase in traffic of outgoing calls originated in our network that required the payment of fees to transport such calls across international lines. In the Mobile Services segments, the increase was mainly due to higher traffic volume resulting from Personal s network and higher costs of roaming due to an increase in mobile traffic among mobile operators as a consequence of a growth in the total subscriber base.

Fees for services, maintenance, materials and supplies

Expenses related to fees for services, maintenance, materials and supplies increased 29% to P$1,719 million in 2011 from P$1,333 million in 2010. This increase was mainly due to higher maintenance costs across all segments (maintenance costs for network equipment, buildings and vehicles, maintenance costs of radio base systems and maintenance of BlackBerry equipment) due to inflation and devaluation of the Argentine Peso against the U.S. dollar which amounted to P$133 million, and also to higher fees for services related to call centers (a P$149 million increase from 2010 to 2011).

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority increased 27% to P$1,595 million in 2011 from P$1,254 million in 2010, mainly due to charges of turnover tax (P$166 million increase from 2010 to 2011) as a result of the increase in revenues during 2011 and from taxes with the Regulatory Authority (an increase of P$95 million from 2010).

Commissions

Commissions increased by P$360 million, or 31%, to P$1,515 million in 2011 from P$1,155 million in 2010. The increase was mainly due to the growth in the subscriber base, higher commissions for the distribution of prepaid cards and higher commissions for collections as a result of the increase in revenues and a higher transaction cost for collection services.

Cost of equipments and handsets

During 2011, the cost of equipments and handsets increased to P$1,640 million from P$1,197 million in 2010, representing a 37% increase. The increase in costs of mobile handsets in both Mobile Services segments was P$429 million and was primarily attributable to an expansion of the subscriber base and the number of customers that upgraded their handsets as a result of technological advances and new service offerings, especially smartphones. The increase in costs in the Fixed Services segment was P$14 million and it was primarily attributable to an increase in sales of Aladino telephone sets and data equipment.

Advertising

Costs related to advertising increased by P$158 million, or 36%, to P$599 million in 2011. During 2011, Telecom Argentina continued its focus on advertising campaigns as a result of competition in the Internet services market while Personal recorded higher media advertising expenses including the effects of the rebranding in 2011.

Provisions

During 2011, we recorded P$225 million in provisions compared to P$130 million recorded in 2010, representing a 73% increase. The increase in 2011 was mainly due to an increase in labor claims amounting to P$78 million and the increase of civil and commercial proceedings amounting to P$10 million.

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Bad Debt Expense

In 2011, bad debt expense amounted to P$169 million, an increase of 42% as compared to 2010, representing less than 1% of consolidated revenues in both years. The increase was mainly due to higher revenues in 2011 (+ 26%) as compared to 2010 and higher aging of the accounts receivables of voice retail customers.

Other Operating Expenses

Other operating expenses, which include costs associated with Value Added Services, transportation costs, insurance, energy and rentals, among others, increased 21% to P$967 million in 2011 from P$801 million in 2010 primarily as a result of the increase in the prices of transportation, fuel and electricity used to provide Telecom Argentina s services. Other operating expenses also were higher due to higher costs associated with the provision of Value Added Services to Personal and Núcleo s subscribers, higher costs of site leases and international and satellite connectivity.

Operating income before depreciation and amortization

Our consolidated operating income before depreciation and amortization was P$5,993 million in 2011 and P$4,867 million in 2010, representing 32% and 33% of total consolidated revenues, respectively.

Depreciation and Amortization

Depreciation of PP&E and amortization of intangible assets increased by P$446 million, or 26%, to P$2,158 million during 2011. This increase was the result of higher investment in PP&E and intangible assets and higher amortization of subscriber acquisitions costs (SAC) in the Personal Mobile Services segment, partially offset by a reduction in the level of depreciation due to the end of the amortization period for certain assets.

For a further breakdown of our consolidated operating expenses, see Results of Operations by Segment below.

Gain on disposal of PP&E

The gain on disposal of PP&E amounted to P$ 22 million, an increase of P$15 million vs. 2010 and mainly corresponds to the Fixed Services segment.

Operating income

During 2011, consolidated operating income was P$3,857 million, representing an increase of P$695 million or 22% from 2010. Operating income represented 21% of consolidated revenues in 2011 versus 22% in 2010.

	Years Ended December 31, 2011	2010	% of Change 2011-2010
	(P$ million / %)		Increase
Operating income before depreciation and amortization (1)	**5,993**	**4,867**	**23**
As % of revenues	*32*	*33*	
Depreciation and amortization	(2,158)	(1,712)	26
As % of revenues	*(12)*	*(12)*	
Gain on disposal of PP&E	22	7	214
Operating income	**3,857**	**3,162**	**22**
As % of revenues	*21*	*22*	

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Financial results, net

During 2011, Telecom recorded a net financial gain of P$80 million compared to a net financial loss of P$137 million in 2010. The positive change in the net financial results was mainly due to lower net foreign currency exchange losses by P$90 million as compared to 2010 (including the effect of loss on derivatives), lower interest on financial debt of P$60 million and higher interest on cash equivalents, investments and receivables by P$79 million partially offset by higher interest on provisions by P$42 million.

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Income tax expense

The Company s income tax charge includes three effects: (i) the current tax payable for the year pursuant to fiscal legislation applicable to each company in the Telecom Group; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to fiscal versus accounting criteria; and (iii) the analysis of recoverability of deferred tax assets.

(i) Regarding current tax expenses, Telecom Argentina, Telecom Argentina USA, Personal and Núcleo generated tax profit in fiscal year 2011, resulting in a current income tax of P$1,434 million versus P$1,067 million in 2010. Telecom Argentina s current income tax expense assessed in 2011 amounted to P$379 million as compared to P$408 million in 2010; Personal s, in 2011, amounted to P$1,039 million compared to P$655 million in 2010; and Núcleo s, in 2011, amounted to P$16 million compared to P$4 million in 2010.

(ii) Regarding the deferred tax, in 2011 and 2010, Telecom Argentina recorded a deferred tax benefit of P$101 million and P$78 million, respectively; Personal recorded a deferred tax loss of P$59 million and P$79 million in 2011 and 2010, respectively; and Núcleo generated a P$2 million gain in 2011 and a P$6 million loss in 2010, totaling P$44 million of deferred tax benefit in 2011 and P$6 million of deferred tax expense in 2010.

(iii) Regarding the analysis of recoverability of deferred tax assets, Personal recorded a valuation allowance for deferred tax assets of P$5 million and P$3 million in 2011 and 2010, respectively, while no charges were recorded for Telecom Argentina and Núcleo in those years.

Net income

For 2011, we recorded net income of P$2,542 million (14% of total consolidated revenues), of which P$2,513 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P$517 million, the Personal Mobile Services segment accounted for a P$1,936 million gain and the Núcleo Mobile Services segment accounted for a gain of P$89 million, representing 8%, 15% and 12% of the total segment revenues, respectively.

For 2010, we recorded net income of P$1,949 million (13% of total consolidated revenues), of which P$1,935 million are attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P$592 million, the Personal Mobile Services segment accounted for a P$1,315 million gain and the Núcleo Mobile Services segment accounted for a gain of P$42 million, representing 11%, 14% and 9% of the total segment revenues, respectively.

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(B) Results of Operations by Segment

(B.1) Fixed Services Segment

Results of operations for our Fixed Services segment for 2012, 2011 and 2010 are comprised as follows:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
		(P$ millions)		Increase/(Decrease)	
Revenues (1)	7,061	6,208	5,393	14	15
Other Income(2)	84	26	21	223	24
Operating expenses (without depreciation and amortization)	(5,500)	(4,614)	(3,725)	19	24
Operating income before depreciation and amortization (3)	**1,645**	**1,620**	**1,689**	**2**	**(4)**
Depreciation and amortization	(929)	(818)	(776)	14	5
Gain on disposal of PP&E	7	20	5	(65)	300
Operating income	**723**	**822**	**918**	**(12)**	**(10)**
Financial results, net	52	(27)	3	n/a	n/a
Income tax expense	(273)	(278)	(329)	(2)	(16)
Net income	**502**	**517**	**592**	**(3)**	**(13)**

(1) Includes intersegment revenues of P$1,038 million, P$879 million and P$733 million in 2012, 2011 and 2010, respectively.

(2) Includes intersegment other income of P$9 million, P$6 million and P$6 million in 2012, 2011 and 2010, respectively.

(3) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Revenues

During 2012, revenues from our Fixed Services segment increased by 14% to P$7,061 million from P$6,208 million in 2011. During 2011, revenues from our Fixed Services segment increased by 15% from P$5,393 million in 2010. Regulated voice services are still affected by rate Pesification. The increase in each year was due to several factors, including a 5% and 12% growth in Internet accesses in 2012 and 2011, respectively, and a 1% growth in the number of lines in service in 2011, which increased the monthly consumption of the offered services.

Revenues from our Fixed Services segment for 2012, 2011 and 2010 are comprised as follows:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
		(P$ millions)		Increase/(Decrease)	
Voice - retail	2,475	2,357	2,211	5	7
Voice - wholesale	739	747	687	(1)	9
Data	735	583	488	26	19
Internet	1,993	1,553	1,204	28	29
Service Revenues	**5,942**	**5,240**	**4,590**	**13**	**14**
Equipment (1)	81	89	70	(9)	27
Subtotal third party revenues	**6,023**	**5,329**	**4,660**	**13**	**14**
Intersegment	1,038	879	733	18	20
Total Fixed Services revenues	**7,061**	**6,208**	**5,393**	**14**	**15**

(1) This item is composed of voice, data and Internet equipment in each year.

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Voice - retail

Revenues from voice - retail represented 35% of our total segment revenues for 2012 compared to 38% of our total segment revenues for 2011 and 41% of our total segment revenues for 2010. Revenues from voice - retail increased 5% to P$2,475 million in 2012 from P$2,357 million in 2011 and increased 7% in 2011 from P$2,211 million in 2010.

Voice - retail mainly includes revenues from monthly basic charges (which differ for residential, professional and commercial customers), charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call-waiting, call-forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. Most of our customers are billed monthly.

Monthly basic charges increased 8 % to P$1,032 million in 2012 from P$957 million in 2011 and increased 1% from P$944 million in 2010. Such growth was due to the level of service packages sold as well as increased prices for non-regulated services during the period.

Measured service charges increased 5 % to P$1,306 million in 2012 from P$1,242 million in 2011and increased 12% from P$1,110 million in 2010. Such increases were due to higher local calls. However, some fixed services rates remained unchanged since 2002 as a result of the Pesification and freeze of rates imposed by the Argentine government.

Voice - wholesale

Revenues from voice - wholesale represented 10% of our total segment revenues for 2012 compared to 12% and 13% in 2011 and 2010, respectively. Revenues from voice-wholesale decreased 1% to P$739 million in 2012 from P$747 million in 2011 and increased 9% from P$687 million in 2010.

Voice-wholesale mainly includes interconnection services (which primarily include access, termination and long-distance transport of calls), international long-distance services (which reflect payments made under bilateral agreements between the Company and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Interconnection services decreased 2% to P$516 million in 2012 from P$525 million in 2011 and increased 1% from P$522 million in 2010.

Data and Internet

Revenues from data and Internet represented 39% of our total segment revenues in 2012 compared to 34% and 31% in 2011 and 2010, respectively. Revenues from data and Internet services increased 28% to P$2,728 million in 2012 from P$2,136 million in 2011 and increased 26% from P$1,692 million in 2010.

Revenues from Internet increased 28% to P$1,993 million in 2012 from P$1,553 million in 2011 and increased 29% from P$1,204 million in 2010. The increase was mainly due to the growth in the number of Internet accesses and to the increase in the average price of fixed charge services as a result of the completion of promotions granted to customers in the first months of subscription. As of December 31, 2012, the number of Internet accesses increased approximately 5% to 1.63 million from 1.55 million as of December 31, 2011 and increased 12% from 1.38 million as of December 31, 2010.

Revenues from data services increased 26% to P$735 million in 2012 from P$583 million in 2011 and increased 19% from P$488 million in 2010. The increase was mainly due to an increase in virtual private network services (private data network services replacing the point-to-point service), leases of circuits, dedicated lines and the growth in data center services. The majority of our revenues from data transmission services is denominated in U.S. dollars and, consequently, in 2012 and 2011, was affected by the fluctuations in the exchange rate between the peso and the U.S. dollar resulting in an increase in data transmission revenues.

Equipment

Revenues from equipment decreased by 9%, to P$81 million in 2012 from P$89 million in 2011 and increased 27% from P$70 million in 2010. The decrease in 2012 was principally due to the decrease of sales of equipment related to construction contracts. The increase in 2011 was mainly due to higher sales of Aladino telephone sets and data equipment. In particular, we recorded P$25 million and P$14 million due to construction contracts during 2011 and 2010, respectively.

Intersegment

Intersegment revenues mainly includes interconnection services, which primarily include access, termination and transport of calls, leases of circuits, revenues related to billing and collection services charged.

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During 2012, our intersegment revenues increased 18% to P$1,038 million from P$879 million in 2011 and increased 20% from P$733 million in 2010. This increase was mainly due to higher revenues on leases of circuits to Personal as part of the growth of its network traffic. The intersegment revenues are eliminated at consolidated level.

Other Income

Other income mainly includes penalties collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided. During 2012, other income increased 223% to P$84 million from P$26 million, mainly due to P$57 million of penalties collected from suppliers. In 2011, other income increased 24% from P$21 million in 2010 mainly due to an increase in penalties collected from suppliers.

Operating Expenses (without depreciation and amortization)

During 2012, total operating expenses for the Fixed Services segment increased 19% to P$5,500 from P$4,614 million in 2011 and increased 24% from P$3,725 million in 2010. The increase was mainly due to increases in employee benefit expenses and severance payments, fees for services, maintenance, materials and supplies and taxes and fees with the Regulatory Authority.

Detailed below are the major components of our operating expenses for the years ended December 31, 2012, 2011 and 2010 related to our Fixed Services segment:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
		(P$ millions)		Increase/(Decrease)	
Employee benefit expenses and severance payments	2,380	1,949	1,505	22	30
Interconnection costs and other telecommunications charges	507	491	456	3	8
Fees for services, maintenance, materials and supplies	950	815	686	17	19
Taxes and fees with the Regulatory Authority	449	367	304	22	21
Commissions	169	139	114	22	22
Cost of equipments	44	59	45	(25)	31
Advertising	171	154	142	11	8
Provisions	89	164	71	(46)	131
Bad debt expenses	56	28	24	100	17
Restructuring Costs	83			n/a	n/a
Other operating expenses	602	448	378	34	19
Total Fixed Services (1)	**5,500**	**4,614**	**3,725**	**19**	**24**

(1) Includes intersegment cost of P$112 million, P$86 million and P$56 million in 2012, 2011 and 2010, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2012, employee benefit expenses and charges for severance payments were approximately P$2,380 million, representing a 22% increase from P$1,949 million in 2011. In 2011, these charges increased 30% from P$1,505 million in 2010. The increase was mainly due to salary increases and an increase in the number of employees in this segment in 2012. The Fixed Services segment had 11,115, 11,093 and 10,855 employees as of December 31, 2012, 2011 and 2010, respectively.

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunications charges includes interconnection costs, lease of circuits and costs of international outbound calls, which reflect payments made under bilateral agreements between Telecom Argentina and international carriers in connection with outgoing calls made by our customers.

In 2012 interconnection costs and other telecommunications charges amounted to P$507 million, representing an increase of 3% from P$491 million in 2011. In 2011 these charges increased 8% from P$456 million in 2010. The increase was mainly due to higher traffic volume resulting from Telecom Argentina s network, price increases resulting from inflation and an increase in outgoing traffic originated in our network that required the payment of fees to transport such calls across international lines.

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Fees for Services, Maintenance, Materials and Supplies

During 2012, fees for services, maintenance, materials and supplies increased 17% to P$950 million from P$815 million in 2011 and increased 19% from P$686 million in 2010. The increase was mainly due to higher maintenance costs, the increase in the prices of certain supplies due to the effects of inflation and higher costs of services, especially those related to call centers (a P$32 million increase from 2011 to 2012 and a P$28 million increase from 2010 to 2011), as a result of an increase in the commercial activity, as well as technical maintenance fees (a P$38 million increase from 2011 to 2012 and a P$26 million increase from 2010 to 2011).

Taxes and fees with the Regulatory Authority

Expenses related to taxes and fees with the Regulatory Authority increased 22% to P$449 million in 2012 from P$367 million in 2011 and increased 21% from P$304 million in 2010, mainly due to charges of turnover tax (a P$37 million increase from 2011 to 2012 and a P$33 million increase from 2010 to 2011) as a result of the increase in revenues during both years.

Commissions

During 2012, costs relating to commissions amounted to approximately P$169 million, representing an increase of 22% as compared to P$139 million in 2011. In 2011, these charges increased 22% from P$114 million in 2010. The increase in both years was mainly due to higher commissions for collections as a result of increased sales and higher transaction cost for collection services.

Cost of Equipments

During 2012, 2011 and 2010 we recorded P$44 million, P$59 million and P$45 million in cost of equipments, respectively. The decrease in 2012 was mainly due to the decrease in the costs of construction contracts. The increases in costs incurred in 2011 were primarily attributable to increased sales of Aladino telephone sets and data equipment (including P$14 million and P$10 million due to construction contracts in 2011 and 2010, respectively).

Advertising

During 2012, we recorded P$171 million in costs of advertising representing an increase of 11% as compared to P$154 million recorded in 2011. In 2011, these charges increased 8% from P$142 million in 2010. Telecom Argentina continued its advertising campaigns as a result of competition in the Internet services market.

Provisions

During 2012, we recorded P$89 million in provisions compared to P$164 million recorded in 2011 and P$71 million recorded in 2010. The decrease in 2012 was mainly due to the decrease in labor claims of approximately P$54 million and lower regulatory and tax claims for approximately P$21 million. In 2011 the increase was mainly due to the higher labor claims for approximately P$75 million and higher regulatory and tax claims for approximately P$19 million, partially offset by a reduction in trade claims.

Bad Debt Expenses

In 2012, bad debt expenses amounted to P$56 million, representing an increase of 100% from P$28 million in 2011. The increase was mainly due to higher aging in accounts receivable, mainly in the Residential, professional and commercial customers segment. In 2011 theses charges increased 17% from P$24 million in 2010. The charges in each year represented less than 1% of the Fixed Services segment revenues.

Restructuring Costs

In the last quarter of 2012 the Company s Management decided to implement a restructuring plan aimed to improve the efficiency of the Telecom Group s organizational structure. This plan contemplates the removal and / or merger of management structures in various areas of Telecom Argentina. The total estimated cost amounted to P$83 million in 2012.

Other Operating Expenses

Other operating expenses include accrued expenses such as transportation costs, insurance, international and satellite connectivity, energy and rentals.

During 2012, our other operating expenses amounted to P$ 602 million compared to P$448 million in 2011 and P$378 million in 2010. The increases were primarily due to the elimination of subsidies on certain public services and the increase in prices of transportation, fuel and electricity used to provide Telecom Argentina s services.

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Operating Income before depreciation and amortization

Our operating income before depreciation and amortization from the Fixed Services segment was P$1,645 million in 2012, P$1,620 million in 2011 and P$1,689 million in 2010, representing 23%, 26% and 31% of total segment revenues, respectively.

Depreciation and Amortization

Depreciation and amortization expenses were P$929 million in 2012, P$818 million in 2011 and P$ 776 million in 2010. The increase was mainly due to assets acquired during 2012 and 2011, partially offset by a reduction in the level of depreciation due to the end of the amortization period for certain assets.

Gain on disposal of PP&E

The gain amounted to P$7 million, P$20 million and P$5 million in 2012, 2011 and 2010, respectively.

Operating Income

Operating income represented 10%, 13% and 17% of total segment revenues in 2012, 2011 and 2010, respectively. In 2012, the operating income from our Fixed Services segment decreased 12% to P$723 million from P$822 million in 2011. In 2011, operating income decreased 10% from P$918 million in 2010. The decrease in both years was mainly due to a reduction in Operating Income before Depreciation and Amortization margin and an increase in depreciation and amortization as explained above.

Our operating income in the Fixed Services Segment continues to be affected by the Pesification and freeze of regulated rates. See Factors affecting results of operations Rate Regulation .

The following table shows our operating income from the Fixed Services segment in 2012, 2011 and 2010 and its percentage of revenues in each year.

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
	(P$ million / %)			Increase / (Decrease)	
	1,645	1,620	1,689	2	(4)

Operating income before depreciation and amortization (1)					
As % of revenues	*23*	*26*	*31*		
Depreciation and amortization	(929)	(818)	(776)	14	5
As % of revenues	*(13)*	*(13)*	*(14)*		
Gain on disposal of PP&E	7	20	5	(65)	300
Operating income	**723**	**822**	**918**	**(12)**	**(10)**
As % of revenues	*10*	*13*	*17*		

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Financial results, net

During 2012, we recorded a net financial gain of P$52 million compared to a net financial loss of P$27 million in 2011. The increase in our financial results was mainly attributed to higher interest from cash equivalents and investments of approximately P$38 million and lower interest of approximately P$47 million related to provisions for legal claims and severance payments and termination benefits. In addition, during 2012, a net foreign currency exchange gain of P$6 million was recorded.

During 2011, we recorded a net financial loss of P$27 million compared to a net financial income of P$3 million in 2010. The decrease in our financial results was mainly attributed to lower interest from investments of approximately P$17 million and higher interest of approximately P$40 million related to provisions. In addition, during 2011, a net foreign currency exchange gain of P$4 million was recorded.

Income tax expense

As previously mentioned, the income tax charge includes three effects (See Years ended December 31, 2012, 2011 and 2010 Income Tax).

During 2012, our Fixed Services segment recorded an income tax expense of P$273 million compared to P$278 million in 2011 and P$329 million in 2010. The decrease in 2012 and 2011 was mainly due to the decrease in our pre-tax income compared to 2011and 2010, respectively.

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The income tax expense in 2012 was mainly attributable to the recognition of current income tax expense (amounting to P$312 million), partially offset by income generated by a deferred tax on temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria (amounting to P$39 million). The income tax expense in 2011 was mainly attributable to the recognition of current income tax expense (amounting to P$379 million), partially offset by income generated by a deferred tax on temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria (amounting to P$101 million). The income tax expense in 2010 was mainly attributable to the recognition of current income tax expense (amounting to P$408 million), partially offset by income generated by a deferred tax on temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria (amounting to P$79 million).

Net Income

For 2012, 2011 and 2010, the Fixed Services segment recorded net income of P$502 million, P$517 million and P$592 million, respectively. The decrease in 2012 was mainly due to a reduction in our operating income compared to the gain recorded in 2011, partially offset by an increase in Financial Results and a reduction in the income tax expense as detailed above. The decrease in 2011 was mainly due to a reduction in our operating income, and the loss recorded in our financial results, net compared to the gain recorded in 2010, partially offset by a reduction in the income tax expense as detailed above.

(B.2) Personal Mobile Services Segment

Results of operations from our Personal Mobile Services segment for 2012, 2011 and 2010 are comprised as follows:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
		(P$ millions)		Increase/(Decrease)	
Revenues (1)	15,350	12,548	9,559	22	31
Other Income	4	10	10	(60)	
Operating expenses (without depreciation and amortization)	(10,760)	(8,449)	(6,549)	27	29
Operating income before depreciation and amortization (2)	**4,594**	**4,109**	**3,020**	**12**	**36**
Depreciation and amortization	(1,526)	(1,190)	(841)	28	41
Gain on disposal of PP&E	1	2	2	(50)	
Operating income	**3,069**	**2,921**	**2,181**	**5**	**34**
Financial results, net	186	118	(129)	58	n/a
Income tax expense	(1,170)	(1,103)	(737)	6	50
Net income	**2,085**	**1,936**	**1,315**	**8**	**47**

(1) Includes intersegment revenues of P$123 million, P$93 million and P$58 million in 2012, 2011 and 2010, respectively.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Revenues

During 2012, revenues from our Personal Mobile Services segment increased by 22% to P$15,350 million from P$12,548 million in 2011 and increased 31% from P$9,559 million in 2010. The increase in each year was mainly due to the growth in the subscriber base, the increase in prices of our services and the increase in the monthly consumption of the offered services, primarily data and Internet services.

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An important monthly operational measure used in the Personal Mobile Services segment is ARPU, which we calculate by dividing adjusted total service revenues excluding outcollect wholesale roaming, cell site rental and reconnection fee revenues and others (divided by 12 months) by the average number of subscribers during the period. ARPU is not a measure calculated in accordance with IFRS and our measure of ARPU may not be calculated in the same manner as similarly titled measures used by other companies. In particular, certain components of service revenues are excluded from Personal s ARPU calculations presented in this Annual Report. Our Management believes that this measure is helpful in assessing the development of the subscriber base in the Personal Mobile Services segment. The following table shows the reconciliation of total service revenues to such revenues included in the ARPU calculations:

	Years Ended December 31,		
	2012	2011	2010
		(P$ millions)	
Total service revenues(1)	**13,435**	**11,076**	**8,541**
Components of service revenues not included in the ARPU calculation:			
Outcollect wholesale roaming	(250)	(210)	(229)
Cell sites rental	(25)	(18)	(24)
Reconnection fees and others	(220)	(145)	(83)
Adjusted total service revenues included in the ARPU calculation	**12,940**	**10,703**	**8,205**
Average number of subscribers during the year (thousands)	18,687	17,336	15,426

(1) Certain components of service revenues are not included in the ARPU calculation. Includes Intersegment revenues for P$123 million in 2012, P$93 million in 2011 and P$58 million in 2010.

During 2012, ARPU increased 12% to approximately P$57.7 per customer per month compared to approximately P$51.4 per customer per month in 2011. ARPU reached P$44.4 per customer per month in 2010.

The total number of Personal s subscribers increased approximately 4% to 18,975,000 as of December 31, 2012 from 18,193,000 as of December 31, 2011 and increased 11% from 16,333,000 as of December 31, 2010. The increase in both years was fueled by increased penetration in the mobile services market in Argentina. As of December 31, 2012, the subscriber base in Argentina amounted to approximately 12,774,000 prepaid subscribers, or 67% of the total subscriber base, approximately 2,535,000 post-paid subscribers, or 14% of the total subscriber base and approximately 3,666,000 Cuentas Claras plan subscribers, or 19% of the total subscriber base.

Revenues from our Personal Mobile Services segment for 2012, 2011 and 2010 are comprised as follows:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
		(P$ millions)		Increase	
Voice - retail	4,461	4,001	3,453	11	16
Voice - wholesale	1,838	1,726	1,642	6	5
Data	5,765	4,482	2,997	29	50
Internet	1,248	774	391	61	98
Services Revenues	**13,312**	**10,983**	**8,483**	**21**	**29**
Equipment	1,915	1,472	1,018	30	45

Subtotal third party revenues	**15,227**	**12,455**	**9,501**	**22**	**31**
Intersegment	123	93	58	32	60
Total Personal Mobile Services Revenues	**15,350**	**12,548**	**9,559**	**22**	**31**

Voice-retail

Revenues from voice - retail represented 29% of our total segment revenues in 2012 compared to 32% and 36% of our total segment revenues in 2011 and 2010, respectively. Revenues from voice - retail increased 11% to P$4,461 million in 2012 from P$4,001 million in 2011 and increased 16% from P$3,453 million in 2010.

Voice - retail mainly includes revenues from monthly basic charges, airtime usage charges and roaming charges billed to our customers for their use of our and other carriers networks.

Monthly basic charges increased 26% to P$ 2,137 million in 2012 from P$1,698 million in 2011 and increased 30% in 2011 from P$1,307 million in 2010. Airtime usage charges decreased 3% to P$1,961million in 2012 from P$2,022 million in 2011 and increased 4% to P$2,022 million in 2011 from P$1,947 million in 2010. Roaming charges billed and other services increased 29% to P$ 363 million in 2012 from P$281 million in 2011 and increased 41% in 2011 from P$199 million in 2010. Such increases were mainly due to an increase in the subscriber base, an increase in the volume of total traffic and an increase in the prices of our services.

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Voice-wholesale

Revenues from voice - wholesale represented 12% of our total segment revenues in 2012 compared to 14% and 17% of our total segment revenues in 2011 and 2010, respectively. Revenues from voice - wholesale increased 6% to P$1,838 million in 2012 from P$1,726 million in 2011 and increased 5% from P$ 1,642 million in 2010.

Voice - wholesale mainly includes revenues from CPP, TLRD and roaming charges billed to other mobile service providers whose customers use our network.

CPP and TLRD increased 4% to P$1,568 million in 2012 from P$1,503 million in 2011 and increased 8% from P$1,392 million in 2010. Such increases were mainly due to increased traffic volume in Argentina.

Roaming charges billed and other services increased 21% to P$ 270 million in 2012 from P$223 million in 2011 and decreased 11% from P$250 million in 2010. The increase in 2012 was due to an increase in the traffic volume in Argentina**,** while the decrease in 2011 was due to a reduction in the traffic volume in Argentina.

Data and Internet

Data and Internet services mainly include SMS, MMS, GPRS and Internet. Data and Internet represented 46%, 42% and 35% of our total segment revenues for 2012, 2011, and 2010, respectively.

Revenues from data mainly include SMS, MMS and other value added services. Revenues from data increased 29% to P$5,765 million in 2012 from P$4,482 million in 2011. Revenues from data increased 50% in 2011 from P$2,997 million in 2010. The increases were largely due to Telecom Personal s efforts to create value added services which featured technological innovation.

In particular, revenues of SMS increased 21% to P$4,668 million in 2012 from P$3,847 million in 2011 (the monthly average number of SMS growth 3% to 5,769 million in 2012 from 5,587 million in 2011). Revenues of SMS increased 53% to P$3,847 million in 2011 from P$2,519 million in 2010 (the monthly average number of SMS growth 21% to 5,587 million in 2011 from 4,614 million in 2010).

Revenues from Internet increased 61% to P$1,248 million in 2012 from P$774 million in 2011. Revenues from Internet increased 98% in 2011 from P$391 million in 2010. Such increases were mainly due to an increase in the subscriber base.

Equipment

Equipment revenues consist primarily of revenues from the mobile handsets sold to new and existing subscribers and to agents and other third-party distributors. The revenues associated with the sale of mobile handsets and related expenses are recognized when the products are delivered and accepted by the subscribers, agents and other third-party distributors.

During 2012, handset revenues increased 30% to P$1,915 million from P$1,472 million in 2011 and increased 45% from P$1,018 million in 2010. The increases were primarily due to the expansion of the subscriber base and a higher selling price of handsets sold. Additionally, as a result of technological advances and our provision of state-of-the-art services, more subscribers upgraded their mobile handsets.

Intersegment

Intersegment revenues mainly include services rendered to Telecom Argentina and primarily consist in monthly basic charges, airtime usage charges and Value Added Services. During 2012, our intersegment revenues increased 32% to P$123 million in 2012 from P$93 million in 2011 and increased 60% from P$58 million in 2010. The intersegment revenues are eliminated at the consolidated level.

Other Income

Other income mainly includes penalties collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided. During 2012, other income was P$4 million, representing a decrease of 60% from P$10 million in 2011 and 2010.

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Operating Expenses (without depreciation and amortization)

Total operating expenses in our Personal Mobile Services segment increased 27% to P$10,760 million in 2012 from P$8,449 million in 2011 and increased 29% from P$6,549 million in 2010. In line with our increases in revenues, during 2012 and 2011, all items in the cost structure of the Personal Mobile Services segment experienced material increases. This trend reflects increases in certain costs related to acquiring and retaining customers, taxes, commissions associated with sales and expansion of the customer service staff.

Detailed below are the major components of the operating expenses for the years ended December 31, 2012, 2011 and 2010 in the Personal Mobile Services segment:

	Years Ended December 31, (P$ millions)			% of Change Increase/(Decrease)	
	2012	2011	2010	2012-2011	2011-2010
Employee benefit expenses and severance payments	825	605	433	36	40
Interconnection costs and other telecommunications charges	1,947	1,621	1,428	20	14
Fees for services, maintenance, materials and supplies	1,242	966	691	29	40
Taxes and fees with the Regulatory Authority	1,542	1,205	934	28	29
Commissions	1,745	1,353	1,051	29	29
Cost of equipments	1,964	1,568	1,139	25	38
Advertising	436	400	266	9	50
Provisions	65	61	59	7	3
Bad debt expenses	211	134	92	57	46
Restructuring Costs	7			n/a	n/a
Other operating expenses	776	536	456	45	18
Total Personal Mobile Services(1)	**10,760**	**8,449**	**6,549**	**27**	**29**

(1) Includes intersegment cost of P$1,049 million, P$884 million and P$736 million in 2012, 2011 and 2010, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2012, employee benefit expenses and severance payments charges increased 36% to P$825 million from P$605 million in 2011 and increased 40% from P$433 million in 2010. The increase was mainly due to the salary increases that Personal implemented and the increase in the number of full-time employees. The Personal Mobile Services segment had 5,254, 4,820 and 4,370 employees as of December 31, 2012, 2011 and 2010, respectively.

Interconnection Costs and other telecommunications charges

During 2012, interconnection costs and other telecommunications charges increased 20% to P$1,947 million from P$1,621 in 2011 and increased 14% from P$1,428 million in 2010. The increase was mainly due to higher traffic volume resulting from Personal s network and higher costs of roaming due to an increase in mobile traffic among mobile operators as a consequence of a growth in the total subscriber base. Interconnection costs and other telecommunications charges includes intersegment costs of P$780 million, P$652 million and P$542 million in 2012, 2011 and 2010, respectively, that are eliminated at consolidated level.

Fees for services, Maintenance, Materials and Supplies

In 2012, fees for services, maintenance, materials and supplies expenses increased 29% to P$1,242 million from P$966 million in 2011 and increased 40% from P$691 million in 2010. The increase was mainly due to an increase in the prices for the principal services received caused by the effects of inflation, higher service costs related to call centers (a P$143 million increase from 2011 to 2012 and a P$106 million increase from 2010 to 2011), as a result of an increase in the commercial activity and higher maintenance costs of hardware and software. Fees for services, maintenance, materials and supplies expenses includes intersegment costs of P$153 million, P$122 million and P$92 million in 2012, 2011 and 2010, respectively, that are eliminated at consolidated level.

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Taxes and fees with the Regulatory Authority

During 2012, taxes and fees with the Regulatory Authority increased 28% to P$1,542 million from P$1,205 million in 2011 and increased 29% from P$934 million in 2010. The increase in each year was mainly attributable to the increase in total segment revenues.

Commissions

In 2012, commissions increased 29% to P$1,745 million from P$1,353 million in 2011 and increased 29% from P$1,051 million in 2010. These increases were mainly due to a growth in commercial activity and a growth in the subscriber base. Commissions include intersegment cost of P$57 million, P$61 million and P$ 55 million in 2012, 2011, and 2010, respectively, that are eliminated at consolidated level.

Cost of Equipments

During 2012, the cost of equipments and handsets sold increased 25% to P$1,964 million from P$1,568 million in 2011 and increased 38% from P$1,139 million in 2010. The increase in costs of mobile handsets in 2012 was mainly due to higher average unit cost of sales (+26% vs. 2011) offset by a decrease in the number of handsets sold (-5% vs. 2011). The increase in costs of mobile handsets in 2011 was mainly due to an increase in the number of handsets sold (+18% vs. 2010).

Advertising

During 2012, advertising expenses including media, promotional and institutional campaigns, amounted to P$436 million, representing an increase of 9% from P$400 million in 2011. This increase was due to the increase in promotional campaigns. During 2011, these costs increased 50% from P$266 million in 2010. This variation was mainly due to higher media advertising expenses for approximately P$91 million including the effects of the Personal rebranding, and other promotional campaigns for approximately P$43 million and P$27 million, as a result of efforts to retain and expand the mobile subscriber base.

Provisions

During 2012, we recorded P$65 million in provisions compared with P$61 million and P$59 million recorded in 2011 and 2010, respectively. The increase in 2012 was mainly due to higher claims recorded, in particular an increase in trade claims for P$20 million, partially offset by lower labor claims for P$14 million. The increase in 2011 was mainly due to higher claims recorded, in particular an increase in labor claims for P$29 million, partially offset by lower trade claims for P$19 million and regulatory and tax claims for P$8 million.

Bad Debt Expenses

In 2012 bad debt expenses amounted to P$211 million, representing an increase of 57% from P$134 million in 2011. The increase was mainly due to higher revenues in 2012 (+22 %) as compared to 2011 and higher aging in accounts receivables in voice retail customers. In 2011, bad debt expenses increased 46% from P$92 million in 2010. These charges in each year represented approximately 1% of the Personal Mobile Services segment revenues.

Restructuring Costs

In the last quarter of 2012 the Management decided to implement a restructuring plan aimed to improve the efficiency of the Telecom Group s organizational structure. This plan contemplates the removal and / or merger of management structures in various areas of Personal. The plan involves the dismissal of about 9 members of middle and upper management with a total estimated cost of P$7 million.

Other Operating Expenses

Other operating expenses include accrued expenses such as costs associated with the provision of Value Added Services, transportation costs, insurance, energy and costs of site leases.

Other operating expenses increased 45% to P$776 million in 2012 from P$536 million in 2011 and increased 18% from P$456 million in 2010. The increase was mainly due to higher costs associated with the provision of Value Added Services to subscribers for approximately P$135 million and P$36 million in 2012 and 2011, respectively, and higher costs of transportation, freight and travel for P$ 17 million and P$ 36 million in 2012 and 2011, respectively. Other operating expenses include intersegment costs of P$59 million, P$49 million and P$47 million in 2012, 2011, and 2010, respectively, that are eliminated at consolidated level.

Operating Income before depreciation and amortization

Our operating income before depreciation and amortization from the Personal Mobile Services segment reached P$4,594 million in 2012, P$4,109 million in 2011 and P$3,020 million in 2010, representing 30%, 33% and 32% of total segment revenues in 2012, 2011 and 2010, respectively. The increase in each year was mainly due to higher growth in revenues, partially offset by increases in operating costs (before depreciation and amortization).

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Depreciation of PP&E and Amortization of Intangible Assets

During 2012 depreciation of PP&E and amortization of intangible assets increased 28% to P$1,526 million from P$1,190 million in 2011 and increased 41% from P$841 million in 2010. The increase was the result of higher investment in PP&E and intangible assets, partially offset by a reduction in the level of depreciation due to the end of the amortization period for certain assets. In particular, during 2012 amortization of SAC increased P$193 million and depreciation of PP&E and other intangible assets increased P$143 million compared to 2011. During 2011 amortization of SAC increased P$192 million and depreciation of PP&E and other intangible assets increased P$157 million compared to 2010.

Gain on disposal of PP&E

The gain amounted to P$1 million in 2012 and P$2 million in 2011 and 2010.

Operating Income

In 2012, our operating income from the Personal Mobile Services segment was P$3,069 million, representing an increase of 5% from P$2,921 million in 2011, and increased 34% from P$2,181 million in 2010. Operating income represented 20% of revenues in 2012 and 23% of revenues for this segment in 2011 and 2010. The increase in operating income was mainly due to the growth in service and equipment revenues, partially offset by increases in operating expenses and depreciation and amortization as explained above.

The following table shows our operating income from the Personal Mobile Services segment in 2012, 2011 and 2010 and its percentage of revenues in each year:

	Years Ended December 31, (P$ million / %)			% of Change Increase / (Decrease)	
	2012	2011	2010	2012-2011	2011-2010
Operating income before depreciation and amortization (1)	**4,594**	**4,109**	**3,020**	**12**	**36**
As % of revenues	*30*	*33*	*32*		
Depreciation and amortization	(1,526)	(1,190)	(841)	28	41
As % of revenues	*(10)*	*(9)*	*(9)*		
Gain on disposal of PP&E	1	2	2	(50)	
Operating income	**3,069**	**2,921**	**2,181**	**5**	**34**
As % of revenues	*20*	*23*	*23*		

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Financial results, net

During 2012, the Personal Mobile Services segment recorded a net financial gain of P$186 million compared to a net financial gain of P$118 million in 2011 and a net financial loss of P$129 million in 2010. The gain recorded in 2012 was mainly attributed to interest from cash equivalents and investments of approximately P$232 million. In addition, the devaluation of the peso against the U.S. dollar generated a net foreign currency exchange loss of P$55 million in 2012. The gain recorded in 2011 was mainly attributed to interest from cash and cash equivalents and investments of approximately P$136 million. In addition, the devaluation of the peso against the U.S. dollar was approximately 8% and generated a net foreign currency exchange loss of P$24 million (including the effect of derivative financial instruments entered into to hedge foreign exchange exposure) in 2011.

Income Tax Expense

During 2012, our Personal Mobile Services segment recorded an income tax expense of P$1,170 million compared to P$1,103 million in 2011 and P$737 million in 2010. The increase was mainly due to higher pre-tax income in each year. The income tax expense in 2012 was mainly attributable to the recognition of current income tax expense amounting to P$1,187 million, partially offset by the gain generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria amounting to P$20 million and the P$3 million increase in the allowance for net deferred tax assets.

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The income tax expense in 2011 was mainly attributable to the recognition of current income tax expense amounting to P$1,039 million, the loss generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria amounting to P$59 million and a loss of P$5 million in the allowance for net deferred tax assets.

The income tax expense in 2010 was mainly attributable to the recognition of current income tax expense amounting to P$655 million, the loss generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria amounting to P$79 million and a loss of P$3 million in the allowance for net deferred tax assets.

Net Income

During 2012, our Personal Mobile Services segment reported net income of P$2,085 million as compared to P$1,936 million during 2011 and P$1,315 million in 2010. The increase in net income in 2012 and 2011was mainly due to higher operating income and financial results, partially offset by higher income tax expense, as explained above.

(B.3) Núcleo Mobile Services Segment

Results of operations from our Núcleo Mobile Services segment for 2012, 2011 and 2010 are comprised as follows:

	Years Ended December 31,			% of Change	
	2012	**2011**	**2010**	**2012-2011**	**2011-2010**
		(P$ millions)		**Increase / (Decrease)**	
Total revenues (1)	873	718	469	22	53
Operating expenses (without depreciation and amortization)	(542)	(454)	(311)	19	46
Operating income before depreciation and amortization (2)	**331**	**264**	**158**	**25**	**67**
Depreciation and amortization	(157)	(150)	(95)	5	58
Operating income	**174**	**114**	**63**	**53**	**81**
Financial results, net	(9)	(11)	(11)	(18)	
Income tax expense	(20)	(14)	(10)	43	40
Net income	**145**	**89**	**42**	**63**	**112**

(1) Includes intersegment revenues of P$6 million, P$4 million and P$3 million in 2012, 2011 and 2010, respectively.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Revenues

During 2012, total revenues from Núcleo increased by 22% to P$873 million from P$718 million in 2011. This increase was mainly due to an increase of 7% in Núcleo s subscriber base that reached approximately 2,295,000 mobile subscribers as of December 31, 2012, the appreciation of the Guaraní of 9% and the increase in internet revenues (+83%). As of December 31, 2012, Núcleo had approximately 1,872,000 prepaid subscribers, representing 82% of Núcleo s total mobile subscriber base.

Value Added Services sales (included in Data and Internet services) grew by 26% in 2012 as compared to 2011.

During 2011, total revenues from Núcleo increased by 53% to P$718 million from P$469 million in 2010. This increase was mainly due to the increase in the volume of traffic, as a consequence of the growth in the subscriber base, the appreciation of the Guarani and the increase in the number of handsets sold as a result of technological advances. Núcleo had approximately 2,141,000 mobile subscribers as of December 31, 2011, which represented an increase of approximately 15% as compared to 2010. As of December 31, 2011, Núcleo had approximately 1,792,000 prepaid subscribers, representing 84% of Núcleo s total mobile subscriber base.

Value Added Services sales (included in Data and Internet services) grew by 64% in 2011 as compared to 2010.

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Revenues from our Núcleo Mobile Services segment for 2012, 2011 and 2010 are comprised as follows:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
		(P$ millions)		Increase	
Voice	414	353	254	17	39
Data	267	251	156	6	61
Internet	154	84	48	83	75
Service revenues	**835**	**688**	**458**	**21**	**50**
Equipment	32	26	8	23	225
Subtotal third party revenues	**867**	**714**	**466**	**21**	**53**
Intersegment	6	4	3	50	33
Total revenues	**873**	**718**	**469**	**22**	**53**

Operating Expenses (without depreciation and amortization)

Total operating expenses in our Núcleo Mobile Services segment increased 19% to P$542 million in 2012 from P$454 million in 2011. In 2011 operating expenses increased 46% from P$311 million in 2010. In line with our increases in revenues, during 2012 and 2011, all items in the cost structure of the Núcleo Mobile Services segment experienced increases, except for provisions and cost of equipments in 2011. This trend reflected increases in certain costs of acquiring and retaining subscribers, and commissions directly associated with sales and expansions of the customer service staff.

Detailed below are the major components of the operating expenses for the years ended December 31, 2012, 2011 and 2010 related to Núcleo Mobile Services segment:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
		(P$ millions)		Increase/(Decrease)	
Employee benefit expenses and severance payments	64	55	40	16	38
Interconnection costs and other telecommunications charges	128	110	77	16	43
Fees for services, maintenance, materials and supplies	76	64	52	19	23
Taxes and fees with the Regulatory Authority	27	23	16	17	44
Commissions	92	84	45	10	87
Cost of equipments	35	13	13	169	
Advertising	53	45	33	18	36
Provisions	(1)			n/a	
Bad debt expense	8	7	3	14	133
Other operating expenses	60	53	32	13	66
Total Núcleo Mobile Services(1)	**542**	**454**	**311**	**19**	**46**

(1)Includes intersegment cost of P$15 million, P$12 million and P$8 million in 2012, 2011 and 2010, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2012, employee benefit expenses and severance payments increased 16% to P$64 million from P$55 million in 2011. During that year, these costs increased 38% from P$40 million in 2010. The increase was mainly due to salary increases that Núcleo implemented and an increase in the number of employees mainly in 2011. Núcleo had 439 employees as of December 31, 2012. As of December 31, 2011 and 2010 it had 433 and 414, respectively.

Interconnection Costs and Other Telecommunication Charges

During 2012, interconnection costs and other telecommunication charges increased 16% to P$128 million from P$110 million in 2011. During 2011, those charges increased 43% from P$77 million in 2010. The increase was mainly due to higher traffic volume resulting from Núcleo s network.

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Fees for Services, Maintenance, Materials and Supplies

During 2012, fees for services and maintenance, materials and supplies totaled P$76 million, representing an increase of 19% from P$64 million in 2011. During 2011, they increased 23% from P$52 million in 2010. The increases in 2012 correspond to higher miscellaneous fees for services, while the increases in 2011were mainly due to higher costs related to the installation of the new Customer Contact Centers, higher maintenance costs of the fiber-optic network between some cities of Paraguay (like Asunción, Ciudad del Este and Encarnación) and higher maintenance costs related to the expansion of the 3G network (covering 62 new locations).

Taxes and fees with the Regulatory Authority

During 2012, taxes and fees with the Regulatory Authority increased 17% to P$27 million from P$23 million in 2011 and increased 44% from P$16 million in 2010. The increase in the year was attributable to the increase in total segment revenues.

Commissions

During 2012, commissions increased to P$92 million from P$84 million in 2011, representing an increase of 10%. During 2011, commissions increased 87% from P$45 million in 2010. The increases were mainly due to the growth in the subscriber base.

Cost of Equipments

During 2012 , the cost of handsets sold increased to P$35 million from P$13 million, representing an increase of 169%. During 2010, the cost of handsets was P$ 13 million. The increase in 2012 was mainly due to an expansion of the subscriber base and increased customer upgrade of mobile handsets as a result of technological advances and new service offerings.

Advertising

During 2012, advertising expenses including media, promotional and institutional campaigns, amounted to P$53 million, representing an increase of 18% from 2011. During 2011, these expenses amounted to P$45 million, representing an increase of 36% from P$33 million in 2010. This variation was mainly due to campaigns related to Internet 3G, the Interconnection Network and to strengthening the Personal brand position in Paraguay and Number Portability.

Other Operating Expenses

Other operating expenses include accrued expenses such as costs associated with the provision of Value Added Services, transportation costs, insurance, energy and costs of site leases.

Other operating expenses increased 13% to P$60 million in 2012 and 66% to P$53 million in 2011 from P$32 million in 2010. The increase was mainly due to the increase in costs associated with the provision of Value Added Services to customers and higher costs of site leases.

Operating Income before depreciation and amortization

Operating income before depreciation and amortization was P$331 million in 2012 and P$264 million in 2011, representing 38% and 37% of total revenues, respectively. Operating income before depreciation and amortization was P$158 million in 2010, representing 34% of total revenues in that year. The increase was mainly due to growth in service revenues, partially offset by increases in costs, such as fees for services and maintenance, materials and supplies, cost of handsets, advertising and commissions.

Depreciation of PP&E and Amortization of Intangible Assets

During 2012 depreciation of PP&E and amortization of intangible assets increased 5% to P$157 million from P$150 million in 2011. During 2011 depreciation and amortization increased 58% from P$95 million in 2010. The increase was the result of higher investment in PP&E and intangible assets, partially offset by a reduction in the level of depreciation due to the end of the amortization period for certain assets.

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Operating Income

In 2012, our operating income from the Núcleo Mobile Services segment was P$174 million, representing an increase of 53% from P$114 million in 2011, which represent 20% and 16% of total revenues for this segment in 2012 and 2011, respectively. In 2010, our operating income was P$63 million, representing 13% of total revenues for this segment.

The following table shows our operating income from the Núcleo Mobile Services segment in 2012, 2011 and 2010 and its percentage of total revenues in each year:

	Years Ended December 31,			% of Change	
	2012	2011	2010	2012-2011	2011-2010
	(P$ million / %)			Increase / (Decrease)	
Operating income before depreciation and amortization (1)	**331**	**264**	**158**	**25**	**67**
As % of total revenues	*38*	*37*	*34*		
Depreciation and amortization	(157)	(150)	(95)	5	58
As % of total revenues	*(18)*	*(21)*	*(20)*		
Operating income	**174**	**114**	**63**	**53**	**81**
As % of total revenues	*20*	*16*	*13*		

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Financial results, net

During 2012, the Núcleo Mobile Services segment recorded a net financial loss of P$9, compared to a net financial loss of P$11 million in 2011 and 2010. The decrease in the loss was mainly due to lower interest on financial debt.

Income Tax Expense

During 2012, our Núcleo Mobile Services segment recorded an income tax expense of P$20 million compared to P$14 million in 2011. The income tax expense in 2012 was mainly attributable to the recognition of current income tax expense amounting to P$23 million partially offset by the gain generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria amounting to P$3 million.

During 2011, our Núcleo Mobile Services segment recorded an income tax expense of P$ 14 million compared to P$10 million in 2010. The income tax expense in 2011 was mainly attributable to the recognition of current income tax expense amounting to P$16 million partially offset by the gain generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to fiscal versus accounting criteria amounting to P$2 million.

Net Income

During 2012, our Núcleo Mobile Services segment reported net income of P$145 million as compared to P$89 million during 2011, representing 17% and 12% of total revenues in 2012 and 2011, respectively. In 2010, our net income was P$42 million, representing 9% of total revenues. The increase in net income was mainly due to higher operating income partially offset by the higher income tax expenses.

Liquidity and Capital Resources

Sources and Uses of Funds

We expect that the principal source of Telecom Argentina s liquidity in the near term will be cash flows from Telecom Argentina s operations and the dividends that Personal may pay to it. Telecom Argentina s

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principal uses of cash flows are expected to be for capital expenditures and operating expenses and retributions to its shareholders. Telecom Argentina expects working capital and funds generated from operations to be sufficient for its present requirements.

We expect that the principal source of Personal s liquidity in the near term will be cash flows from operations. Personal s principal uses of cash flows are expected to be for capital expenditures, operating expenses and dividend payments to Telecom Argentina.

The Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina held on December 15, 2011, approved the creation of a Medium-Term Notes Global Program for a maximum outstanding amount of US$ 500 million or its equivalent in other currencies for a term of five years. As of the date of this Annual Report, Telecom Argentina is preparing the documentation required by the CNV to approve this program.

The Ordinary and Extraordinary Shareholders Meeting of Personal held on December 2, 2010, approved the creation of a Medium-Term Notes Global Program for a maximum outstanding amount of US$500 million or its equivalent in other currencies for a term of five years. On October 13, 2011, the CNV has approved this program.

The table below summarizes, for the years ended December 31, 2012, 2011 and 2010, Telecom s cash flows:

	Years Ended December 31,		
	2012	**2011**	**2010**
		(P$ millions)	
Cash flows from operating activities	5,029	5,317	4,244
Cash flows used in investing activities	(3,945)	(2,941)	(2,327)
Cash flows used in financing activities	(859)	(965)	(1,832)
Net foreign exchange differences on cash and cash equivalents	117	31	18
Increase in cash and cash equivalents	**342**	**1,442**	**103**
Cash and cash equivalents at the beginning of the year	**2,818**	**1,376**	**1,273**
Cash and cash equivalents at the end of the year	**3,160**	**2,818**	**1,376**

As of December 31, 2012, 2011 and 2010, we had P$3,160 million, P$2,818 million and P$1,376 million in cash and cash equivalents, respectively.

Cash flows from operating activities were P$5,029 million, P$5,317 million and P$4,244 million in 2012, 2011 and 2010, respectively. The decrease of P$288 million in 2012 was mainly due to higher employee benefit expenses and severance payments and higher income tax paid. The increase of P$1,073 million in 2011 was mainly due to an increase in the collection of trade receivables, resulting from an increase in revenues, partially offset by higher employee benefit expenses and severance payments and higher income tax paid.

Cash flows used in investing activities were P$3,945 million, P$2,941 million and P$2,327 million in 2012, 2011 and 2010, respectively. The increase of P$1,004 million in 2012 was mainly due to a higher payments for the acquisition of PP&E (amounting to P$272 million) and intangible assets (especially SAC and service connection costs) amounting to P$54 million and an increase of P$ 652 million in investments not considered as cash and cash equivalents. The increase of P$614 million in 2011 was mainly due to a higher payment for the acquisition of PP&E (amounting to P$435 million) and intangible assets (especially SAC and service connection costs) amounting to P$213 million.

Cash flows used in financing activities were P$859 million, P$965 million and P$1,832 million in 2012, 2011 and 2010, respectively. The decrease in 2012 of P$106 million was mainly due to lower payments of dividends. The decrease in 2011 of P$867 million was mainly due to lower payments of debt and related interest amounting to P$862 million.

Debt Obligations and Debt Service Requirements

Non-Deliverable Forward (NDF   ) Contracts to Purchase U.S. Dollars at Fixed Rates

During 2012, Telecom Argentina and Personal entered into several NDF contracts to purchase approximately US$20.0 million and US$26.3 million, respectively, maturing September 2012 and December

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2012, to hedge its exposure to U.S. dollar fluctuations related to accounts payable. However, as the terms of the NDF did not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective. Changes in the fair value of these instruments during 2012 represented a loss of approximately P$1.0 million and P$0.5 million for Telecom Argentina and Personal, respectively. The loss was recognized in Financial results, net against Trade payables.

Also during 2012, Personal entered into several NDF contracts to purchase a total amount of US$6.4 million maturing in September 2012 in order to hedge its exposure to US dollar fluctuations related to accounts payable. These NDF contracts were regarded as effective.

With respect to 2011, during October 2011, Personal entered into several NDF contracts to purchase a total amount of US$40 million (maturing December 2011) to hedge its exposure to U.S. dollar fluctuations related to accounts payable. However, as the terms of the NDF did not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective.

Also during October 2011, Personal entered into several NDF contracts amounting to US$12.7 million (maturing December 2011 and March 2012), to hedge its exposure to U.S. dollar fluctuations related to accounts payable. The Company designated these NDF contracts as effective cash flow hedges. As of December 31, 2011, US$6.4 million was outstanding. Changes in the fair value of these instruments represented a liability of approximately P$0.1 million included in Trade payables against Other Comprehensive Income .

As of December 31, 2012 all NDF contracts were cancelled.

Indebtedness of Subsidiaries

Núcleo. As of December 31, 2012, Núcleo s outstanding debt is denominated in Guaranies and amounted to approximately P$141 million. Additional information is set forth in Note 12 to our Consolidated Financial Statements.

Liquidity

The liquidity position for each of Telecom Argentina, Personal and Núcleo is and will be significantly dependent on each individual company s operating performance, its indebtedness, capital expenditure programs and receipt of dividends, if any, from its subsidiaries, if any.

We expect that our cash flow from operations will be sufficient to permit Telecom Argentina and its subsidiaries to satisfy their respective indebtedness and other cash requirements in the near to medium term. However, Personal may use short-term funding to cover occasional negative operational cash flows.

Our ability to generate sufficient cash from our operations in order to satisfy our indebtedness and capital expenditure needs may be affected by macroeconomic factors influencing our business, including, without limitation: the exchange rate of Argentine Pesos to U.S. dollars; rates of inflation; and the achievement of ultimate rates adjustments for regulated services in the Fixed Services segment, among others. These factors are not within our control. The statements expressed in the preceding paragraphs constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties, including those described in this Annual Report in Item 3 Key Information Risk Factors. Actual results may differ materially from our expectations described above as a result of various factors.

The Company is able to distribute dividends up to the limit of retained earnings determined under Argentine Corporations Law. As provided by CNV Resolution No. 609/12, positive retained earnings generated by the mandatory adoption of IFRS as from January 1, 2012, should be reassigned to a Special Reserve that can only be utilized for its capitalization or to absorb negative retained earnings. Positive retained earnings generated by the application of IFRS in Telecom Argentina s 2012 statutory financial statements amounted to P$370 million, of which P$19 million have to be allocated to Legal Reserve and P$351 million have to be assigned to the Special Reserve established by CNV Resolution No. 609/12. Such constitution shall be voted at the Ordinary Annual Shareholders Meeting to consider the Consolidated Financial Statements for 2012.

On March 18, 2013, Telecom Argentina s Board of Directors called a shareholders meeting to be held on April 23, 2013, to consider among other issues the allocation of Telecom Argentina s non-appropriated retained earnings as of December 31, 2012. The Board proposed to allocate P$ 1,000 million as a Reserve for Future Dividends in Cash and to authorize the Board of Directors to approve the reduction of such Reserve for the purpose of distributing dividends in cash taking into account the economic and financial condition of Telecom Argentina.

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Telecom Argentina s Annual Shareholders meeting held on April 27, 2012 approved the allocation of the Company retained earnings, which included a cash dividend distribution of P$807 million (P$0.82 per share) which was paid in May 2012.

As of December 31, 2012, Telecom Argentina and its consolidated subsidiaries had approximately P$3,160 million in cash and cash equivalents. Of this amount, approximately P$1,159 million of cash and cash equivalents was held by Telecom Argentina on a stand-alone basis. Telecom Group has approximately P$35 million of restricted cash in connection with legal proceedings. Such restricted cash has been classified as Other Receivables, net on our balance sheet.

Capital Expenditures

We estimate that our capital expenditures for 2013 will be approximately P$4.7 billion (P$3.6 billion in tangible assets and P$1.1 billion in intangible assets, particularly SAC). We expect that Telecom Argentina will invest primarily to sustain the growth in Broadband services and new initiatives of VAS, to supply mobile operators with the necessary infrastructure and to continue with the updating of commercial and support systems. Regarding Personal, the expansion of its network infrastructure will continue, and special effort will be made to extend 3G and HSPA+ technology coverage and bandwidth for mobile data transmission and commercial systems improvements. See Item 3 Key Information Risk Factors We operate in a competitive environment, which may result in a reduction of our market share in the future. We expect to finance our capital expenditures through cash generated through our operations and cash on hand; therefore, our ability to fund these expenditures is dependent on, among other factors, our ability to generate sufficient funds internally. Telecom Argentina s ability to generate sufficient funds for capital expenditures is also dependent on its ability to increase its regulated rates, since the cost of imported materials may increase in peso terms (as a result of the decline in the peso/U.S. dollar exchange rate and higher inflation).

Related Party Transactions

During 2012, we entered into certain transactions with our indirect shareholders Telecom Italia and W de Argentina Inversiones or their affiliates in the ordinary course of business. For a description of these transactions see Item 7 Major Shareholders and Related Party Transactions.

Taxes

Turnover Tax

Under Argentine tax law, Telecom is subject to a tax levied on gross revenues. Rates differ depending on the jurisdiction where revenues are earned for tax purposes. Rates in effect ranged from 2.5% to 7.0% for the years ended December 31, 2012, 2011 and 2010, depending on the jurisdiction or goods and services subject to the tax.

Income Tax

Our income tax rate is currently 35% of taxable net income for the companies located in Argentina, 10% for Núcleo, 25% for Springville and 34% for Telecom USA. The amount of income subject to tax is calculated according to tax regulations which contain a different methodology for calculating net taxable income than the methodology used for the preparation of our Consolidated Financial Statements under IFRS. The differences between the methodology of computing income under the tax regulations and under IFRS make it difficult to determine the taxable net income from our income statements. For instance, some deductions from income normally accepted for accounting purposes are not deductible and, accordingly, must be added back to income for tax purposes.

Cash dividends, property or capital stock of Telecom Argentina are, in general, exempt from Argentine withholding tax and other taxes. Nevertheless, under Argentine Income Tax Law, a corporation that makes a distribution of dividends to its shareholders in excess of the amount of its accumulated taxable net income at the close of the previous taxable year, as determined by application of the Argentine Income Tax Law, shall have to withhold a 35% tax from such excess. This withholding income tax is known as the equalization tax. See Item 10 Additional Information Taxation Argentine Taxes Taxation of Dividends.

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Tax on cash dividends received from a foreign subsidiary is calculated according to the statutory income tax rate. As per Paraguayan tax law, an additional income tax rate of 5% is imposed on dividends that are paid. Additionally, when dividends are being paid to foreign shareholders, there is an additional income tax rate of 15%, which is deducted from the amounts which are paid to such shareholders. As per Argentine tax law, income tax paid abroad is recognized as tax credit.

Net losses can generally be carried forward and applied against future taxable income for five years.

Costs Associated with Income Taxes Paid by Foreign Lenders

Pursuant to the terms and conditions of our loans outstanding during 2010 and 2009, we were required to reimburse our foreign lenders for Argentine income taxes payable by the lenders with respect to the interest on the loans by increasing or grossing up the amount of interest paid to these lenders such that, after payment of the Argentine taxes, the lenders have received the contractual interest rate. The withholding rate on interest payments to foreign beneficiaries is 15.05% (17.7163% with gross-up) if the lenders are banks or financial entities located in jurisdictions that are neither tax-free nor subject to taxation according to Argentine income tax rulings or have entered into treaties with Argentina providing for exchange of information upon request by the respective authority. Furthermore, unless their internal rulings provide otherwise, requests for banking, stock exchange or other secret information cannot be challenged. In order to be eligible for the 15.05% withholding rate, the financial entity must be under the supervision of a respective central bank or equivalent authority. If the lender did not meet the aforementioned requirements, the withholding rate would be 35% (53.8462% with gross-up). Interest payments on notes (*obligaciones negociables*) that met the requirements of Section 36 of the Negotiable Obligations Law and are held by foreign beneficiaries remained income tax-exempt.

Thin Capitalization Rules

Argentine Law No. 25,784, which was published in the Official Bulletin in October 2003, modified the limitation on the deduction of interest expense by stating that the limit will only be applied to interest expense on debt owed to non-resident entities that control the borrowing entity (except for interest expense subject to the 35% withholding tax) in proportion to the amount of debt that exceeds by two times the company s equity, and the excess of interest over this ratio will be treated as dividend payments. During fiscal years 2012, 2011 and 2010, Telecom s deduction of interest expenses was not limited because Telecom was able to satisfy the conditions required for such deduction.

Tax on Minimum Presumed Income

Our companies located in Argentina are required to pay an amount equal to the greater of the income tax or the tax on minimum presumed income. The tax on minimum presumed income is computed based on 1% of the value of our assets. The value of our assets is determined in accordance with the criteria established under the tax laws. The amount of any income tax paid during the year may be applied against the tax on minimum presumed income that would be payable in such year. The amount of tax on minimum presumed income in excess of the income tax for such year may be carried forward for a period of up to ten years. This excess may be treated as a credit that may be applied against the income tax payable in a future year to the extent the tax on minimum presumed income for the year does not exceed income tax payable for such future year. During fiscal years 2012, 2011 and 2010, income tax was higher than tax on minimum presumed income. Shares and other equity participations in companies subject to the tax on minimum presumed income are exempt from the tax on minimum presumed income.

Value Added Tax (VAT)

VAT does not have a direct impact on our results of operations. VAT paid by us to our suppliers is applied as a credit toward the amount of VAT charged by Telecom to its customers and the net amount is passed through to the Argentine government. VAT rates are 21%, 27% and 10.5%, depending on the type of the transaction and tax status of the customer.

The import of services (including financial services) by Argentine VAT taxpayers registered for VAT purposes, or *responsables inscriptos*, such as the Company, is subject to VAT. In the case of loans, if the lender is a bank or a financial entity located in a country whose central bank has adopted the Banking Supervision Standards of the Basel Committee, the rate is 10.5%. If the foreign lender is one other than those mentioned above, the rate is 21%.

The burden of paying VAT is borne by the Argentine taxpayer.

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Tax on Deposits to and Withdrawals from Bank Accounts

The tax on deposits to and withdrawals from bank accounts under Law No. 21,526 applies to certain deposits to and withdrawals from bank accounts opened in Argentine financial entities and to other transactions that, due to their special nature and characteristics, are similar or could be used in lieu of a deposit to or withdrawal from a bank account. Therefore, any deposit to or withdrawal from a bank account opened in an entity regulated by Law No. 21,526, or any transaction deemed to be used in lieu of a deposit to or withdrawal from a bank account, is subject to the tax on deposits and withdrawals unless a particular exemption is applicable. The tax rate in effect since August 1, 2001 has been 0.6% of the transaction volume.

During 2012, 2011 and 2010, we charged to our income statement P$216 million, P$166 million and P$135 million, respectively, of this tax.

On February 6, 2003, the Ministry of Economy and Public Finance, through General Resolution No. 72/03, authorized us to increase the Basic telephone services rates by the amount of the tax on deposits to and withdrawals from bank accounts as provided for in General Resolution No. 72/03. The amount of the tax charged must be shown in detail on the customers bills. The amounts charged before General Resolution No. 72/03 were approximately P$23 million. This amount was subsequently corroborated by CNC audits, resulting in a receivable for the Company for P$23 million which was recorded under Other receivables during 2007. That receivable can be offset with existing and/or future regulatory duties. See Item 4 Information on the Company Regulatory Framework Regulatory Environment Rate Regulations Tax on deposit to and withdrawals from bank accounts (IDC).

Decree No. 534/2004 provides that owners of bank accounts subject to the general tax rate of 0.6% may take into account as a tax credit 34% of the tax originated in credits on such bank accounts. This amount may be computed as a credit for the Income Tax and Tax on Minimum Presumed Income. The amount computed as a credit is not deductible for income tax purposes.

Tax on Personal Property

Argentine Law No. 25,585, as amended by Law No. 26,317, imposes a tax on shares of stock corporations, such as Telecom Argentina s ADSs and the Class A, B and C Shares. See Item 10 Additional information Taxation Argentine Taxes Tax on Personal Property.

The tax rate applied is 0.50%. This tax is computed based on the value of the shareholders equity as stated on the most recent annual balance sheet of Telecom Argentina. Although Telecom Argentina is required to pay this tax on behalf of the holders of its ADSs, Class A, B and C Shares, it has the right to obtain reimbursement of the amounts paid from its shareholders, even if this requires holding and/or foreclosing the property on which the tax is due. As a result, until shareholders reimburse Telecom Argentina for the amounts paid on their behalf, the payment of this tax constitutes a receivable for Telecom Argentina.

Telecom Argentina has, from time to time, requested that its shareholders reimburse the amounts of tax on personal property paid on their behalf and has received partial reimbursement of such taxes. The amount paid by Telecom Argentina and pending collection from its shareholders as of December 31, 2012, was approximately P$27 million, of which P$18 million are included in the allowance for doubtful accounts, based on the recoverability assessment made by Telecom Argentina. Whenever applicable, tax on personal property paid on behalf of Telecom Argentina s shareholders is deducted from the cash dividend payment.

Other Taxes and Levies

We are subject to a levy of 0.5% of our monthly revenues from telecommunications services. The proceeds of this levy are used to finance the activities of the Regulatory Bodies. The amount of this levy is included in our consolidated income statement within Taxes and fees with the Regulatory Authority.

Law No. 25,239 imposes a tax on Personal of 4% (tax on mobile and satellite services) of amounts invoiced excluding VAT but including the excise tax, which results in an effective tax rate of up to 4.167%.

Law No. 26,539 amends the excise tax and establishes that the importation and sale of technological and computer goods, including mobile phones, is subject to the excise tax at a rate of 17%, resulting in an effective tax rate of up to 20.48%, effective from December 1, 2009.

Since the beginning of 2001, telecommunication services companies have been required to pay a Universal Service tax to fund Universal Service requirements. The Universal Service tax is calculated as a percentage of the total revenues received from the rendering of telecommunication services, net of taxes and levies applied on such revenues, excluding the Universal Service tax. The rate is 1% of total billed revenues. See Item 4 Information on the Company Regulatory Framework Decree No. 764/00.

Law No. 26,573, which was regulated in 2010, imposes a levy of 1% of the monthly revenues from telecommunication services, excluding prepaid services, which must be collected from the customers. The proceeds of this levy are used to finance the activities of the Ente Nacional de Alto Rendimiento Deportivo ENARD (National Board of High Performance Sport).

Research and Development, Patents and Licenses, etc.

None.

Trend Information

In 2012 we consolidated our position in each of our business segments. In particular, we highlight the following:

- An expansion in the number of mobile subscribers reaching 21.3 million, and Internet accesses, reaching 1.6 million (equivalent to 39% of fixed lines in service). Otherwise, the number of fixed lines in service remained at similar levels to the previous year, reaching 4.1 million. As a result, our consolidated revenues increased by 20% reaching P$22,117 million. Our service revenues represented 91% of consolidated revenues and grew by 19% as compared to 2011.

- Our capital expenditures amounted to P$3,257 million in 2012, equivalent to 15% of consolidated revenues. These investments consisted of 44% for Fixed services segment, 50% for Personal mobile services and 6% for Núcleo mobile services.

- An improvement in economic results as compared to 2011: +3% in operating income and +7% in net income. The return on Shareholders Equity at the beginning of the year was 33% annually.

Cash from operating activities allowed Telecom Argentina to increase the level of capital expenditures without incurring financial indebtedness, even after paying dividends in the amount of P$807 million.

In 2013 we expect the growth prospects for fixed line services to continue in line with the evolution experienced in recent years as a result of the market maturity. Our Arnet Broadband business got well-positioned to continue to capture market opportunities. Also, the launch of Arnet Play in 2011 enabled Telecom Argentina to operate in the video streaming content access market.

With regard to prices, in the Fixed Services segment, the implementation of the Letter of Understanding of March 6, 2006 executed with the National Government is still pending and the rate adjustments of regulated services is also yet to be implemented. Both would restore Telecom Argentina s financial and economic equation and allow the Company to introduce development and technological innovation in network infrastructure. Constant pressures on the Company s cost structure accentuate this need.

We believe in 2013 the mechanism of contribution to SU Fund and the compensation for incumbent operators of economic and financial losses incurred in services rendered since 2001, to give access to basic services to low-income individuals and those in areas not currently covered by fixed and mobile telecommunication services, should be reviewed. We also expect the definition of new criteria for mobile operators, who have not reached the maximum radio spectrum prescribed by regulation, to increase their range, so as to make feasible the provision of mobile services with the quality that investments in infrastructure allow. We believe that the regulatory authority should work with operators as well as municipalities to enable operators to install the necessary sites to improve their network coverage.

The mobile business is expected to continue expanding, although at more moderate rates than those of recent years. We expect mobile Internet to continue to gain further presence among our customer base. Value Added Services are expected to continue to be one of the key sources of revenues growth (in 2012, Value Added Services accounted for about 53% of service revenues). We expect that Personal will continue to work on expanding the mobile Internet experience, after the resolution of the spectrum requirements mentioned above.

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Coverage expansion and speed access improvement to 3G and HSPA+ networks, and the more complete portfolio of advanced mobile devices will be the drivers to success in our operation in the Argentine market.

Our mobile operation, which has consistently increased its share in the Argentine market, has successfully implemented Number Portability in early 2012, and we estimate that satisfactory results achieved in 2012 will continue in the coming year.

To provide customers with new and better services, the Telecom Group will continue with its investment plans that are expected to require expenditures in 2013 of approximately 17% of the estimated revenues for 2013. Telecom Argentina s investments will focus on growth of Broadband, new Value Added Services initiatives in the fixed business, provision of infrastructure to mobile operators and modernization of commercial and support systems. Personal will enhance its network infrastructure by expanding coverage of its 3G and HSPA+ technology and bandwidth for mobile data transmissions and commercial systems improvements.

The strategy implemented by the Company s Management and described in this Annual Report sets forth the basic standards that Management believes will enable the Telecom Group to reach its objectives of improving quality of service, strengthening its market position and increasing operating efficiency to meet the growing demands of the dynamic telecommunication market in which it operates. Our investment plans are based on this future vision and on the commitment of the Telecom Group to our country and its people.

The statements expressed in the preceding paragraphs constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties, including those described in this Annual Report in Item 3 Key Information Risk Factors. Actual results may differ materially from our expectations described above as a result of various factors.

Contractual Obligations

Our consolidated contractual obligations and purchase commitments as of December 31, 2012 were as follows:

	Less than 1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
			(in millions of Argentine Pesos)		
Debt obligations (1)	55	83	34		172
Operating lease obligations	262	320	95	77	754
Purchase obligations (2)	1,500	95	78	173	1,846
Other long-term liabilities (3)	69	100	59	59	287
Total	**1,886**	**598**	**266**	**309**	**3,059**

(1) Includes P$28 million of future interest.

(2) Other than operating lease obligations.

(3) Includes voluntary retirement program, pension benefits and other long-term payables.

Off-Balance Sheet Arrangements

None.

Safe Harbor

See the discussion at the beginning of this Item 5 and Forward-Looking Statements in the introduction of this Annual report, for forward-looking statement safe harbor provisions.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Board of Directors

Management of the business of the Telecom Group is vested in the Board of Directors. Telecom Argentina s bylaws provide for a Board of Directors consisting of no fewer than three and no more than eleven directors and up to the same or a lower number of alternate directors. Currently, Telecom Argentina has seven directors and seven alternate directors. Three of the directors and three of the alternate directors qualify as independent directors under SEC regulations. Two of the directors and three of the alternate directors also qualify as independent directors under CNV rules. According to Telecom Argentina s bylaws, the Board of Directors has

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all of the required authority to administer the corporation, including those for which the law requires special powers. The Board operates with a quorum of the absolute majority of its members and resolves issues by simple majority of votes present. According to Telecom Argentina s bylaws, the Chairman has a double vote in the case of a tie. Under CNV regulation, in order to be independent, a director must neither be employed by, nor affiliated with, Telecom Argentina, Nortel, Sofora, the Telecom Italia Group or W de Argentina Inversiones. Directors and alternate directors are normally elected at annual ordinary general meetings of the shareholders and serve a renewable three year term.

Because a majority of shares are owned by Nortel, Nortel as a practical matter may have the ability to elect the majority of directors and alternate directors. In the absence of a director, the corresponding alternate director may attend and vote at meetings of the Board of Directors.

See Item 7 Major Shareholders and Related Party Transactions Shareholders Agreement for a description of certain agreements relating to the appointment of members of the Board of Directors.

The following table lists the directors and alternate directors of Telecom Argentina as of December 31, 2012 and, otherwise mentioned, as of the date of this Annual Report:

Name	**Position**	**Date Director became a Member of the Board**
Enrique Garrido	Chairman of the Board of Directors	April 27, 2007
Gerardo Werthein	Vice Chairman of the Board of Directors	December 19, 2003
Andrea Mangoni	Director	November 30, 2010
Patrizio Graziani	Director	July 30, 2012
Nicola Verdicchio	Director	November 30, 2010
Esteban Gabriel Macek	Director	April 27, 2007
Norberto Carlos Berner(1)	Director	November 30, 2010
Domingo Jorge Messuti	Alternate Director	November 30, 2010
Valerio Giuseppe Giovanni Cavallo	Alternate Director	November 30, 2010
Guglielmo Noya	Alternate Director	November 30, 2010
Jorge Luis Pérez Alati	Alternate Director	November 30, 2010
Eduardo Federico Bauer	Alternate Director	April 27, 2007
Pablo Alberto Gutierrez	Alternate Director	November 30, 2010
Esteban Santa Cruz	Alternate Director	November 30, 2010

(1) On March 27, 2013 Norberto C. Berner resigned as member of the Board of Directors of Telecom Argentina, which was accepted on April 8, 2013 by the Board of Directors. Mr. Berner was replaced as director and member of the Audit Committee by his alternate director Esteban Santa Cruz.

Enrique Garrido is a lawyer. He served as a director of Telecom Argentina during fiscal year 2007 and was appointed as Chairman of the Board of Directors on April 29, 2008. He was reelected Chairman of the Board of Directors of Telecom Argentina on November 30, 2010. He is Director of Sofora. He is also a member of the Supervisory Committee of La Estrella S.A. Compañía de Seguros de Retiro. He was born on June 7, 1937.

Gerardo Werthein is a veterinarian. He is also a director of Sofora and was director of Personal since December 2003 until April 10, 2013. Since that date he is alternate director of Personal. He is Chairman of Caja de Seguros S.A., La Caja de Seguros de Retiro S.A. and Haras El Capricho S.A. He is also Chairman of Comité Olímpico Argentino and Ente Nacional de Alto Rendimiento Deportivo. He is a member of the International Olympic Committee. He is Vice Chairman of La Estrella S.A. Compañía de Seguros de Retiro. He is a director of Gregorio, Numo y Noel Werthein S.A., Los W S.A., and Caja de Ahorro y Seguro S.A. He was born on December 3, 1955.

Andrea Mangoni graduated from the University of Rome in 1988 with a thesis on valuation and private financing of investments in public infrastructures. Presently, he is the Managing Director for South America of Telecom Italia. Until August 1, 2012 he was responsible for Administration, Finance and Control and International Development in Telecom Italia. Mr. Mangoni joined the Telecom Italia Group on July 1, 2009, as Chairman of Telecom Italia Sparkle (from July 2009 to July 2010) and as Director of International Business at Telecom Italia S.p.A. From 1996 to March 2009 he worked in Acea, where he was appointed Chief Executive Officer in November 2003; from March 2003 to November 2003 he was General Manager of Acea; from June 2001 to February 2003, he was Chief Financial Officer, responsible for strategies, finance, budget, economic planning and control, investor relations of Acea; in 2002 he was appointed common representative of the Joint Venture among Acea, Electrabel and Energia Italiana which brought to the acquisition of Interpower, the third generation company sold by Enel; from January 2000 to May 2001 he was Strategic Planning Director of Acea; from January 1998 to December 1999 he worked as manager of the Finance Department of Acea, where he was responsible of strategic planning; from 1996 to 1997 he was President Assistant, responsible for the

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transformation process of Acea from municipal company into share capital company. Mr. Mangoni worked for InterAmerican Development Bank (IDB). Mr. Mangoni was born in Terni, Italy in 1963.

Patrizio Graziani holds a degree in Economy and Commerce. He is the assistant of Telecom Italia S.p.A Chairman and the Chairman of HR Servicies. He is also Chairman of Nortel and Personal, and member of the Board of Directors of Sofora. He was born on April 3, 1965.

Nicola Verdicchio is head of the M&A Legal Affairs Department of Telecom Italia S.p.A. Before that, he was head of the International Legal Affairs & Litigation Department of Telecom Italia S.p.A. After graduating in 1985, he was Assistant Professor of Civil Law at La Sapienza University of Rome. He began his career at Danone Group and in 1987 he joined STET S.p.A. as in-house counsel within the Legal Department of such company. In 1997 he was appointed head of the Legal and Corporate Affairs & Tax Department of STET International S.p.A**.** In 1999 he joined Telecom Italia S.p.A. as head of International Business Development within the Legal and Corporate Affairs Department. Since 2000, he has held various positions with increasing responsibilities within the Telecom Italia Group, in charge of the international legal affairs and supporting the top Management of Telecom Italia in handling the main M&A projects and international strategic transactions. He has been serving as member of Board of Directors of several subsidiaries of Telecom Italia. Mr. Verdicchio was born in Rome, Italy, on February 5, 1962.

Esteban Gabriel Macek is a public accountant. He is Chairman of Fiduciaria Internacional Argentina S.A. He is a director of Inmobiliaria Madero S.A. He is also an alternate member of the Supervisory Committees of Visa Argentina S.A. and Prisma S.A. He was born on November 8, 1960.

Norberto Carlos Berner is a lawyer with a commercial law practice. He is a Philosophy of Law Assistant Professor at the Universidad de Buenos Aires and Professor at the Escuela del Cuerpo de Abogados del Estado. He is member of the Colegio Público de Abogados de la Capital Federal. On May 2012 he was appointed as General Inspector of Justice of the Ministry of Justice and Human Rights. He was born in Argentina on August 23, 1977.

Domingo Jorge Messuti holds a PhD in Economics from the Universidad de Buenos Aires and an MBA from Columbia University, New York, USA. He was Chairman of the Board of Directors of Banco Ciudad de Buenos Aires and Banco de Inversión y Comercio Exterior. He was appointed as a director of Telecom Argentina on April 29, 2008 and as an alternate director on November 30, 2010. He was born on May 17, 1938.

Valerio Giuseppe Giovanni Cavallo is an economist. As from February 2013 he is Group Compliance Officer of Telecom Italia Spa. Previously he was Chairman of Telecom Italia Sparkle S.p.A. From September 2009 to July 2010 he was responsible for Administration and Control in Telecom Italia Sparkle S.p.A. From July 2001 to August 2009 he was CFO of Telecom Argentina Group. From May 2000 to June 2001 he was responsible of Budget and Reporting of Telecom Italia S.p.A. He was born on April 21, 1960.

Guglielmo Noya is a mechanical engineer and holds an MBA from Instituto Superiore di Direzione Aziendale. He is responsible for Mergers & Acquisitions in Telecom Italia S.p.A. He was CEO at Tim Participações (Brasil) from August 2008 to January 2010 and Director of Mobile Telephony in Telecom Argentina from April 2005 to April 2008. From 2002 to 2005, he served as General Manager of Entel PCS, a Chilean mobile telecommunications services company. From 1997 to 2002, he was Area Manager for Brazil and Director of Business Development in the Americas for TIM. He was born on April 27, 1962.

Jorge Luis Pérez Alati is a lawyer. He is Chairman of the Board of Directors of In Store Media Argentina S.A., Inversiones Alumine S.A., Inversiones Los Alpes S.A., Inversiones Meliquina S.A., ISDIN Argentina S.A., La Papelera del Plata S.A., Nogal Central S.A., Pilar del Este S.A., Alpe S.A.C.I.F.I.A. and Solcan S.A. He is Vice Chairman of Puig Argentina S.A., Lan Argentina S.A. and Inversora Cordillera S.A. He is a director of Aluflex S.A., CMPC Inversiones de Argentina S.A., Cork Supply Argentina S.A., Fabi Bolsas Industriales S.A., Honda Motor de Argentina S.A., Inesa Argentina S.A., Inversiones Los Andes S.A., Ivax Argentina S.A., Media Planning S.A., Media Contacts Argentina S.A., Motorola Argentina S.A., Naschel S.A., World Management Advisors Argentina S.A. and LDC Argentina S.A. and an alternate director of Arbumasa S.A., Bodegas Caro S.A., Cerámica San Lorenzo I.C.S.A., Proximia Havas Argentina S.A., Sociedad Alpe S.A., Salfa Construcciones Trasandinas S.A., Havas Sports Argentina S.A., Marina Holding S.A., Navieras Americanas, S.A. and Telecom Argentina. He is a member of the Supervisory Committees of Banco Santander Río S.A., BRS Investment S.A., Distrilec Inversora S.A., Edesur S.A., ISBAN Argentina S.A., Santander Río Servicios S.A., Portal Universia Argentina S.A., Perevent Empresa de Servicios Eventuales S.A., Prestamos de Consumo S.A., Santander Río Seguros S.A., Santander Río Trust S.A., Santander Merchant S.A. and Santander Rio Sociedad de Bolsa S.A. He was born on September 14, 1954.

Eduardo Federico Bauer is a lawyer. He is Vice Chairman of the Board of Directors of Nortel and Micro Sistemas. He is an alternate director of Sofora, Personal, Caja de Seguros S.A., La Caja Aseguradora de Riesgos del Trabajo ART S.A., La Caja de Seguros de Retiro S.A., La Estrella S.A. Cía. de Seguros de Retiro, Ritenere S.A. and Pluria Productores de Seguros S.A. He was born on January 14, 1950.

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Pablo Alberto Gutiérrez is a public accountant. He is an advisor for many companies. He is director of Fiduciaria Internacional Argentina S.A. He is Vice Chairman of CAFIDAP Cámara Argentina de Fideicomisos y Fondos de Inversión Directa en Actividades Productivas. He was born on January 4, 1968.

Esteban Santa Cruz holds a degree in Economics from the Universidad de Buenos Aires and a Masters Degree in Finance from the Universidad Di Tella. He is currently the Financial Director of the ANSES. He was Manager of Financial Asset Strategy at Fondo de Garantía de Sustentabilidad (FGS-ANSES). He previously worked at Banco Hipotecario and Asociart ART. He was born on August 20, 1979.

Senior Management

As of December 31, 2012, the Telecom Group s senior Management team includes the individuals listed below. Unless otherwise noted, these individuals are members of the Telecom Group s senior Management as of the date of this Annual Report.

Name	Position (1)	Date of Designation
Franco Bertone (2)	Chief Executive Officer	March 2009
Gonzalo A. Martínez	Director of Regulatory Affairs	April 2012
Guillermo O. Rivaben	Director of Mobile Telephony	May 2010
Marcelo E.Villegas	Director of Human Capital	August 2008
Adrián Calaza	Chief Financial Officer	August 2009
Estefano M. Esposizione	Director of Procurement	July 2011
María D. Carrera Sala	Director of General Secretary	November 2002
Alejandro D. Quiroga López	Director of Legal Affairs	June 2011
Ricardo Luttini	Director of Internal Audit	April 2007
Máximo D. Lema	Director of Wholesale	June 2010
Paolo Perfetti	Director of Network	November 2012
(3)	Director of Fixed Telephony	
Mariano Cornejo	Director of Communications and Media	June 2007
Eduardo M. Etcheverry	Director of Information Services	December 2012
Paolo Chiriotti	Director of Corporate Security	August 2012

(1) The designation of Director does not imply that the officers mentioned above are members of the Board of Directors of Telecom Argentina, which is composed of the persons stated in the Directors, Senior Management and Employees The Board of Directors above. The terms of office of Telecom s Senior Management are contractual in nature. Such contracts do not include a specified expiration date.

(2) Mr. Franco Bertone served as Chief Executive Officer of Telecom Argentina from his appointment in March 2009 to February 27, 2013, when he informed us that Telecom Italia S.p.A. has asked him to assume other responsibilities within the Telecom Italia Group. Consequently, Telecom Argentina s Board of Directors meeting held on February 27, 2013, following the approval of the Consolidated Financial Statements as of December 31, 2012, appointed Mr. Stefano De Angelis as Chief Executive Officer of Telecom Group, replacing Mr. Franco Bertone.

(3) Position occupied by Stefano Core until October 1, 2012 and vacant as of December 31, 2012. It was occupied by Anibal R. Gomez since March 7, 2013.

Franco Bertone is an electronic engineer. He has been Director of Operations of Telecom Italia in Argentina, Director of Shareholder Relations of Telecom Italia Latin America, CEO and Chairman of the Board of Directors of Entel (Bolivia) and Vice Chairman of Telecom Argentina. He also served as Chairman of Nortel, Deputy Chairman of Entel (Chile) and nonexecutive director of Digitel (Venezuela), Tim Perú and Tim Participações. From April to August 2008, he served as director of Telecom Argentina and subsequently, as Chief Operating Officer of the Telecom Group. He was born on April 9, 1952.

Stefano de Angelis holds a degree in Economics and Business Administration from Università degli Studi La Sapienza, Rome, Italy and also an MBA from Scuola di Amministrazione Aziendale dell Università di Torino, Italy. He was appointed as Chief Executive Officer of the Telecom Group in February 2013. From September 2007 until February 2013 Mr. De Angelis was Director of Administration, Planning and Control in Telecom Italia SpA. Before that, he was the Chief Financial and Investor Relations Officer of TIM Participações S.A. between 2006 and 2007. He also served as Chief Administration, Finance and Control Officer of the TIM Companies in Brazil since July 2004. Between 2002 and 2004, he was responsible for the planning and controlling operations of Telecom Italia Mobile S.p.A. in Italy. Mr. De Angelis also worked in the Consodata Group Ltd, H.M.C. S.p.A., Stet S.p.A. and at Fiat Geva. S.p.A. He is member of the Board of Directors of TIM Participações S.A.. He was born on August 22, 1967.

Gonzalo A. Martínez is a telecommunications engineer, graduated from La Plata University. He joined Telecom Argentina in 1991.
Mr. Martínez has served in different roles at Telecom, such as Products and Services Development Manager, Corporative and Large Customers Manager and Support Manager on

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Regulation for Operative and Commercial Direction. In 2001, he was appointed Manager of Regulatory Affairs for fixed telecommunication operation and in 2007 as Regulatory Assurance Director of mobile and fixed operations. In 2012 he was appointed Regulatory Affairs Director of Telecom Argentina. Before joining Telecom Argentina, Mr. Martínez worked at the SADE-Perez Compac Group, in areas of engineering and construction telecommunications projects until 1987, when he was appointed as Business Manager of Micro Sistemas S.A. In 1988, he became Plant Manager of this informatics technology company. He was born on February 12, 1954.

Guillermo O. Rivaben holds a degree in electronic engineering from the Universidad de Buenos Aires and has over 19 years experience as senior manager and consultant in the Latin America telecommunications market with strong expertise in mobile services, integrated broadband corporate services, international business relationships and strategic planning. He joined Personal in 1995 as Marketing Manager and left in 2000 to launch AT&T Latinamerica in Argentina and then became Executive Vice Chairman of Regional Marketing (Brazil-Argentina). He rejoined Personal in 2004 as Executive Director of Marketing and Strategic Planning. He became Director of Mobile Telephony in May 2010. He is also Director of Núcleo and Vice Chairman of Springville. He was born on April 5, 1966.

Marcelo E. Villegas is a lawyer. He joined Telecom Argentina in May 2008 as the Human Capital Director. He graduated from Universidad Nacional de Buenos Aires. Previously, he worked in the human resources department of the following companies: Wal-Mart Stores (International Division) for Wal-Mart Argentina, the Cencosud Group (Jumbo Retail Division) for the brands Jumbo, Disco and Vea, Hewitt & Aso (as head of talent Management and organizational change), the Perez Companc Group, Sade S.A., the Division of Exploration and Production of Gas and Oil in Latin America, the Suez Group, Aguas Provinciales de Santa Fe, Aguas Argentinas, Latin America Region and Ondeo de Puerto Rico Inc. He was born on March 13, 1963.

Adrián Calaza holds a degree in Business Administration from the Universidad de Belgrano and an MBA from the Universidad del CEMA. He was appointed Telecom Argentina s Chief Financial Officer in August 2009. Mr. Calaza joined the Telecom Italia Group in January 1999, where he held various positions such as Chief Financial Officer of Entel Bolivia, a subsidiary of the TI Group and as Corporate Chief Financial Officer of Telecom Italia Latam in Brazil. Mr. Calaza returned to Argentina in 2007 as Manager of the Corporate Administrative Services Department of the Telecom Group. He was born on March 8, 1967.

Stefano M. Esposizione holds a degree in Business Administration from the LUISS University of Rome and an MBA from INSEAD. He was appointed as Telecom Argentina s Procurement Director in July 2011. Mr. Esposizione joined the Telecom Italia Group in February 2001, where he held various positions such as Commercial Purchasing Vice President for Telecom Italia, Purchasing Support Vice President of Telecom Italia Latam in Brazil and Mobile Strategy Manager for Telecom Italia. He was born on January 2, 1971.

María D. Carrera Sala is a lawyer, graduated from the University of Buenos Aires. For several years she has been a member of the Advisory Council of Legal Affairs of the Argentina Chamber of Corporations. She began working for Telecom in 1992. Since 1973, she was the Manager of Legal Affairs of Compañía Argentina de Teléfonos SA. In the meetings of the Board of Directors of Telecom Argentina and Personal held in October 2010, she was appointed as Secretary of the Board of Directors for both companies. She was born on August 27, 1948.

Alejandro D. Quiroga Lopez is a lawyer graduated from the University of Buenos Aires. From 2010 to 2011, he was an associate at Curutchet-Odriozola Law Firm. From 2001 and until February 2010 he was general counsel and Secretary of the Board of Directors of YPF S.A. He was a partner at the law firm Nicholson & Cano from 1986 to 1997, a foreign associate at Davis Polk & Wardwell in 2000, and Undersecretary of Banking and Insurance at the Ministry of Economy and Public Finance of Argentina from 1997 to 1999. He was professor of banking and commercial law at the University of CEMA. He was a member of the Executive Board of the University of Buenos Aires - School of Law. He is also a graduate of the Wharton Advanced Management Program. He was born on June 9, 1962.

Ricardo Luttini is an accountant. He joined Telecom in June 2005. He had previously served as Manager of Business Controls and Auditing for La Caja de Ahorro y Seguro S.A., General Manager of Banco Caja de Ahorro S.A., and General Accountant and Audit Manager at Banco Mercantil Argentino. He was born on September 27, 1961.

Máximo D. Lema is an engineer. Currently, he is the Director of the Wholesale Unit and Chairman of Telecom Argentina USA Inc. He graduated from the Universidad Nacional de Mar del Plata (Argentina) and from Purdue University (Indiana USA) with a Master of Science and Ph.D., both in electrical engineering. He also holds an MBA from CEMA Buenos Aires. He joined Telecom Argentina in 1998 as Wholesale Marketing Director. He previously worked at Telintar S.A. (International Business Director), Entel S.A. (International Director) and Purdue University (Image Processing Research). He was born on October 6, 1956.

Paolo Perfetti holds a degree in Electronic Engineering at the university of Roma, La Sapienza. He was appointed Telecom Argentina Network Director in November 2012. Mr. Perfetti joined the Telecom Italia group

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in August 2000 after an experience in BT Italia Group. Since then he held various position as director of Engineering and Operation Director contributing to the development of fixed and mobile broadband services. He was born on April 14, 1966.

Anibal R. Gomez holds a degree in Systems at CAECE University. In March 2013 he was appointed as Fixed Telephony Director at Telecom Argentina. Mr. Gomez joined Telecom Argentina in March 1994. During these years he held different positions, such as Commercial Manager, General Manager of Núcleo in Paraguay, Marketing Director and Sales Director, and President of Núcleo. He was born on December 26, 1964.

Mariano Cornejo holds a degree in advertising. He joined Telecom in June 2007. Previously, he served for twelve years as General Manager in Marketing at La Caja de Ahorro y Seguro S.A. He was also Director of Brands for the Werthein Group for the same period. He was born on December 20, 1963.

Eduardo M. Etcheverry holds a degree in Informatics from UADE University of Buenos Aires, Argentina. In December 2012 he was appointed as Information Services Director at Telecom Argentina. Mr. Etcheverry joined Telecom Argentina in July 2006. During these years he held different positions, such as Datacenter Manager, Operations and Technology Manager, and Datacenter Director. He was born on December 18, 1956.

Paolo Chiriotti holds a degree in Political Science from Génova University. He also holds a Human Resources Strategic Management Master from the Bocconi University, Milano. He was appointed Corporate Security Director in August 2012. Mr. Chiarotti started working at the Telecom Italia Group in March 1991, where he has held several positions, including Human Resources Organization Manager. Since 2010 he has been the responsible for the Crisis Management area in the Security Direction Department. He was born on July 28, 1970.

Supervisory Committee

Argentine law requires any corporation with share capital in excess of P$10,000,000 or which provides a public service or which is listed on any stock exchange or is controlled by a corporation that fulfills any of the aforementioned requirements, to have a Supervisory Committee. The Supervisory Committee is responsible for overseeing Telecom Argentina s compliance with its bylaws and Argentine law and, without prejudice to the role of external auditors, is required to present a report on the accuracy of the financial information presented to the shareholders by the Board of Directors at the Annual Ordinary Shareholders Meeting. The members of the Supervisory Committee are also authorized:

- to call ordinary or extraordinary Shareholders Meetings;
- to place items on the agenda for meetings of shareholders;
- to attend meetings of shareholders; and
- generally to monitor the affairs of Telecom Argentina.

Telecom Argentina s bylaws provide that the Supervisory Committee is to be formed by three or five members and three or five alternate members, elected by the majority vote of all shareholders. Members of the Supervisory Committee are elected to serve one year terms and may be reelected.

The following table lists the members and alternate members of the Supervisory Committee as of December 31, 2012:

Name	Position	Profession
Diego Serrano Redonnet	Chairman of the Supervisory Committee	Lawyer
Adela Alicia Codagnone	Member of the Supervisory Committee	Lawyer
Gerardo Prieto	Member of the Supervisory Committee	Accountant
Fernando Saúl Zoppi	Member of the Supervisory Committee	Lawyer
Silvia A. Rodríguez	Member of the Supervisory Committee	Lawyer
Cristian A. Krüger	Alternate Member of the Supervisory Committee	Lawyer
Pablo Rueda	Alternate Member of the Supervisory Committee	Lawyer
María G. Grigioni	Alternate Member of the Supervisory Committee	Lawyer
Guillermo Feldberg	Alternate Member of the Supervisory Committee	Accountant
Martín E. Scotto	Alternate Member of the Supervisory Committee	Lawyer

Diego Serrano Redonnet is a lawyer. He holds a law degree from the Argentine Catholic University and a Master of Law from Harvard Law School. He is a member of the Supervisory Committees of Personal, Sofora, Nortel, Micro Sistemas, Banco Santander Río S.A., BJ Services S.R.L., BRS Investment S.A., Santander Río Servicios S.A., Perevent Empresa de Servicios Eventuales S.A., Prestamos de Consumo S.A., Santander Río Trust S.A., Santander Sociedad de Bolsa S.A., El Comercio Cía. de Seguros a Prima Fija S.A., RSA Seguros Argentina S.A., Gas Argentino S.A. and Metrogas S.A. He was born on September 18, 1966.

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Adela Alicia Codagnone is a lawyer. She joined Estudio Pérez Alati, Grondona, Benites, Arntsen y Martínez de Hoz (h) in December 1995. She holds a bachelor s degree in law (1989) and a law degree (1991) from the Universidad de Buenos Aires. She also completed a postgraduate course on business law (1994) at the Universidad Argentina de la Empresa and completed a postgraduate course on corporate law (2003) at the Universidad de Buenos Aires. She has also attended several courses on commercial and corporate law. She is a member of the Buenos Aires City Bar Association and of the Bar Association of San Martín, Province of Buenos Aires. She is a member of the Supervisory Committee of Sofora, Nortel, Telecom Argentina, Personal and Micro Sistemas. She is an alternate member of the Supervisory Committee of Lan Argentina S.A., Inversora Cordillera S.A. and Santander Rio Asset Management Gerente de Fondos Comunes de Inversión S.A. She was born on December 20, 1966.

Gerardo Prieto is an accountant. He has been a member of the Supervisory Committee since 2004. He is also a member of the Supervisory Committees of Sofora, Nortel, Personal and Micro Sistemas. He is Chairman of Campofin S.A., Polifin S.A., Pluria Productores de Seguros S.A., La Caja Aseguradora de Riesgos del Trabajo ART S.A. and Cabaña Doble G del Litoral S.A. He is a director of Standard Bank Argentina S.A., Caja de Seguros S.A., Gregorio, Numo y Noel Werthein SAAGCeI and Ritenere S.A. He is also an alternate director of La Caja de Seguros de Retiro S.A., Caja de Ahorro y Seguro S.A. and La Estrella S.A. Compañía de Seguros de Retiro. He was born on March 3, 1951.

Fernando Saúl Zoppi is a lawyer. He obtained a law degree from the University of Buenos Aires, Argentina and an LLM degree from the Columbia University, Law School. He is member of the Supervisory Committee of L´ Union de París Compañía Argentina de Seguros S.A. (to be renamed HDI SEGUROS S.A.), Protecciones Esenciales S.A. and Glacco Compañia Petrolera S.A. He is Director of Petrolera El Trébol S.A. and alternate Director of BNY ARGENTINA S.A. He was born on October 3, 1975.

Silvia A. Rodríguez is a lawyer. She is member of the Supervisory Committee of Agua y Saneamientos Argentinos S.A. (AySA), Nucleoeléctrica Argentina S.A.; Parque Eólico Arauco S.A. and Ferrosur Roca S.A. She is alternate member of the Supervisory Committee of Ferroexpreso Pampeano S.A., Empresa Argentina de Soluciones Satelitales S.A. (AR-SAT), Pampa Energía S.A. and Centros de Estudios de Alta Tecnología S.A. (CEATSA). She was born on December 15, 1972.

Cristian Krüger is a lawyer. He is Director of L´ Union de Paris and alternate Director of Media Planning S.A. He is member of the Supervisory Committee of Honda Motor de Argentina S.A., Inversiones Los Alpes S.A., Kia Argentina S.A., La Papelera del Plata S.A., Puig Argentina S.A. and Santander Rio Asset Management Gerente de Fondos Comunes de Inversion S.A. He is an alternate member of the Supervisory Committee of Sofora, Nortel, Personal, Micro Sistemas, Aluflex S.A., Fabi Bolsas Industriales S.A. and Isdin Argentina S.A. He was born on August 12, 1965.

Pablo Rueda is a lawyer. He is Director of Santander Rio Asset Management Gerente de Fondos Comunes de Inversion S.A. He is member of the Supervisory Committee of Avex S.A., Flora Danica S.A.I.C and Flora San Luis S.A. He is an alternate member of the Supervisory Committee of Sofora, Nortel, Personal, Micro Sistemas and La Papelera del Plata S.A. He was born on May 15, 1964.

María G. Grigioni is a lawyer. She obtained a law degree from the Universidad de Buenos Aires. She was assistant professor at the Law School of the University of Buenos Aires and UADE University on Corporate and Commercial law from 1992 to 1996. She has published widely on various topics of capital markets and corporations and has presented at conferences and seminars. From 1987, she worked as a Commercial Law Advisor in the legal department of various auditing firms and companies, and then served as Chief of Division on the Issuers Department of the National Securities Commission (Comisión Nacional de Valores) from 1991 to 1994. She was also counselor to the Under-Secretary of Registration Affairs of the Ministry of Justice of the Republic of Argentina during 2006 and 2007. She is a partner at Pérez Alati. She is member of the Supervisory Committee of Banco Santander Río S.A., Gas Argentino S.A., Metrogas S.A. and Tierra Argentea S.A. She is alternate member of the Supervisory Committee of Santander Rio Trust S.A., Brs Investments S.A., Santander Rio Sociedad de Bolsa S.A., ISBAN Argentina S.A. and Santander Rio Servicios S.A. She was born on November 15, 1963.

Guillermo Feldberg is a public accountant. He has been an alternate member of the Supervisory Committee since 2004. He is also an alternate member of the Supervisory Committees of Personal, Micro Sistemas, Nortel and Sofora. He is Chairman of Agropecuaria La Victoria S.A., Caroline Establecimientos Agropecuarios S.A., Ineba S.A., Izzalini Trade S.A., GWF. S.A., Majuida S.A., Associacion ORT Argentina and Pintarko S.A. He is Vice Chairman of Doble G del Litoral S.A., Fundación Ineba (Instituto de Neurociencias Buenos Aires) and Cachay S.A. He was born on February 20, 1951.

Martín E. Scotto is a lawyer. He is member of the Supervisory Committee of Banco de Inversión y Comercio Exterior S.A. (BICE), Banco Hipotecario S.A., Nación Seguros S.A., Nación Seguros de Retiro, Nación Bursátil Sociedad de Bolsa S.A. and Nación Reaseguros S.A. He is alternate member of the Supervisory Committee of Nación Servicios S.A., Nación Factoring S.A. and Nación AFJP. He was born on September 27, 1971.

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There is no family relationship between any director, alternate director, member of the Supervisory Committee or executive officer and any other director, alternate director, member of the Supervisory Committee or executive officer.

Compensation

The compensation of the members for the Board of Directors and the Supervisory Committee is established for each fiscal year at the annual meeting of shareholders.

The aggregate compensation paid by Telecom Argentina and its subsidiaries to the members of Telecom Argentina s Board of Directors, the members of Telecom Argentina s Supervisory Committee and the executive officers described under Senior Management above, was approximately P$36.4 million for the year ended December 31, 2012. During the year ended December 31, 2012, Telecom Argentina was not required to set aside or accrue any amounts to provide pension, retirement or similar benefits.

Accrued compensation for fiscal year 2012 for the members of the Board of Directors and Supervisory Committee was approximately P$9.3 million and approximately P$2.9 million, respectively, of which P$6.2 million and P$1.2 million remained unpaid as of December 31, 2012, respectively.

Compensation for the executive officers described under Senior Management above, amounted to approximately P$50.5 million during the year ended December 31, 2012 (including fixed and variable compensation, retention plan benefits and, in some cases, severance payments and non-compete agreements), of which P$18.9 million remained unpaid as of December 31, 2012.

The Company s managers (including Senior Management) receive fixed and variable compensation. A manager s fixed compensation reflects the level of responsibility required for his or her position and the market rate for similar positions. Variable compensation is tied to annual performance goals. Certain managers are beneficiaries of retention plan benefits.

Also, Telecom Argentina implemented a *Long-Term Incentive Program* (LTI), with the purpose of providing Senior Management members with incentives to create value in the medium/long term, involve such members in the Group s success and as an element for retaining key personnel at the organization. For the fiscal year 2011 results, bonuses were paid to the LTI program participants in May 2012. LTI program bonuses for fiscal year 2012 results are expected to be paid in May 2013.

Telecom has no stock option plans for its personnel, or for its members of the Board of Directors or the Supervisory Committee.

Board Practices

Under Argentine law, directors have the obligation to perform their duties with loyalty and the diligence of a prudent business person. Directors are jointly and severally liable to Telecom Argentina, our shareholders and third parties for the improper performance of their duties, for violations of law, our bylaws or regulations and for any damage caused by fraud, abuse of authority or gross negligence. Under Argentine law, specific duties may be assigned to a director by the bylaws or regulations or by resolution of the Shareholders Meeting. In these cases, a director s liability will be determined with reference to the performance of these duties, provided that certain recording requirements are met. Under Argentine law, directors are prohibited from engaging in activities in competition with Telecom Argentina without express authorization of a Shareholders Meeting. Certain transactions between directors and Telecom Argentina are subject to ratification procedures established by Argentine law.

The Supervisory Committee is responsible for overseeing our compliance with our bylaws and Argentine law and, without prejudice to the role of external auditors, is required to present to the shareholders at the annual ordinary general meeting a report on the accuracy of the financial information presented to the shareholders by the Board of Directors. See Supervisory Committee for further information regarding the Supervisory Committee.

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On May 22, 2001 the Argentine government issued Decree No. 677/01, entitled Regulation of Transparency of the Public Offering, or the Transparency Decree (replaced since January 28, 2013 by equivalent articles included in Law No. 26,831. See Item 9 The Offer and Listing The Argentine Securities Market New Capital Market Act Law No. 26,831 below). The intention of this decree was to move towards the creation of an adequate legal framework that may strengthen the level of protection of investors in the market. The main objectives of the Transparency Decree were to promote the development, liquidity, stability, solvency and transparency of the market, generating procedures to guarantee the efficient reallocation from savings to investments and good practices in the administration of corporations.

The Transparency Decree vested in members of the Board of Directors:

- the duty to disclose certain events, such as any fact or situation capable of affecting the value of the securities or the course of negotiation;
- the duty of loyalty and diligence;
- the duty of confidentiality; and
- the duty to consider the general interests of all shareholders over the interest of the controlling shareholder.

A director will not be liable if, notwithstanding his presence at a meeting at which a resolution was adopted or his knowledge of the resolution, a written record exists of his opposition thereto and he reports his opposition to the Supervisory Committee before any complaint against him is brought before the Board of Directors, the Supervisory Committee, the Shareholders Meeting, the competent governmental agency or the courts. Any liability of a director vis-à-vis Telecom Argentina terminates upon approval of the directors performance by the Shareholders Meeting, provided that shareholders representing at least 5% of our capital stock do not object and provided further that this liability does not result from a violation of the Company s bylaws, the law or the regulations.

Additionally, the Transparency Decree provided, and Law No. 26,831 provides, that those who infringe its provisions shall be subject, in addition to civil and criminal liability (as applicable), to certain sanctions including warnings, fines, disqualification, suspension or prohibition from acting under the public offering regime.

In July 2012, Decree No. 1,278/12 approved a Regulation of officers and directors appointed by the shares or equity interests of the Argentine Government through the Secretary of Economic Policy and Development Planning of the Ministry of Economy and Public Finance.

Telecom Argentina maintains an officers and directors insurance policy covering claims brought against the officers and/or directors relating to the performance of their duties. At present, the total amount covered by this insurance is US$50,000,000.

In May 2004, the Board of Telecom Argentina resolved to create the Consejo de Dirección, or Steering Committee, which served as an internal body of the Board of Directors and was comprised of four members of the Board of Directors.

In March 2009, the Board of Directors of Telecom Argentina resolved to dissolve the Steering Committee. However, on April 7, 2010, the Board of Directors of Telecom Argentina resolved to reestablish this Committee, maintaining the same pre-dissolution structure. The Steering Committee, consisting of four members or alternate members of the Board of Directors of Telecom Argentina and Personal, resumed its duties on October 26, 2010. On such date, the Board of Directors issued a new *Regulation of Authority and Operation of the Steering Committee*. The Steering Committee s duties, among others, are: (i) to approve the Business Plan of Telecom Argentina and its subsidiaries, (ii) to approve the general compensation policy of Telecom Argentina and Personal, (iii) to review the bids to be submitted under public bidding processes for any amount over P$5 million and the marketing plans to determine that they do not violate the Argentine Antitrust Law and (iv) to prepare the Advertising Budget to be submitted to the Board of Directors.

Pursuant to the *Regulation of Authority and Operation of the Steering Committee*, a quorum shall consist of the majority of members of the Steering Committee including those who attend by teleconference or videoteleconference. All members shall adopt decisions unanimously. In the event no resolution is adopted on any of the issues submitted for consideration of the Steering Committee, the matter shall be referred to the Board of Directors.

As of the date of this Annual Report, the members of the Steering Committee are: Gerardo Werthein, Adrián Werthein, Guglielmo Noya and Nicola Verdicchio.

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The Company s bylaws grant the Board of Directors the power to appoint an Executive Committee formed by some of its members, to be in charge of the Company s day to day affairs, under the supervision of the Board of Directors. The Board of Directors decided not to appoint an Executive Committee.

Regulatory Compliance Committee

According to the New Shareholders Agreement and to the TI-W Commitment (See Item 7 Major Shareholders and Related Party Transactions Telco and TI-W Commitments and Shareholders Agreement), in October 2010, a Regulatory Compliance Committee was created consisting of three members or alternate members of the Board of Directors of Telecom Argentina and Personal not taking into account those members appointed at the request of Telecom Italia and those members appointed jointly by Telecom Italia and W de Argentina, if any. It should be noted that the directors of Telecom Argentina appointed at the request of Telecom Italia or those appointed jointly by W de Argentina and Telecom Italia are not allowed to vote in the appointment of the Regulatory Compliance Committee members.

The major duty of the Regulatory Compliance Committee is to verify the Telecom Argentina and Personal compliance with the requirements (hereinafter, the Requirements) assumed or derived for both companies from the Telco and the TI-W Commitment.

The Regulatory Compliance Committee has the following rights and duties:

- To prepare quarterly reports to be submitted to the Board of Directors of Telecom Argentina and Personal regarding Requirements compliance.

- To audit Telecom Argentina and Personal s Requirements compliance.

- To verify all the information required by Telecom Italia according to the Telecom Italia S.p.A. audit rights under the New Shareholders Agreement of Sofora.

- To approve any agreement to be executed or amended between Telefónica, S.A. and/or any of its affiliates, and Telecom Argentina and/or any of its subsidiaries.

- To prepare annual reports on Requirements compliance, for submittal to the Board of Directors of Telecom Argentina and Personal ten days before their filing with the CNDC.

As of the date of this Annual Report, the members of the Regulatory Compliance Committee are Adrián Werthein (Chairman); Eduardo Federico Bauer and Esteban Gabriel Macek.

Audit Committee

The Transparency Decree also provided, and Law No. 26,831 provides still, that companies with publicly-listed shares shall appoint an audit committee, or the Audit Committee, to be formed by three or more members of the Board of Directors. The majority of the members of the Audit Committee must be independent under CNV rules. In order to qualify as independent, the director must be independent with respect to the company, any controlling shareholders or any shareholders that are significant participants in the company and cannot carry out executive duties for the company. A member of the Board of Directors cannot qualify as an independent director if he or she is a relative of a person who would not qualify as an independent director if such relative were appointed as a member of the Board of Directors.

Among the duties of the Audit Committee shall be:

- providing the market with complete information on transactions with which there might be a conflict of interest with the members of the corporate bodies or controlling shareholders;
- giving an opinion on the fulfillment of legal requirements and reasonableness of the conditions for the issuance of shares or securities convertible into shares, in the case of capital increases where preemptive rights have been excluded or limited;
- giving an opinion regarding transactions with related parties in certain cases;
- supervising internal control systems and verifying norms of conduct; and
- reviewing the plans of external auditors and evaluating their performance and their independence, among others.

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Pursuant to General Resolution No. 400/02 of the CNV, published in the Official Bulletin on April 5, 2002, the provisions of the Transparency Decree relating to the Audit Committee were applicable for the financial years beginning on or after January 1, 2004.

At the Board of Directors meeting held on April 29, 2004, the Board of Directors resolved the final composition of the Audit Committee, and the Audit Committee came into effect.

According to the Normativa de Implementación del Comité de Auditoría, (a set of guidelines for the Audit Committee filed with the CNV) in case of resignation, dismissal, death or lack of capacity of any of the members of the Audit Committee, the Board of Directors shall immediately appoint a replacement, who shall remain in such position until the following annual shareholders meeting.

At its meeting on May 3, 2012, the Board of Directors reelected Mr. Garrido, Mr. Macek and Mr. Berner as members of the Audit Committee. The Board furthermore determined that Mr. Macek qualifies as an audit committee financial expert under SEC guidelines. Under SEC and New York Stock Exchange regulations the three members of the Committee qualify as independent directors. Under CNV regulations, two members of the Audit Committee (Mr. Macek and Mr. Berner) qualify as independent directors. On March 27, 2013 Norberto C. Berner resigned as member of the Board of Directors of Telecom Argentina, which was accepted on April 8, 2013 by the Board of Directors. Therefore, he is no longer member of the Audit Committee. He was replaced as member of the Audit Committee by his alternate director Esteban Santa Cruz.

Pursuant to the Argentine government s Decree No. 677/01, and now pursuant to Law No. 26,831, the Audit Committee may seek the advice of lawyers and other outside professionals at Telecom Argentina s expense, so long as the shareholders have approved expenditures for the services of such professionals. For fiscal years 2012, a budget of P$1,250,000 was approved for Audit Committee expenditures. As of the date of this Annual Report, the Annual Shareholders meeting approving Audit Committee expenditures for year 2013 has not yet been held.

Disclosure Committee

Telecom Argentina has also established a Disclosure Committee, which is responsible for monitoring the gathering, processing and submission to the CEO and CFO of consolidated financial and non-financial information that is required to be included in disclosure reports in order to ensure timely and accurate disclosure of material information. The duties of the Disclosure Committee include the following:

- assisting the CEO and the CFO in evaluating the effectiveness of Telecom Argentina s disclosure controls and procedures prior to the filing of Annual Reports both in Argentina and the US;
- suggesting any improvements in disclosure procedures as a result of this evaluation;

- verifying that Telecom Argentina s processes for information collection, processing and control are in compliance with its disclosure procedures such that the accuracy of its disclosures can be verified; and

- providing assistance in determining what information may be considered material to Telecom Argentina.

Employees and Labor Relations

As of December 31, 2012, our total number of employees was 16,808 (including temporary employees), of which approximately 76% belonged to unions. All Management and senior positions are held by non-union employees.

Telecom Argentina and Personal have 9,941 and 2,924 unionized employees, respectively, representing an increase of approximately 22% and 12%, respectively, compared to 2011. The union which has the largest number of employees is the Federation of Telephone Workers and Employees of Argentina (FOETRA) in Buenos Aires, which is currently included in the Argentine Telecommunications Federation (FATEL), representing 5,607 Telecom Argentina employees. The Argentine Federation of Telephone Workers and Employees (FOEESITRA) represents 2,264 employees. In 2012 we recognized the Professionals Workers Center of Telecommunication Companies (CEPETEL) which represents 297 employees. Two remaining unions, the Technical and Supervisory Telephone Personnel Federation (FOPSTTA) and the Telecommunications Union (UPJET), represent 1,773 middle Management employees of Telecom Argentina.

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Personal has 2,920 employees represented by the FAECyS and 4 employees represented by the Single Argentine Federation of Travelers (FUVA).

Salary agreements with labor organizations are reviewed annually or from time to time, in a context of increased social claims and an increased cost of living.

In this scenario, telecommunication labor organizations of Telecom Argentina continued negotiating with Mesa de Unidad Sindical de las Telecomunicaciones (the MUS Board of Trade Union Unity), which bring together FOEESITRA, FATEL, FOPSTTA and UPJET. The negotiations resulted in an agreement to implement a gradual increase in salaries, which amounted to 15.5% in 2012 and 10.5% as from January 2013. Of this total, 25.75% was assigned to basic salaries and the remaining 0.25% was assigned to supplementary salaries. Those agreements applied to basic telecommunications activity as well as to the call center activity.

With respect to Personal, during 2012 union employees were covered by the FAECyS collective bargain agreement, and, as a result, the related salary agreements applied. These agreements contemplated a 24% salary increase in 2012 in amounts not subject to social security contributions. This salary increase was granted gradually: 15% in May 2012 and 9% in November 2012. It was also agreed that, by November 2012, the amount resulting from the first increase became subject to social security contributions, resulting in 17.4% salary increase after contemplate grossing up the original salary increase granted to the employees. Additionally, the second increase will became subject to social security contributions as from May 2013, thus reaching 10.5% after apply grossing up to the original increase. Consequently, the total salary increase will be 27.9%.

FOETRA has achieved the representation of Personal s union employees both in the administrative and judicial field and also has obtained an extension of its union status which specifically contemplates mobile activity. The representation of Personal s non-unionized employees is subject to future negotiations. Meanwhile, Personal has fulfilled all the formalities with the intent to involve the rest of Personal s peer mobile operators in any collective bargaining process in order to achieve symmetrical conditions for all operators in a new collective agreement for the mobile industry. In November, 2012 FOETRA began a new administrative case under which the main mobile operators were called to negotiate a collective bargaining agreement for mobile telecommunication activity. As of the date of this Annual Report the first hearings are being carried out.

With respect to the non-unionized employees whose representation was claimed by various labor organizations, in January 2012 Telecom Argentina entered into a Framework Agreement with the MUS undertaking to implement a new organizational scheme. As from March 2012 the recategorization process was implemented involving approximately 1,500 employees.

With respect to the Center for Professionals of Telecommunication Companies (CEPETEL), there were several negotiations with Telecom Argentina in 2012, reaching agreements that allowed the resolution of various disputes and lawsuits promoted by CEPETEL, having agreed upon the framing of approximately 300 employees. Considering that up to that time it was not possible to reach agreement on all the conventional conditions, during 2013 we will continue negotiating a new collective agreement with this labor organization regarding the definition of a comprehensive regulatory framework.

See Item 8 Financial Information Legal Proceedings Civil, commercial, labor, regulatory, tax and other matters proceedings Labor Claims for more detail on labor claims filed against Telecom Argentina and Personal.

Employees *by Segment*

The table below shows the number of employees as of December 31, 2012, 2011 and 2010 by segment(1):

	December 31, 2012	December 31, 2011	December 31, 2010
Fixed Services	11,115	11,093	10,855
Personal Mobile Services	5,254	4,820	4,370
Núcleo Mobile Services	439	433	422
Total	**16,808**	**16,346**	**15,647**

(1) Includes temporary employees

Share Ownership

Share Ownership by directors, executive officers, and Supervisory Committee members

Enrique Garrido holds 231 Class B Shares of Telecom Argentina. No other member of the Board of Directors holds obligations or capital stock of Telecom Argentina.

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María Delia Carrera Sala holds 3,263 Class B Shares of Telecom Argentina, of which 3,032 were assigned to her as a result of the liquidation of the Guaranty and Repurchase Fund on February 29, 2012 and May 17, 2012 (See Share Ownership Plan for further information regarding the Guaranty and Repurchase Fund).

No other senior executive officer of Telecom Argentina holds obligations or capital stock of Telecom Argentina.

No director, executive officer or member of the Supervisory Committee of Telecom Argentina holds more than 1% of their respective class of shares.

Share Ownership Plan

At the time of the privatization of ENTel in 1990, the Argentine government created a Share Ownership Plan, or SOP, for the employees of ENTel and CAT acquired by Telecom Argentina, Telintar, and Startel. Pursuant to the Privatization Regulations, 10% of Telecom Argentina s then-outstanding shares, consisting of 98,438,098 Class C Shares, was transferred by the Argentine government to Telecom Argentina, Telintar, and Startel employees previously employed by ENTel and CAT. This transfer was made through a general transfer agreement signed on December 29, 1992 (the General Transfer Agreement). Our Class C Shares consist exclusively of shares originally sold in connection with the SOP. According to applicable law, to be eligible to continue to participate in the SOP, the employees had to remain employed by Telecom Argentina, Telintar, and Startel. Employees who terminated their employment with Telecom Argentina, Telintar, and Startel before the deferred purchase price was fully paid were required to sell their Class C Shares to another employee under the SOP or, if no other employee was available to purchase these shares, to a guaranty and repurchase fund (the Guaranty and Repurchase Fund), at a price calculated according to a formula provided in the General Transfer Agreement.

On December 9, 1999, Decree No. 1,623/99 was issued, authorizing the accelerated repayment of the outstanding balance of the deferred purchase price for all Class C Shares, and lifting the transfer restrictions on the Class C Shares upon the satisfaction of certain conditions precedent. However, the shares held in the Guaranty and Repurchase Fund were still subject to transfer restrictions until an injunction prohibiting trading or selling of these shares was lifted. The Decree provides that once the injunction is lifted, the sale of an amount of shares in the Guaranty and Repurchase Fund, will take place in order to cancel the debt owed to the former employees for the acquisition of shares transferred to the Guaranty and Repurchase Fund. The remaining shares held in the Guaranty and Repurchase Fund will then be distributed in accordance with the decision of the majority of the employees taken in a special meeting of the SOP.

In accordance with Decree No. 1,623/99, at the extraordinary and special Class C Shareholders Meeting held on March 14, 2000, Telecom Argentina s shareholders approved the conversion of up to 52,505,360 Class C Shares into Class B Shares in one or more tranches from time to time, as determined by the trustee of the SOP, Banco de la Ciudad de Buenos Aires, based on the availability of Class C Shares that were not affected by judicial restrictions on conversion.

A first tranche of 50,978,833 Class C Shares was converted into Class B Shares for public resale. This transaction was authorized in Argentina by the CNV and was registered in the United States with the SEC on May 3, 2000. The rest of the Class C Shares authorized for conversion were converted into Class B Shares in four more tranches ending in 2005.

As requested by the Executive Committee of the SOP, the ordinary, extraordinary and special Class C shareholders meetings held on April 27, 2006 approved the delegation of authority to Telecom Argentina s Board of Directors for the conversion of up to 41,339,464 ordinary Class C Shares into an equal quantity of Class B Shares, in one or more conversions. As of December 31, 2011, all the 41,339,464 shares were converted into Class B Ordinary Shares in eleven tranches.

The remaining 4,593,274 Class C shares were affected by an injunction measure recorded in file *Garcías de Vicchi, Amerinda y otros c/ Sindicación de Accionistas Clase C del Programa de Propiedad Participada s/nulidad de acto jurídico* , which has been lifted. Therefore, the General Ordinary and Extraordinary and Special Class C Shares Meetings held on December 15, 2011, approved the delegation of authority to Telecom Argentina s Board of Directors for the conversion of up to 4,593,274 Class C ordinary shares into an equal quantity of Class B ordinary shares in one or more tranches. As a result, 4,222,553 Class C Shares have been converted to Class B Shares in five tranches. As of the date of this Annual Report, the outstanding number of Class C Shares is 370,721.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

Our principal shareholder is Nortel. As of December 31, 2012, Nortel owned all of Telecom Argentina s Class A Ordinary Shares (51% of Telecom Argentina s total capital stock) and approximately 7.64% of the Class B Ordinary Shares (3.74% of Telecom Argentina s total capital stock) which, in the aggregate, represented approximately 54.74% of the total capital stock. Telecom Argentina is directly controlled by Nortel by virtue of Nortel s ownership of a majority of Telecom Argentina s capital stock; however, Nortel s controlling interest is subject to certain agreements among Sofora s shareholders. See Shareholders of Nortel below.

Nortel was incorporated in Buenos Aires, Argentina on October 19, 1990 and registered with the Buenos Aires Public Registry of Commerce on October 31, 1990 under No. 8,025, book 108, Volume A of Corporations. Nortel is a holding company that was formed in 1990 by a consortium including the Telecom Italia Group and FCR in connection with the privatization of ENTel and formation of Telecom Argentina.

In the event of certain payment defaults or breaches of covenants, holders of Nortel s preferred stock collectively have the right to elect one director of Nortel and obtain voting rights.

Nortel s offices are located at Alicia Moreau de Justo 50, 11th floor, Buenos Aires, Argentina.

Shareholders of Nortel

All of Nortel s ordinary shares are owned by Sofora. Sofora s shares are owned by the Telecom Italia Group (68%) and W de Argentina Inversiones S.L. (32%).

As of December 31, 2012, Nortel s capital stock was represented by ordinary shares (78.38% of the capital stock) and Preferred Series B shares (21.62% of the capital stock).

During 2011, Telecom Italia International N.V. (a company of the Telecom Italia Group) acquired 8% of Nortel s total Series B Preferred Shares (without voting rights) and also made a public announcement together with Telecom Italia S.p.A. regarding the acquisition of Series B Shares representing 1.58% of Telecom Argentina s capital stock through the local company Inversiones Milano S.A. (which has changed its name to Tierra Argentea S.A.).

After the above-mentioned acquisitions and as of the date of this Annual Report, the Telecom Italia Group direct and indirect stake in Telecom Argentina amounts to 22.7% of its economic rights.

W de Argentina - Inversiones S.L., Telecom Italia S.p.A. and Telecom Italia International N.V. have signed a shareholders agreement for the joint management of Sofora, Nortel, Telecom Argentina and its subsidiaries, including Personal which was amended in August 2010, October 2010 and March 2011. See Shareholders Agreement below.

On August 5, 2010, the shareholders agreement was amended by the parties. As a result of the commitment of the shareholders of Sofora Telecomunicaciones S.A. before the CNDC, on October 13, 2010 further modifications were introduced. On March 9, 2011, in connection with the transfer of 10% of the share capital of Sofora Telecomunicaciones SA in favor of Telecom Italia International NV held on that date, further amendments to the Shareholders Agreement were introduced in order to preserve the government rights that parties had until then, clarifying that even though W de Argentina - Inversiones SL would have 32% of the share capital of Sofora Telecomunicaciones SA, W de Argentina - Inversiones SL kept the same government rights that it had under the shareholders agreement, as it if continued to hold 42% of the share capital of Sofora Telecomunicaciones SA (hereinafter the shareholders agreement and its modifications, the New Shareholders Agreement). For additional information about the New shareholders agreement, see Shareholders Agreement .

The Telecom Italia Group

The Telecom Italia Group operates mainly in Europe, the Mediterranean Basin and South America.

The Telecom Italia Group is engaged principally in the communications sector and, particularly, the fixed and mobile national (Italy) and international telecommunications sector.

As of December 31, 2012, the Telecom Italia Group had approximately 14.0 million physical accesses (retail) in Italy, a decrease of 0.7 million compared to December 31, 2011. The wholesale customer portfolio in Italy reached approximately 7.2 million accesses for telephone services as of December 31, 2012, an increase of approximately 0.1 million compared to December 31, 2011.

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The broadband portfolio in Italy reached 9.0 million accesses as of December 31, 2012 (consisting of approximately 7.0 million retail accesses and 2.0 million wholesale accesses), stable compared to December 31, 2011 (a market share of 52%).

In addition, the Telecom Italia Group had approximately 32.2 million mobile telephone lines as of December 31, 2012 in Italy, stable compared to December 31, 2011.

As of December 31, 2012, the Telecom Italia Group had 70.4 million mobile telephone lines in Brazil (64.1 million as of December 31, 2011).

W de Argentina Inversiones S.L.

W de Argentina Inversiones, a company of the Werthein Group, is a company owned by Daniel Werthein, Adrián Werthein, Gerardo Werthein and Darío Werthein. The Werthein Group s main lines of business include farming and oil operations, insurance and real estate activities, as described below:

• *Farming and Oil Operations*. Gregorio, Numo y Noel Werthein S.A.A.G.C. e I. (GNNW) is the name of the company that handles the businesses of the Werthein Group, mainly related to agribusiness activities and food products. The company owns more than 206,873 acres in the primary farming areas of Argentina, harvesting more than 49,061 tons of different crops and with more than 24,698 heads of cattle dedicated to meat production. It is also involved in the manufacturing of processed fruits as well as teas and other infusions. Most of its products are aimed at the international markets with important exports worldwide. GNNW is also carrying out, through joint ventures, studies, exploration and exploitation of hydrocarbon in Province of La Pampa, Argentina.

• *Insurance Activities*. The Werthein Group controls Los W S.A., which has an interest in Caja de Ahorro y Seguro S.A., or CAYSSA, a leading insurance company in Argentina. CAYSSA controls, directly or indirectly, several subsidiaries that offer general, personal, life, accident, work risk insurance products and retirement insurance and life insurance products that complement retirement insurance. CAYSSA also has shareholdings in companies that provide marketing services and travelers assistance services.

• *Real Estate Activities*. The Werthein Group conducts real estate, construction, consulting, public works and other real estate-related activities through its interests in other companies.

Ownership of Telecom Argentina Common Stock

The following table sets forth, as of March 31, 2013, based upon information available to us, each beneficial owner of 5% or more of each class of Telecom Argentina s shares. However, current holdings may be different.

	Number of Shares Owned	Percent of Class	Percent of Total Voting Power(1)
Class A Ordinary Shares:			
Nortel	502,034,299	100.0%	51.00%
Class B Ordinary Shares *(listed in NYSE and BCBA)*:			
ANSES	246,018,839	51.04%	**(2)** 24.99%
Nortel	36,832,408	7.64%	3.74%
Others	199,124,711	41.32%	20.23%
Class C Ordinary Shares:			
Others	370,721	100.0%	0.04%

(1) Represents percentage of total of all our ordinary shares, regardless of class.

(2) On April 13, 2011, a Presidential Decree was published in the Argentine Official Bulletin which annulled Article 76(f) of Law 24,241 that limited ANSES voting power to 5% of the company s total voting shares, even if ANSES held a greater ownership position. Unless the Presidential Decree and /or its effects are reversed by a competent Authority or Court, ANSES would be able to exercise the total voting power corresponding to its shares in all resolutions to be adopted at Telecom Argentina shareholders meetings, including decisions related to the election of Board members and Supervisory Committee members.

As of February 28, 2013, there were approximately 26.4 million American Depositary Shares outstanding (representing 132.3 million Class B Shares or 27.5% of total Class B Shares excluding those held by Nortel). Moreover, as of that date, there were approximately 90 registered holders of Class B Shares represented by American Depositary Shares in the United States and approximately 28,000 depositaries of Class B Shares in Argentina. Because some Class B Shares are held by representatives, the number and domicile of registered shareholders may not exactly reflect the number and domicile of beneficial shareholders.

All shares have equal voting rights.

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The Telecom Group is not aware of any arrangements that would result in a change of control of Telecom Group.

Telco and TI-W Commitments

On October 25, 2007, a consortium made up of Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Sintonia S.A. (Benetton) and Telefónica, S.A. (of Spain) bought Olimpia S.p.A. s entire stock through the Italian company Telco S.p.A., which held approximately 23.6% of Telecom Italia S.p.A. s voting shares (the Telco Transaction). On December 22, 2009, Sintonia S.A. (Benetton) left the consortium and its participation was assumed by the remaining shareholders of Telco S.p.A. on a pro rata basis. As of December 31, 2012, Telco holds 22.4% of Telecom Italia S.p.A. s voting shares. As a result of the Telco Transaction, since October 2007, Pirelli & C. S.p.A., its controlled subsidiaries and its related parties have ceased to be related parties of Telecom Argentina and its subsidiaries.

The Telco Transaction has generated different opinions with respect to its impact on Argentina s telecommunications market in light of the Argentine Antitrust Act and the existing regulatory framework.

Consequently, the Telco Transaction led to the intervention of various administrative bodies whose decisions have been subject to various presentations and complaints before administrative and judicial courts.

On August 5, 2010, Telecom Italia S.p.A., Telecom Italia Internacional N.V. and W de Argentina agreed to:

• A settlement agreement to end all legal proceedings existing between the parties as direct shareholders of Sofora and indirect shareholders of the remaining companies of the Telecom Argentina Group (Sofora, Nortel, Telecom Argentina and its subsidiaries and Personal and its subsidiaries), which had been originated as a result of the Telco Transaction.

• Amend the 2003 Shareholders Agreement. The amendment includes, among other things, certain measures to guarantee a more efficient corporate governance of the Telecom Argentina Group companies. As part of the agreement, a Telecom Argentina and Personal s Regulatory Compliance Committee was created and will remain in place for as long as Telefónica, S.A. (of Spain) owns any subsidiaries in Argentina and concurrently maintains any direct or indirect participation in the Telecom Italia Group and maintains corporate rights similar to those provided by the Telco Transaction.

• The transfer of 8% of the capital stock of Sofora from W de Argentina to Telecom Italia International N.V., subject to the applicable authorizations. This increased Telecom Italia Group s participation to 58% of the capital stock of Sofora (the TI-W Transaction).

On October 6, 2010, Telefónica, S.A. (of Spain), Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. Telco S.p.A, and, as intervening parties, Telecom Italia S.p.A., Telecom Italia International N.V., Sofora, Nortel, Telecom Argentina, Personal, Telefónica de

Argentina S.A. and Telefónica Móviles Argentina S.A., submitted before the CNDC an agreement (the Telco Commitment). The Telco Commitment ensures the separation and independence of the activities in the Argentine telecommunications market, of Telefónica, S.A. (of Spain) and its controlled subsidiaries, on one hand, and Telecom Italia S.p.A., Telecom Italia International N.V., Sofora, Telecom Argentina and Personal, on the other, preserving and encouraging the competition conditions of such companies activities in the national market.

In addition, in connection with the TI-W Transaction, Sofora s shareholders submitted before the CNDC an agreement with respect to the administration and governance of the Telecom Argentina Group (the TI-W Commitment).

On October 12, 2010, the CNDC issued Opinions No. 835 and 836 in connection with the Telco Transaction and the TI-W Transaction, respectively. In Opinion No. 835, the CNDC advised, among other things, the Secretary of Economic Policy of the Economy Ministry to accept the Telco Commitment with the clarifications and specifications made in Title XIV of such Opinion, and, consequently, subject the approval of the Telco Transaction, pursuant to Section 13, paragraph b) of the Argentine Antitrust Act and to the irrevocable and effective fulfilling of the Telco Commitment with the clarifications and specifications as mentioned. In addition, the CNDC made some pro-competition recommendations to the SC and to the CNC, which are included as Annex I to such Opinion.

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The terms and conditions of the Telco Commitment offered by the abovementioned companies are detailed in Title XIV of the abovementioned Opinion, together with the clarifications and specifications made by the CNDC.

In Opinion No. 836, the CNDC advised, among other things, to accept the TI-W Commitment, with the clarifications and specifications made in Title V.2 of the same Opinion and, consequently, to authorize the TI-W Transaction, pursuant to Section 13, paragraph b) of the Argentina Antitrust Act. The terms and conditions of the TI-W Commitment are described in Title V of the Opinion, together with the observations made by the CNDC.

On October 13, 2010, the Secretary of Economic Policy of the Economy Ministry issued Resolution No. 148/10 which, in its operative part, among other issues, authorizes the Telco Transaction subject to the irrevocable and effective fulfillment of the Telco Commitment with the clarifications and specifications made in Title XIV of CNDC Opinion No. 835/10. On the same date, the Secretary of Economic Policy of the Economy Ministry issued its Resolution No. 149/10, in which it accepted the TI-W Commitment and approved the TI-W Transaction in the terms of Section 13 paragraph b) of the Argentine Antitrust Act.

On October 13, 2010, the SC issued Resolution No. 136/10 which, among other issues, in its operative part authorizes the change of control that happened at Telecom Argentina and Personal as a consequence of the TI-W Transaction. On the same resolution, the legal figure of the Operator included in the List of Conditions, Decree No. 62/90 as amended, was left without effect with respect to Telecom Argentina.

On October 13, 2010, the transfer of 8% of the shares of Sofora in favor of Telecom Italia International N.V. was perfected. Based on information provided by Sofora s shareholders, the consideration was (i) US$1 (one U.S. dollar w/o cents) and (ii) the execution of certain agreements dated as of August 5, 2010, between the Telecom Italia Group and the Werthein Group. Thus, the Telecom Italia Group reached a participation of 58% of the shares and possible votes in Sofora while W de Argentina reached the remaining 42% of such shares and votes.

On October 26, 2010, Telecom Argentina s Board of Directors ratified the execution by Telecom Argentina of the Telco Commitment, accepted all the obligations and commitments that Telecom Argentina has assumed in the Telco Commitment, with the clarifications and specifications relating to them, made by the CNDC in Chapter XIV of its Opinion No. 835, and adopted a number of measures for its effective implementation, including the creation of a Regulatory Compliance Committee. In addition, it accepted Telecom Argentina s obligations arising from the TI-W Commitment submitted to the CNDC, in the file referring to the TI-W Transaction, with the clarifications and specifications that are referred to them, made by the CNDC in Paragraph V.2 of its Opinion No. 836 dated October 12, 2010, and adopted a series of measures for their effective implementation.

The Telco Commitment and the TI-W Commitment are available to the public in Spanish at www.telecom.com.ar/compromisos and a summary of them is available in English at the SEC website (www.sec.gov).

On March 9, 2011, Telecom Italia International NV, Telecom Italia S.p.A and certain entities of the Werthein Group entered into a share purchase agreement under which the Werthein Group agreed to sell common shares of Sofora representing 10% of Sofora s share capital, to Telecom Italia International NV. Following this share transfer, Telecom Italia S.p.A and Telecom Italia International N.V. hold an aggregate of 68% of the Sofora shares. The Werthein Group owns the remaining 32% of the Sofora shares.

Shareholders Agreement

On August 5, 2010, Telecom Italia S.p.A. and Telecom Italia International N.V. (jointly, the Telecom Italia Group) and W de Argentina Inversiones (jointly with the Telecom Italia Group, the Parties), have entered into the *2010 Amended and Restated Shareholders Agreement*, as amended on October 13, 2010 as a consequence of the TI-W Commitment and on March 9, 2011 (the New Shareholders Agreement) that amended the provisions and terms of the *2003 Amended and Restated Shareholders Agreement* (the 2003 Shareholders Agreement).

Below is a brief summary of the main terms and conditions of the New Shareholders Agreement and the principal amendments to the 2003 Shareholders Agreement, considering the new composition of capital stock of Sofora (68% for Telecom Italia Group and 32% for W de Argentina Inversiones):

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With respect to Sofora:

- W de Argentina shall have the right to appoint four out of nine Board members and the Telecom Italia Group shall have the right to appoint the remaining five Board members. Decisions will be made by the majority of directors present at each meeting.

- W de Argentina shall have the right to nominate the Chairman of the Supervisory Committee.

With respect to Nortel:

- W de Argentina shall have the right to appoint two out of seven Board members and the Telecom Italia Group shall have the right to appoint four Board members. The seventh director will be nominated by the Preferred Series A and Preferred Series B Shareholders of Nortel, as long as they have such rights in accordance with the terms and conditions of issuance of the preferred shares. In the event that Preferred Series A shares and / or Preferred Series B shares lose their right to appoint a director, the Telecom Italia Group and W de Argentina acquire the right to jointly appoint a director. As of December 31, 2012 there were no outstanding Preferred Series A shares. Decisions will be made by the majority of directors present at each meeting. In case of a tie, the chairman shall cast the deciding vote.

- W de Argentina shall be entitled to nominate the Chairman of the Audit Committee of Nortel.

With respect to Telecom Argentina:

- As a general rule, Nortel shall have the right to nominate six directors and the minority shareholders shall have the right to nominate one director. Four of the abovementioned six Board members to be nominated by Nortel shall be nominated by the Telecom Italia Group and the remaining two shall be nominated by W de Argentina. In the event that other shareholders of Telecom Argentina had the right to appoint more than one director, the composition of the Board of Directors of Telecom Argentina shall be modified so that the Telecom Italia Group shall nominate the majority of the members appointed by Nortel. Decisions will be made by the majority of directors present at each meeting. In case of a tie, the Chairman shall cast the deciding vote.

- W de Argentina shall be entitled to nominate the Chairman of the Audit Committee of Telecom Argentina. The New Shareholders Agreement also provides that the resolutions of the Audit Committee shall be taken by the unanimous vote of its members.

- The Chairman of Telecom Argentina s Board of Directors shall meet the following requirements: (i) be an Argentine professional of recognized reputation and (ii) shall not have served as member of the Board of Directors or officer at any direct or indirect competitor of Telecom Argentina in the Argentine telecommunications market within the previous twelve months from his appointment.

The New Shareholders Agreement provides for the establishment of a Regulatory Compliance Committee for Telecom Argentina, composed of three members to be selected among the members of Telecom Argentina s and Personal s Boards of Directors, other than those members nominated exclusively by the Telecom Italia Group or jointly with W de Argentina.

The New Shareholders Agreement also provides for the establishment of a Steering Committee for Telecom Argentina, which shall be composed of two members appointed by the Telecom Italia Group and two members appointed by W de Argentina. The Steering Committee shall be in charge of resolving matters concerning Telecom Argentina s business plan, annual budget and general employee compensation policy for Telecom Argentina and Personal, among others. The Steering Committee shall meet with the majority of its members and resolve any matter by unanimous vote of the members attending the meeting. In case any matter is not approved by the majority of its members, the Board of Directors shall resolve such matter.

The New Shareholders Agreement still provides for meetings between the Telecom Italia Group and W de Argentina (set forth in Section 4 of the New Shareholders Agreement) before Shareholders or Board of Directors meetings of Sofora, Nortel, Telecom Argentina or its subsidiaries regarding matters that must be treated at Shareholders Meetings or those related to preferred Shareholders of Nortel, but it excludes resolutions to be adopted by certain non-executive committees. Therefore, the resolutions to be adopted at the Audit Committee, the Supervisory Committee and the Regulatory Compliance Committee will not be dealt with in such prior meetings, but following the rules of the majority of each of those committees.

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Similar to the 2003 Shareholders Agreement, two members of the Telecom Italia Group and one member of W de Argentina shall attend the meetings and the decisions will be taken through the affirmative vote of the majority of its members.

W de Argentina shall maintain substantially similar veto rights as provided for in the 2003 Shareholders Agreement, upon the following matters:

- the approval of any amendment to the bylaws, other than the amendments expressly set forth in the New Shareholders Agreement;
- dividend policy;
- any capital increase or decrease, except for any capital increase or decrease connected to any possible debt restructuring;
- changing the location of the headquarter offices;
- any acquisition of subsidiaries and/or creation of subsidiaries;
- the sale, transfer, assignment or any other disposition of all or substantially all of the assets or any of its subsidiaries;
- decisions relating to the establishment of joint ventures;
- constitution of any charges, liens, encumbrance, pledge or mortgage over assets, exceeding the amount of US$20,000,000 (twenty million U.S. dollars);
- any change of external auditors, to be chosen among auditors of international reputation;
- any related party transaction which is not carried out according to usual market conditions, exceeding the amount of US$5,000,000, with the exception of (i) any correspondent relationships, traffic agreement and/or roaming agreements with any national and/or international telecommunications carriers/operators, including the establishment, expansion or amendment of such correspondent relationships with any new

telecommunications carriers; and (ii) any transaction connected with the debt restructuring;

- any extraordinary transaction involving the Telecom Argentina Group, exceeding the amount of US$30,000,000, except for any operation connected with the debt restructuring of the Telecom Argentina Group; and

- any change to the rules of the Steering Committee, the Regulatory Compliance Committee or the Audit Committee; and the creation, changes or dissolution of any committee of the Telecom Argentina Group with similar functions.

Related Party Transactions

We have been involved in a number of transactions with our related parties since the Transfer Date.

Our policy is to make transactions with related parties on arm s-length basis. In addition, Section 72 of Law No. 26,831 provides that before a publicly-listed company may enter into an act or contract involving a relevant amount with a related party or parties, the publicly-listed company must obtain approval from its Board of Directors and obtain a valuation report from its Audit Committee or two independent valuation firms that demonstrates that the terms of the transaction are consistent with those that could be obtained at an arm s-length basis. For the period that Telecom Argentina s Audit Committee was not yet operational, the valuation report from two independent firms was optional. If the Audit Committee or two independent valuation firms do not find that the terms of the contract are consistent with those that could be obtained on an arm s-length basis, approval must be obtained from the shareholders. Relevant amount means an amount which exceeds 1% of the issuers equity as contained in the latest approved financial statements.

Transactions with related parties of Sofora (including Telecom Italia and W de Argentina Inversiones and/or their respective affiliates) resulted in expenses or purchases of approximately P$385 million for the year ended December 31, 2012. Of that amount, P$329 million was incurred with Telecom Italia and its affiliates for

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telecommunications services received by Telecom, international capacity hiring, purchases of equipment and materials and other services provided to Telecom, and P$56 million incurred with W de Argentina Inversiones affiliates for insurance and labor costs.

Transactions with related parties of Sofora resulted in income for services rendered by us of approximately P$203 million for the year ended December 31, 2012, corresponding to payments from Telecom Italia and its affiliates of P$31 million and from W de Argentina Inversiones of P$172 million for telecommunications services provided by Telecom.

In addition, transactions with related parties of Sofora for the year 2012 resulted in P$5 million gain in finance income corresponding to transactions with related parties of W de Argentina Inversiones.

See Note 27 to our Consolidated Financial Statements for more detail regarding related parties transactions for the year ended December 31, 2012.

During 2012, Telecom Argentina and Personal entered into technical services agreements with Telecom Italia which expired in December 2012. These agreements were submitted to an independent firm for evaluation, which found them to be reasonable and in accordance with market practice in all material respects and in accordance with the procedure established by Decree No. 677/01 (which was similar to that provided for under Law No. 26,831) for contracts with related parties. These were also submitted and approved by Telecom Argentina s Audit Committee and its Board of Directors. Under these agreements, Telecom Argentina and Personal incurred in expenses of P$14.6 million and P$10.6 million for the year ended December 31, 2012, respectively.

In March 2013, Personal entered into a new technical services agreement with Telecom Italia which expires in March 2014. Under this agreement, Personal will incur costs of 1.8 million for the duration of the contract.

As of December 31, 2012, we had no loans outstanding to the executive officers of Telecom Argentina.

Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information.

See Item 18 for the Company s Financial Statements. For a description of events that have occurred since the date of the Company s Financial Statements, see Item 4 Information on the Company Introduction Recent Developments.

Legal Proceedings

Civil, commercial, labor, regulatory, tax and other matters proceedings

We are parties to several civil, tax, commercial, labor and regulatory proceedings and other claims that have arisen in the ordinary course of business. As of December 31, 2012, Telecom has established provisions, excluding asset retirement obligations and restructuring provision, in an aggregate amount of P$997 million to cover potential losses related to these claims and proceedings in its Consolidated Financial Statements (P$85 million for regulatory deducted from assets and P$912 million included under liabilities). In addition, as of December 31, 2012, P$35 million deposited in the Company s bank account have been restricted to be used due to some judicial proceedings.

See Note 17 to our Consolidated Financial Statements for additional information.

Labor Claims

Labor Claims for which ENTel is Liable

The Transfer Agreement provides that ENTel, and not Telecom Argentina, is liable for all amounts owing in connection with claims based upon ENTel s contractual and statutory obligations to former ENTel employees, whether or not these claims are made prior to the Transfer Date, if the events giving rise to these claims occurred prior to the Transfer Date. Certain former employees of ENTel have brought claims against Telecom Argentina, arguing that notwithstanding what the Transfer Agreement or an executive act of the Argentine government stipulate, Telecom Argentina should be held jointly and severally liable for claims made prior to the Transfer Date. The Supreme Court concluded that transferees under privatizations may be held jointly and severally liable for obligations arising from employment contracts prior to the Transfer Date.

As of December 31, 2012, the total amount of these labor claims filed against Telecom Argentina, including accrued interest and expenses, was approximately P$3 million. Interest and expenses will continue to accrue on any pending amount until it is paid in full. Telecom Argentina believes that the pending claims will not have a significant effect on our results of operations or financial position for two reasons: (1) under the Transfer Agreement, ENTel has expressly agreed to indemnify Telecom Argentina in respect of these claims and (2) the

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Argentine government has agreed to be jointly and severally liable with ENTel in respect of these indemnity obligations and has authorized Telecom Argentina to debit an account of the Argentine government at *Banco de la Nación Argentina* for any amounts payable by the Argentine government under this indemnity. Under the Debt Consolidation Act, ENTel and the Argentine government may discharge their above-described obligations to Telecom Argentina by issuing 16-year bonds to Telecom Argentina. In its ruling, the Supreme Court recognized the right of licensees to demand that the Argentine government comply with its Transfer Agreement obligations.

Although we cannot guarantee the outcome of these proceedings, in the opinion of our Management and internal legal counsel, the final outcome will not have a material effect on our financial position, results of operations and cash flows.

Profit Sharing Bonds

Various legal actions were brought, mainly by former employees of Telecom Argentina, against the Argentine government and Telecom Argentina, requesting that Decree No. 395/92 which expressly exempts Telecom Argentina from issuing the profit sharing bonds provided in Law No. 23,696 be struck down as unconstitutional. The plaintiffs also claim compensation for damages they suffered because such bonds have not been issued. In August 2008, the Argentine Supreme Court of Justice found Decree No. 395/92 unconstitutional when resolving a similar case against Telefónica and ordered that the proceedings be remanded back to the court of origin so that such court could decide which defendant was compelled to pay the licensee and/or the Argentine government- and the parameters that were to be taken into account in order to quantify the remedies requested (percent of profit sharing, dismissals of claims due to expiration of the applicable statute of limitations, and distribution method between the program beneficiaries). The Supreme Court of Justice has deemed that the resolution against Telefónica´s case is applicable to Telecom Argentina when resolving the appeals filed by Telecom Argentina. That criterion has been followed by lower courts.

The Supreme Court has left the determination of incidental issues to the lower courts and asked to take into account that it was the Argentine government who issued the legal rule found to be unconstitutional. On that basis, most of the appellate courts have also found the Argentine government liable and established different methods to calculate the compensation. The Company has filed motions in support of its rights, regarding for example the statute of limitations and the method to calculate the compensation.

As of the date of this Annual Report, Telecom Argentina s Management, based on the advice of its legal counsel, has recorded provisions that it estimates are adequate to hedge the risks associated with these claims.

Contractors and Subcontractors Employees Labor Claims

In recent years, certain contractors and subcontractors employees have brought lawsuits against subcontractors and Telecom Argentina claiming for direct or indirect responsibility based on a broad interpretation of the rules of labor law. The plaintiffs claimed for the application of the telecommunication bargain collective agreement instead of the telecommunication section of construction collective agreement, resulting in wage differences. As of the date of this Annual Report, Telecom Argentina s Management, based on the advice of its legal counsel, has recorded provisions that it estimates are adequate to hedge the risks associated with these claims.

Union Organization Claims

In recent years, certain labor organizations have filed complaints against Telecom Argentina objecting the differences in the calculation of social contributions made by Telecom Argentina and have obtained favorable rulings for these claims. Despite Telecom Argentina having appealed these decisions, the appellate courts have affirmed the rulings in many cases. As a result, Telecom Argentina, based on the advice of legal counsel, has recorded provisions to cover the increased risk associated with this type of litigation.

In February 2012, Telecom Argentina reached several agreements with the Compensation Fund, FOETRA and Ospetelco related to the legal actions and claims regarding non-unionized employees salaries social security contributions. These agreements have been settled for approximately P$97 million, resulting in: (i) a consumption of the provisions timely made by the Company and, (ii) social security contributions for the period January 2012 to June 2013.

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Wage differences by food vouchers and nonremunerative sums

The Company is subject to various lawsuits initiated by some employees and former employees who claim wage differences caused by the impact of the concepts nonremunerative sums (amounts not subject to social security contributions) and food vouchers over the settlement of items such as overtime, productivity, vacation, supplementary annual salary and other additional benefits provided by the Collective Bargaining Agreement. In this regard, the Supreme Court of Justice has recognized that food vouchers are remunerative and are part of the employees compensations, declaring the unconstitutionality of Sect. 103 bis, inc. C of the Argentine Employment Contract Act (which gives them the character of social benefits). Considering these judicial precedents, as of the date of this Annual Report, the Company s Management, based on the advice of legal counsel, has recorded a provision that it estimates is sufficient to cover the risks associated with these claims.

Sales representatives claims

In addition, former sales representatives of Personal have brought legal actions for alleged untimely termination of their contracts and have submitted claims for payment of different items such as commission differences, seniority bonuses and lost profit. While decisions on some of these claims are still pending, most of the claims have been settled by the parties, while others have obtained a favorable partial judgment. Additionally, during 2012, new former sales representatives of Personal have initiated claims for similar reasons to those mentioned above. As of the date of this Annual Report, the Company s Management, based on the advice of legal counsel, has recorded provisions that it estimates are sufficient to cover the risks associated with these claims.

Tax Matters

Tax Matters Relating to Telecom Argentina

In December 2008, the National Congress approved Law No. 26,476, the Law on Tax Regularization and Repatriation of Capital establishing a regime for the regularization of tax liabilities, the repatriation of funds and the registration of employees. Title I of the law provides taxpayers with a complete exemption for penal responsibilities in tax matters, for fines and a partial exemption for interest arising out of tax or social security liabilities prior to December 31, 2007.

As discussed in previous Annual Reports, Telecom Argentina was party to various legal proceedings arising from claims by AFIP with regards to:

(a) AFIP s claim for income tax for fiscal years 1993 to 1999 arising from its disagreement with Telecom Argentina s calculation of the depreciation of its fiber optic network;

(b) AFIP s claims for income tax for fiscal years 1997 to 2000 challenging Telecom Argentina s certain deductions it made for bad debt expenses; and

(c) AFIP s claims regarding invoices for certain kinds of services.

Upon detailed analysis of the Regularization Regime, on April 30, 2009 Telecom Argentina decided to settle the AFIP s claims in the time frame established by Title I of the above-mentioned law. The settlement for the above-mentioned tax claims was complete except for item (b), which was partially settled.

In order to qualify for the Regularization Regime, Telecom Argentina had to voluntarily dismiss legal proceedings previously initiated against AFIP s claims. As a result of the Regularization Regime, regarding the matter mentioned in (c) above, Telecom Argentina has requested the Court to suspend the penal proceedings and dismiss the claims against officers and employees who had been called to give testimony, since the law provides for the suspension of penal proceedings upon adoption of the Regularization Regime, and complete extinguishment of a penal case upon cancellation of all amounts due under the payment plan pursuant to this Regime. As of the date of this Annual Report, a decision of the Court on this matter is still pending.

Telecom Argentina s compliance with the Regularization Regime generated recognition of a debt owed to AFIP in the amount of P$38 million (nominal value) payable in 120 monthly installments at an annual interest rate of 9%. The Company also recognized a debt for legal fees in connection with these regularized processes in the amount of P$14 million (nominal value). The value of both liabilities has been estimated at net present value according to IFRS and has been set forth under the captions Income Tax Payables and Other Liabilities classified by the nature and due date of each liability. As of December 31, 2012 such liabilities amounted to P$15 million and P$12 million, respectively.

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In December 2001, the AFIP asserted an additional income tax claim regarding the amortization period utilized by Telintar to depreciate its fiber optic network in submarine cables. Subsequently, Telintar was dissolved and merged in equal parts into Telecom Internacional S.A. and Telefónica Larga Distancia de Argentina S.A., entities controlled by Telecom Argentina and Telefónica, respectively. Telecom Internacional S.A. was subsequently merged with and into Telecom Argentina in September 1999. In July 2005, the National Fiscal Court decided against Telecom Argentina by ratifying the tax assessment relating to additional taxes, although it did not require Telecom Argentina to pay interest or penalties. As a result, during the third quarter of 2005, Telecom Argentina recorded a current tax liability amounting to P$0.5 million against income taxes in its income statement. Telecom Argentina and Telefónica have appealed this judgment before the corresponding Federal Court. In June 2009, this Federal Court rejected the National Fiscal Tribunal Resolution and AFIP s claim. AFIP has appealed this judgment before the Argentine Supreme Court of Justice. Finally, on May 22, 2012, the Supreme Court of Justice ratified the amortization period utilized by Telintar to depreciate its fiber optic network in submarine cables, thus confirming the Company s position.

Tax Matters Relating to Personal

In December 2006, the AFIP assessed an additional income tax and tax on minimum presumed income for the 2000 and 2001 tax years claiming that Personal incorrectly deducted certain uncollectible receivables. Personal appealed this assessment before the National Fiscal Tribunal. The AFIP s claim is contrary to certain legal precedents issued by the National Fiscal Tribunal. Consequently, Personal and its legal counsel believe that the matter will be resolved in its favor when the appeal process is finalized.

Tax Matters Relating to Micro Sistemas

On December 4, 2000, our subsidiary, Micro Sistemas, received a notice from the Secretary of Treasury Resolution No. 468/00 requesting Micro Sistemas to pay P$1.1 million (approximately P$7.2 million as of December 31, 2012) in fines with respect to its failure to comply, prior to its acquisition by Telecom Soluciones, with the terms and conditions of a special tax regulation applicable to Micro Sistemas and requesting payment of the claimed tax compounded with interest. Having exhausted the administrative appeals, on October 3, 2007, Micro Sistemas filed an appeal before the Federal Court of Appeals for Administrative Matters. The appeal was admitted by the Court and in November 2008 the Chamber Prosecutor recommended rejection of the petition of prescription made by Micro Sistemas.

On February 24, 2012, the Fifth Contentious and Administrative Chamber rendered a final judgment, which was ratified on April 12, 2012 by a motion to clarify the decision, through which the appeal brought by Micro Sistemas was sustained and declared invalid the resolution 468/00, which imposed the fine, as well as full payment of taxes and / or fees not paid under the special tax regulation, compounded with interest, included in such resolution. Following the judgment of the Fifth Chamber, the Argentine Federal Government filed an extraordinary federal appeal against that judgment. Such extraordinary appeal was finally rejected by the Supreme Court on February 26, 2013, thus confirming Micro Sistemas position.

Provincial Taxes

Some provincial tax authorities have filed claims regarding turnover tax and stamp tax. As of the date of this Annual Report, the Company s Management has recorded provisions that it estimates are adequate to hedge the risks associated with the turnover tax claims. However, regarding stamp tax claims, no provisions were recorded because the Company`s Management understands that they are contrary to certain legal precedents issued by our National Supreme Court. As a result, Telecom Argentina and Personal are contesting them based in those judicial precedents.

Municipal Fees

Since 2005, the Company has seen a noticeable increase in legal and extrajudicial claims seeking the collection of various municipal fees in the City of Buenos Aires and various municipalities. As of the date of this Annual Report the Company has recorded provisions that estimate sufficient to cover these claims.

Regulatory Proceedings

There are several proceedings that have been initiated against us with respect to alleged regulatory violations between 2000 and 2012. If the outcomes of these proceedings are unfavorable to us, they could result in fines for the Company. For each of these proceedings, we are challenging the CNC s imposition of fines

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before administrative authorities. The most significant proceedings regarding Telecom Argentina are related to technical performance issues, mainly in connection with the delay in repairing defective lines and/or installing new lines. In addition, there was an increased number of proceedings against Telecom Argentina and Personal regarding service failures.

For a description of certain administrative appeals filed by the Telecom Group with respect to certain regulatory actions, see Item 4 Information on the Company Regulatory Framework. In addition, see Note 17 to our Consolidated Financial Statements for a breakdown of provisions as of December 31, 2012.

General Proceedings

Environmental Proceedings

In 1999, the Argentine national environmental agency (*Secretaría de Medio Ambiente y Desarrollo Sustentable*) initiated an administrative proceeding against us in connection with our waste management. This agency alleged problems with our liquid drainage at an underground chamber in violation of Argentine environmental law. The agency sought to require Telecom Argentina s registration with the National Register of Generators and Operators of Hazardous Waste. This registration would require Telecom Argentina to pay an annual fee calculated in accordance with a formula that takes into consideration the hazard s extent and the waste quantity. Telecom Argentina believes that its activities did not generate this waste, and that the waste in the underground chamber was generated by other parties. Telecom Argentina nonetheless removed the liquid drainage in accordance with environmental law. We have filed the requisite official responses and we believe that we will not have to register with any environmental agency as a result of this liquid drainage.

In February 2009, Telecom Argentina received a notification from the environmental agency once again requesting that Telecom Argentina be registered in the National Registry of Generators and Operators of Hazardous Waste. In March 2009, Telecom Argentina filed a request for administrative review seeking to obtain rejection of the environmental agency s ordinance. As of the date of this Annual Report, there has yet to be a resolution on the matter.

Considering the evolution and development of environmental legislation and related agencies, Telecom Argentina is in the process of reviewing its interpretation in relation to the registration as a Hazardous Waste Generator, that in any case will refer to a reduced number of materials that we use in our operations. Based on the information available to us, the possibility that environmental proceedings will have a significant impact on our financial position and cash flows is remote.

Consumer Trade Union Proceedings

- Proceedings other than remote

The Company has been notified of the following complaints filed by Consumer Trade Unions for which although Personal believes there are strong defense arguments for which the claims should not succeed, in the absence of jurisprudence on the matter, Personal s Management (with the assistance of its legal counsel) has classified the claims as possible until a judgment is rendered.

In November 2011, Personal was notified of a lawsuit filed by Consumidores Financieros Asociación Civil para su Defensa claiming that Personal made allegedly abusive charges to its customers by implementing per-minute billing and setting an expiration date for prepaid telecommunication cards.

The plaintiff requests Personal (i) cease such practices and bill its customers only for the exact time of telecommunication services used; (ii) reimburse the amounts collected in excess in the ten years preceding the date of the lawsuit; (iii) credit its customers for unused minutes on expired prepaid cards in the ten years preceding the date of the lawsuit; (iv) pay an interest equal to the lending rate charged by the Banco de la Nación Argentina; and (v) pay punitive damages provided by section 52 bis of Law No. 24,240.

Personal responded in a timely manner, arguing the grounds by which the lawsuit should be dismissed, with particular emphasis on the regulatory framework that explicitly endorses Personal s practices, now challenged by the plaintiff in disregard of such regulations.

The plaintiff is seeking damages for unspecified amounts. Currently, Personal is quantifying the risk involved in this contingency.

In June 2012 Asociación Protección Consumidores Del Mercado Común Del Sur - Proconsumer filed a lawsuit against Personal claiming that the company did not provide the clients with enough information regarding the new prices for the services provided by Personal between May 2008 and May 2011. It demands the reimbursement of the increase in the price billed to customers for a period of two months. The plaintiff is seeking damages for unspecified amounts. In August 2012 Personal answered the complaint arguing that the

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company adequately informed its clients the modifications of the terms and conditions in which the service would be provided. It also filed a jurisdictional plea and a motion alleging the lack of active legal standing of the plaintiff, which at the time of this Annual Report are both pending of resolution by the First Instance Court.

- Remote Proceedings

Additionally, Consumer Trade Unions have filed several proceedings against the Company. Although we cannot guarantee the outcome of these proceedings, in our opinion, based on the information available to us and the opinion of our legal counsel, the Company has classified those consumer trade unions proceedings as remote. Among others, the most significant proceedings filed against the Company include the following:

In November 1995, Telecom Argentina was served with notice of a complaint filed by a consumer trade union, Consumidores Libres Cooperativa Limitada de Provisión de Servicios Comunitarios, against Telecom Argentina, Telefónica, Telintar and the Argentine government. The suit seeks to declare null, illegal and unconstitutional all rate rules and agreements related to the Transfer Agreement and to reduce the rates of the licensees so as to obtain a rate of return not in excess of an annual 16% on fixed assets as described in the List of Conditions. Furthermore, the complaint seeks reimbursement of sums allegedly received in excess of the 16% rate of return as well as sums resulting from the reduction in the rate of turnover tax for the city of Buenos Aires. The case is currently in the discovery phase.

In October 2001, the Federal Court of Appeals for Contentious and Administrative Matters issued a precautionary measure suspending the ability of telecommunications companies to increase rates by reference to the U.S. consumer price index. However, the Public Emergency Law and the reformation of the exchange regime have had an analogous result to that proposed by the precautionary measure, since they have prohibited, as of January 6, 2002, contracts with the public administration, including public works and services contracts, from being adjusted to dollars or other foreign currencies. The Public Emergency Law was subsequently extended through December 31, 2013. (See Item 4 Information on the Company Regulatory Framework Regulatory Environment Rates).

Additionally, upon the extension of the exclusivity period for the provision of telecommunication services, Consumidores Libres Cooperativa Limitada de Provisión de Servicios Comunitarios filed a new lawsuit in Argentine federal courts against the service providers and the Argentine government. Plaintiffs are seeking damages, an injunction revoking the licenses granted to telecommunication service providers and termination of the exclusivity period. This case is currently in discovery.

In addition, on August 14, 2003, Telecom Argentina was served notice of a legal action brought by Unión de Usuarios y Consumidores against Telecom Argentina, Telefónica and the SC before the Federal Court in Administrative Litigation Matters No. 8. The plaintiff requests reimbursement of certain additional charges included in monthly fixed-line service fees billed by Telecom Argentina. On August 22, 2003, Telecom Argentina answered the complaint and based its defense on the grounds that the charges are valid since they were expressly provided for under applicable administrative rules and regulations. The legal action was rejected by the Court of First Instance in October 2011 alleging that the plaintiff could not demonstrate the damage suffered. The first instance resolution was appealed by the plaintiff and in July 2012 the Court of Appeals rejected the appeal and confirmed the resolution. As the plaintiff did not file an extraordinary appeal before the Supreme Court, the judgment is final.

In December 2005, the entity Asociación Protección Consumidores Del Mercado Común Del Sur Proconsumer brought an action against the mobile companies, including Personal. The plaintiffs seek to obtain reimbursement for any amounts billed to Personal customers in connection with an investment contribution to the Universal Service Fiduciary Fund. In March 2011, Personal was notified of the first instance resolution, which rejected Proconsumer s claim. The resolution considered the claim to be an unnecessary and an excessive use of judicial time and resources because the reimbursement identified in the complaint had already been made by the defendants. The full reimbursement of the amounts received by Personal in connection with the investment contribution and corresponding interest were listed separately in customer bills and furnished in accordance with the CNC s report dated December 2006. The report also specified the applicable interest rate. In October 2011, the Civil and Commercial Federal Court, Chamber No. II confirmed the rejection of the legal action against Personal. The plaintiff filed an extraordinary appeal which was also rejected. Subsequently, its last legal resource (Recurso de Queja) was submitted by the plaintiff to the Supreme Court and is pending resolution as of the date of this Annual Report.

Dividend Policy

The declaration, amount and payment of dividends are determined by a majority vote of all holders of Telecom Argentina s capital stock. Under the Argentine Corporations Law, dividends may only be declared out of liquid and realized profits determined based on non-consolidated financial statements prepared in accordance with GAAP effective in Argentina (IFRS in the case of listed companies as Telecom Argentina) and other applicable regulations issued by the CNV and other regulatory bodies. Furthermore, liquid and realized profits can only be distributed when all accumulated losses from past periods have been absorbed and the legal reserve has been constituted (or reconstituted).

Resolution No. 593/11, issued in November 2011 by the CNV, established that a Shareholders Meeting that approves financial statements in which retained earnings are positive must make a specific determination on the use of such earnings in accordance with the Law No. 19,550 and, as a result, must resolve on its distribution as cash dividends, capitalization with issuance of paid-in shares, use to create reserves other than statutory reserves, or a combination of such alternatives. As a result of the implementation of the new procedure established by the Resolution No. 593/11, the balance of retained earnings after the allocation approved by the Annual Shareholders Meeting should be zero.

Under the above-described restrictions, the legal ability of shareholders at any annual meeting of Telecom Argentina to vote to distribute dividends depends on: (i) the existence of liquid and realized profits and (ii) satisfaction of the financial conditions necessary to distribute dividends without negatively affecting the interests of Telecom Argentina.

In preparing the Annual Report in compliance with Argentine requirements, at the end of each fiscal year, the Board of Directors analyzes Telecom Argentina s economic and financial position and its compliance with the abovementioned restrictions. The Board of Directors also takes into account the funds needed for operative purposes for the following fiscal year. The Board of Directors then proposes a course of action with respect to retained earnings, which may or may not include a dividend distribution. The decision with regards to the Board s proposal is made by the Telecom Argentina s shareholders at the Shareholders Meeting.

On March 18, 2013, Telecom Argentina s Board of Directors called a shareholders meeting to be held on April 23, 2013, to consider among other issues the allocation of Telecom Argentina s non-appropriated retained earnings as of December 31, 2012. The Board proposed to allocate P$1,000 million as a Reserve for Future Dividends in Cash and to authorize the Board of Directors to approve the reduction of such Reserve for the purpose of distributing dividends in cash taking into account the economic and financial condition of Telecom Argentina.

As provided by CNV Resolution No. 609/12, positive retained earnings generated by the mandatory adoption of IFRS as from January 1, 2012, should be reassigned to a Special Reserve that can only be utilized for its capitalization or to absorb negative retained earnings. Positive retained earnings generated by the application of IFRS in Telecom Argentina s 2012 statutory financial statements amounted to P$370 million, of which P$19 million have to be allocated to Legal Reserve and P$351 million have to be assigned to the Special Reserve established by CNV Resolution No. 609/12. Such constitution shall be voted at the Ordinary Annual Shareholders Meeting to consider the Consolidated Financial Statements for 2012.

Telecom Argentina s Annual Shareholders meeting held on April 27, 2012 approved a cash dividend distribution of P$807 million (P$0.82 per share), which was paid in May 2012.

Significant Changes

No undisclosed significant changes have occurred since the date of the Consolidated Financial Statements.

ITEM 9. THE OFFER AND LISTING

As of December 31, 2012, the capital stock of Telecom Argentina was divided into three classes: Class A Ordinary Shares, nominal value P$1.00 each (Class A Shares), representing 51.00% of the outstanding capital stock of Telecom Argentina, Class B Ordinary Shares, nominal value P$1.00 each (Class B Shares), representing approximately 48.96% of the outstanding capital stock of Telecom Argentina, and Class C Ordinary Shares, nominal value P$1.00 each (Class C Shares), representing approximately 0.04% of Telecom Argentina s outstanding capital stock.

The number of shares authorized and outstanding as of December 31, 2012 was as follows:

Class A Shares	502,034,299
Class B Shares	481,975,958
Class C Shares	370,721
Total	**984,380,978**

The Class B Shares are currently listed on the Buenos Aires Stock Exchange. The ADSs representing Class B Shares are currently listed on the New York Stock Exchange under the symbol TEO. Each ADS currently represents 5 Class B Shares.

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The table below shows the high and low closing prices of the Class B Shares in pesos for the periods indicated on the *Mercado de Valores de Buenos Aires* (the Buenos Aires Stock Market or BASM), the current principal non-U.S. trading market for such securities. See The Argentine Securities Market. See Item 3 Key Information Exchange Rates for the exchange rates applicable during the periods set forth below.

	Pesos per Class B Share on BASM (1)	
	High	**Low**
Annual		
2008	15.20	3.70
2009	13.65	4.90
2010	20.80	11.90
2011	22.70	16.10
2012	20.40	12.30
Quarterly		
2011		
First Quarter	21.95	19.30
Second Quarter	22.25	18.90
Third Quarter	22.70	17.15
Fourth Quarter	20.60	16.10
2012		
First Quarter	20.40	17.45
Second Quarter	18.55	14.30
Third Quarter	16.10	12.30
Fourth Quarter	16.10	12.40
Monthly		
2012		
October	13.50	12.80
November	13.80	12.40
December	16.10	13.35
2013		
January	23.35	16.40
February	24.55	20.40
March	25.95	20.50
April (through April 12, 2013)	27.50	24.10

(1) Reflects peso nominal amounts as of that date.

Source: Bolsa de Comercio de Buenos Aires.

The Class B Shares trade on the New York Stock Exchange in the form of ADSs issued by the Depositary under the Deposit Agreement dated as of November 8, 1994, among Telecom Argentina, the Depositary and the registered Holders from time to time of the ADSs issued there under (the Deposit Agreement). Each ADS represents 5 Class B Shares.

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The table below shows the high and low closing prices of the ADSs in U.S. dollars on the New York Stock Exchange for the periods indicated.

	US$ per ADS	
	High	**Low**
Annual		
2008	23.97	5.12
2009	18.05	6.55
2010	25.78	15.02
2011	26.92	17.28
2012	21.94	9.37
Quarterly		
2011		
First Quarter	26.92	22.96
Second Quarter	26.06	22.19
Third Quarter	26.68	18.50
Fourth Quarter	21.23	17.28
2012		
First Quarter	21.94	17.51
Second Quarter	17.55	10.00
Third Quarter	12.31	9.39
Fourth Quarter	12.17	9.37
Monthly		
2012		
October	10.69	9.84
November	10.38	9.37
December	12.17	10.02
2013		
January	15.87	12.13
February	15.92	12.29
March	15.72	12.82
April (through April 12, 2013)	15.93	14.42

On April 12, 2013, the reported last sale price of the ADSs on the New York Stock Exchange was US$15.85.

Plan of Distribution

Not applicable.

The Argentine Securities Market

As of March 2013 and prior to the New Capital Market Act implementation twelve securities exchanges exist in Argentina, of which six (including the Buenos Aires Stock Exchange) have affiliated stock markets and are authorized to quote publicly-offered securities. The oldest and largest of these exchanges is the Buenos Aires Stock Exchange, founded in 1854. For the year ended December 31, 2012, the ten most actively traded equity issues represented approximately 88% of the total volume of equity traded on the market. Trading in securities listed on an exchange is conducted through a *Mercado de Valores* (Stock Market) affiliated with such exchange.

Securities may also be listed and traded on the *Mercado Abierto Electrónico S.A.* (the MAE), an electronic over-the-counter market trading system that functions independently from the Buenos Aires Stock Exchange and the Buenos Aires Stock Market. However, in March 1992, the Buenos Aires Stock Exchange, the Buenos Aires Stock Market and representatives of the dealers on the MAE implemented an agreement that causes trading in equity and equity-related securities to be conducted exclusively on the Buenos Aires Stock Market, while all corporate debt securities listed on the Buenos Aires Stock Exchange may also be traded on the MAE. Trading in Argentine government securities, which are not covered by the agreement, is expected to be conducted principally on the MAE. The agreement does not extend to other Argentine stock exchanges.

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The CNV is responsible for the regulation and supervision to ensure the correct application of the rules governing the Argentine Securities Market, which will continue under the new regulatory framework described as follows.

New Capital Market Act Law No. 26,831

On December 28, 2012, the new Capital Market Law (Law No. 26,831) was published in the Official Bulletin. This Law eliminates capital market s self-regulation and grants new powers to the CNV, including the ability to request reports and documents, conduct investigations and inspections of natural and legal persons under its control, call to testify and take informative and testimonial declaration. Likewise, if as a result of investigations performed, it is determined that non-controlling interests or the interests of holders of securities subject to public offering have been harmed, the CNV, according to the severity of the harm determined, may appoint overseers with the power to veto resolutions adopted by the Board of Directors and/or discontinue the Board of Directors for a maximum period of 180 days until deficiencies found are remedied.

Law No. 26,831 supersedes Law No. 17,811 and Decree No. 677/01, among other rules, and became effective on January 28, 2013.

The CNV must regulate Law No. 26,831 and adapt CNV rules thereto within 180 days of Law No. 26,831 having become effective.

The Buenos Aires Stock Market

The Buenos Aires Stock Market, which is affiliated with the Buenos Aires Stock Exchange, is the largest stock market in Argentina. The Buenos Aires Stock Market is a corporation, whose approximately 133 shareholder members are the only individuals and entities authorized to trade in the securities listed on the Buenos Aires Stock Exchange. Trading on the Buenos Aires Stock Market is conducted by continuous open bidding, from 11:00 a.m. to 5:00 p.m. each business day. The Buenos Aires Stock Market also operates a continuous electronic market system each business day, on which privately arranged trades are registered and made public.

Although the Buenos Aires Stock Exchange is one of Latin America s largest securities exchanges in terms of market capitalization, it remains relatively small and illiquid compared to major world markets, and therefore, is subject to greater volatility. To control price volatility, the Buenos Aires Stock Market operates a system which suspends dealing in a particular issuer s shares for fifteen minutes when the price changes 10% with respect to that day s opening price. Once trading resumes, the trading is then suspended for another fifteen minutes if the price changes more than 15% with respect to that day s opening price. If the price then changes 20% with respect to that day s opening price, and for every 5% fluctuation in price thereafter, the trading of such shares is interrupted for an additional ten minutes. Investors in the Argentine securities market are mostly individuals, mutual funds and companies. Institutional investors that trade securities on the Buenos Aires Stock Market, which represent a relatively small percentage of trading activity, consist of a limited number of investment funds.

Certain historical information regarding the Buenos Aires Stock Exchange is set forth in the table below.

	2012	2011	2010	2009	2008
Market capitalization (P$ billions) (1)	2,314	1,611	1,900	2,175	1,234
As percent of GDP (1)	106	87	132	190	119
Volume (P$ millions) (1)	242,324	207,805	177,614	133,207	237,790
Average daily trading volume (P$ millions) (1)	1,006	848	722	546	963
Number of traded companies (including Cedears)	267	241	275	254	267

(1) End-of-period figures for trading on the Buenos Aires Stock Exchange (includes domestic and non-domestic public companies).

Sources: Yearbook 2012 - Instituto Argentino de Mercado de Capitales.

Selling Shareholders

Not applicable.

Dilution

Not applicable.

Expenses of the Issue

Not applicable.

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ITEM 10. ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

Register

Telecom Argentina s bylaws were registered in the *Inspección General de Justicia* (General Board of Corporations) on July 13, 1990 under number 4,570, book 108, volume A of Corporations. The bylaws with all amendments thereto were registered in the General Board of Corporations on March 31, 2011 under number 5,982, book 53 of Corporations.

Objects and Purposes

Article I, Section 3 of the bylaws states that the object of Telecom Argentina is to render, either on its own account or on account of, or in association with, third parties, telecommunications public services, except for radio broadcasting, under the terms, if any, of the licenses granted by relevant authorities. The bylaws authorize Telecom Argentina to take all actions permitted by law to fulfill its aforementioned objects.

On March 1, 2001, the SC authorized Telecom Argentina to expand its corporate purpose, to include the marketing of equipment, infrastructure and goods of any type related or complementary to telecommunications, and the performance of works and provision of all types of services, including consulting and security related to telecommunications, as well as the development of telecommunications technology and information processing systems. This expansion of the corporate purpose has been approved by the CNV. As a result, the bylaws which reflect this change have been approved and registered in their final form.

On April 30, 2003, Telecom Argentina s shareholders voted not to adhere to the regime established by Decree No. 677/01 (the Statutory Regime of Public Offer of Mandatory Acquisition) and approved the consequent modification of Article 1° of Telecom Argentina s bylaws.

However, since January 28, 2013, when Law No. 26,831 became effective, the universal scope of the Statutory Regime of Public Offer of Mandatory Acquisition governs, as provided in the Law, which states: Article 90. Universal scope. The Statutory Regime of Public Offer of Mandatory Acquisition regulated in this chapter and the residual participation regime regulated in the following chapter includes all listed companies, even those that, under the previous regime, have opted to be excluded of its application.

On February 18, 2004, Telecom Argentina s shareholders voted to change the company s name to Telecom Argentina S.A.

Telecom Argentina s capital stock

The following is a summary of the rights of the holders of Telecom Argentina shares. These rights are set out in Telecom Argentina s *estatutos sociales* (bylaws) or are provided for by applicable Argentine law, and may differ from those typically provided to shareholders of U.S. companies under the corporations laws of some states of the United States.

Limited Liability of Shareholders

Under Argentine law, a shareholder s liability for losses of a company is generally limited to the value of his or her shareholdings in the company. Under Argentine law, however, a shareholder who votes 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 certain actions for approval by shareholders, the Board of Directors of Telecom Argentina obtained opinions of internal and/or external counsel concerning the compliance of the actions with Argentine law and our bylaws (or regulations, if any). We currently intend to obtain similar opinions in the future as the circumstances require it. Although the issue is not free from doubt, based on advice of counsel, we believe that a court in Argentina in which a case has been properly presented would hold that a noncontrolling 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 our bylaws or regulations, would not be liable under this provision.

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Voting Rights

In accordance with the bylaws, each share entitles the holder thereof to one vote at meetings of the shareholders of Telecom Argentina. All of Telecom Argentina s directors are appointed jointly by shareholders in an Ordinary General Shareholders Meeting.

Under Argentine law, shareholders are entitled to cumulative voting procedures for the election of up to one-third of the vacancies to be filled on the Board of Directors and the Supervisory Committee. If any shareholder notifies a corporation of its decision to exercise its cumulative voting rights not later than three business days prior to the date of a Shareholders Meeting, all shareholders are entitled, but not required, to exercise their cumulative voting rights. Under cumulative voting, the aggregate number of votes that a shareholder may cast is multiplied by the number of vacancies to be filled in the election, and each shareholder may allocate the total number of its votes among a number of candidates not exceeding one-third of the number of vacancies to be filled. Shareholders not exercising cumulative voting rights are entitled to cast the number of votes represented by their shares for each candidate. The candidates receiving the most votes are elected to the vacancies filled by cumulative and noncumulative voting. If no candidate for a particular vacancy receives an absolute majority of votes, the two candidates that received the most votes will participate in a run-off election, and the candidate receiving the most votes in the run-off election will be deemed elected.

In addition, any person who enters into a voting agreement with other shareholders in a public company must inform the CNV of that voting agreement and must file a copy of that voting agreement with the CNV.

Meetings of Shareholders

Shareholders Meetings may be ordinary meetings or extraordinary meetings. Telecom Argentina is required to hold an Annual Ordinary Meeting of shareholders in each fiscal year to consider the matters outlined in Article 234 of the Argentine Corporations Law, Article 71 of Law No. 26,831 and CNV rules, including but not limited to:

- approval of Telecom Argentina s financial statements and general performance of the directors and members of the Supervisory Committee for the preceding fiscal year;
- election, removal and remuneration of directors and members of the Supervisory Committee;
- allocation of profits; and
- appointment of external auditors.

Matters which may be considered at these or other ordinary meetings include consideration of the responsibility of directors and members of the Supervisory Committee, as well as capital increases and the issuance of negotiable obligations. Extraordinary Shareholders Meetings may be called at any time to consider matters beyond the scope of the ordinary meeting, including amendments to the bylaws, issuances of certain securities that permit profit sharing, anticipated dissolution, merger and transformation from one type of company to another, etc. Shareholders Meetings may be convened by the Board of Directors or the members of the Supervisory Committee. The Board of Directors or the members of the Supervisory Committee are also required to convene Shareholders Meetings upon the request of any shareholder or group of shareholders holding at least 5% in the aggregate of Telecom Argentina s capital stock. If the Board of Directors or the members of the Supervisory Committee fail to do so, the meeting may be called by the CNV or by the courts.

Notice of the Shareholders Meeting must be published in the Official Bulletin of the Republic of Argentina and in a widely circulated newspaper in Argentina at least twenty days before the meeting. In order to attend a meeting, shareholders must submit proper evidence of their ownership of shares via book-entry account held at the Caja de Valores S.A. If so entitled to attend the meeting, a shareholder may be represented by proxy.

Class B Shares represented by ADSs will be voted by the Depositary in accordance with instructions of the holders of the ADSs. In order for voting instructions to be valid, the Depositary must receive them on or before the date specified in the relevant notice. There is no guarantee that an ADS holder will receive voting materials in time to instruct the Depositary to vote.

The quorum for ordinary meetings consists of a majority of the stock entitled to vote and resolutions may be adopted by the affirmative vote of a majority of the shareholders present that have issued a valid vote, without counting voluntary abstentions. If no quorum is present at the meeting, a second meeting may be called at which

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shareholders present, whatever their number, shall constitute a quorum and resolutions may be adopted by a majority of the shareholders present. The quorum for extraordinary meetings is 60% of the stock entitled to vote. However, if a quorum is not present at the first meeting, the quorum requirement for the second meeting will be 30% of the stock entitled to vote. In both cases, decisions are adopted by a majority of valid votes, except for certain fundamental matters such as:

- mergers and spin-offs, when Telecom Argentina is not the surviving entity and the surviving entity is not listed on any stock exchange;
- anticipated liquidation;
- change of our domicile to outside Argentina;
- total or partial repayment of capital; or
- a substantial change in the corporate purpose.

Each of these actions requires a favorable vote of more than 50% of all the stock entitled to vote.

In some of these cases, a dissenting shareholder is entitled to appraisal rights.

Any resolution adopted by the shareholders at Ordinary or Extraordinary Shareholders Meetings that affects the rights of one particular class of stock must also be ratified by a special meeting of that class of shareholders governed by the rules for ordinary meetings.

Dividends

Dividends can be lawfully paid and declared only out of our realized and liquid profit.

The Board of Directors submits to the shareholders for approval at an ordinary meeting of shareholders our financial statements for the previous fiscal year, together with a report thereon by the Board of Directors. The shareholders, upon approving the financial statements, determine the allocation of Telecom Argentina s net profits (if any). Under CNV Resolution No. 593/11, a Shareholders Meeting convened to approve the financial statements in which retained earnings are positive must make a specific decision on the use of such earnings in accordance with Law No. 19,550 and, as a result, must resolve on its distribution as cash dividends, capitalization with issuance of paid-in shares, use to create reserves other than statutory reserves, or a combination of such alternatives. In addition, the Argentine Corporations Law requires Argentine companies to allocate 5% of any net profits to legal reserve, until the amount of this reserve equals 20% of our capital stock. The legal reserve is not available for distribution. The remainder of net profits may be paid as dividends on common stock or retained as a voluntary reserve or other account, or a combination thereof, all as determined by the shareholders. As provided by CNV Resolution No. 609/12, positive retained earnings generated by the mandatory adoption of IFRS as from January 1, 2012, should be assigned to a Special Reserve that can only be utilized for its capitalization or to absorb negative retained earnings.

Dividends may not be paid if the legal reserve has been impaired, nor until it has been fully rebuilt. Notwithstanding, the obligation to pay declared dividends expires three years after the distribution date pursuant to Section 17 of Telecom Argentina s bylaws, as amended by the Shareholders Meeting held on April 24, 2002.

Argentine law permits the Board of Directors of certain companies (such as Telecom Argentina) to approve the distribution of anticipated dividends on the basis of a quarter balance or a balance sheet especially prepared for the purpose of paying such dividends, provided that both the external auditors and the Supervisory Committee have issued an opinion report. The actual payment of these dividends is made on an interim basis, and they are paid on account of the dividends to determine in the shareholders annual meeting on the basis of the financial statements for the year.

See Note 30 to our Consolidated Financial Statements regarding restrictions on distributions of profits and dividends.

Capital Increase and Reductions

Telecom Argentina may increase its capital upon authorization of the shareholders at an ordinary meeting. All capital increases must be registered with the CNV, published in the Official Bulletin and registered with the

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Public Registry of Commerce. Capital reductions may be voluntary or mandatory. Shares issued in connection with any increase in capital must be divided among the various classes in proportion to the number of shares of each class outstanding at the date of the issuance, provided that the number of shares of each class actually issued may vary based on the exercise of preemptive rights and additional preemptive rights in accordance with the procedure described under Preemptive Rights.

A voluntary reduction of capital must be approved by an Extraordinary Meeting of the shareholders and may take place only after notice thereof is published and creditors are given an opportunity to obtain payment or collateralization of their claims, or attachment, except in redemption cases (with liquid and realized profits).

In accordance with Article 206 of the Argentine Corporations Law, suspended by successive decrees until December 10, 2005, reduction of a company s capital stock is mandatory when losses have exceeded reserves and at least 50% of the stated capital (capital stock plus inflation adjustment of capital stock).

Currently, Telecom Argentina is not required to reduce its capital stock.

Preemptive Rights

Under Argentine law, holders of a company s common shares of any given class have preferential or preemptive rights, proportional to the number of shares owned by each holder, to subscribe for any shares of capital stock of the same class as the shares owned by the shareholder or for any securities convertible into such shares issued by the company.

In the event of an increase in capital, shareholders of Telecom Argentina of any given class have a preemptive right to purchase any issue of shares of such class in an amount sufficient to maintain their proportionate ownership of Telecom Argentina s capital stock. For any shares of a class not preempted by any holder of that class, the remaining holders of the class will assume pro rata the non-preempting shareholders preemptive rights. Pursuant to the bylaws, if any Class B or Class C Shares are not preempted by the existing holders of each such class, the other classes may preempt such class. However, if any shares of Class A are not preempted by the existing holders of such class, holders of Class B or Class C Shares shall have no preemptive rights with respect to such shares of Class A unless otherwise approved by the regulatory authorities. Preemptive rights must be exercised within thirty days following the time when notices to the shareholders of their opportunity to preempt the capital increase are published for three days in the Official Bulletin of the Republic of Argentina and a widely circulated newspaper in Argentina.

Pursuant to the Argentine Corporations Law, preemptive rights may only be restricted or suspended in certain particular and exceptional cases by a resolution of an Extraordinary Meeting of shareholders when required by the interest of the company.

Conflicts of Interest

A shareholder that votes on a business transaction in which its interest conflicts with that of Telecom Argentina may be liable for damages under Argentine law, but only if the transaction would not have been approved without its vote. See Item 3 Key Information Risk Factors Risks Relating to Argentina Shareholders may be liable under Argentine law for actions that are determined to be illegal or ultra vires. See also Power of Directors below for a description of conflict of interest regarding Directors.

Redemption or Repurchase

Telecom Argentina s stock is subject to redemption in connection with a reduction of capital by a majority vote of shareholders at an extraordinary shareholders meeting. Pursuant to the Argentine Corporations Law, Telecom Argentina may repurchase the stock with liquid and realized profits or available reserves, upon a determination of the Board of Directors that the repurchase is necessary in order to avoid severe damage to our business (subject to shareholder consideration) or in connection with a merger or acquisition. In addition, Telecom Argentina can purchase up to 10% of its capital stock in the Buenos Aires stock exchange pursuant to Law No. 26,831, complying with the requirements and procedures stated therein. If the purchase is made pursuant to Law No. 26,831, Telecom Argentina must resell the repurchased shares within three years and must give shareholders a preemptive right to purchase the shares, except in case of an employee compensation program or plan or in case the shares are distributed among all the shareholders proportionately or regarding the sale of an amount of shares that in any period of 12 months does not exceed 1% of the Company´s capital. In such cases previous approval by a shareholders meeting is needed.

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Appraisal Rights

Whenever certain extraordinary resolutions are adopted at Shareholders Meetings such as a merger of Telecom Argentina into another entity, a change of corporate purpose, transformation from one type of corporate form to another, or Telecom Argentina s shares cease to be traded publicly, any shareholder dissenting from the adoption of any resolution may withdraw from Telecom Argentina and receive the book value per share determined on the basis of Telecom Argentina s annual financial statements (as approved by the Annual Ordinary Shareholders Meeting), provided that the shareholder exercises its appraisal rights within five days following the meeting at which the resolution was adopted in the case of a dissenting shareholder. This right must be exercised within fifteen days following the meeting if the dissenting shareholder was absent and can prove that he was a shareholder on the day of the meeting. In the case of a merger of Telecom Argentina or a spin-off of Telecom Argentina, no appraisal rights may be exercised if Telecom Argentina is the surviving company.

Appraisal rights are extinguished if the resolution is subsequently overturned at another Shareholders Meeting held within sixty days of the expiration of the time period during which absent shareholders may exercise their appraisal rights.

Payment on the appraisal rights must be made within one year of the date of the Shareholders Meeting at which the resolution was adopted. If the resolution was to cease to publicly offer Telecom Argentina s stock, the payment period is reduced to sixty days from the date of the resolution.

Notwithstanding the foregoing, should Telecom Argentina decide to cease trading its shares publicly, pursuant to Article 97 of the Law No. 26,831, a tender offer by Telecom Argentina must be conducted before the exercise of appraisal rights by any shareholder. According to Article 98 of the Law No. 26,831 redemption value is not the book value but is determined based on market value of shares.

Liquidation

Upon liquidation of Telecom Argentina, one or more liquidators may be appointed to wind up its affairs. All outstanding shares of common stock will be entitled to participate equally in any distribution upon liquidation.

In the event of liquidation, the assets of Telecom Argentina shall be applied to satisfy its debts and liabilities. If any surplus remains, it shall be distributed to the holders of shares in proportion to their holdings.

Acquisitions of 5% or More of the Voting Stock of a Public Company

Under Argentine law, any person acquiring 5% or more of the voting stock of a public company must inform the CNV in writing of the acquisition of such voting stock. Additionally, such person must inform the CNV in writing of each additional acquisition of 5% of the voting stock of that particular company, until such person acquires control of that company.

Powers of the Directors

The bylaws of Telecom Argentina do not contain any provision regarding the ability to vote on a proposal, arrangement or contract where a director is an interested party. Under Argentine law, a director may sign contracts with the company that is related to the company s activities so long as the conditions are on an arm s-length basis. If such contract does not meet such conditions, the agreement may only be subscribed with the prior approval of the Board of Directors or, in absence of quorum, with the approval of the Supervisory Committee. Such transactions must be dealt with at the following Shareholders Meeting, and if such meeting does not approve them, the Board of Directors or the Supervisory Committee (as the case may be) are jointly responsible for any damages caused to the company. Argentine law also requires that if a director has a personal interest contrary to Telecom Argentina s, this must be noted to the Board of Directors and to the Supervisory Committee. The director must refrain from participating in any deliberations or risk becoming jointly and severally liable for all damages caused to Telecom Argentina as a result of the conflict.

Additionally, Law No. 26,831 dictates that the contracts between a company and a director (that qualifies as a related party) when they exceed 1% of the shareholders equity of the company, must be submitted to prior approval of the Audit Committee or of two independent evaluation firms to ensure that the transaction is in accordance with market conditions. Such transactions must also be approved by the Board of Directors and reported to the CNV and the exchanges on which the shares of the company are listed. If the Audit Committee or the independent evaluation firms have not determined the terms of the transaction to be according to market conditions, then the contract in question must be submitted for consideration at a Shareholders Meeting.

Section 10 of the bylaws of Telecom Argentina establishes that the remuneration of the members of the Board of Directors is to be determined by the shareholders at their annual meeting. The Audit Committee is to issue a prior opinion on the reasonability of the proposed remuneration, which the Board of Directors submits for

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approval to the shareholders. Therefore, the Directors do not have the ability to vote on compensation for themselves nor for any other director.

The bylaws of Telecom Argentina do not contain any provision regarding the possibility of granting loans to members of the Board of Directors or Company executives.

Members of the Board of Directors of Telecom Argentina or its subsidiaries or parent company cannot be appointed as members of the Supervisory Committee.

The bylaws of Telecom Argentina do not establish a maximum age to be member of the Board of Directors.

Neither the bylaws of Telecom Argentina nor any Argentine law require the members of the Board of Directors to be shareholders.

Limitations on Foreign Investment in Argentina

Under the Argentine Foreign Investment Law, as amended (the FIL), the purchase of stock by an individual or legal entity domiciled abroad or by a local company of foreign capital (as defined in the FIL) constitutes a foreign investment subject to the FIL. Foreign investments generally are unrestricted. However, foreign investments in certain industries, such as broadcasting, are restricted as to percentage. No approval is necessary to purchase the Class B Shares. The FIL does not limit the right of nonresident or foreign owners to hold or vote the Class B Shares, and there are no restrictions in Telecom Argentina s bylaws limiting the rights of nonresidents or non-Argentines to hold or to vote Telecom Argentina s Class B Shares. Notwithstanding the foregoing, regulations implemented by the CNV require that all shareholders that are companies who register to participate at a Shareholders Meeting should provide details of their registration in the Republic of Argentina. To acquire participation in a company in Argentina, non-Argentine companies are required to comply with the share ownership registration requirements as provided for under Section 123 of the Argentine Corporations Law.

Change of Control

There are no provisions in the bylaws of Telecom Argentina which may have the effect of delaying, deferring or preventing a change in control of Telecom Argentina and that would only operate with respect to a merger, acquisition or corporate restructuring involving Telecom Argentina or any of its subsidiaries, except for the regulatory authorization required for the transfer of Nortel s Class A Shares discussed below. Moreover, the Privatization Regulations and the List of Conditions as modified by Resolutions SC No. 111/03 and No. 29/04 prohibit, without prior SC approval, (i) any transfer of our capital stock that reduces Nortel s ownership of Telecom Argentina to less than 51%, or (ii) any transfer of shares of Nortel that reduces the shareholding of the actual ordinary shareholders to less than 51% of the voting stock of Nortel, except with prior authorization of the SC.

Under the Transparency Decree and General Resolution No. 401/02 of the CNV, a party that wished to obtain either a majority or a significant equity ownership interest in a corporation must offer the same price offered to the majority shareholder to all of the corporation s shareholders. This regulation applied to all Argentine corporations with listed securities unless the corporation s shareholders specifically vote not to adopt the regime, in which case the corporation is required to publicly disclose that its shareholders have voted not to be subject to the regime. On April 30, 2003, Telecom Argentina s shareholders voted not to adopt the regime established by the Transparency Decree and General Resolution No. 401/02, under which Telecom Argentina is currently classified as a *Sociedad No Adherida al Régimen Estatutario Optativo de Oferta Pública de Adquisición Obligatoria* or a Corporation Not Adhering to the Optional Statutory Regime of Public Offer of Mandatory Acquisition . However, since January 28, 2013, when Law No. 26, 831 became effective, the universal scope of the Statutory Regime of Public Offer of Mandatory Acquisition governs, as provided by Law, which states: Article 90. Universal scope. The Statutory Regime of Public Offer of Mandatory Acquisition regulated in this chapter and the residual participation regime regulated in the following chapter includes all listed companies, even those that, under the previous regime, have opted to be excluded of its application.

MATERIAL CONTRACTS

For information regarding the shareholders agreement, see Item 7 Major Shareholders and Related Party Transactions Shareholders Agreement. We are not a party to the shareholders agreement.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN ARGENTINA

Due to the deterioration of the economic and financial situation in Argentina throughout 2001, the difficulties in dealing with the servicing of the public foreign debt and the decrease of the total level of deposits in the financial system, the Argentine government issued Decree No. 1,570/01, which, as of December 3, 2001, established a number of monetary and currency exchange control measures that included restrictions on the free disposition of funds with banks and restrictions on transferring funds abroad, with certain exceptions for transfers related to foreign trade and certain other transfers subject to the prior authorization of the BCRA.

On February 8, 2002, the BCRA issued tight restrictions on the transfer of funds abroad in order to make payments of principal and/or interest by requiring prior authorization from the BCRA. Since 2003, these

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restrictions have been progressively curbed. However, there can be no assurances that the BCRA or other governmental agencies will not increase restrictions for making transfers of funds abroad.

Having completed its debt restructuring as of August 2005, Telecom Argentina is no longer subject to certain significant BCRA restrictions. However, restrictions imposed by the BCRA or other government agencies will not increase restrictions for making transfers of funds abroad:

(i) the ability to acquire foreign currency as an investment or to apply it to foreign portfolio investments is subject to prior approval of the BCRA;

(ii) the acquisition of foreign currency to pay principal maturities on foreign debt obligations can be made on the day of such maturities or:

1. within the 10 business days preceding the maturity date, provided that the acquirer complies with the Minimum Holding Term (as defined below);

2. within a certain period of time before the maturity date, as a result of the occurrence of specific conditions established under foreign refinancing agreements executed after February 11, 2002; or

3. before the 10 business day period immediately preceding the maturity date *provided* that the acquirer complies with the Minimum Holding Term and the payment is entirely financed with (i) foreign funds destined to capital contributions; or (ii) new financings granted by international financial institutions and agencies, official foreign credit agencies, and foreign banks, and to the extent that: (a) such prepayment were expressly established as a condition to grant new credits, and (b) such prepayment does not imply an increase in the present value of the outstanding debt.

In June 2005, the Argentine government imposed certain restrictions on inflows and outflows of foreign currency to the local foreign exchange market that remain in effect. New indebtedness entered into the foreign exchange market and debt renewals with non-Argentine residents from the private sector entered in the local foreign exchange market shall be agreed upon and canceled in terms not shorter than 365 calendar days (the Minimum Holding Term), whatever the form of cancellation thereof (i.e. with or without access to the local foreign exchange market). The following transactions, among others, are exempted from this restriction: (i) foreign trade financings (i.e., exports advance payments, prefinancing of exports and imports financing); (ii) balances of foreign exchange transactions with correspondent exchange entities (which are not credit lines); and (iii) primary debt security issuances with a public offering and listing.

Any inflow of funds to the local foreign exchange market arising from, but not limited to, (i) foreign indebtedness, other than the cases described in the following paragraph; (ii) primary stock issuances of companies residing in Argentina not under a public offering and that are not listed in self-governed markets, to the extent they do not create direct investment funds; (iii) portfolio investments of nonresidents intended to hold local currency and assets and liabilities of the financial sector and nonfinancial private sector, to the extent they are not arising from the primary subscription of debt securities under a public offering and listed in self-governed markets and/or the primary subscription of stock of companies residing in Argentina under a public offering and listed in self-governed markets; and (iv) portfolio investments of nonresidents intended for the purchase of any right in secondary markets regarding securities issued by the public sector; shall be subject to the creation of a nominative, nontransferable and noncompensated deposit, for 30% of the amount involved in the relevant transaction (the Mandatory Deposit), for a term of 365 calendar days, pursuant to the terms and conditions established in the regulations.

Any inflow of funds to the local foreign exchange market arising from, but not limited to, the following transactions are not subject to the 30% mandatory deposit: (a) foreign indebtedness of Argentine residents under foreign trade financings; (b) primary debt security issuances with a public offering and listed; (c) foreign indebtedness with Multilateral and Bilateral Credit Institutions and Official Credit Agencies, directly or through their related agencies; (d) investments of non-Argentine residents in Argentina under (i) primary subscription of securities issued by the public sector (except for securities issued by the BCRA); and (ii) direct investments, including capital contributions to local companies of direct investment (namely, a company set up or not as legal entity in which the foreign direct investor holds at least 10% of common shares or voting rights or its equivalent), and foreign funds transferred into Argentina by non-Argentine residents for the purpose of purchasing local assets that qualify as direct investment (such as real estate located in Argentina); and (e) foreign financial indebtedness provided: (i) the proceeds from the exchange settlement, net of taxes and expenses, are

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applied to the purchase of foreign currencies to cancel foreign debt principal and/or to the creation of long-term foreign assets; or (ii) they are incurred and canceled in an average life of not less than two years, including payments of principal and interest in the calculation, and to the extent they are applied to investments in nonfinancial assets. In this context, nonfinancial assets investments mean, among others, investments of assets capable of being registered in the financial statements of the borrower either as fixed assets or as inventory.

There can be no assurance that the BCRA will not once again require its prior authorization for, or restrict in some other way, the transfer of funds abroad for principal and/or interest payments by Telecom to its foreign creditors or for dividend payments by Telecom to its foreign shareholders.

Argentine companies may keep and spend outside Argentina any capital contributions that they have received abroad. Conversely, if a non-Argentine resident sends its capital contribution to the Argentine company in Argentina or the Argentine company repatriates a contribution received abroad, that transfer will be subject to certain requirements under foreign exchange regulations. Those requirements will vary depending on whether the capital contribution is classified as a portfolio or a direct investment. Direct investments are participations in Argentine companies reaching at least a holding of 10% of their common stock or voting rights (and subsequent contributions of a foreign investor who has already reached that level), and portfolio investments are participations that fall below that minimum. Portfolio investments also include holdings of cash and bank deposits on local currency, as well as debt securities, among others.

Funds of direct investments transferred to Argentina as capital contributions are not subject to the Mandatory Deposit, provided that certain requirements are met and the Argentine company receiving such funds completes and registers with the Public Registry of Commerce the related capital increase by the applicable deadline. Portfolio investments are subject to the Mandatory Deposit.

The impact of foreign exchange regulations on the repatriation rights of non-Argentine resident investors (i.e., the right to use Argentine Pesos received in Argentina by a nonresident due to a sale, liquidation or capital reduction to buy foreign currency and transfer it abroad) also varies depending on whether the investment is a direct or a portfolio investment.

In any case, both types of investment must be maintained in Argentina for at least 365 days before repatriation.

Communication A 5,237 of the BCRA, effective from October 28, 2011, added a new requirement for non-Argentine direct investors to repatriate Argentine Pesos collected in Argentina as a consequence of a sale or liquidation of the direct investment, capital reduction and reimbursement of capital contributions in Argentina (the Communication). As from the effective date of Communication A 5,237, for such purpose, the funds originally paid for such investment or disbursement for the capital contribution, as applicable, must be transferred to Argentina and sold for pesos in the local foreign exchange market (the Transfer Requirement). Prior to the Communication, non-Argentine investors were not obliged to demonstrate that the funds paid for its investments or disbursements for its capital contributions had been transferred and sold in the exchange market in order to be allowed to repatriate its investment.

The Communication applies to all the direct investments made on and since October 28, 2011. Therefore, all direct investments made before that date are exempt from the Transfer Requirement.

In addition, repatriation of a portfolio investment requires evidence that the original investment involved the transfer of funds to Argentina and is subject to an aggregate maximum limit of US$500,000 per calendar month.

TAXATION

Argentine Taxes

The following summary of certain Argentine tax matters is based upon the tax laws of Argentina, and regulations thereunder, in effect as of the date of this Annual Report on Form 20-F and is subject to any subsequent change in Argentine laws and regulations which may come into effect after such date. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of such securities.

Taxation of Dividends

Pursuant to Argentine Law No. 25,063 passed by the Argentine Congress on December 7, 1998, dividends of cash, property or capital stock of Telecom Argentina on the Class A, B and C Shares or ADSs are, in general, exempt from Argentine withholding tax and other taxes. Nevertheless, under such law, a corporation that makes a distribution of dividends to its shareholders in excess of the amount of its accumulated taxable net income at the close of the previous taxable year, as determined by application of the Argentine Income Tax Law (the Income Tax Law), must withhold a 35% tax from such excess. For purposes of this rule, the amount of income to be considered shall be determined by (1) deducting from taxable income (calculated under the general rules of the Income Tax Law) the income tax paid by the company and (2) adding the dividends and profits not subject to tax received as distributions from other corporations. If the distribution is in kind, then the corporation must pay the tax to the tax authorities and will be entitled to seek reimbursement from the shareholders.

Taxation of Capital Gains

Capital gains earned by non-resident individuals or foreign companies from the sale, exchange or other disposition of ADSs or Class A, B and C Shares are not subject to tax.

Tax on Personal Property

Argentine Law No. 25,585, as amended by Law No. 26,317, imposes a Tax on Personal Property. According to this tax, the following persons are subject to an annual tax on certain assets, which is levied at rates ranging from 0.50% to 1.25% depending on the value of such assets as of December 31 of each year: (i) individuals domiciled in Argentina for assets located in Argentina and abroad and (ii) individuals domiciled outside of Argentina for assets located in Argentina. For purposes of this tax, shares of stock of Argentine corporations, such as Telecom Argentina s ADSs and Class A, B and C Shares are considered assets located in Argentina.

Although the Tax on Personal Property does not explicitly apply to individuals or entities domiciled outside Argentina, pursuant to Argentine Law No. 25,585, shares of stock corporations or other equity interests in companies regulated by Argentine Corporations Law 19,550, as amended, such as the ADSs (held in book entry form or evidenced by ADRs) and Class A, B and C Shares, and whose holders are individuals and/or undivided estates domiciled in Argentina or in a foreign country, shall be subject to the Tax on Personal Property.

The tax rate to be applied is 0.50% and the taxable base is the value of the shareholders equity as stated in the most recent balance sheet of the company as of December 31 of each year. Such tax shall be assessed on and paid by the corresponding Argentine company issuer of the shares, such as Telecom Argentina. The tax so paid shall be considered as a definite payment.

The abovementioned rules include an irrebuttable presumption that shares of stock corporations and other equity interests of companies regulated by Argentine Corporations Law 19,550, as amended, such as the ADSs (held in book entry form or evidenced by ADRs) and the Class A, B and C Shares, whose holders are companies, any other legal entities, enterprises, permanent establishments and trusts, domiciled, settled or located in a foreign country, belong indirectly to individuals or individual estates domiciled in a foreign country.

Although Telecom Argentina is required to pay this tax on behalf of the holders of the ADSs and Class A, B and C Shares, it has the right to obtain reimbursement of the amounts paid from its shareholders even if this requires holding and/or foreclosing the property on which the tax is due.

Therefore, Telecom Argentina s ADSs (held in book entry form or evidenced by ADRs) and Class A, B and C Shares held by individuals, irrespective of their place of residence, and legal entities domiciled outside of Argentina are subject to the Tax on Personal Property, which, as mentioned above, shall be paid by Telecom Argentina on behalf of such holders of ADSs (held in book entry form or evidenced by ADRs) and Class A, B and C Shares.

Telecom Argentina has, from time to time, requested that its shareholders reimburse the amounts of tax on personal property paid on their behalf and has received partial reimbursement of such taxes, however no assurances can be made that Telecom Argentina will be successful in seeking reimbursement of all such taxes paid from holders of ADSs and Class A, B, and C shares. Therefore, as of December 31, 2012, Telecom Argentina has recorded an allowance of P$18 million for the amounts pending collection. Whenever applicable, tax on personal property paid on behalf of Telecom Argentina s shareholders is deducted from the cash dividend payment.

Value Added Tax

The sale or disposition of ADSs or Class A, B and C Shares is not subject to value added tax.

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Other Taxes

There are no national Argentine inheritance or succession taxes applicable to the ownership, transfer or disposition of ADSs or Class A, B and C Shares. There are no Argentine stamp, issue, registration or similar taxes or duties payable by holders of ADSs or Class A, B and C Shares.

Deposit and Withdrawal of Class B Shares in Exchange for ADSs

No Argentine tax is imposed on the deposit or withdrawal of Class A, B and C Shares in exchange for ADSs.

Tax Treaties

Argentina has entered into tax treaties with several countries. There is currently no income tax treaty or convention in effect between Argentina and the United States.

United States Federal Income Taxes

The following discussion is a summary of the material U.S. federal income tax consequences to the U.S. Holders described below of the ownership and disposition of ADSs or Class B Shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of such securities. This summary applies only to U.S. Holders (as defined below) that hold ADSs or Class B Shares as capital assets for U.S. federal income tax purposes and does not address all of the tax consequences applicable to all categories of investors, some of which may be subject to special rules, such as:

- certain financial institutions;

- dealers and traders in securities who use a mark-to-market method of tax accounting;

- persons holding ADSs or Class B Shares as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ADSs or Class B Shares;

- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- persons liable for the alternative minimum tax;
- persons liable for tax under the provisions of the Internal Revenue Code of 1986, as amended (the Code) known as the Medicare contribution tax;
- tax-exempt entities, including an individual retirement account or Roth IRA ;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons that own or are deemed to own 10% or more of any class of Telecom Argentina stock;
- persons who acquired Telecom Argentina s ADSs or Class B Shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding ADSs or Class B shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds ADSs or Class B Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding ADSs or Class B Shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or Class B Shares.

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, changes to any of which may affect the tax consequences described herein, possibly with retroactive effect. As mentioned above, there is currently no income tax treaty or convention in effect between Argentina and the United States. U.S. Holders should consult their tax advisers regarding the U.S., Argentine or other tax consequences of the acquisition, ownership and

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disposition of ADSs or Class B Shares in their particular circumstances, including the effect of any state or local tax laws.

In addition, this summary is based in part on representations of the Depositary and assumes that each obligation provided for in, or otherwise contemplated by, the Deposit Agreement or any other related document will be performed in accordance with its terms.

As used herein, the term U.S. Holder means a holder that, for U.S. federal income tax purposes, is a beneficial owner of ADSs or Class B Shares and is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as the owners of the underlying Class B Shares represented by those ADSs. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying Class B Shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before delivery of shares to the depositary (pre-release), or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. Such actions would also be inconsistent with claiming the preferential rates of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Argentine taxes, and the availability of the preferential rates of tax for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by such parties or intermediaries.

This discussion assumes that Telecom Argentina is not, and will not become, a passive foreign investment company, as described below.

Taxation of Distributions

To the extent paid out of current or accumulated earnings and profits of Telecom Argentina (as determined in accordance with U.S. federal income tax principles), distributions made with respect to ADSs or Class B Shares will generally be included in the income of a U.S. Holder as ordinary dividend income. Because Telecom Argentina does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be reported to U.S. Holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to certain non-corporate U.S. Holders will be taxable at the preferential rates applicable to long-term capital gain if the dividends represent qualified dividend income. Qualified dividend income means dividends received from qualified foreign corporations, and a foreign corporation is generally treated as a qualified foreign corporation with respect to dividends paid on stock which is readily tradable on a securities market in the United States (such as the New York Stock Exchange, where our ADSs are traded). U.S. Holders should consult their tax advisers regarding the availability of the preferential dividend tax rates in light of their particular circumstances. The amount of a dividend will include any amounts withheld by Telecom Argentina or its paying agent in respect of Argentine income taxes. Dividends will generally be treated as foreign source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code. Dividends will be included in a U.S. Holder s income on the date of the U.S. Holder s (or in the case of ADSs, the Depositary s) receipt of the dividend. See Taxation Argentine Taxes. The amount of the distribution will equal the U.S. dollar value of the pesos received, calculated by reference to the exchange rate in effect on the date such distribution is received (which, for holders of ADSs, will be the date such distribution is received by the Depositary), whether or not the Depositary or U.S. Holder in fact converts any pesos received into U.S. dollars. If the distribution is converted into U.S. dollars on the date of receipt, U.S. Holders should not be required to recognize foreign currency gain or loss in respect of the dividend income. Any gains or losses resulting from the conversion of pesos into U.S. dollars after the date on which the distribution is received will be treated as ordinary income or loss, as the case may be, of the U.S. Holder and will be U.S.-source income or loss.

Subject to applicable limitations and conditions that may vary depending upon the circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Argentine income taxes withheld from dividends on ADSs or Class B Shares will be creditable against a U.S. Holder s U.S. federal income tax liability. However, amounts paid on account of the Tax on Personal Property will not be eligible for credit against a U.S. Holder s federal income tax liability. See Taxation Argentine Taxes. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the

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creditability of foreign taxes in their particular circumstances and to determine the tax consequences applicable to them as a result of amounts paid on account of the Argentine Tax on Personal Property, including whether such amounts are includible in income or deductible for U.S. federal income tax purposes. Instead of claiming a credit, U.S. Holders may elect to deduct otherwise creditable Argentine taxes in computing taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

Sale, Exchange or Other Disposition of ADSs or Class B Shares

Gain or loss realized by a U.S. Holder on the sale, exchange or other disposition of ADSs or Class B Shares will be subject to U.S. federal income tax as capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder has held the ADSs or Class B Shares for more than one year. The amount of the gain or loss will be equal to the difference between the U.S. Holder s tax basis in the ADSs or Class B Shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Gain or loss, if any, will generally be U.S.-source gain or loss for foreign tax credit purposes. U.S. Holders should consult their tax advisors regarding the U.S. federal income tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals, and capital losses, the deductibility of which is subject to limitations.

Deposits and withdrawals of Class B Shares in exchange for ADSs will not result in taxable gain or loss for U.S. federal income tax purposes.

Passive Foreign Investment Company Rules

Telecom Argentina believes that it was not a passive foreign investment company (PFIC) for U.S. federal income tax purposes for the taxable year 2012. However, because PFIC status depends upon the composition of a company s income and assets and the market value of its assets from time to time, there can be no assurance that Telecom Argentina will not be a PFIC for any taxable year.

If Telecom Argentina were a PFIC for any taxable year during which a U.S. Holder held an ADS or a Class B Share, gain recognized by a U.S. Holder on a sale, exchange or other disposition (including certain pledges) of the ADS or Class B Share would be allocated ratably over the U.S. Holder s holding period for the ADS or Class B Share sold, exchanged or disposed of. The amounts allocated to the taxable year of the sale, exchange or other disposition and to any year before Telecom Argentina became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the amount allocated to such taxable year. Further, any distribution in respect of the ADS or Class B Share, to the extent it exceeds 125 percent of the average of the annual distributions on the ADS or Class B Share received by the U.S. Holder during the preceding three years or the U.S. Holder s holding period, whichever is shorter, would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the ADS or Class B Share. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

If Telecom Argentina were a PFIC for any year during which a U.S. Holder held ADSs or Class B Shares, it generally would continue to be treated as a PFIC with respect to that holder for all succeeding years during which the U.S. Holder held ADSs or Class B Shares, even if Telecom Argentina ceased to meet the threshold requirements for PFIC status.

In addition, if Telecom Argentina were a PFIC or, with respect to a particular U.S. Holder, were treated as a PFIC in a taxable year in which Telecom Argentina pays a dividend or for the prior taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate holders would not apply.

If a U.S. Holder owns ADSs or Class B Shares during any year in which Telecom Argentina is a PFIC, the U.S. Holder may be required to file an annual report with the Internal Revenue Service containing such information as the U.S. Treasury may require.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

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Certain U.S. Holders who are individuals (and under proposed Treasury regulations, certain entities controlled by individuals) may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in custodial accounts maintained by a U.S. financial institution). U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of this requirement on their ownership and disposition of ADSs or Class B Shares.

DOCUMENTS ON DISPLAY

Telecom Argentina files annual and special reports and other information with the SEC. You may read and copy any document that Telecom Argentina files at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov that contains reports and other information regarding issuers that file electronically with the SEC.

You may request a copy of these filings by writing or telephoning the offices of Telecom Argentina, Alicia Moreau de Justo 50, (C1107AAB) Buenos Aires, Argentina. Telecom Argentina s telephone number is 011-54-11-4968-4000.

Telecom Argentina maintains a website at www.telecom.com.ar. The contents of the website are not part of this Annual Report.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Summarized below are the financial instruments we held as of December 31, 2012 that are sensitive to changes in foreign exchange rates and interest rate, if any. As a matter of policy, we may enter into forward exchange contracts, foreign currency swaps or other derivatives to manage the exposure attributed to foreign exchange rate and interest rate fluctuations associated with the principal amount of our liabilities in foreign currencies. We use these instruments to reduce risk by creating offsetting market exposures. The instruments we hold are not held for financial trading purposes. No foreign exchange forward or other derivatives for speculative purposes were outstanding during the reporting periods covered by this Annual Report.

We do not have any other material market risk exposure.

(a) Foreign Exchange Rate Risk

Foreign exchange exposure arises from our funding operations and, to a lesser extent, our capital expenditures and expenses denominated in foreign currencies. Since the Convertibility Law pegged the peso at a value of P$1.00 per US$1.00, exchange rate risks before 2002 were mainly related to changes in the value of the U.S. dollar in comparison with currencies other than the Argentine peso. In January 2002, the Argentine government devalued the Argentine peso and currently the peso/U.S. dollar exchange rate is determined by a free market with certain controls.

See Item 10 Additional information Foreign Investment and Exchange Controls in Argentina.

Our results of operations are sensitive to changes in the peso/dollar exchange rates because our primary assets are in Argentina and most of our revenues are denominated in pesos (our functional currency) while some part of our liabilities are denominated in foreign currencies. As of December 31, 2012, Telecom Argentina and Personal have no financial debt outstanding. However, Núcleo s debt obligations are denominated in guaraníes, Paraguay s local currency and Telecom Argentina, Personal and Núcleo have commercial debt nominated in U.S. dollars.

Additionally the Company has cash and cash equivalents denominated in U.S. dollars (approximately 24% of total investments) that are also sensitive to changes in peso/dollar exchange rates and contribute to reduce the exposure to trade payables in foreign currency.

Actions taken by the Argentine government could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Argentine peso against the U.S. dollar and other foreign currencies will not adversely affect our results of operations, financial condition and cash flows. However, we believe that a significant depreciation in the Argentine peso against major foreign currencies may have a material adverse impact on our capital expenditure program and in our operating expenses denominated in foreign currencies.

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(b) Interest Rate Risk

As of December 31, 2012 the Company had no outstanding floating rate borrowings. Therefore, the Company is not currently exposed to significant cash flow fluctuations in this connection.

(c) Sensitivity to Exchange Rates

We estimate, based on the composition of the statement of financial position as of December 31, 2012, that every variation in the exchange rate of P$0.10 against the U.S. dollar and proportional variations in other foreign currencies against the Argentine peso, plus or minus, would result in a variation of approximately P$18 million of the consolidated amounts of foreign currency position. This analysis is based on the assumption that this variation of the Argentine peso occurred at the same time against all other currencies.

This sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of certain of our financial instruments. The actual impact of market foreign exchange rate changes on our financial instruments may differ significantly from the impact shown in the sensitivity analysis.

See Note 26 to our Consolidated Financial Statements for a description of financial risk management.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

D.3 Depositary Fees and Charges

JPMorgan Chase Bank, N.A. (formerly Morgan Guaranty Trust Company of New York), as depositary for the ADSs (the depositary) collects its fees for delivery directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. The depositary also collects taxes and governmental charges from the holders of ADSs. The depositary collects these fees and charges by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees (after attempting by reasonable means to notify the holder prior to such sale).

Persons depositing or withdrawing shares must pay US$5.00 for each 100 ADSs or portion thereof for issuances of ADSs, including issuances resulting from a distribution, sale or exercise of shares or rights or other property. Investors depositing shares or holders withdrawing deposited securities are charged fees and expenses in connection with stock transfers, taxes and other governmental charges, cable, telex and facsimile transmission and delivery charges imposed at such person s request, transfer or registration fees for the registration of transfer of ADSs on any applicable register in connection with the deposit or withdrawal of ADSs and the depositary s expenses in connection with the conversion of foreign currency.

The depositary reimburses Telecom Argentina for certain expenses we incur in connection with the ADR program, subject to the agreement between us and the depositary from time to time. These reimbursable expenses currently include listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADR holders. For the year ended December 31, 2012, the depositary reimbursed Telecom Argentina approximately US$243.0 thousand (gross amount of withholding tax) in connection with the ADR program.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None of Telecom Argentina, Personal, Núcleo or Telecom Argentina USA are currently in default on any outstanding indebtedness.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Telecom s Management, with the participation of our chief executive and financial officers, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2012 (the Evaluation Date). Based upon that evaluation, our chief executive and financial officers have concluded that as of the Evaluation Date, the Company s disclosure controls and procedures were effective.

Management s Report on Internal Control Over Financial Reporting

Telecom s Management is responsible for establishing and maintaining adequate internal control over financial reporting for Telecom as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management conducted an evaluation of the effectiveness of Telecom s internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation and as set forth in its report dated February 27, 2013, and included in Item 18, Management concluded that Telecom s internal control over financial reporting was effective as of December 31, 2012. The effectiveness of Telecom s internal control over financial reporting as of December 31, 2012 has been audited by PriceWaterhouse & Co. S.R.L., an independent registered public accounting firm, as stated in their report which is included herein. See the complete Management s Report on Internal Control Over Financial Reporting in Item 18.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting that occurred during the period covered by this Annual Report on Form 20-F that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

On May 3, 2012, the Board of Directors of Telecom Argentina appointed the members of the Audit Committee for fiscal year 2012 and determined that Esteban Gabriel Macek qualifies as an Audit Committee financial expert. In conducting this evaluation, the Board took into account that Mr. Macek is an accountant from the Universidad de Buenos Aires (1982). He was a partner at Coopers & Lybrand/PriceWaterhouseCoopers until 2002, where he was an auditor and tax consultant. He assisted companies in the private (domestic and international) and public sector in tax matters related to company restructuring and business development. He participated in many professional training activities and attended graduate courses at the Universidad Austral and the West Ontario University Business School (Canada), among others. He was an accounting and law professor at the Universidad de Buenos Aires and at the Universidad Católica Argentina. He is Chairman of Fiduciaria Internacional Argentina S.A. He was a member of the Board of Directors and of the Supervisory Committee of several domestic corporations. He served as an alternate director of Telecom Argentina during 2007 and since 2008 he has been serving as a director of Telecom Argentina.

Based on Mr. Macek s professional background and training, the Board of Directors of Telecom Argentina has determined for the year 2012 that he meets the criteria for an Audit Committee financial expert. Mr. Macek is an independent director under CNV and SEC rules and under the New York Stock Exchange listing standards.

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The Board of Directors meeting appointing the Audit Committee members for year 2013 has not yet been held. As a result, the members of the Audit Committee appointed at the Board of Directors meeting of May 3, 2012 continue to hold their positions, except for Norberto C. Berner who resigned as member of the Board of Directors of Telecom Argentina on March 27, 2013, which resignation was accepted on April 8, 2013 by the Board of Directors. Therefore, he is no longer member of the Audit Committee. He was replaced as member of the Audit Committee by his alternate director Esteban Santa Cruz.

ITEM 16B. CODE OF ETHICS

The Board of Directors of Telecom Argentina has approved a Code of Business Conduct and Ethics which applies to directors, members of the Supervisory Committee, officers and employees of the Telecom Group. No waivers, express or implicit, have been granted to any senior officer or member of the Board of Directors of Telecom Argentina with respect to any provision of the Code.

It is also encouraged that suppliers, contractors, advisers and consultants of the Telecom Group, accept the ethical principles of the Code.

The Boards of Directors of Telecom Argentina and Personal, at the meetings held by each on October 26, 2010, decided to include an additional chapter to the Code of Business Conduct and Ethics, which includes the general duties and responsibilities of directors, members of the Supervisory Committee and all personnel of either company, which arise from the Telco Commitment and the TI-W Commitment, pursuant to Resolutions No. 148/10 and No. 149/10 issued by the Secretary of Economic Policy of the Economy Ministry, with certain clarifications and details made by CNDC. The Code of Business Conduct and Ethics is available on our website at www.telecom.com.ar.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table provides information on the aggregate fees for services rendered by our principal accountants (in millions of pesos) for the years ended December 31, 2012 and 2011.

Services Rendered	**2012**	**2011**
Audit Fees (1)	8.7	7.0
Audit-Related Fees (2)	0.1	0.4
Tax Fees (3)	0.7	0.6
All Other Fees (4)	0.5	0.1
Total	**10.0**	**8.1**

(1) Includes fees related to the integrated audit of the Consolidated Financial Statements as of December 31, 2012 and 2011, limited reviews of interim financial statements presented during 2012 and 2011, SEC filing reviews and other attestation services.

(2) Includes fees for permitted internal control advice.

(3) Includes fees for permitted tax compliance and tax advisory services.

(4) Includes fees for subscription to business publications and other permitted internal control advice.

Audit Committee Pre-Approval Policies and Procedures

On March 22, 2004, Telecom Argentina s Board of Directors approved policies and procedures relating to the pre-approval of auditors services and other permitted services (collectively, Pre-Approval Procedures) for the engagement of any service provided by external auditors to Telecom Argentina and its subsidiaries. Telecom Argentina s Board of Directors performed Pre-Approval Procedures until April 2004 (the date on which the Audit Committee came into effect), after which Pre-Approval Procedures were performed by the Audit Committee. Consequently, since that date, all auditors services were pre-approved by the Audit Committee.

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The Pre-Approval Procedures provide for services that require:

- specific pre-approval to be approved on a case-by-case basis; and

- general pre-approval any category or general kind of service that come within the guidelines established to safeguard auditor independence and come within the maximum amounts set by the Audit Committee.

The Pre-Approval Procedures also provide for the following categorization of services:

Prohibited services are those services that external auditors are not allowed to provide based on prohibitions contained in the statutory rules of Argentina and the United States (i.e., bookkeeping; financial information system design and implementation; appraisal or valuation services, fairness opinions or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions; broker/dealer, investment adviser, or investment banking services; expert services unrelated to the audit).

Permitted Services include (a) audit services; (b) audit-related services; (c) tax services, and (d) other services. Moreover, the services included in each category were also detailed, and, were appropriate, any limits imposed on the provision thereof to ensure external auditors independence.

The Pre-Approval Procedures also require pre-approval for the following services:

- Annual audit and quarterly reviews of Telecom Argentina s financial statements: the Audit Committee is required to approve the terms for the engagement and remuneration of such services.

- Other Audit Services : the Audit Committee is required to define the services that will be subject to general pre-approval on an annual basis, setting the annual service fee amount, or the annual amount allocated to each individual service category, or to each service, within which fee caps the provision shall receive general pre-approval.

- Audit-related Services and Tax Services : the Audit Committee is required to define the categories or types of services that will receive general pre-approval, provided that they fall within the annual fee cap set for that service, and establish the guidelines for prior engagement of these services.

- Other Permitted Services: are not subject to general pre-approval, and any other services require specific pre-approval by the Audit Committee for each service.

- Delegation: the Audit Committee may solely delegate the specific pre-approval of services with any of its members that qualify as an Independent Director. An Independent Director must immediately report to the Audit Committee after engaging any service by delegation. Under no circumstances may the authority to either approve or pre-approve services be delegated to Telecom Argentina s Management.

- Disclosure of overall billed fees: external auditors shall include in their audit reports the information about the relationship between the overall fees paid in respect of Audit Services and of services other than audit services. In addition, the Audit Committee shall, on a yearly basis, prepare a report to the Board of Directors, which will be included in Form 20-F, providing a detailed account of all fees invoiced by external auditors to Telecom Argentina and to its subsidiaries, grouped into four categories, namely, audit fees, audit related fees, tax consultation fees and all other fees described in the first three bullet points above.

- Additional Requirements: the Audit Committee is required to adopt additional measures to fulfill its supervisory obligations related to external auditors duties, in order to ensure the independence from Telecom Argentina, such as the review of a formal written statement by the external auditors outlining all relations existing between them and Telecom Argentina, in accordance with Rule No. 1 of the Independence Standards Board, and discussions with the external auditors and the methods and procedures that have been designed to ensure their independence.

- Amendments: the Audit Committee has authority to amend the Pre-Approval Procedures, rendering an account of any such amendment to the Board of Directors during the first meeting of the Board of Directors held after making the amendments.

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If Telecom s external auditors are to provide any service, the service must either be granted general pre-approval or specific pre-approval under the Pre-Approval Procedures. The Pre-Approval Procedures require the Audit Committee to consider whether the services to be provided are consistent with the legal and professional rules in effect in Argentina and the United States relating to external auditors independence.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Telecom Argentina s corporate governance practices differ from corporate governance practices of U.S. companies. Telecom Argentina maintains a detailed description of the significant differences in corporate governance practices on its website at www.telecom.com.ar, last updated in February 2011.

The following is a summary of the material aspects in which Telecom Argentina s corporate governance policies differ from those followed by U.S. companies under New York Stock Exchange listing standards.

- Composition of the Board of Directors: The NYSE requires each Board of Directors to be composed of a majority of independent directors. Although this is not required under Argentine law, as of the date of this summary, the seven-member Board of Directors of Telecom Argentina has three directors who qualify as independent according to SEC Rules.

- Board of Directors Annual Self-Evaluation: The NYSE requires Boards of Directors of listed companies to conduct a self-evaluation at least annually, and report thereon, determining whether it and its committees are functioning effectively. Under Argentine law, the Board of Directors performance is evaluated at the Annual Ordinary Shareholders Meeting.

- Nominating/Corporate Governance Committee: NYSE listed companies are required to have a nominating/corporate governance committee. Neither Argentine law nor Telecom Argentina s Bylaws require the creation of a nominating/corporate governance committee. In Argentina, it is unusual (though possible) for the Board of Directors to nominate new directors and the Board of Directors of Telecom Argentina refrains from making such proposals. The right to nominate and appoint directors is vested in the shareholders who nominate and appoint regular and alternate directors at the Shareholders Meetings. On certain occasions, the Argentine Corporations Law delegates the right to designate directors to the Supervisory Committee.

- Compensation Committee: NYSE listed companies are required to have a compensation committee composed entirely of independent directors. Neither Argentine law nor Telecom Argentina s Bylaws require the creation of a compensation committee. Telecom Argentina s executive compensation matters are undertaken by the Board of Directors and the Steering Committee. The compensation of the members of Telecom Argentina s Board of Directors is determined by the shareholders at the Annual Shareholders Meeting.

- Audit Committee Hiring Policies: The NYSE requires listed companies to have an Audit Committee which sets clear hiring policies for employees or former employees of the independent auditors. There is no such provision regarding the hiring of external auditors employees contained in Argentine law or Telecom Argentina s bylaws.

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According to the provisions of General Resolution No. 606/12 of the CNV, which replaced General Resolution No. 516/07 and is effective for fiscal years beginning on or after January 1, 2012, Telecom Argentina prepares and submits to the CNV, on an annual basis, a report which indicates and details the CNV s recommended corporate governance practices as set forth in the CNV Public Offer Regime, explains the practices followed by Telecom Argentina, and the reasons for any variation from practices recommended by the CNV. Telecom Argentina s 2012 Corporate Governance Report was submitted to the CNV as part of the Statutory Annual Report dated February 27, 2013. Telecom Argentina s Corporate Governance Reports submitted to the CNV according to General Resolution No. 516/07 and General Resolution No. 606/12 up to date can be accessed through the CNV s website, www.cnv.gob.ar and Telecom Argentina s website, www.telecom.com.ar.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Registrant has responded to Item 18 in lieu of responding to this Item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F-1 through F-66.

The following financial statements are filed as part of this Form 20-F:

ITEM 19. EXHIBITS

Exhibits:

1.1 *Estatutos* (bylaws) of Telecom Argentina, as amended (English translation) (incorporated by reference to Telecom s annual report on Form 20-F for 2010 dated June 29, 2011).

4.1 Deposit Agreement, dated November 8, 1994, as amended (incorporated by reference to Telecom s registration statement on Form F-6 (No. 333-86048)).

8.1 List of Subsidiaries.

12.1	Certification of Stefano De Angelis of Telecom Argentina S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Adrián Calaza of Telecom Argentina S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of Stefano De Angelis and Adrián Calaza pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Amended and Restated Shareholders Agreement between Telecom Italia S.p.A., Telecom Italia International N.V. and W de Argentina Inversiones S.L. dated August 5, 2010 (Shareholders Agreement) (incorporated by reference to Exhibit 3 to Telecom Italia S.p.A. s Schedule 13D filed on October 22, 2010).
15.2	First Amendment to the Shareholders Agreement dated October 13, 2010 (incorporated by reference to Exhibit 4 to Telecom Italia s S.p.A. s Schedule 13D filed on October 22, 2010).
15.3	Second Amendment to the Shareholders Agreement dated March 9, 2011 (incorporated by reference to Exhibit 3 to Telecom Italia s S.p.A. s Schedule 13D/A filed on March 10, 2011).

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Telecom Argentina S.A.

By: /s/ Adrián Calaza
Name: Adrián Calaza
Title: Chief Financial Officer

Date: April 15, 2013

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TELECOM ARGENTINA S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010

Alicia Moreau de Justo 50

(1107) Ciudad Autónoma de Buenos Aires

Argentina

$: Argentine peso

US$: US dollar

$4.918 = US$1 as of December 31, 2012

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Telecom Argentina S.A.

In our opinion, the accompanying consolidated statements of financial position, the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Telecom Argentina S.A. and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting appearing on page F2. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Buenos Aires, Argentina

February 27, 2013

PRICE WATERHOUSE & CO. S.R.L.

By /s/Alejandro P. Frechou (Partner)
Alejandro P. Frechou

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Management s Report on Internal Control Over Financial Reporting

Telecom Group s Management is responsible for establishing and maintaining adequate internal control over financial reporting for Telecom Group as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRS). Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Telecom Group;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that receipts and expenditures of Telecom Group are being made only in accordance with authorizations of Management and directors of Telecom Group; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Telecom Group s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of Telecom Group s internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, Management concluded that the Telecom Group s internal control over financial reporting was effective as of December 31, 2012. The effectiveness of Telecom Group s internal control over financial reporting as of December 31, 2012 has been audited by Price Waterhouse & Co S.R.L., an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Franco Bertone Chief Executive Officer	/s/ Adrián Calaza Chief Financial Officer

Buenos Aires, Argentina

February 27, 2013

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Argentine pesos)

		As of December 31,	
	Note	**2012**	**2011**
ASSETS			
Current Assets			
Cash and cash equivalents	**4**	3,160	2,818
Investments	**4**	563	
Trade receivables, net	**5**	2,181	1,790
Other receivables, net	**6**	449	306
Inventories, net	**7**	633	536
Total current assets		**6,986**	**5,450**
Non-Current Assets			
Trade receivables, net	**5**	23	30
Deferred income tax asset	**14**	62	
Other receivables, net	**6**	119	103
Investments	**4**	70	1
Property, plant and equipment, net	**8**	9,035	8,247
Intangible assets, net	**9**	1,514	1,488
Total non-current assets		**10,823**	**9,869**
TOTAL ASSETS		**17,809**	**15,319**
LIABILITIES			
Current Liabilities			
Trade payables	**10**	3.659	3,407
Deferred revenues	**11**	362	292
Financial debt	**12**	43	19
Salaries and social security payables	**13**	635	536
Income tax payables	**14**	458	605
Other taxes payables	**15**	552	457
Other liabilities	**16**	40	30
Provisions	**17**	134	173
Total current liabilities		**5,883**	**5,519**
Non-Current Liabilities			
Trade payables	**10**	20	
Deferred revenues	**11**	329	307
Financial debt	**12**	101	115
Salaries and social security payables	**13**	128	136
Deferred income tax liabilities	**14**	220	210
Income tax payables	**14**	12	13
Other liabilities	**16**	51	72
Provisions	**17**	907	782
Total non-current liabilities		**1,768**	**1,635**
TOTAL LIABILITIES		**7,651**	**7,154**
EQUITY			
Equity attributable to Telecom Argentina (Controlling Company)		**9,959**	**8,021**
Non-controlling interest		**199**	**144**
TOTAL EQUITY	**19**	**10,158**	**8,165**
TOTAL LIABILITIES AND EQUITY		**17,809**	**15,319**

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

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CONSOLIDATED INCOME STATEMENTS

(In millions of Argentine pesos)

	Note	For the years ended December 31, 2012	2011	2010
Revenues	21	22,117	18,498	14,627
Other income	21	79	30	25
Total revenues and other income		**22,196**	**18,528**	**14,652**
Employee benefit expenses and severance payments	22	(3,269)	(2,609)	(1,978)
Interconnection costs and other telecommunication charges	22	(1,707)	(1,497)	(1,377)
Fees for services, maintenance, materials and supplies	22	(2,109)	(1,719)	(1,333)
Taxes and fees with the Regulatory Authority	22	(2,018)	(1,595)	(1,254)
Commissions	22	(1,949)	(1,515)	(1,155)
Cost of equipments and handsets	22	(2,043)	(1,640)	(1,197)
Advertising	22	(660)	(599)	(441)
Provisions	17	(153)	(225)	(130)
Bad debt expenses	5	(275)	(169)	(119)
Restructuring costs	22	(90)		
Other operating expenses	22	(1,353)	(967)	(801)
Depreciation and amortization	22	(2,612)	(2,158)	(1,712)
Gain on disposal of property, plant and equipment	22	8	22	7
Operating income	23	**3,966**	**3,857**	**3,162**
Finance income	24	570	316	192
Finance expenses	24	(341)	(236)	(329)
Net income before income tax expense		**4,195**	**3,937**	**3,025**
Income tax expense	14	(1,463)	(1,395)	(1,076)
Net income for the year		**2,732**	**2,542**	**1,949**
Attributable to:				
Telecom Argentina (Controlling Company)		2,685	2,513	1,935
Non-controlling interest		47	29	14
		2,732	**2,542**	**1,949**
Earnings per share attributable to Telecom Argentina (Controlling Company)				
Basic and diluted	25	**2.73**	**2.55**	**1.97**

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of Argentine pesos)

	For the years ended December 31, 2012	2011	2010
Net income for the year	**2,732**	**2,542**	**1,949**
Other components of the Statements of Comprehensive Income			
Currency translation adjustments (non-taxable)	91	27	18
Other components of the comprehensive income, net of tax	**91**	**27**	**18**
Total comprehensive income for the year	**2,823**	**2,569**	**1,967**
Attributable to:			
Telecom Argentina (Controlling Company)	2,745	2,532	1,948
Non-controlling interest	78	37	19
	2,823	**2,569**	**1,967**

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

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Argentine pesos)

	Equity attributable to Telecom Argentina (Controlling Company)									
	Capital stock (1)	**Inflation adjustment of capital stock**	**Total capital stock**	**Legal reserve**	**Voluntary reserve for future capital expenditures**	**Currency translation adjustment**	**Retained earnings**	**Total**	**Equity attributable to non-controlling interest**	**Total Equity**
Balances as of January 1, 2010	**984**	**2,688**	**3,672**			**14**	**1,823**	**5,509**	**88**	**5,597**
Legal reserve (2)				360			(360)			
Dividends (2)							(1,053)	(1,053)		(1,053)
Comprehensive income:										
Net income for the year							1,935	1,935	14	1,949
Other comprehensive income						13		13	5	18
Total Comprehensive Income						**13**	**1,935**	**1,948**	**19**	**1,967**
Balances as of December 31, 2010	**984**	**2,688**	**3,672**	**360**		**27**	**2,345**	**6,404**	**107**	**6,511**
Legal reserve (3)				91			(91)			
Dividends (3)							(915)	(915)		(915)
Comprehensive income:										
Net income for the year							2,513	2,513	29	2,542
Other comprehensive income						19		19	8	27
Total Comprehensive Income						**19**	**2,513**	**2,532**	**37**	**2,569**
Balances as of December 31, 2011	**984**	**2,688**	**3,672**	**451**		**46**	**3,852**	**8,021**	**144**	**8,165**
Núcleo s Dividends (4)									(23)	(23)
Legal reserve (5)				122			(122)			
Voluntary reserve for future capital expenditures (5)					**2,553**		(2,553)			
Dividends (5)							(807)	(807)		(807)
Comprehensive income:										
Net income for the year							2,685	2,685	47	2,732
Other comprehensive income						60		60	31	91
Total Comprehensive Income						**60**	**2,685**	**2,745**	**78**	**2,823**

Balances as of December 31, 2012	**984**	**2,688**	**3,672**	**573**	**2,553**	**106**	**3,055**	**9,959**	**199**	**10,158**

(1) As of December 31, 2012, 2011 and 2010, there were 984,380,978 shares issued and fully paid.

(2) As approved by the Ordinary and Extraordinary Shareholders Meeting held on April 28, 2010.

(3) As approved by the Ordinary Shareholders Meeting held on April 7, 2011.

(4) As approved by the Núcleo s Ordinary Shareholders Meeting held on March 16, 2012.

(5) As approved by the Ordinary Shareholders Meeting held on April 27, 2012.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of Argentine pesos)

	Note	2012	For the years ended December 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the year		2,732	2,542	1,949
Adjustments to reconcile net income to net cash flows provided by operating activities				
Bad debt expenses and other allowances		297	187	136
Depreciation of property, plant and equipment	**8**	1,792	1,538	1,302
Amortization of intangible assets	**9**	820	620	410
Consumption of materials	**8**	125	104	92
Gain on disposal of property, plant and equipment	**22**	(8)	(22)	(7)
Provisions	**17**	235	341	191
Restructuring provision	**17**	54		
Interest and other financial results		(104)	6	105
Income tax expense	**14**	1,463	1,395	1,076
Income tax paid	**4.b**	(1,647)	(1,316)	(1,007)
Net increase in assets	**4.b**	(925)	(732)	(765)
Net increase in liabilities	**4.b**	195	654	762
Total cash flows provided by operating activities		**5,029**	**5,317**	**4,244**
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, plant and equipment acquisitions	**4.b**	(2,465)	(2,193)	(1,758)
Intangible asset acquisitions	**4.b**	(861)	(807)	(594)
Proceeds from the sale of property, plant and equipment		13	39	10
Investments not considered as cash and cash equivalents	**4.b**	(632)	20	15
Total cash flows used in investing activities		**(3,945)**	**(2,941)**	**(2,327)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financial debt	**4.b**	47		133
Payment of debt	**4.b**	(63)	(36)	(836)
Payment of interest	**4.b**	(13)	(14)	(76)
Payment of cash dividends	**4.b**	(830)	(915)	(1,053)
Total cash flows used in financing activities		**(859)**	**(965)**	**(1,832)**
NET FOREIGN EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS		**117**	**31**	**18**
INCREASE IN CASH AND CASH EQUIVALENTS		**342**	**1,442**	**103**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**4.b**	**2,818**	**1,376**	**1,273**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**4.b**	**3,160**	**2,818**	**1,376**

See Note 4.b for additional information on the consolidated statements of cash flows.

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

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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 these consolidated financial statements.

ADS: Telecom Argentina s American Depositary Share, listed on the New York Stock Exchange, each representing 5 Class B Shares.

ADSL (Asymmetric Digital Subscriber Line): A modem technology that converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications.

ARSAT: Argentine Satellite Solutions Corporation whose shares belong entirely to the Argentine state.

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

CNDC (Comisión Nacional de Defensa de la Competencia): Argentine Antitrust Commission

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

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.

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

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.

Cuentas Claras : 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 credit by recharging the phone card through the prepaid system.

D&A: Depreciation and amortization.

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

FFSU (Fondo Fiduciario del Servicio Universal): Universal Service Fiduciary Fund

IAS: International Accounting Standards.

IASB: International Accounting Standards Board.

IFRS: International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Micro Sistemas: Micro Sistemas S.A.

NDF (Non Deliverable Forward): A generic term for a set of derivatives which cover national currency transactions including foreign exchange forward swaps, cross currency swaps and coupon swaps in non-convertible or highly restricted currencies. The common characteristics of these contracts are that they involve no exchange of principal, are fixed at a pre-determined price and are typically settled in US dollars (or sometimes in Euros) at the prevailing spot exchange rate taken from an agreed source, time, and future date.

Nortel: Nortel Inversora S.A.

Núcleo: Núcleo S.A.

OCI: Other Comprehensive Income.

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

Personal: Telecom Personal S.A.

PP&E: Property, plant and equipment.

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Publicom: Publicom S.A.

Regulatory Bodies: Collectively, the SC and the CNC.

RT: Technical resolutions issued by the FACPCE.

SAC: Subscriber Acquisition Costs. See Note 3.i).

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

SIC: Standing Interpretation Committee.

SMS: Short message systems.

Sofora: Sofora Telecomunicaciones S.A.

Springville: Springville S.A.

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

STM (Servicio Telefónico Móvil): Mobile Telephone Service.

Telco S.p.A.: A joint company made up of Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefónica, S.A. (of Spain).

Telecom Group: Telecom Argentina and its consolidated subsidiaries.

Telecom Argentina: Telecom Argentina S.A.

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

Telecom USA: Telecom Argentina USA Inc.

Telefónica: Telefónica de Argentina S.A.

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

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

Universal Service or SU: 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.

Value-Added Services (VAS): 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, SMS, national and international roaming, automatic call routing, access to wireless internet and access to email via BlackBerry.

VPP (Valor Patrimonial Proporcional): Equity method.

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Note 1 Description of business and basis of preparation of the consolidated financial statements

a) The Company and its operations

Telecom Argentina was created by a Decree of the Argentine Government in January 1990 and organized as a *sociedad anónima* under the name Sociedad Licenciataria Norte S.A. in April 1990.

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

Telecom Argentina s license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina through October 10, 1999. As from such date, the Company also began providing telephone services in the southern region of Argentina and competing in the previously exclusive northern region.

The Company provides fixed-line public telecommunication services, international long-distance service, data transmission and Internet services in Argentina and through its subsidiaries, mobile telecommunications services in Argentina and Paraguay and international wholesale services in the United States of America. Information on the Telecom Group s licenses and the regulatory framework is described in Note 2.

Entities included in consolidation and the respective equity interest owned by Telecom Argentina is presented as follows:

Subsidiaries	Percentage of capital stock owned and voting rights (i)	Indirect control through	Date of acquisition
Telecom USA	100.00%		09.12.00
Micro Sistemas (ii)	99.99%		12.31.97
Personal	99.99%		07.06.94
Springville (ii)	100.00%	Personal	04.07.09
Núcleo (iii)	67.50%	Personal	02.03.98

(i) Percentage of equity interest owned has been rounded.

(ii) Dormant entity at December 31, 2012, 2011 and 2010.

(iii) Non-controlling interest of 32.50% is owned by the Paraguayan company ABC Telecomunicaciones S.A.

b) Segment reporting

An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses, and whose financial information is available, held separately, and evaluated regularly by the Chief Executive Officer (CEO).

Operating segments are reported in a consistent manner with the internal reporting provided to the CEO, who is responsible for allocating resources and assessing performance of the operating segments at the net income (loss) level and under the accounting principles effective at each time for reporting to the Regulatory Bodies. The accounting policies applied for segment information are the same for all operating segments.

Information regarding segment reporting is included in Note 28.

c) **Basis of preparation**

These consolidated financial statements have been prepared in accordance with RT 26 as adopted by the CPCECABA, and as required by the CNV.

These consolidated financial statements are prepared in accordance with RT 26 for statutory purposes. The consolidated financial statements as of December 31, 2011 were prepared in accordance with FACPCE RT 6, 8, 9, 14, 16, 17, 18, 21 and 23, as adopted by the CPCECABA. However, as from January 1st, 2012, and in accordance with CNV framework, the Company must prepare its financial statements under IFRS as issued by the IASB (and as provided by RT 26). Notwithstanding, the Company had prepared the 2011 and 2010 Annual consolidated financial statements under IFRS as issued by the IASB which were included in their respective 20F, so the fiscal year 2012 is not the first IFRS adoption for the Company as provided by IAS 1.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Telecom Group s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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The financial statements (except for cash flow information) are prepared on an accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur. Therefore income and expenses are recognized at fair value on an accrual basis regardless of when they are received or paid. When significant, the difference between the fair value and the nominal amount of income and expenses is recognized as finance income or expense using the effective interest method over the relevant period.

The accompanying consolidated financial statements have also been prepared on a going concern basis (further details are provided in Note 3.a) and the figures are expressed in millions of pesos, otherwise indicated.

Publication of these consolidated financial statements for the year ended December 31, 2012 was approved by resolution of the Board of Directors meeting held on February 27, 2013.

d) Financial statement formats

The financial statement formats adopted are consistent with IAS 1. In particular:

- the consolidated statements of financial position have been prepared by classifying assets and liabilities according to current and non-current criterion. Current assets and liabilities are those that are expected to be realized/settled within twelve months after the year-end;
- the consolidated income statements have been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and represents the way that the business of the Group is monitored by the Management, and, additionally, are in line with the usual presentation of expenses in the telecommunication industry;
- the consolidated statements of comprehensive income include the profit or loss for the year as shown in the consolidated income statement and all components of other comprehensive income;
- the consolidated statements of changes in equity have been prepared showing separately (i) profit (loss) for the year, (ii) other comprehensive income (loss) for the year, and (iii) transactions with owners in their capacity as owners;
- the consolidated statements of cash flows have been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7.

These consolidated financial statements contain all material disclosures required under IFRS. Some additional disclosures required by the Argentine Corporations Law or CNV regulations have been included in the accompanying consolidated financial statements.

Note 2 - Regulatory framework

(a) Regulatory bodies and general legal framework

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

The provision of telecommunication services is regulated by the SC and supervised by the CNC. 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.

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

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

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

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(b) Licenses granted as of December 31, 2012

As of December 31, 2012, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

- Local fixed telephony;
- Public telephony;
- Domestic and international long-distance telephony;
- Domestic and international point-to-point link services;
- Domestic and international telex services;
- VAS, data transmission, videoconferencing and transportation of audio and video signals; and
- Internet access.

As of December 31, 2012, the Company s subsidiaries have been granted the following licenses:

- Personal has been granted non-exclusive, non-expiring licenses to provide mobile telecommunication services (STM) in the northern region of Argentina, data transmission and VAS throughout the country, mobile radio communication services (SRMC) in the Federal District and Greater Buenos Aires areas, PCS services throughout the country and it is registered to provide national and international long-distance telephone services; and

- Núcleo has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as PCS services, data transmission and videoconferences services and Internet access in certain areas of that country.

Radio electric spectrum auction

In May 2011, the SC through Resolution No. 57/11 launched an auction to reassign the 850 MHz and 1900 MHz frequency bands returned by Telefónica Móviles de Argentina S.A. because this company had exceeded its 50 MHz spectrum cap. The SC had postponed the auction of the spectrum and estimated that it would take place in May 2012.

On September 5, 2012, Personal was notified of SC Resolution No. 71/12, by which, as provided for in Article 10 of the List of Conditions, the auction approved by SC Resolution No. 57/11 was canceled for reasons of opportunity, merit and convenience of the Argentine Government.

On December 13, 2012, the PEN, through Decree No. 2,426/12, amended the Regulation on Management and Control Spectrum, incorporating paragraph 8.5 to Article 8 of that Regulation, establishing: Notwithstanding the provisions of Article 8.1., the Regulatory Authority may assign frequencies directly to National Organizations, State Agencies and Entities majority-owned by the Argentine Government.

Also, the mentioned Decree conferred to ARSAT the authorization for the use of the frequencies involved in the auction approved by Resolution SC No. 57/11.

The mentioned Decree also amended Article 8 of the Regulation for Telecommunications Services Licenses in force, incorporating the following provision: Article 8 bis - Mobile Virtual Network Operator. Those interested in offering mobile services that not have radio spectrum frequencies assigned for the provision of these services must have the license for telecommunications services and the registration as Mobile Virtual Network Operator. Mobile services operators will be responsible for the services rendered to its customers, and are liable for the application of the respective sanction system. The Regulatory Authority may issue the application and interpretation acts that deems appropriate.

The same Decree instructs the SC to implement the appropriate measures in order to attribute the bands between 1,710-1,755 MHz; 2,110-2,155 MHz and 698-806 MHz exclusively for terrestrial mobile telecommunications services.

On December 13, 2012, the PEN, through Decree No. 2,427/12, declared of public interest the development, implementation and operation of the Federal Wireless Network , in charge of the Ministry of Federal Planning, Public Investment and Services, to be executed through ARSAT, under the National Telecommunications Plan Argentina Conectada , which provides the infrastructure necessary for this purpose, according to the general guidelines established in the Decree s Annex.

In addition, by Article 2 of that Decree, the PEN instructed the Ministry of Federal Planning, Public Investment and Services, as major shareholder of ARSAT, to take the necessary corporate actions and decisions, that allow the execution of works and services required as a result of the implementation of the Federal Wireless Network .

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Also, on December 21, 2012, the SC Resolution No. 222/09 was published in the Official Bulletin, which assigned ARSAT the telecommunication services license that authorizes the state company to provide any kind of telecommunication services with or without owned infrastructure. It also provided the authorization for the provision of value-added services, data transmission and transportation of audio and video signals.

By Resolution No. 9/13, published on February 7, 2013, the SC granted ARSAT the registration of Mobile Services and National and International Long Distance Services and the Provision of Telecommunication Facilities.

Personal Management continues evaluating the implications of SC Resolution No. 71/12 and Decree No. 2,426/12 in the Company, as well as the necessary actions which allow Personal to continue providing high quality standards mobile services.

(c) Revocation of the licenses

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

- an interruption of all or a substantial portion of the service;
- a modification of its corporate purpose or change of domicile to a jurisdiction outside Argentina;
- a 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 provided, without the prior approval of the Regulatory Bodies;
- a reduction of Nortel Inversora S.A. s (Nortel , the parent company of the Company) interest in Telecom Argentina to less than 51%, or the reduction of Nortel s common shareholders interest in Nortel to less than 51%, in either case 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 Company s bankruptcy.

If the license of the Company was revoked, Nortel must transfer its stake in the Company to the Regulatory Authority in trust for subsequent sale through public auction.

After the sale of the shares to a new management group, the Regulatory Authority may renew the license to the Company under terms to be determined.

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

- repeated interruptions of the services;
- any transfer of the license and/or the related rights and obligations, without the prior approval of the Regulatory Authority;
- any encumbrance of the license;
- any voluntary insolvency proceedings or bankruptcy of Personal;
- a liquidation or dissolution of Personal, without the prior approval of the Regulatory Authority.

Núcleo s licenses are revocable mainly in the case of:

- repeated interruptions of the services;
- any voluntary insolvency proceedings or bankruptcy of Núcleo;
- non-compliance with certain obligations.

(d) Decree No. 764/00

Decree No. 764/00 substantially modified three regulations:

- **General Regulation of Licenses**

This regulation establishes a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, mobile, 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 service companies may also apply for a license to provide telecommunications services. 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.

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- **Interconnection Regulation**

This regulation provides for an important reduction in the reference interconnection prices in effect at the time. The regulation also increases the number of infrastructure elements and services that the dominant operator is required to provide, including interconnection at the local exchange level, billing services and unbundling of local loops. 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.

Related to the Regulation for the call by call selection of the providers of long-distance services, the former Ministry of Infrastructure and Housing issued General Resolution No. 613/01 which approved this Regulation, subsequently modified by Resolution No. 75/03 of the Ministry of Economy, which introduced several changes related to the obligation of service provision and habilitation and blockage modality and the availability of the service on December 6, 2003. Nevertheless and having the Company fulfilled with all its obligations, as of the date of these consolidated financial statements, this long-distance service modality is not implemented.

Related to the number portability, on January 22, 2009, the SC issued Resolution No. 08/09 pursuant to which an ad hoc Working Commission was created with representatives of the SC and the CNC, for the purpose of preparing a draft of the Number Portability Regime.

On August 19, 2010, through SC Resolution No. 98/10, the SC approved the Number Portability Regime (NP), covering the STM, SRMC, PCS and SRCE (trunking) mobile services, defined in the resolution as portable services.

On June 14, 2011, the SC issued Resolution No. 67/11 replacing several sections of the NP regime. It also approved the Processes and Technical and Operational Specifications relating to the implementation and correct application of the NP, the Bidding Specifications for the selection of the Database Administrator and the model contract, and the Network Technical Specification for the implementation of the NP in the Networks Mobile Communications.

On October 12, 2011, and under the provisions of SC Resolution No. 98/10 and No. 67/11, the contract for the integration and management of the Database, between the four service providers and the Administrator of the Portability, was formalized, resulting selected the company Telcordia Technologies Inc. together with his argentine partner Telmark S.A.

Personal and the other mobile service providers finalized the adjustments of their respective networks as well as developments and testing of the necessary information technology applications, implementing the NP during March 2012.

- **Universal Service Regulation (RGSU)**

The RGSU required entities that receive revenues from telecommunications services to contribute 1% of these revenues (net of taxes) to the Universal Service Fiduciary Fund (the SU fund). The regulation adopted a pay or play mechanism for compliance with the mandatory contribution to the SU fund. The regulation established a formula for calculating the subsidy for the SU liability which takes into account the cost of providing this service and any foregone revenues. Additionally, the regulation created a committee responsible for the administration of the SU fund and the development of specific SU programs.

The SC issued Resolution No. 80/07 which stipulated that until the SU Fund was effectively implemented, telecommunication service providers, such as Telecom Argentina and Personal, were required to deposit any contributions accrued since the issuance of such Resolution into a special individual account held in their name at the Banco de la Nación Argentina. CNC Resolution No. 2,713/07, issued in August 2007, established how these contributions are to be calculated.

New SU Regulation

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

The Decree established that the SC will assess the value of service providers direct program contributions in compliance with obligations promulgated by Decree No. 764/00. It will also determine the level of funding required in the SU Fund for programs pending implementation. In the same manner, in order to guarantee the continuity of certain projects, the SC was given the choice to consider as SU contributions certain other undertakings made by telecommunication services providers and compensate providers for these undertakings.

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The new regulation established two SU categories: a) areas with uncovered or unsatisfied needs; and b) customer groups with unsatisfied needs. It also determined that the SC would have exclusive responsibility for the issuance of general and specific resolutions regarding the new regulation, as well as for its interpretation and application.

It also established that the SC will review SU programs which were established under the previous regulation, guaranteeing the continuity of those already being administered and implementing those that had been under review. The financing of SU ongoing programs which were recognized as such will be determined by the SC, whereas telecommunications providers appointed to participate in future SU Programs will be selected by competitive bidding.

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 SU Fund.

The Decree requires telecommunications service providers to contribute 1% of their revenues (from telecommunication services, net of taxes) to the SU Fund and keeps the pay or play mechanism for compliance with the mandatory monthly contribution to the SU Fund or, to claim the correspondent receivable, as the case may be.

Providers of telecommunications services shall rely on the assistance of a Technical Committee made up of 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 will be appointed by independent local operators). This Technical Committee is informed by the SC of the programs to be financed and is responsible for managing and controlling the SU Fund, carrying out technical-economic evaluations of existing projects and supervising the process of competitive bidding and adjudication of new SU programs, with the prior approval by the SC.

The Technical Committee has been created and it is fully operative. Additionally, telecommunications service providers had already sent the proposed Fiduciary agreement to the SC. The SC approved it in January 2009 through Resolution No. 7/09.

On December 9, 2008, the SC issued Resolution No. 405/08 which was objected by the Company and Personal. These objections were resolved by the SC through its Resolution No.154/10.

On April 4, 2009, by means of SC Resolution No. 88/09, the SC created a program denominated Telephony and Internet for towns without provision of basic Telephone services that will be subsidized with funds from the SU Fund. The program seeks to provide local telephony, domestic long distance, international long distance and Internet in towns that did not provide basic telephone services. The proposed projects approved by the SC would be sent to the Technical Committee of the SU Fund so that availability of funds can be evaluated and they can be included in a bidding process provided for in Decree No. 558/08.

On December 1, 2010, the SC issued Resolutions No. 147/10 and 148/10, approving Internet for educational institutions and Internet for public libraries programs, respectively. These programs aim to reclaim the Broadband Internet service to state-run educational institutions and public libraries, respectively, and would be implemented through the use of the FFSU resources. As of the date of these consolidated financial statements, the first auction of the Internet for educational institutions program has been conducted and the bidding of the Internet for public libraries program is being developed. Telecom Argentina was awarded and is finishing the last project facilities which will reach 1,540 schools involved and a billing to the FFSU of approximately $5 per year for a period of 5 years. On the other hand, the auction Internet for public libraries program was cancelled by the Regulatory Authority for its redefinition. Also, during 2012, the auction Telephony and Internet for towns without provision of Basic Telephone Service took place according to Resolution No. 88/09, which involved the service provision in 430 locations. Personal presented its offer to the action. As of the date of these consolidated financial statements, the auction is in pre-award stage.

On November 11, 2010, the SC issued Resolution No. 154/10 adopting the methodology for the deposit of the SU contributions to the trustee s escrow account. The resolution includes several provisions related to the determination of the contributions that correspond to previous and posterior periods to the dictation of the Decree No. 558/08. It also provides that until the SC determines the existence of programs, the amounts that may correspond to their implementation may be discounted by the telecommunication providers when determining their contribution to the SU Fund. If completed the verification from the SC there were unrecognized amounts, they must be contributed into the FFSU or for the development of new works of the SU, with the approval of the SC.

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On December 30, 2010, the trustee notified Telecom Argentina and Personal the trustee s escrow account number in which they shall deposit the SU contributions under the provisions of SC Resolution No. 154/10.

On January 26, 2011 the SC issued Resolution No. 9/11 determining the Infrastructure and Facilities Program . The resolution provided that telecommunications services providers would affect to investment projects under this program, exclusively the amounts corresponding to their pending obligations of investment contributions born under Annex III of Decree No. 764/00, prior to Decree No. 558/08.

In Telecom Argentina

By the end of 2002, the SC formed a working group responsible for analyzing the method to be applied for measuring the net costs of SU performance particularly, the application of the Hybrid Cost Proxy Model (the HCPM Model), based on the incremental cost of a theoretical network. The working group was also tasked with defining non-monetary benefits and determining the methodology for its calculation, in order to assess the costs that would be offset due to performance of SU obligations. The working group decided that, given the complexity of this methodology, efforts should be made to continue the initial programs independently from application of the HCPM Model, and that there was a need to carry out a comprehensive review of the present general regulations relating to SU to ensure that these regulations were operative in the near term considering the existing social needs.

Several years after the market s liberalization and the effectiveness of the first SU regulations, service providers affected by these regulations have not received set-offs for providing services as required by the SU regime.

As of the date of these consolidated financial statements and in compliance with SC Resolution No. 80/07 and No. 154/10 and CNC Resolution No. 2,713 /07, Telecom Argentina has filed its monthly calculations since July 2007 for the review of the Regulatory Authority and estimated a receivable of $1,212 (unaudited). This receivable has not yet been recorded since it is subject to the approval of the SU programs, the review of the SC and the availability of funds in the SU Trust.

On April 8, 2011, the SC issued Resolution No. 43/11 notifying Telecom Argentina that investments associated with High-Cost Areas amounting approximately to $999 since July 2007 to date and which are included in the abovementioned receivable - did not qualify as an Initial Indicative Program. Telecom Argentina filed a claim on this resolution. As of the date of these consolidated financial statements, the resolution of this appeal is still pending.

On July 12, 2012, Telecom Argentina was notified of SC Resolutions No. 53 and 54/12 and on July 25, 2012, it was notified of SC Resolutions No. 59, 60, 61 and 62/12, pursuant to which the Special Service of Information 110 , the Discounts for Retired People, Pensioners and Low Consumption Households , the services of Social Public Telephony and Loss-Making Public Telephony , the Services and Discounts relating to the Information Society Program argentin@internet.todos , the Services for Deaf-Mute People and the Free Access to Special Emergency Services and Special Community Services , provided by Telecom Argentina did not qualify as an Initial Indicative Program, pursuant to the terms of Article 26 of Annex III of Decree No. 764/00, and that, taking into account the conditions and legal framework within which such services were developed by Telecom Argentina, they did not constitute different services involving a SU provision, and therefore cannot be financed with SU funds, pursuant to the terms of Article 2 of Decree No. 558/08.

On August 21, 2012, the Company was notified of SC Resolutions No. 69 and 70/12, pursuant to which the Value Added Service 0611 and 0612 and the Long Distance Semipublic Service provided by Telecom Argentina did not qualify as an Initial Indicative Program, pursuant to the terms of Article 26 of Annex III of Decree No. 764/00, and that, taking into account the conditions and legal framework within which such services were developed by Telecom Argentina, they did not constitute different services involving a SU provision, and therefore cannot be financed with SU funds, pursuant to the terms of Article 2 of Decree No. 558/08.

The Company s Management, with the advice of its legal counsels, has filed appeals against SC Resolutions Nos. 53, 54, 59, 60, 61, 62, 69 and 70 presenting the legal arguments based on which such resolutions should be revoked. The deductions that were objected by the SC Resolutions amount to approximately $450 and are included in the credit balance mentioned in the third paragraph.

On September 13, 2012, the CNC required Telecom Argentina to deposit approximately $208. The Company has filed a recourse refusing the CNC s request on the grounds that various appeals against SC Resolutions are still pending. However, it cannot be assured that these issues will be favorably resolved at the administrative stage.

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In Personal

Since January 2001, Personal recorded a provision related to its obligation to make contributions to the SU fund. In addition, since July 2007 and in compliance with SC Resolution No. 80/07 and No. 154/10 and CNC Resolution No. 2,713/07, Personal deposited the correspondent contributions of approximately $112 into an account held under their name at the Banco de la Nación Argentina in January 2011.

During the first quarter of 2011, the above mentioned funds were transferred to the trustee s escrow account, in compliance with the provisions of SC Resolution No. 154/10 previously described. Since January 2011, FFSU contributions are now being made into such escrow account.

In March 2011, Personal submitted to the SC a $70 investment project, pursuant to SC Resolution No. 9/11, for the development of a network infrastructure in locations in the Northern Region of Argentina with no mobile coverage. As of the date of these consolidated financial statements, the project is still pending approval by the Regulatory Authority.

On July 5, 2012, the SC issued Resolution No. 50/12 pursuant to which it notified that the services referred to by the Mobile Communications Services Providers, which were filed as High Cost Areas or services provided in non-profitable areas, services provided to clients with physical limitations (deaf-mute and blind people), rural schools, and the request relating to the installation of radio-bases and/or investment in the infrastructure development in various localities, do not constitute items that may be discounted from the amount of contributions to the SU pursuant to Article 3, last part, of Resolution No. 80/07, or Article 2 of Decree No. 558/08. It also provides that certain amounts already deducted may be used for investment projects within the framework of the Program of SC Resolution No. 9/11, or deposited in the SU Fund, as applicable.

Personal has filed an administrative resource against the SC Resolution No. 50/12, requesting its nullity. As of the date of these consolidated financial statements, the resolution of this matter is still pending.

On October 1, 2012, responding to an SC s requirement, Personal deposited under protest approximately $23 in the SU Fund, corresponding to the assessment of the SU services provided by Personal since the issuance of Decree No. 558/08, reserving its right to take all actions it may deem appropriate to claim its reimbursement, as informed to the SC and the CNC on October 15, 2012. Since August 2012, Personal is paying under claim of those concepts in their monthly calculations.

The Management of Personal could not assure that this issue would be favorably resolved at the administrative stage.

(e) Administrative complaint in connection with the service cuts affecting Telecom Argentina and Personal s customers

On June 25, 2012, the CNC notified Telecom Argentina of an administrative complaint relating to an incident that took place on June 12, 2012, in an optic fiber link of Telecom Argentina, caused by a construction company for which Telecom Argentina is not liable, which affected the interurban and ADSL services in localities at the North Region of the country, also affecting the mobile communication services provided by Personal. Such services were quickly restored, after slightly more than two hours of labor, thanks to the networks redundancy. On the same date, within the same procedure, the CNC also notified Personal of an administrative complaint in connection with the problems affecting its mobile communication services.

Telecom Argentina and Personal filed their defense against such penalty procedures, exposing the arguments based on which such procedures should be left without effect. On October 11, 2012, the CNC notified Telecom Argentina and Personal that the procedures begun on June 25, 2012 were left without effect because the regulations on which the complaint was based (Article 10.1 of Annex I of Decree No. 764/00) were not applicable to Telecom Argentina nor to Personal. Nevertheless, the CNC filed a new complaint against both companies for the alleged non-compliance of the regulations provided in the List of Conditions of the Basic Telephone Service and the Mobile Telephone Service, respectively.

The Management of Telecom Argentina and Personal, with the advice of their legal counsels, believes that there are solid arguments to defend themselves against the new complaint. This incident is different from other cases reviewed by the CNC of network outages of other mobile operators occurred during the second quarter of 2012, so that any possible sanctions should not materially affect the financial and economic position of Telecom Argentina and Personal. Nevertheless, it cannot be assured that the new procedure will not result in administrative penalties that will make it necessary for Telecom Argentina and Personal to defend their rights at court.

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(f) Assessment of Mobile Services: SC Resolution No. 45/12

On May 31, 2012, the SC issued Resolution No. 45/12 providing that the assessment time of calls originated in users of mobile services shall start from the moment in which the call s recipient answers the phone in person or through a message box, until the moment in which the communication ends, and that any communications that are not answered by the recipient (either in person or through a message box) shall not be invoiced or charged in any way.

The assessment provided by Resolution No. 45 was successfully implemented by Personal as from October 11, 2012.

(g) Tax Stability principle: impact of variations in Social Security contributions

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.

Subsequent to November 8, 1990, there were several increases in the rates of Social Security Contributions, which were duly paid by Telecom Argentina. At the same time, and under the framework of the argentina@internet.todos Program, the Company paid, mostly during fiscal year 2000, reduced social security contribution rates.

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.

The Company made the required presentations to the SC of the net receivable under Resolution No. 41/07, which were subject to audits by the Regulatory Authority.

During the third quarter of 2007, the CNC performed the audits on the information given by the Company. The Company had access to documentation of the CNC s audits, which resulted in no significant differences from the net amounts it had determined. Consequently, the Company recorded a receivable from increases in social security contributions and cancelled payables from reduction in social security contribution rates and other fines due by the Company.

As of December 31, 2012, the Company has a net receivable of $62 which, in addition with the receivable of $23 corresponding to the tax on deposits to and withdrawals from bank accounts (IDC), is included in the non-current caption Other receivables .

Since the resolution allows the Company to offset the receivables with existing and/or future regulatory duties and the intention of the Company is to exercise its offsetting rights, the receivable was recorded net of reserves. As of December 31, 2012, the reserves corresponding to these regulatory duties amounted to $85.

Since December 2008, the Company has begun the billing to the customers of the increases in the rates of its social security contributions accrued from October 2008, applying the same mechanism used to bill the IDC.

(h) Tariff structure of the national and international regulated fixed line services

Rate Rebalancing

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 $9.5, by means of SC Resolution No. 4,269/99.

In December 2007, the Regulatory Authority notified the Company that it will offset this difference with the Resolution No. 41/07 receivables. As a consequence, during fiscal year 2007, the Company recorded a reserve on this matter on behalf of the CNC final results. In April 2009, the CNC notified the offsetting of the $9.5 Rate Rebalancing amount with the Resolution No. 41/07 receivables. So, the Company has reduced the receivable with the corresponding reserve.

Price Cap

The Price Cap was a regulation mechanism applied in order to calculate changes in Telecom Argentina tariffs, based on changes in the U.S. Consumer Price Index (U.S. C.P.I.) and an efficiency factor.

In August 2009, the Regulatory Bodies finalized the 1999 Price Cap audit resulting in a payable by the Company of $3.1 plus interest. The Company has offset this balance with the credit resulting from SC Resolution No. 41/07, described in (g) above.

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On April 6, 2000, the Argentine Government, Telefónica and Telecom Argentina signed an agreement (Price Cap 2000) that set the price cap efficiency factor at 6.75% (6% set by the SC and 0.75% set by Telecom Argentina and Telefónica) for the period from November 2000 to November 2001.

The 2000 Price cap audit results are still pending. Should the outcome is a payable by the Company it can be offset with the Resolution No. 41/07 receivables.

In April 2001, the Argentine Government, Telefónica and Telecom Argentina signed an agreement (2001 Price Cap) that set the efficiency factor for reduction of tariffs at 5.6% for the period from November 2001 to October 2002.

However, a preliminary injunction against Telecom Argentina disallowed Telecom Argentina to apply tariff increases by reference to the U.S. C.P.I. Telecom Argentina appealed this injunction arguing that if one part of the formula cannot be applied, the Price Cap system should be nullified. Finally, Public Emergency Law No. 25,561 explicitly prohibited tariff adjustments, so, at the date of these consolidated financial statements, the pesification and the freeze of the regulated tariffs are still in force.

Tax on deposits to and withdrawals from bank accounts charged to customers

On February 6, 2003, the Ministry of Economy, through Resolution No. 72/03, defined the mechanism to allow, going forward, tariff increases on basic telephony services reflecting the impact of the IDC. The amount of tax charged must be shown separately in customers bills. The Company has determined the existence of a remaining unrecovered amount of approximately $23 that arose before the issuance of Resolution No. 72/03, which will be claimed within the tariff renegotiation process (see (i) below).

In April 2007, the Company provided the CNC with supporting documentation on this amount for its audit. The Company had access to documentation of the Regulatory Authority s audits that corroborates the amounts claimed by the Company and the application of a similar offsetting mechanism pursuant to Resolution No. 41/07. Therefore, the Company has recorded as Non-current Other receivable a total of $23.

(i) Renegotiation of agreements with the Argentine Government

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

However, in January 2002, the Argentine Government enacted Law No. 25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the Public Emergency Law), which provided, among other aspects, for the following:

- The pesification of rates;
- The elimination of dollar or other foreign-currency adjustments and indexing provisions for rates;
- The establishment of an exchange rate for dollar-denominated prices and rates of $1 =US$1; and
- The renegotiation of the conditions of the contractual agreements entered into between privatized companies and the Argentine Government.

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

- The overall impact of rates for public services on the economy and income levels;
- Service quality and investment plans, as contractually agreed;
- The customers interests and access to the services;
- The security of the systems; and
- The profitability of the service providers.

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

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Furthermore, in July 2003, Decree No. 311/03 created the *Unidad de Renegociación y Análisis de Contratos de Servicios Públicos* (UNIREN), (Division for the Renegotiation and Analysis of Contracts of Public Utilities Services), a special division within the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services, pursuant to which the contractual relationships between the Argentine Government and the service providers were to be revised and renegotiated. In October 2003, the Argentine Government enacted Law No. 25,790 pursuant to which the original term to renegotiate the contracts was extended through December 31, 2004. As from that date, the Argentine Government enacted subsequent laws pursuant to which this term was extended through December 31, 2013.

In May 2004, the Company signed a Letter of Understanding (LOU) with the Argentine Government pursuant to which the Company committed not to modify the current rate structure through December 31, 2004 and to continue with the tariff renegotiation process, which the Company expected to have concluded before December 31, 2004. The Company also committed to offer phone services to beneficiaries of governmental welfare programs and to extend internet services in the interior of the country at reduced prices.

Even though the Company fulfilled its commitments under the LOU, the Argentine Government did not make a specific offer related to the renegotiation of the rates at the date set in the LOU.

New Letter of Understanding with the UNIREN

On March 6, 2006, Telecom Argentina signed a new LOU (the Letter) with the UNIREN. Upon the fulfillment of the procedures set forth in the rules and regulations presently in effect, the Letter 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 Article 9 of the Public Emergency Law.

The main terms and conditions of the Letter include:

- The 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. Isolated violations were satisfactorily remedied through fines and/or sanctions. Other matters arising in the normal course of business are still pending resolution, which was originally expected by June 30, 2006 (some of these matters are described below). 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 commitments 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 providers that shall take part in the process;

- Telecom Argentina s commitment and the commitment of its indirect shareholders Telecom Italia S.p.A. and W de Argentina - Inversiones S.L., 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 the License. The suspension will take effect after the 30th day from the end of the public hearing convened to deal with the Letter. Once the Minutes of Agreement of the Renegotiation is ratified, any and all claims, appeals and/or proceedings will be disregarded;

- An adjustment shall be made to increase the termination charge of international incoming calls to a local area to be equivalent to international values, which are at present strongly depreciated;

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

On May 18, 2006, the Letter 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 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 Shareholders Meeting be held to approve said Minutes. Both Telecom Argentina and its indirect stockholders Telecom Italia S.p.A. and W de Argentina - Inversiones S.L. have timely fulfilled the Agreement s commitments.

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As of the date of these financial statements, the Company 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 there can be no assurance as to the ultimate outcome of these matters, it is the opinion of the Management of the Company that the renegotiation agreement process will be satisfactorily completed.

(j) Buy Argentine Act

In December 2001, the Argentine Government passed Public Law No. 25,551 (Compre Trabajo Argentino or the Buy Argentine Act) and in August 2002, passed Decree No. 1,600/02 which approved and brought into effect the Compre Trabajo Argentino. The law 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 telephony services (sect.1 & 2).

Preference must be given 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) (sect.3).

Compre Trabajo Argentino 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 Compre Trabajo Argentino is subject to criminal sanctions.

Public Law No. 18,875 establishes the obligation to exclusively contract services with local companies and professionals, as defined in such law. 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 , including the obligation for the Company 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.

Note 3 Significant accounting policies

a) Going concern

The consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 have been prepared on a going concern basis as there is a reasonable expectation that Telecom Argentina will continue its operational activities in the foreseeable future (and in any event with a time horizon of more than twelve months).

b) Foreign currency translation

Items included in the financial statements of each of the Group s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Argentine pesos ($), which is the functional currency of all Telecom Group s companies located in Argentina. The functional currency for the foreign subsidiaries of the Telecom Group is the respective legal currency of each country.

The financial statements of the Company s foreign subsidiaries (Núcleo, Telecom USA and Springville) are translated using the exchange rates in effect at the reporting date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are recognized in Other Comprehensive Income. The cash flows of foreign consolidated subsidiaries expressed in foreign currencies included in the consolidated statement of cash flows are translated at the average exchange rates for the year.

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c) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the foreign exchange rate prevailing at the reporting date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the consolidated income statement and are included in Financial income/expenses as Foreign currency exchange gains or losses.

d) Consolidation

These consolidated financial statements include the accounts of Telecom Argentina and its subsidiaries over which it has effective control (Personal, Núcleo, Springville, Micro Sistemas and Telecom USA) as of December 31, 2012, 2011 and 2010.

Control exists when the Parent (Telecom Argentina) has the power to determine the financial and operating policies of a subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in the equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the consolidated income statement and in the consolidated statement of comprehensive income.

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

Financial year-end of all the subsidiaries financial statements coincides with that of the Parent and have been prepared in accordance with the same accounting policies.

e) Revenues

Revenues are recognized to the extent that it is considered probable that economic benefits will flow to the Company and their amount can be measured reliably. Final outcome may differ from those estimates.

Revenues are stated net of discounts and returns.

The Company discloses its revenues into two groups: services and equipment. Service revenues are the main source of income for the Company and are disclosed by nature: Voice services, Internet services and Data transmission services. This classification of revenues is given by different commercial offers and products, type of contracts and kind of customers. Equipment sales represent a precursor of the mentioned service revenues; therefore, from time to time, the Management of Personal and Núcleo decide to sell mobile handsets at prices lower than their respective costs in order to acquire new contracts with a minimum non-cancelable period of permanence.

Other income mainly includes penalties collected from suppliers which are realized in the ordinary course of business but are not the main business objective.

The Company s principal sources of revenues are:

Fixed telecommunication services and products

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

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

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from corresponding accounts receivable. Revenues derived from other telecommunications services, principally network access, long distance and airtime usage, are recognized on a monthly basis as services are provided.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other telecommunication operators.

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Revenues from the sale of prepaid calling cards are recognized on the basis of the minutes used, at the contract price per minute, or when the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as Deferred revenue on prepaid calling cards under Deferred revenues line item in the statement of financial position.

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

Non-refundable up-front connection fees for fixed telephony, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred (as well as the related costs not in excess of the amount of revenues) over the term of the contract or, in the case of indefinite period contracts, over the average period of the customer relationship (approximately 9 years in the case of fixed telephony).

Reconnection fees charged to customers when resuming service after suspension are deferred and recognized ratably over the average life for those customers who are assessed a reconnection fee. Associated direct expenses are also deferred over the estimated customer relationship period up to an amount equal to or less than the amount of deferred revenues. Generally, reconnection revenues are higher than its associated direct expenses.

Revenues from sales of goods, such as telephone and other equipment, are recognized when the significant risks and rewards of ownership are transferred to the buyer.

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method). When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Revenue on construction contracts recognized in the years ended December 31, 2011 and 2010 amounted to $25, $14, respectively. No revenue on construction contracts was recorded for year 2012.

Revenue from international telecommunications services mainly includes voice and data services and international point-to-point leased circuits.

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

Revenues are recognized as services when they are provided.

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

Mobile telecommunication services and products

The Company provides mobile services throughout Argentina via cellular and PCS networks. Cellular fees consist of monthly basic fees, airtime usage charges, roaming, charges for TLRD, CPP charges and additional charges for VAS, including call waiting, call forwarding, three-way calling, voicemail, SMS, GPRS, Mobile Internet and for other miscellaneous cellular services. These revenues are recognized as services when they are rendered.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from the corresponding accounts receivable.

Revenues from the sale of prepaid calling cards are recognized on the basis of the minutes used, at the contract price per minute, or when the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as Deferred revenue on prepaid calling cards under Deferred revenues line item in the statement of financial position.

Revenues from sales of goods, such as handsets, sim cards, tablets, smartphones and other equipment are recognized when the significant risks and rewards of ownership are transferred to the buyer.

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Personal and Núcleo offer to their subscribers a customer loyalty program. Under such program Personal and Núcleo grant award credits as part of the sales transactions which can be subsequently redeemed for goods or services provided by Personal and Núcleo or third parties. The fair value of the award credits is accounted for as deferred revenue, and recognized as revenue when the award credits are redeemed or expire, whichever occurs first. Those revenues are classified as service or goods revenues depending on the goods or services redeemed by the customers.

Applicable to both fixed telephony and mobile telephony, for offerings including separately identifiable components (as equipment and service), the Company and its subsidiaries recognize revenues related to the sale of the equipment when it is delivered to the final customer whereas service revenues are recorded when rendered. The total revenue generated by this type of transactions is assigned to the separately identifiable units of accounting based on their fair values, provided that the total amount of revenue to be recognized does not exceed the contract revenue. IFRS does not prescribe a specific method for such assignation of revenue. However, telecommunications industry practice generally applies the method known as residual method , which was used in the preparation of the present consolidated financial statements. The residual method requires identifying all the components that comprise a transaction and allocating its fair value on an individual basis to each of them. Under this method, the fair value of a delivered item (which could not be individually determined) is determined as the difference between the total arrangement consideration and the sum of the fair values of those elements for which fair value can be estimated on a stand-alone basis.

f) Financial instruments

f.1) Financial assets

Upon acquisition, in accordance with IFRS 9, financial assets are subsequently measured at either *amortized cost*, or *fair value*, on the basis of both:

(a) the entity s business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at *amortized cost* if both of the following conditions are met:

(a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Additionally, for assets that met the abovementioned conditions, IFRS provides for an option to designate, at inception, those assets as measured at *fair value* if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

A financial asset that is not measured at *amortized cost* according to the paragraphs above is measured at *fair value*.

Financial assets include:

Cash and cash equivalents

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed three months.

Cash and cash equivalents are recorded, according to their nature, at fair value or amortized cost.

Time deposits are valued at their amortized cost.

Investments in mutual funds are carried at fair value. Unrealized gains and losses are included in financial income/expenses in the consolidated statements of income.

Trade and other receivables

Trade and other receivables classified as either current or non-current assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less allowances for doubtful accounts.

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Investments

Investments over 90 days maturity are recorded at amortized cost.

Argentine companies notes and government bonds (whereas, in both cases, the Company s intention is to hold them until its maturity date) are measured at amortized costs.

The 2003 Telecommunications Fund is recorded at fair value.

Impairment of financial assets

At every annual or interim closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the consolidated income statement for financial assets measured at cost or amortized cost.

Certain circumstances of impairment of financial assets that the Group assesses to determine whether there is objective evidence of an impairment loss could include: delay in the payments received from customers; customers that enter bankruptcy; the disappearance of an active market for that financial asset because of financial difficulties; observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, significant financial difficulty of the obligor, among others.

f.2) Financial liabilities

Financial liabilities comprise trade payables, financial debt (excluding Derivatives), salaries and social security payables (see n) below) and certain other liabilities.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

f.3) Derivatives

Derivatives are used by the Company to manage its exposure to exchange rate and sometimes interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to pre-established operational limits.

All derivative financial instruments are measured at fair value in accordance with IFRS 9, when they do not qualify for hedge accounting or in accordance with IAS 39 when they meet the conditions for hedge accounting.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a) at the inception of the hedge, the hedging relationship is formally designated and documented;

b) the hedge is expected to be highly effective;

c) its effectiveness can be reliably measured;

d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

When a derivative financial instrument is designated as a cash flow hedge (the hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction) the effective portion of any gain or loss on the derivative financial instrument is recognized directly in OCI. The cumulative gain or loss is removed from OCI and recognized in the consolidated income statement at the same time as the hedged transaction affects the consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in OCI are immediately recognized in the consolidated income statement.

If hedge accounting is not appropriate, gains or losses arising from the fair value measurement of derivative financial instruments are directly recognized in the consolidated income statement.

For additional information about derivatives operations during 2012 and 2011, see Note 20. As of December 31, 2012 all NDF contracts were cancelled.

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g) Inventories

Inventories are measured at the lower of cost and estimated net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Allowances are made for obsolete and slow-moving inventories.

From time to time, the Management of Personal and Núcleo decide to sell mobile handsets at prices lower than their respective costs. This strategy is aimed at achieving higher service revenues or at retention of high value customers by reducing customer access costs while maintaining the companies overall mobile business profitability since the customer subscribes a monthly service contract for a minimum non-cancelable period. For the estimation of the net realizable value in these cases the Company considers the estimated selling price less applicable variable selling expenses plus the expected margin from the service contract signed during its minimum non-cancelable term.

h) PP&E

PP&E is stated at acquisition or construction cost. Subsequent expenditures are capitalized only when they represent an improvement, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

All other subsequent costs are recognized as expense in the period in which they are incurred. When a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items if they are significant.

PP&E cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized in the statement of financial position under Provisions line item at its present value. These capitalized costs are depreciated and charged to the consolidated income statement over the useful life of the related tangible assets in the Depreciation and amortization item line.

The accounting estimates for dismantling costs, including discount rates, and the dates in which such costs are expected to be incurred are annually reviewed. Changes in the above liability are recognized as an increase or decrease of the cost of the relative asset and are depreciated prospectively.

Depreciation of PP&E owned is calculated on a straight-line basis over the ranges of estimated useful lives of the assets; the ranges of the estimated useful lives of the main PP&E are the following:

Asset	**Estimated useful life (in years)**

Buildings received from ENTel	35
Buildings	50
Tower and pole	15
Transmission equipment	3-20
Wireless network access	5-10
Switching equipment	5-13
Power equipment	7-15
External wiring	10-20
Computer equipment and software	3-5
Telephony equipment and instruments	5-10
Installations	3-10

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously taking into account, among others, technological obsolescence, maintenance and condition of the assets and different intended use from previous estimates. The effect of such changes is recognized prospectively in the consolidated income statement.

i) Intangible assets

Intangible assets are recognized when the following conditions are met: the asset is separately identifiable, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably.

Intangible assets with a finite useful life are stated at cost, less accumulated amortization and impairment losses, if any.

Intangible assets with an indefinite useful life are stated at cost, less accumulated impairment losses, if any.

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Intangible assets comprise the following:

• *Subscriber acquisition costs (SAC)*

Direct and incremental costs incurred for the acquisition of new subscribers with a minimum contractual period are capitalized when the conditions for the recognition of an intangible asset are met. The cost of acquiring postpaid and cuentas claras subscribers in mobile telephony and broadband customers in fixed telephony meet the conditions established by IFRS for its recognition as intangible asset, since these contracts establish a minimum contractual period, include an enforceable termination penalty and provide for fixed monthly billing for services. SAC are mainly related to the mobile services; and are mainly comprised of upfront commissions paid to third parties and subsidies granted to customers on the sale of handsets.

In all other cases, subscriber acquisition costs are expensed when incurred.

Capitalized SAC are amortized on a straight-line basis over the term of the contract with the customer acquired.

• *Service connection or habilitation costs*

Direct costs incurred for connecting customers to the network are accounted for as intangible assets and then amortized over the term of the contract with the customer if required conditions are met. For indefinite period contracts, the deferral of these costs is limited to the amount of non contingent revenue from the customer and expensed over the average period life of the customer relationship. Costs exceeding that amount are expensed as incurred. Connection costs are generated mainly for the installation of fixed lines and amortized over an average period of 9 years.

• *PCS license (Argentina)*

The Company, based on an analysis of all of the relevant factors, has considered the license having an indefinite useful life since there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

• *PCS and Band B licenses (Paraguay)*

Initial acquisition costs of Núcleo s PCS and Band B licenses were amortized under the straight-line method over 120 months. These licenses were successively renewed for a period of 5years, estimating the finalization of its amortization during year 2017.

• *Internet and data transmission license (Paraguay)*

Núcleo s license is amortized over 5 years through fiscal year 2016.

• *Rights of use*

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

• *Exclusivity agreements*

Exclusivity agreements were entered into with certain retailers and third parties relating to the promotion of the Company s services and products. Amounts capitalized are being amortized over the life of the agreements, with expiration ranging from financial year 2009 to financial year 2028.

• *Customer relationships*

Customer relationships identified as part of the purchase price allocation performed upon the acquisition of Cubecorp Argentina S.A. (a company engaged in data center business) in financial year 2008, are being amortized over the estimated duration of the relationship for customers in the data center business (15 years).

j) Leases

Finance leases

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as finance leases. The Company recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Subsequently, minimum lease payments are apportioned between a finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

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The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

As of December 31, 2012 the Telecom Group holds finance leases which represent current liabilities in the amount of $21 and non-current commercial liabilities of $20. A summary by major class of fixed assets covered by finance leases as of December 31, 2012 is as follows:

	Book value	Lease terms	Amortization period
Computer equipment	53	3 years	3 years
Accumulated depreciation	(9)		
Net value	**44**		

Operating leases

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative.

In the normal course of business, the Company leases cell sites, switch sites, satellite capacity and circuits under various non-cancellable operating leases that expire on various dates through 2022. Rental expense is included under Other operating expenses item line in the consolidated income statements.

k) Impairment of intangible assets and PP&E

At every annual or interim closing date, the Company assesses whether there are any indicators of impairment of assets that are subject to amortization. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

The carrying value of an asset is considered impaired by the Company when it is higher than its recoverable amount. In that event, a loss would be recognized in the statement of income.

The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs. The Company considers each legal entity of the Group as a cash-generating unit.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded if no impairment loss had been recognized. The reversal of an impairment loss is recognized as income in the consolidated income statement.

Intangible assets with an indefinite useful life (including intangible assets not ready to use) are not subject to amortization and are tested at least annually for impairment. The only intangible asset with an indefinite useful life held by the Company as of December 31, 2012 and 2011 is the PCS license (Argentina), which is entirely allocated to the Personal Mobile Service operating segment. Its recoverable amount is determined based on the value in use, which is estimated using discounted net cash flows projections.

For the years presented, the Company estimated that there are no indicators of impairment of assets that are subject to amortization.

l) Other liabilities

- **Pension benefits**

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

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Pension benefits shown under Other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability in Telecom Argentina. Benefits consist of the payment of a single lump sum equal to the salary of one month for each five years of service. There is no vested benefit obligation until the occurrence of those conditions. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits. The net periodic pension costs are recognized as employees render the services necessary to earn pension benefits. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as required by IAS 19. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement.

The actuarial assumptions used are based on market interest rates, past experience and Management s best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. The main assumptions used in determining expense and benefit obligations are the following rates and salary ranges:

	2012		2011		2010	
Discount rate (1)	4.1	13.1%	5.6	12.1%	1.2	7.4%
Projected increase rate in compensation (2)	15.0	25.2%	15.0	25.7%	15.3	22.0%

(1) Represents estimates of real rate of interest rather than nominal rate in $.

(2) In line with an estimated inflationary environment for the next three financial years.

Additional information on pension benefits is provided in Note 16.

- **Legal fee**

Pursuant to Law No. 26,476 - Tax Regularization Regime (Régimen de Regularización Impositiva Ley Nº 26,476), the Company is subject to a legal fee which shall be paid in twelve monthly consecutive installments without interest as from final judgment. It is carried at amortized cost.

m) Deferred revenues

Deferred revenues include:

- *Deferred revenues on prepaid calling cards*

Revenues from unused traffic and data packs for unexpired calling cards are deferred and recognized as revenue when the minutes and the data are used by customers or when the card expires, whichever happens first. See Note 3.e. Revenues Fixed telecommunication services and products.

- *Deferred revenues on connection fees*

Non-refundable up-front connection fees for fixed telephony, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred over the term of the contract, or in the case of indefinite period contracts, over the average period of customer relationship. See Note 3.e. Revenues Fixed telecommunication services and products and Mobile telecommunication services and products.

- *Customer Loyalty Programs*

The fair value of the award credits regarding Personal and Núcleo s customer loyalty program is accounted for as deferred revenue, and recognized as revenue when the award credits are redeemed or expire, whichever occurs first. See Note 3.e. Revenues Mobile telecommunication services.

- *Deferred revenue on sale of capacity and related services*

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Revenues are deferred and recognized as services are provided. Those revenues are recorded under Data item line in the Fixed services segment.

n) Salaries and social security payables

Include unpaid salaries, vacation and bonuses and its related social security contributions, as well as termination benefits and restructuring indemnities. See f.2) above for a description of the accounting policy regarding the measurement of financial liabilities.

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Termination benefits represent severance indemnities that are payable when employment is terminated in accordance with labor regulations and current practices, or whenever an employee accepts voluntary redundancy in exchange for these benefits. In the case of severance compensations resulting from agreements with employees leaving the Company upon acceptance of voluntary redundancy, the compensation is usually comprised of a special cash bonus paid upon signing the severance agreement, and in certain cases may include a deferred compensation, which is payable in monthly installments calculated as a percentage of the prevailing wage at the date of each payment (*prejubilaciones*). The employee s right to receive the monthly installments mentioned above starts on the date they leave the Company and ends either when they reach the legal mandatory retirement age or upon the decease of the beneficiary, whichever occurs first.

Restructuring debt represent the indemnities that are payable for the layoffs related to the restructuring plan that the Telecom Group has begun by the end of 2012. Further information on the restructuring plan is provided in Note 17 to the consolidated financial statements.

o) Taxes payables

The Company is subject to different taxes and levies such as municipal taxes, tax on deposits to and withdrawals from bank accounts, turnover taxes, regulatory fees (including SU) and income taxes, among others, that represent an expense for the Group. It is also subject to other taxes over its activities that generally do not represent an expense (internal taxes, VAT, ENARD tax).

The principal taxes that represent an expense for the Company are the following:

• *Income taxes*

Income taxes are recognized in the consolidated income statement, except to the extent that they relate to items directly recognized in Other comprehensive income or directly in equity. In this case, the tax is also recognized in Other comprehensive income or directly in equity, respectively. The income tax expense for the period comprises current and deferred tax.

As per Argentinean Tax Law, income taxes payables have been computed on a separate return basis (i.e., the Company is not allowed to prepare a consolidated income tax return). All income tax payments are made by each of the subsidiaries as required by the tax laws of the countries in which they operate. The Company records income taxes in accordance with IAS 12.

Deferred taxes are recognized using the liability method . Temporary differences arise when the tax base of an asset or liability differs from their carrying amounts in the consolidated financial statements. A deferred income tax asset or liability is recognized on those differences, except for those differences related to investments in subsidiaries that generate a deferred income tax liability, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The statutory income tax rate in Argentina was 35% for all years presented. Cash dividends received from a foreign subsidiary are computed on the statutory income tax rate. As per Argentinean Tax Law, income taxes paid abroad may be recognized as tax credits.

The statutory income tax rate in Paraguay was 10% for all years presented. As per Paraguayan Tax Law, dividends paid are computed with an additional income tax rate of 5% (this is the criterion used by Núcleo for the recording of its deferred tax assets and liabilities, representing an effective tax rate of 15%). However, the effect of the additional income tax rate according to the Argentine tax law in force on the undistributed profits of Núcleo is fully recognized as it is considered probable that those results will flow to Personal in the form of dividends.

The statutory income tax rate in Uruguay was 25% for all years presented.

The statutory income tax rate in the United States was 39.50%, 39.50% and 36.50% for the years ended December 31, 2012, 2011 and 2010, respectively.

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• *Turnover tax*

Under Argentine tax law, the Company is subject to a tax levied on revenues and other income, net of certain deductible expenses. Rates differ depending on the jurisdiction where revenues are earned for tax purposes and on the nature of revenues (services and equipment). Average rates resulting from the turnover tax charge over the total revenues were approximately 4.7%, 4.4% and 4.5% for the years ended December 31, 2012, 2011 and 2010, respectively.

• *Other taxes and levies*

Since the beginning of 2001, telecommunication services companies have been required to make a SU contribution to fund SU requirements (Note 2.d). The SU tax is calculated as a percentage of the total revenues received from the rendering of telecommunication services, net of taxes and levies applied on such revenues, excluding the SU tax and other deductions stated by regulations. The rate is 1% of total billed revenues and adopts the pay or play mechanism for compliance with the mandatory contribution to the SU fund.

Congress passed Law No. 26,539 which amends the excise tax and establishes that the importation and sale of technological and computer goods, including mobile phones, will be subject to the excise tax at a rate of 17%, resulting in an effective tax rate of up to 20.48%, applicable beginning on December 1, 2009. The Company has the right to transfer this tax to its customers but this is not always possible. Such incremental cost is included in the item line Cost of equipments and handsets .

p) Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as Finance expenses . Additional information is given in Note 17.

Provisions also include the expected costs of dismantling assets and restoring the corresponding site if a legal or constructive obligation exists, as mentioned in h) above. The accounting estimates for dismantling costs, including discount rates, and the dates in which such costs are expected to be incurred are reviewed annually, at each financial year-end.

q) Dividends

Dividends payable are reported as a change in equity in the year in which they are approved by the Shareholders Meeting.

r) Finance income and expenses

Finance income and expenses include:

- interest accrued on the related financial assets and liabilities using the effective interest rate method;
- changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss;
- gains and losses on foreign exchange and financial instruments (including derivatives);
- other financial results (repurchase of financial debt, etc.).

s) Earnings per share

Basic earnings per share are calculated by dividing the net income or loss attributable to owners of the Parent by the weighted average number of ordinary shares outstanding during the year (see Note 25).

t) Use of estimates

The preparation of consolidated financial statements and related disclosures in conformity with IFRS requires Management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate.

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Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

Financial statement item / area	Accounting estimates
Revenues	Revenue recognition is influenced by: • the expected duration of the relationship with the customer for revenues from upfront connection fees; • the estimation of traffic measures.
Useful lives and residual value of PP&E and Intangible assets	PP&E and intangible assets, except for indefinite useful life intangibles, are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the depreciable amount of the assets and their useful lives involves significant judgment. The Company periodically reviews, at least at each financial year-end, the estimated useful lives of its PP&E and amortizable intangible assets.
Recoverability of PP&E and intangible assets with finite useful life	At least at every annual closing date, an assessment is made regarding whenever events or changes in circumstances indicate that PP&E and amortizing intangible assets may be impaired. The recoverable amount is the higher of the fair value (less costs to sell) and its value in use. The identification of impairment indicators and the estimation of the value in use for assets (or groups of assets or cash generating units) require management to make significant judgments concerning the validation of impairment indicators, expected cash flows and applicable discount rates. Estimated cash flows are based on significant Management s assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, capital cost, etc. For the years presented the Company estimated that there are no indicators of impairment of assets that are subject to amortization. However, changes in our current expectations and operating assumptions, including changes in our business strategy, technology, competition and/or changes in market conditions, and the outcome of the rates negotiations for regulated fixed services with the Argentine government, could significantly impact these judgments and could require future adjustments to the recorded assets.
Intangible assets with indefinite useful life PCS license	The Company determined that Personal s PCS license met the definition of an indefinite-lived intangible asset for the years presented and tests it annually for impairment. The recoverability assessment of an indefinite-lived intangible asset such as the PCS license requires our Management to make assumptions about the future cash flows expected to be derived from such asset. Such estimated cash flows are based on significant Management s assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, discount rate, etc. The discount rate used to determine the discounted cash

	flow is an annual US dollar rate of approximately 14%. Our judgments regarding future cash flows may change due to future market conditions, business strategy, the evolution of technology and other factors. These changes, if any, may require adjustments to the carrying amount of the PCS license.
Income taxes and recoverability assessment of deferred tax assets	Income taxes (current and deferred) are calculated in each company of the Telecom Group according to a reasonable interpretation of the tax laws in effect in each jurisdiction where the companies operate. The recoverability assessment of deferred tax assets sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets takes into account the estimate of future taxable income based on the Company s projections and on conservative tax planning.
Receivables and payables valued at amortized cost	Receivables and payables valued at amortized cost are initially recorded at their fair value, which is generally determined by using a discounted cash flow valuation method. The fair value under this method is estimated as the present value of all future cash flows discounted using an estimated discount rate, especially for long term receivables and payables. The estimated discount rate used to determine the discounted cash flow of non-current receivables and payables is an annual rate in pesos ranging between 19% and 28% for years 2012 and 2010. Additionally, an annual U.S. dollars rate of approximately 8% was used for discounting long term receivables denominated in U.S. dollars during 2012 and 2011.
Provisions	The Company is subject to proceedings, lawsuits and other claims related to labor, civil, tax, regulatory and other matters. In order to determine the proper level of provisions, Management assesses the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. Internal and external legal counsels are consulted on these matters. A determination of the amount of provisions required, if any, is made after careful analysis of each individual issue. The determination of the required provisions may change in the future due to new developments in each matter, changes in jurisprudential precedents and tribunal decisions or changes in its method of resolving such matters, such as changes in settlement strategy.
Allowance for Doubtful Accounts	The recoverability of receivables is measured by considering the aging of the accounts receivable balances, historical write-offs, customer creditworthiness and changes in the customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of the customers were to deteriorate, the actual write-offs could be higher than expected.

In the absence of a Standard or an Interpretation that specifically applies to a particular transaction, Management carefully considers the IFRS general framework and valuation techniques generally applied in the telecommunication industry and uses its judgment to evaluate the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, reflect the economic substance of the transactions, be neutral, be prepared on a prudent basis and be completed in all material respects.

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New Standards and Interpretations issued by the IASB not in force

As required by IAS 8, the IFRS issued by the IASB not in force as of the date of these consolidated financial statements are reported below and briefly summarized. These standards have not been adopted by the Company.

IFRS 10 (Consolidated Financial Statements)

In May 2011 the IASB published IFRS 10 which supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation Special Purpose Entities* and is effective for financial years beginning on or after January 1, 2013. Earlier application is permitted.

The application of this standard is not expected to have a material impact on the Company s consolidated financial position and results of operations.

IFRS 12 (Disclosure of Interests in Other Entities)

In May 2011 the IASB issued IFRS 12 *Disclosure of Interest in Other Entities* , a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

The IFRS is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

As a result of the adoption of IFRS 12 since January 1, 2013 additional disclosure regarding summarized financial information about each subsidiary could be required if its noncontrolling interest is material to the Company.

IFRS 13 (Fair value measurement)

In May 2011 the IASB issued IFRS 13 *Fair Value Measurement* . This standard contains guidance on fair value measurement and disclosure requirements. The requirements do not extend the use of fair value accounting as a general rule, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The application of this standard is not expected to have a material impact on the Company s financial position and results of operations.

IAS 19 revised (Employee benefits)

In June 2011 the IASB issued IAS 19 revised. The amendments make important improvements regarding the recognition of the actuarial gains and losses, the presentation of changes in assets and liabilities arising from defined benefit plans(requiring to be presented in OCI), and further disclosure requirements for defined benefit plans.

IAS 19 revised is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The application of these amendments is not expected to have a material impact on the Company s financial position and results of operations.

Amendments to IAS 1 (Presentation requirements for Other Comprehensive Income)

In June 2011 the IASB issued amendments to IAS 1. The amendments require companies to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

These amendments are effective for financial years beginning on or after July 1, 2012. The application of these amendments is not expected to have a material impact on the Company s financial position and results of operations.

Amendments to IAS 32 (Requirements for offsetting financial instruments)

In December 2011 the IASB issued amendments to IAS 32.

The amendments clarify the meaning of currently has a legally enforceable right of set-off and also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous.

These amendments are effective for financial years beginning on or after January 1, 2014 and are required to be applied retrospectively. Early application is permitted. The Company is currently analyzing the impact that the adoption of these amendments will have on the Company s financial position and results of operations.

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Amendments to IFRS 7 (Offsetting financial assets and financial liabilities)

In December 2011 the IASB issued amendments to IFRS 7. These amendments require disclosure to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity s recognized financial assets and recognized financial liabilities, on the entity s financial position.

These amendments are effective for financial years beginning on or after January 1, 2013. The required disclosures should be provided retrospectively.

The Company is currently analyzing the impact that the adoption of these amendments will have on the Company s financial position and results of operations.

Annual improvements to IFRSs (2009-2011 cycle)

In May 2012 the IASB published the Annual improvements to IFRS (2009-2011 cycle), which introduce amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. These amendments introduce clarifications in all cases that the IASB considered necessary as there was diversity and confusion in the application of certain requirements, but not substantially modify the respective standards. The adoption of these amendments will have no significant impact on the Company s financial position or results of operations.

The amendments are effective for financial years beginning on or after January 1, 2013. Earlier application is permitted.

Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)

The IASB issued an amendment to IFRS 10 *Consolidated Financial Statements*, which provides an exception to consolidation for entities that meet the definition of an investment entity. This exception requires that these entities do not consolidate its subsidiaries in the Consolidated Financial Statements, those investments must be measured at fair value. Additionally, amendments to exposure requirements of IFRS 12 and IAS 27 were made for such entities.

These amendments are effective for financial years beginning on or after January 1, 2014. Earlier application is permitted. The adoption of these amendments will have no significant impact on the Company s consolidated financial position or results of operations.

Note 4 Cash and cash equivalents and Investments. Additional information on the consolidated statements of cash flows

a) Cash and cash equivalents and Investments

Cash and cash equivalents consist of the following:

Cash and cash equivalents	As of December 31, 2012	2011
Cash	12	8
Banks	120	94
Time deposits	2,624	2,707
Mutual funds	404	9
Total cash and cash equivalents	**3,160**	**2,818**

Investments consist of the following:

Current investments	As of December 31, 2012	2011
Investments over 90 days maturity	540	
Argentine companies notes	1	
Loan to Nortel (Note 27.b)	2	
Government bonds	20	
Total current investments	**563**	

Non-current investments	As of December 31, 2012	2011
Argentine companies notes	69	
2003 Telecommunications Fund	1	1
Total non-current investments	**70**	**1**

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b) Additional information on the consolidated statements of cash flows

The consolidated statements of cash flows have been prepared using the indirect method.

For purposes of the statements of cash flows, cash and cash equivalents comprise cash, bank current accounts and short-term highly liquid investments (with a maturity of three months or less from the date of acquisition) and bank overdrafts (in the consolidated statements of financial position, bank overdrafts are included in current loans).

	As of December 31,			
	2012	**2011**	**2010**	**2009**
Cash and cash equivalents	3,160	2,818	1,385	1,273
Bank overdrafts			(9)	
Total cash and cash equivalents at year-end	**3,160**	**2,818**	**1,376**	**1,273**

- ***Changes in assets/liabilities components:***

	Years ended December 31,		
	2012	**2011**	**2010**
Net (increase) decrease in assets			
Investments not considered as cash or cash equivalents		3	1
Trade receivables, net	(654)	(534)	(405)
Other receivables, net	(163)	(108)	(125)
Inventories, net	(108)	(93)	(236)
	(925)	**(732)**	**(765)**
Net (decrease) increase in liabilities			
Trade payables	169	293	441
Deferred revenues	90	178	37
Salaries and social security payables	8	172	118
Other taxes payables	84	38	193
Other liabilities	(35)	29	9
Provisions	(121)	(56)	(36)
	195	**654**	**762**

Income tax paid consists of the following:

	Years ended December 31,		
	2012	**2011**	**2010**
Income tax returns	(389)	(529)	(451)
Payments in advance	(1,168)	(703)	(494)
Other payments	(90)	(84)	(62)
Total payments of income tax	**(1,647)**	**(1,316)**	**(1,007)**

- ***Main non-cash operating transactions:***

	Years ended December 31, 2012	2011	2010
VAT offset with income tax payments	23		
Compensation Fund contribution reclassified between:			
Provisions and other receivables and salaries and social security contributions	39		
Provisions and other liabilities	27		
SAC acquisitions offset with trade receivables	161	95	57
SU receivables offset with taxes payable		112	
Government bonds received in exchange for trade receivables			2

- ***Most significant investing activities:***

Fixed assets acquisitions include:

	Years ended December 31, 2012	2011	2010
Fixed assets additions (Note 8)	(2,574)	(2,485)	(1,962)
Plus:			
Payments of trade payables originated in prior years acquisitions	(1,223)	(1,065)	(924)
Less:			
Acquisition of fixed assets through incurrence of trade payables	1,317	1,351	1,124
Mobile handsets lent to customers at no cost (i)	15	6	4
	(2,465)	**(2,193)**	**(1,758)**

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

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Intangible assets acquisitions include:

	Years ended December 31, 2012	2011	2010
Intangible assets acquisitions (Note 9)	(842)	(874)	(572)
Plus:			
Payments of trade payables originated in prior years acquisitions	(92)	(105)	(127)
Trade receivables offset	(161)	(95)	(57)
Less:			
Acquisition of intangible assets through incurrence of trade payables	234	267	162
	(861)	**(807)**	**(594)**

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

	Years ended December 31, 2012	2011	2010
Loan to Nortel	(2)		15
Investments over 90 days maturity	(540)	20	
Argentine companies notes	(70)		
Government bonds	(20)		
	(632)	**20**	**15**

- ***Financing activities components:***

The following table presents the financing activities components of the consolidated statements of cash flows:

	Years ended December 31, 2012	2011	2010
Debt proceeds Núcleo	47		133
Total financial debt proceeds	**47**		**133**
Payment of Notes Personal and Telecom Argentina			(683)
Purchase of Notes Personal and Telecom Argentina			(35)
Payment of bank loans Núcleo	(63)	(36)	(118)
Total payment of debt	**(63)**	**(36)**	**(836)**
Payment of interest on Notes Personal and Telecom Argentina			(63)
Payment of interest on bank loans Núcleo	(13)	(14)	(13)
Total payment of interest	**(13)**	**(14)**	**(76)**

Company s Dividends Distribution

The Annual General Ordinary Shareholders Meeting of the Company held on April 27, 2012 approved a cash dividend distribution in the amount of $807 (equivalent to $0.82 peso per share of Telecom Argentina), which was paid on May 10, 2012.

The Annual General Ordinary Shareholders Meeting of the Company held on April 7, 2011 approved a cash dividend distribution in the amount of $915 (equivalent to $0.93 peso per share of Telecom Argentina), which was paid on April 19, 2011.

The Annual General Ordinary and Extraordinary Shareholders Meeting held on April 28, 2010 approved a cash dividend distribution in the amount of $1,053 (equivalent to $1.07 per share) which was paid in two installments in May and December.

Núcleo s Dividends Distribution

The Núcleo s Annual General Ordinary Shareholders Meeting held on March 16, 2012 approved the following cash dividends distribution to its shareholders:

Dividends payment date	Dividends belonging to Personal	Dividends belonging to non-controlling shareholders	Total
April 2012	28	12	40
October 2012	21	11	32
Total	**49**	**23**	**72**

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Note 5 Trade receivables, net

Trade receivables, net consist of the following:

	As of December 31, 2012	As of December 31, 2011
Current trade receivables, net		
Fixed services	853	725
Personal mobile services	1,469	1,199
Núcleo mobile services	61	36
Subtotal	**2,383**	**1,960**
Allowance for doubtful accounts	(202)	(170)
	2,181	**1,790**
Non-current trade receivables, net		
Fixed services	23	30
	23	**30**
Total trade receivables, net	**2,204**	**1,820**

Movements in the allowance for current doubtful accounts are as follows:

	Years ended December 31, 2012	Years ended December 31, 2011
Current allowance for doubtful accounts		
At the beginning of the fiscal year	**(170)**	**(151)**
Additions Bad debt expenses	(275)	(169)
Uses	243	152
Currency translation adjustments		(2)
As of December 31,	**(202)**	**(170)**

Note 6 Other receivables, net

Other receivables, net consist of the following:

	As of December 31, 2012	As of December 31, 2011
Current other receivables, net		
Prepaid expenses	206	164
Receivable for suppliers indemnities	61	
Tax credits	54	56
Restricted funds	13	23
Compensation Fund	19	
Related parties (Note 27.b)		1

Other	111	74
Subtotal	**464**	**318**
Allowance for doubtful accounts	(15)	(12)
	449	**306**
Non-current other receivables, net		
Credit on SC Resolution No. 41/07 and IDC (Note 2.g and h)	85	90
Restricted funds	22	23
Tax credits	17	17
Prepaid expenses	86	68
Credit on minimum presumed income tax	4	5
Other	7	7
Subtotal	**221**	**210**
Allowance for regulatory matters (Note 2 g. and h)	(85)	(90)
Allowance for doubtful accounts	(17)	(17)
	119	**103**
Total other receivables, net	**568**	**409**

Movements in the allowances are as follows:

	Years ended December 31,	
	2012	**2011**
Non-current allowance for regulatory matters		
At the beginning of the year	**(90)**	**(90)**
Uses	5	
As of December 31,	**(85)**	**(90)**

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	Years ended December 31, 2012	2011
Current allowance for doubtful accounts		
At the beginning of the year	(12)	(13)
Additions	(3)	
Reversals		1
As of December 31,	**(15)**	**(12)**
Non-current allowance for doubtful accounts		
At the beginning of the year	(17)	(17)
Additions	(1)	
Uses	1	
As of December 31,	**(17)**	**(17)**

Note 7 Inventories, net

Inventories, net consist of the following:

	As of December 31, 2012	2011
Mobile handsets and equipment	626	536
Fixed telephones and equipment	15	19
Subtotal	**641**	**555**
Allowance for obsolescence of inventories	(8)	(19)
	633	**536**

Movements in the allowance for obsolescence of inventories are as follows:

	Years ended December 31, 2012	2011
Allowance for obsolescence of inventories		
At the beginning of the year	**(19)**	**(23)**
Additions Fees for services, maintenance and materials	(14)	(11)
Uses	25	15
As of December 31,	**(8)**	**(19)**

Note 8 Property, plant and equipment, net

PP&E consist of the following:

	As of December 31, 2012	2011

Land, buildings and installations		900	873
Computer equipment and software		1,196	1,162
Switching and transmission equipment (i)		2,273	2,163
Mobile network access and external wiring		2,531	2,209
Construction in progress		1,534	1,420
Other tangible assets		335	195
	Subtotal	**8,769**	**8,022**
Materials		280	240
Valuation allowance for materials		(14)	(15)
		9,035	**8,247**

(i) Includes tower and pole, transmission equipment, switching equipment, power equipment and equipment lent to customers at no cost.

Movements in Materials are as follows:

	As of December 31,	
	2012	**2011**
At the beginning of the year	240	176
Plus:		
Purchases	368	398
Less:		
Transfers to PP&E	(209)	(231)
Decreases	(125)	(104)
Currency translation adjustments	6	1
As of December 31,	**280**	**240**

Movements in the valuation allowance for materials are as follows:

		As of December 31,	
		2012	**2011**
Write-off of materials			
At the beginning of the year		**(15)**	**(22)**
Additions	Fees for services, maintenance and materials	(5)	(7)
Reversals	Fees for services, maintenance and materials		2
Uses		6	12
As of December 31,		**(14)**	**(15)**

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Details on the nature and movements during the years ended December 31, 2012 and 2011 are as follows:

	Gross value as of December 31, 2011	CAPEX	Currency translation adjustments (*)	Transfers and reclassifications	Decreases	Gross value as of December 31, 2012
Land	137		(3)	3		137
Building	1,582	1	20	34		1,637
Tower and pole	548		50	67		665
Transmission equipment	5,167	13	(196)	198	(1)	5,181
Mobile network access	2,359	1	120	181	(1)	2,660
Switching equipment	5,156	1	169	311	(1)	5,636
Power equipment	880		(5)	82		957
External wiring	6,975			483	(8)	7,450
Computer equipment	5,291	18	344	576	(5)	6,224
Telephony equipment and instruments	943		(194)	14		763
Equipment lent to customers at no cost	101	69			(19)	151
Handsets lent to customers at no cost	199	15	68			282
Vehicles	191	40		1	(9)	223
Furniture	108	1	(3)	15		121
Installations	503		(18)	63		548
Improvements in third parties buildings	174	4	39	77		294
Special projects	7			41		48
Construction in progress	1,420	2,239	16	(2,141)		1,534
Asset retirement obligations	47	8	2			57
Total	**31,788**	**2,410**	**409**	**5**	**(44)**	**34,568**

	Accumulated depreciation as of December 31, 2011	Depreciation	Currency translation adjustments (*)	Decreases and transfers	Accumulated depreciation as of December 31, 2012	Net carrying value as of December 31, 2012
Land						**137**
Building	(985)	(29)	(15)		(1,029)	**608**
Tower and pole	(364)	(24)	(3)		(391)	**274**
Transmission equipment	(4,280)	(198)	99	1	(4,378)	**803**
Mobile network access	(1,681)	(211)	(24)	1	(1,915)	**745**
Switching equipment	(4,333)	(289)	(163)	1	(4,784)	**852**
Power equipment	(656)	(39)	22		(673)	**284**
External wiring	(5,444)	(228)		8	(5,664)	**1,786**
Computer equipment	(4,129)	(603)	(300)	4	(5,028)	**1,196**
Telephony equipment and instruments	(908)	(10)	180		(738)	**25**
Equipment lent to customers at no cost	(56)	(54)		19	(91)	**60**
Handsets lent to customers at no cost	(190)	(10)	(69)		(269)	**13**
Vehicles	(128)	(18)	(1)	9	(138)	**85**
Furniture	(88)	(5)	3		(90)	**31**
Installations	(364)	(37)	8		(393)	**155**
Improvements in third parties buildings	(129)	(30)	(18)		(177)	**117**

Special projects	(3)	(4)			(7)	**41**
Construction in progress						**1,534**
Asset retirement obligations	(28)	(3)	(3)		(34)	**23**
Total	**(23,766)**	**(1,792)**	**(284)**	**43**	**(25,799)**	**8,769**

(*) Includes certain reclassifications between items.

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	Gross value as of December 31, 2010	CAPEX	Currency translation adjustments	Transfers and reclassifications	Decreases	Gross value as of December 31, 2011
Land	136		1	6	(6)	137
Building	1,579			17	(14)	1,582
Tower and pole	483		5	60		548
Transmission equipment	4,898	28	40	201		5,167
Mobile network access	2,078		11	270		2,359
Switching equipment	4,878		13	269	(4)	5,156
Power equipment	808		8	64		880
External wiring	6,638			355	(18)	6,975
Computer equipment	4,726	4	36	533	(8)	5,291
Telephony equipment and instruments	916		23	4		943
Equipment lent to customers at no cost	60	55			(14)	101
Handsets lent to customers at no cost	168	6	25			199
Vehicles	179	24	1	(6)	(7)	191
Furniture	95	1	2	10		108
Installations	439		5	59		503
Improvements in third parties buildings	154			21	(1)	174
Special projects	3			4		7
Construction in progress	1,081	2,188	18	(1,867)		1,420
Asset retirement obligations	35	12				47
Total	**29,354**	**2,318**	**188**		**(72)**	**31,788**

	Accumulated depreciation as of December 31, 2010	Depreciation	Currency translation adjustments	Decreases and transfers	Accumulated depreciation as of December 31, 2011	Net carrying value as of December 31, 2011
Land						**137**
Building	(964)	(24)		3	(985)	**597**
Tower and pole	(338)	(21)	(5)		(364)	**184**
Transmission equipment	(4,054)	(192)	(34)		(4,280)	**887**
Mobile network access	(1,488)	(182)	(11)		(1,681)	**678**
Switching equipment	(4,104)	(231)	(2)	4	(4,333)	**823**
Power equipment	(615)	(33)	(8)		(656)	**224**
External wiring	(5,263)	(200)		19	(5,444)	**1,531**
Computer equipment	(3,591)	(516)	(30)	8	(4,129)	**1,162**
Telephony equipment and instruments	(872)	(14)	(22)		(908)	**35**
Equipment lent to customers at no cost	(28)	(42)		14	(56)	**45**
Handsets lent to customers at no cost	(160)	(9)	(21)		(190)	**9**
Vehicles	(118)	(16)	(1)	7	(128)	**63**
Furniture	(82)	(4)	(2)		(88)	**20**
Installations	(329)	(31)	(4)		(364)	**139**
Improvements in third parties buildings	(110)	(19)			(129)	**45**
Special projects	(1)	(2)			(3)	**4**
Construction in progress						**1,420**
Asset retirement obligations	(26)	(2)			(28)	**19**
Total	**(22,143)**	**(1,538)**	**(140)**	**55**	**(23,766)**	**8,022**

Note 9 Intangible assets, net

Intangible assets consist of the following:

	Gross value as of December 31, 2011	CAPEX	Currency translation adjustments	Decreases	Gross value as of December 31, 2012
SAC	1,017	821	17	(577)	1,278
Service connection or habilitation costs	230	21		(31)	220
PCS license (Argentina)	658				658
PCS and Band B and Internet licenses (Paraguay)	320		75		395
Rights of use	350		1		351
Exclusivity agreements	41				41
Customer relationship	2				2
Software developed for internal use	464		25		489
Total	**3,082**	**842**	**118**	**(608)**	**3,434**

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	Accumulated depreciation as of December 31, 2011	Amortization	Currency translation adjustments	Decreases	Accumulated amortization as of December 31, 2012	Net carrying value as of December 31, 2012
SAC	(488)	(769)	(12)	577	(692)	**586**
Service connection or habilitation costs	(129)	(28)		31	(126)	**94**
PCS license (Argentina)	(70)				(70)	**588**
PCS and Band B and Internet licenses (Paraguay)	(318)		(77)		(395)	
Rights of use	(102)	(22)			(124)	**227**
Exclusivity agreements	(23)	(1)			(24)	**17**
Customer relationship						**2**
Software developed for internal use	(464)		(25)		(489)	
Total	**(1,594)**	**(820)**	**(114)**	**608**	**(1,920)**	**1,514**

	Gross value as of December 31, 2010	CAPEX	Currency translation adjustments	Decreases	Gross value as of December 31, 2011
SAC	895	746		(624)	1,017
Service connection or habilitation costs	258	22		(50)	230
PCS license (Argentina)	658				658
PCS and Band B (Paraguay)	298	1	21		320
Rights of use	244	105	1		350
Exclusivity agreements	41				41
Customer relationship	2				2
Software developed for internal use	461		3		464
Debt issue costs	10			(10)	
Total	**2,867**	**874**	**25**	**(684)**	**3,082**

	Accumulated depreciation as of December 31, 2010	Amortization	Currency translation adjustments	Decreases	Accumulated amortization as of December 31, 2011	Net carrying value as of December 31, 2011
SAC	(536)	(576)		624	(488)	**529**
Service connection or habilitation costs	(153)	(26)		50	(129)	**101**
PCS license (Argentina)	(70)				(70)	**588**
PCS and Band B (Paraguay)	(297)		(21)		(318)	**2**
Rights of use	(87)	(15)			(102)	**248**
Exclusivity agreements	(20)	(3)			(23)	**18**
Customer relationship						**2**
Software developed for internal use	(461)		(3)		(464)	
Debt issue costs	(10)			10		
Total	**(1,634)**	**(620)**	**(24)**	**684**	**(1,594)**	**1,488**

Note 10 Trade payables

Trade payables consist of the following:

	As of December 31, 2012	2011
Current trade payables		
PP&E suppliers	1,427	1,476
Other assets and services suppliers	1,607	1,254
Inventory suppliers	584	643
Agent commissions	30	23
SU reimbursement	11	11
	3,659	**3,407**
Non-current trade payables		
PP&E suppliers	20	
	20	
Total trade payables	**3,679**	**3,407**

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Note 11 Deferred revenues

Deferred revenues consist of the following:

	As of December 31,	
	2012	2011
Current deferred revenues		
Deferred revenue on prepaid calling cards	270	228
Deferred revenue on connection fees	30	27
Deferred revenue on sale of capacity and related services	34	22
Deferred revenue on customer loyalty programs	26	13
Deferred revenue from CONATEL	2	2
	362	**292**
Non-current deferred revenues		
Deferred revenue on sale of capacity and related services	217	208
Deferred revenue on connection fees	64	73
Deferred revenue on customer loyalty programs	39	18
Deferred revenue from CONATEL	9	8
	329	**307**
Total deferred revenues	**691**	**599**

Note 12 Financial Debt

Financial debt (which fully belongs to Núcleo) consists of the following:

	As of December 31,	
	2012	2011
Current financial debt		
Bank loans	40	17
Accrued interest	3	2
	43	**19**
Non-current financial debt		
Bank loans	101	115
	101	**115**
Total loans	**144**	**134**

Bank loans

The following table shows the outstanding loans with local banks in Paraguay and their main terms as of December 31, 2012:

Principal nominal value (in millions of Guaraníes)	Amortization term	Book value (in millions of $) Current	Non-current
46,000	4 years	2	50
32,000	2.6 years	11	26
34,000	1.6 years	14	25
11,750	7 months	13	
123,750		**40**	**101**

The weighted average annual rate of these loans is 10.2% in Guaraníes and the weighted average amortization term of these loans is approximately 2 years.

The terms and conditions of Núcleo s loans provide for certain events of default which are considered standard for these kinds of operations.

<u>Global Programs for the issuance of Notes</u>

<u>Telecom Argentina</u>

The Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina held on December 15, 2011, approved the creation of a Medium Term Notes Global Program for a maximum outstanding amount of US$ 500 million or its equivalent in other currencies for a term of five years. As of the date of these financial statements, Telecom Argentina is preparing the documentation required by the CNV to approve this program.

<u>Personal</u>

The Ordinary and Extraordinary Shareholders Meeting of Personal held on December 2, 2010, approved the creation of a Medium Term Notes Global Program for a maximum outstanding amount of US$ 500 million or its equivalent in other currencies for a term of five years. On October 13, 2011, the CNV has approved this program.

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Note 13 Salaries and social security payables

Salaries and social security payables include unpaid salaries, vacation and bonuses and its related social security contributions, termination benefits and restructuring indemnities.

As of December 31, 2012, the total number of employees was 16,808 (includes 3 temporary employees), of which approximately 77% were unionized. All Management and senior positions are held by non-unionized employees.

In the field of compensation policy for Directors and Managers, the Company and its subsidiaries have a scheme that includes fixed and variable components. While fixed compensation is dependent upon the level of responsibility required for the position and its market competitiveness, variable compensation is comprised of compensation driven by the goals established on an annual basis and also by compensation regarding the fulfillment of long term goals.

The Company and its subsidiaries have no stock option plans for their employees.

Salaries and social security payables consist of the following:

	As of December 31,	
	2012	**2011**
Current		
Vacation and bonuses	391	359
Social security payables	144	113
Termination benefits	60	64
Restructuring debt	14	
Compensation Fund debt	26	
	635	**536**
Non-current		
Termination benefits	128	136
	128	**136**
Total salaries and social security payables	**763**	**672**

Compensation for the Key Managers for the years ended December 31, 2012, 2011 and 2010 is shown in Note 27.e).

Note 14 Income tax payables and deferred income tax

Income tax asset and liability, net as of December 31, 2012 and 2011 consist of the following:

	As of December 31, 2012					As of
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total	December 31, 2011
Income tax payables	304	1,184	30	2	1.520	1,425
Payments in advance of income taxes	(247)	(803)	(14)	(1)	(1,065)	(823)
Law No. 26,476 Tax Regularization Regime	3				3	3
Current income tax liability, net	**60**	**381**	**16**	**1**	**458**	**605**
Non-current deferred income tax liabilities/(asset)	(54)	220	(8)		158	210
Law No. 26,476 Tax Regularization Regime	12				12	13
Non-current Income tax liability /(asset), net	**(42)**	**220**	**(8)**		**170**	**223**

The tax effects of temporary differences that give rise to significant portions of the Company s deferred tax assets and liabilities are presented below:

	As of December 31, 2012					As of December 31, 2011	
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total	Argentina	Abroad
Tax loss carryforwards		(1)			(1)	(1)	(1)
Allowance for doubtful accounts	(40)	(54)	(2)		(96)	(70)	(1)
Provisions	(248)	(120)			(368)	(344)	
Inventory		(19)			(19)	(14)	
Termination benefits	(63)				(63)	(66)	
Deferred revenues on connection fees						(50)	
Other deferred tax assets, net	(108)	(3)	(11)		(122)	(34)	
Total deferred tax assets	**(459)**	**(197)**	**(13)**		**(669)**	**(579)**	**(2)**
PP&E and intangible assets	405	348			753	740	2
Other deferred tax liabilities		45	5		50	28	
Total deferred tax liabilities	**405**	**393**	**5**		**803**	**768**	**2**
Subtotal net deferred tax liabilities/(assets)	**(54)**	**196**	**(8)**		**134**	**189**	
Valuation allowance		24			24	20	1
Net deferred tax liabilities/(assets)	**(54)**	**220**	**(8)**		**158**	**209**	**1**

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Income tax expense for the years ended December 31, 2012, 2011 and 2010 consists of the following:

	Year ended December 31, 2012				
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total
Current tax expense	(310)	(1,187)	(23)	(2)	(1,522)
Deferred tax benefit	38	20	3	1	62
Valuation allowance		(3)			(3)
Income tax expense	**(272)**	**(1,170)**	**(20)**	**(1)**	**(1,463)**

	Year ended December 31, 2011				
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total
Current tax expense	(379)	(1,039)	(16)		(1,434)
Deferred tax benefit (expense)	101	(59)	2		44
Valuation allowance		(5)			(5)
Income tax expense	**(278)**	**(1,103)**	**(14)**		**(1,395)**

	Year ended December 31, 2010				
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total
Current tax expense	(408)	(655)	(4)		(1,067)
Deferred tax benefit (expense)	78	(79)	(6)	1	(6)
Valuation allowance		(3)			(3)
Income tax expense	**(330)**	**(737)**	**(10)**	**1**	**(1,076)**

Income tax expense for the years ended December 31, 2012, 2011 and 2010 differed from the amounts computed by applying the Company s statutory income tax rate to pre-tax income as a result of the following:

	For the years ended December 31,		
	2012	2011	2010
Pre-tax income	4,195	3,937	3,025
Non taxable items	(25)	17	42
Subtotal	**4,170**	**3,954**	**3,067**
Weighted statutory income tax rate (*)	34.9%	34.7%	34.4%
Income tax expense at weighted statutory tax rate	**(1,456)**	**(1,373)**	**(1,054)**
Other changes in tax assets and liabilities	(4)	(17)	(19)
Changes in valuation allowance	(3)	(5)	(3)
	(1,463)	**(1,395)**	**(1,076)**

(*) Effective income tax rate based on weighted statutory income tax rate in the different countries where the Company has operations. The statutory tax rate in Argentina was 35% for all the years presented, in Paraguay was 10% plus an additional rate of 5% in case of payment of dividends for all the years presented, in Uruguay the statutory tax rate was 25% for all the years presented and in the USA the effective tax rate was 39.5%, 39.5% and 36.5%, respectively.

Note 15 Other taxes payables

Other taxes payables consist of the following:

	As of December 31, 2012	2011
Current		
VAT, net	180	129
Tax on SU (Note 2.d)	88	85
Tax withholdings	91	85
Internal taxes	55	50
Turnover tax	54	40
Regulatory fees	48	40
Municipal taxes	17	13
Retention Decree No.583/10 ENARD	9	8
Other	10	7
	552	**457**

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Note 16 Other liabilities

Other liabilities consist of the following:

	As of December 31, 2012	2011
Current		
Legal fees	12	
Guarantees received	7	8
Other	21	22
	40	**30**
Non-current		
Suppliers guarantees on third parties claims	12	34
Pension benefits	38	23
Legal fees		11
Other	1	4
	51	**72**
Total other liabilities	**91**	**102**

Movements in the pension benefits are as follows:

	As of December 31, 2012	2011
At the beginning of the year	**23**	**22**
Service cost (*)	5	2
Interest cost (*)	11	5
Actuarial gain (*)	(1)	(6)
As of December 31,	**38**	**23**

(*) Included in Employee benefit expenses and severance payments.

Note 17 Provisions

The Company is a party to several civil, tax, commercial, labor and regulatory proceedings and claims that have arisen in the ordinary course of business. In order to determine the proper level of provisions, Management of the Company, based on the opinion of its internal and external legal counsel, assesses the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. A determination of the amount of provisions required, if any, is made after careful analysis of each individual case.

The determination of the required provisions may change in the future due to new developments or unknown facts at the time of the evaluation of the claims or changes as a matter of law or legal interpretation. Consequently, as of December 31, 2012, the Company has established provisions in an aggregate amount of $1,126 to cover potential losses under these claims ($85 for regulatory contingencies deducted from assets and $1,041 included under provisions) and certain amounts deposited in the Company s bank accounts have been restricted as to their use due to some judicial proceedings. As of December 31, 2011, these restricted funds totaled $35 (included under Other receivables, net item line in the consolidated statement of financial position).

Provisions consist of the following:

	Balances as of December 31, 2010	**Additions (recoveries) Capital**	**Interest (i)**	**Reclassifications**	**Uses**	**Balances as of December 31, 2011**	**Additions (recoveries) Capital**	**Interest (i)**	**Reclassifications**	**Uses Debt recognition**	**Payments**	**Balances as of December 31, 2012**
Current												
Provision for civil and commercial proceedings	**25**			1	(10)	**16**			24		(7)	**33**
Provision for labor claims	**38**			135	(45)	**128**			54	(57)	(93)	**32**
Restructuring							**(ii)** 54					**54**
Provision for regulatory, tax and other matters claims	**1**			29	(1)	**29**			31	(24)	(21)	**15**
Total current provisions	**64**			**165**	**(56)**	**173**	**54**		**109**	**(81)**	**(121)**	**134**
Non-current												
Provision for civil and commercial proceedings	**87**	13	16	1		**117**	33	19	(24)			**145**
Provision for labor claims	**155**	128	71	(134)		**220**	60	39	(54)	(10)		**255**
Provision for regulatory, tax and other matters claims	**295**	84	24	(19)		**384**	60	19	(31)			**432**
Asset retirement obligations	**44**	12	5			**61**	9	5				**75**
Total non-current provisions	**581**	**(iv) 237**	**116**	**(152)**		**782**	**(iii) 162**	**82**	**(109)**	**(10)**		**907**
Total provisions	**645**	**237**	**116**	**(v) 13**	**(56)**	**955**	**216**	**82**		**(91)**	**(121)**	**1,041**

(i) Charged to finance costs.

(ii) Charged to restructuring costs.

(iii) Charged 153 to Provisions, 8 to PP&E capex and 1 to currency translation adjustments.

(iv) Charged 225 to Provisions and 12 to PP&E capex.

(v) Includes a reclassification of 13 from current liabilities.

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Restructuring Plan

In the last quarter of 2012 the Company s Management decided to implement a restructuring plan aimed to improve the efficiency of the Telecom Group s organizational structure. This plan contemplates the removal and / or merger of management structures in various areas of Telecom Argentina and Personal. The plan involves the dismissal of about 90 members of middle and upper management with a total estimated cost of $90. As of December 31, 2012, 45 dismissals has been made effective, 40 employees of Telecom Argentina and 5 employees of Personal, for a total amount of $36, of which $14 were still pending of payment . Such amount is disclosed in Salaries and Social Security payables. The remaining $54 has been accrued as the requirements of IAS 37 paragraphs 70-83 have been accomplished. The remaining dismissals will be realized during the first quarter of 2013.

Below is a summary of the most significant claims and legal actions for which provisions have been established:

- *Profit sharing bonds*

Different legal actions were brought, mainly by former employees of the Company against the National Government and the Company, requesting that Decree No. 395/92 which expressly exempted the Company from issuing the profit sharing bonds provided in Law No. 23,696 be struck down as unconstitutional and, therefore, claiming compensation for the damages they had suffered because such bonds had not been issued.

In those suits for which judgment has already been rendered, the trial court judges hearing the matter resolved to dismiss the actions brought relying on arguments made by each case s respective prosecutors pointing that such rule was valid and constitutional. However, in August 2008, the Supreme Court of Justice, when resolving a case against Telefónica, found the Decree No. 395/92 unconstitutional.

Since the National Supreme Court of Justice s judgment on this matter, the three Divisions of the Courts of Appeal ruled that Decree No. 395/92 was unconstitutional.

In order to defend its rights, the Company filed various appeals against these unfavorable decisions. Up to date, the National Supreme Court of Justice has denied the first extraordinary appeals. It should be noted that the abovementioned ruling of the Supreme Court on the case against Telefónica has created a judicial precedent that, in the opinion of the legal counsel of the Company, increases the probability that the Company has to face certain contingencies as a result of an adverse ruling, notwithstanding the right of reimbursement that attends Telecom Argentina against the National State.

Said Court decision found the abovementioned Decree unconstitutional and ordered to send the proceedings back to the court of origin so that said court could decide on which was the subject compelled to pay licensee and/or National Government- and the parameters that were to be taken into account in order to quantify the condemnation amounts (percentage of profit sharing, status of limitation, distribution method between the beneficiaries of the program). It should be mentioned that there is no uniformity of opinion in the Courts in relation to each of those concepts.

As of December 31, 2012, the management of the Company, with the advice of its legal counsel, has recorded provisions for contingencies that it estimates are sufficient to cover the risks associated with these claims, having considered the legal background up to the date of issuance of these consolidated financial statements.

- *Wage differences by food vouchers and non-remunerative lump sum*

The Company is subject to various lawsuits initiated by some employees and former employees who claim wage differences caused by the impact of the concepts non-remunerative lump sum and food vouchers over the settlement of items such as overtime, productivity, vacation, supplementary annual salary and other additional benefits provided by the Collective Bargaining Agreement.

In this regard, the Supreme Court of Justice has recognized that food vouchers are remunerative and are part of the employees compensations, declaring the unconstitutionality of Sect. 103 bis, inc. C of the Employment Contract Act (which gives them the character of social benefits). Considering these judicial precedents, at December 31, 2012, the Management of the Company, with the advice of its legal counsel, has recorded a provision for contingencies that it estimates is sufficient to cover the risks associated with these claims at the date of issue of these consolidated financial statements.

In addition, the Company is subject to other claims and legal actions that have arisen in the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Management of the Company, based upon the information available at this time and consultation with external and internal legal counsel, that the expected outcome of these other claims and legal actions, individually or in the aggregate, will not have a material effect on the Company s financial position, liquidity or results of operations. In accordance with IAS 37, no provisions have been established for the outcome of these actions.

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Contingent liabilities other than remote

- *Consumidores Financieros Asociación Civil para su defensa demand*

In November 2011, Personal was notified of a lawsuit filed by the Financial Consumers Defense Association (Consumidores Financieros Asociación Civil para su defensa) claiming that Personal made allegedly abusive charges to its customers by implementing per-minute billing and setting an expiration date for prepaid telecommunication cards.

The lawsuit demands: Personal to i) cease such practices and bill its customers only for the exact time of telecommunication services used; ii) reimburse the amounts collected in excess in the ten years preceding the date of the lawsuit; iii) credit its customers for unused minutes on expired prepaid cards in the ten years preceding the date of the lawsuit; iv) pay interest equal to the lending rate charged by the Banco de la Nación Argentina in addition to the claims mentioned in i) and ii); and v) pay punitive damages provided by article 52 bis of Law No. 24,240.

Personal responded in a timely manner, arguing the grounds by which the lawsuit should be dismissed, with particular emphasis on the regulatory framework that explicitly endorse Personal s practices, now challenged by the plaintiff in disregard of such regulations.

The plaintiffs are seeking damages for unspecified amounts. Currently, Personal is quantifying the risk involved in this contingency. Although Personal believes there are strong defense arguments for which the claim should not succeed, in the absence of jurisprudence on the matter, Personal s Management (with the assistance of its legal counsel) has classified the claim as possible until a judgment is rendered.

- *Lawsuit against Personal on changes in services prices*

In June 2012, Personal was notified of a lawsuit from the Consumer Association Proconsumer , which claims alleged insufficiencies in the information disclosed to Personal s clients when changes in the prices conditions took place during the period May 2008 - May 2011. The remedy requested in the lawsuit is that certain clients those who are charged by a fixed monthly fee- be reimbursed amounts of money for a period of two months as from the moment in which the inconsistencies of information alleged by the claimant took place. The complaint is for an undetermined amount and Personal was evaluating the possible amounts involved. The Management of Personal considered that it had adequately disclosed and given publicity of the changes in contractual conditions, and therefore believed that this complaint should not be successful.

On September 5, 2012 the Court considered as formally answered by Personal the lawsuit filed by the Consumers Association Proconsumer . Before continuing with the trial, the Court will have to make a decision on some preliminary defenses presented by Personal (incompetence and lack of legitimacy of the claimant).

While Management of Personal considers that there are solid arguments for the favorable resolution of this lawsuit, in case it was resolved unfavorably, it would not have a significant impact on the financial position and results of Personal.

Note 18 Commitments

(a) Purchase commitments

The Company has entered into various purchase orders amounting in the aggregate to approximately $2,600 as of December 31, 2012 (of which $971 corresponds to PP&E commitments), primarily related to the supply of switching equipment, external wiring, infrastructure agreements, inventory and other service agreements. This amount also includes the commitments mentioned in c) and d) below.

(b) Investment commitments

In August 2003, Telecom Argentina was notified by the SC of a proposal for the creation of a $70-million fund (the Complejo Industrial de las Telecomunicaciones 2003 or 2003 Telecommunications Fund) to be funded by the major telecommunication companies and aimed at developing the telecommunications sector in Argentina. Banco de Inversion y Comercio Exterior (BICE) was designated as Trustee of the Fund.

In November 2003, the Company contributed $1.5 at the inception of the Fund. In addition, Management announced that it is the Company s intention to promote agreements with local suppliers which would facilitate their access to financing.

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(c) Commitments assumed by Telecom Argentina from the sale of Publicom

On March 29, 2007, Telecom Argentina s Board of Directors approved the sale of its equity interest in Publicom (a company engaged in directories publishing business) to Yell Publicidad S.A. (a company incorporated in Spain, member of the Yell Group- *Grupo Yell*), which was executed on April 12, 2007 (the Closing Date).

A series of declarations and guarantees, standard for this type of transactions, assumed by Telecom Argentina towards the buyer with respect to Publicom and to itself and others assumed by the buyer towards Telecom Argentina and towards itself are included in the contract. Reciprocal obligations and commitments are also set forth, between Telecom Argentina and the buyer.

It has been ruled that Telecom Argentina shall indemnify and shall hold the buyer harmless from any and all damages that might result from:

(i) Any claim addressed to the buyer by third parties in which the owner s equity, entitlement to inherent rights and /or unrestricted disposal of shares is successfully objected;

(ii) Damages and losses of equity derived from incorrectness or inaccuracy of the declarations and guarantees;

(iii) Damages and losses of equity derived from the non-fulfillment of the obligations and commitments undertaken by Telecom Argentina.

These indemnities granted by Telecom Argentina have time as well as economic limits, which as of December 31, 2012 were accomplished.

On Closing Date and after the stock transfer was actually performed, Publicom accepted a proposal from Telecom Argentina. According to said proposal, Telecom Argentina:

- engages Publicom to publish Telecom Argentina s directories (white pages) for a 5-year period, which may be extended upon expiry date;
- engages Publicom to distribute Telecom Argentina s white pages for a 20-year period, which may be extended upon expiry date;
- engages Publicom to maintain the Internet portal, which allows to access the white pages through the web, for a 20-year period, term which may be extended upon expiry date;
- grants Publicom the right to lease advertising spaces on the white pages for a 20-year period, which may be extended upon expiry date; and
- authorizes the use of certain trademarks for the distribution and/or consultation on the Internet and/or advertising spaces agreements for the same specified period.

Telecom Argentina reserves the right to supervise certain matters associated with white pages publishing and distribution activities that allow Telecom Argentina to assure the fulfillment of its regulatory obligations during the term of the proposal. The terms and conditions of the proposal include usual provisions that allow Telecom Argentina to apply economic sanctions in the case of non-compliance, and in the case of serious non-compliance, allow Telecom Argentina to require an early termination. In the latter case, the Company could enter into an agreement with other providers.

The proposal set prices for the publishing, printing and distribution of the 2007 directories, and provided clauses for the subsequent editions in order to ensure Telecom Argentina that said services will be contracted at market price.

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

(d) Commitments assumed by Núcleo

During 2010, the CONATEL awarded Núcleo a public bidding for the implementation of the expansion of the infrastructure of networks used as platform for the mobile telephony access services and the basic service in areas of public or social interest in Paraguay. The total investment was approximately of $17, of which $11 would be subsidized by CONATEL.

As of the date of these financial statements, Núcleo has timely fulfilled its investments obligations and the total assets and services have been installed and are satisfactorily functioning. The CONATEL has disbursed approximately $10 related to this bidding, while $1 is still pending.

Additionally, in August 2011, the CONATEL awarded Núcleo a new public bidding for the implementation of the expansion of the infrastructure of networks as a platform for the mobile telephony access services and the basic service in the Department of Caaguazú. Núcleo committed to install and render satisfactorily functioning all the assets and services covered by the bidding within six months from the date of signing of the contract, by means of an approximate investment of $6 (of which $5 would be subsidized by the CONATEL). As of the date of these financial statements, the work is finished. The CONATEL has disbursed approximately $1 related to this bidding.

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CONATEL s total differed disbursements as of December 31, 2012 amounted to $11 and were included under Deferred revenues item line, corresponding $2 and $9 to current and non-current deferred revenues, respectively.

Note 19 Equity

Equity includes:

	As of December 31, 2012	2011
Equity attributable to Telecom Argentina (Controlling Company)	9,959	8,021
Equity attributable to non-controlling interest	199	144
Total equity (*)	**10,158**	**8,165**

(*) Additional information is given in the consolidated statements of changes in equity.

(a) Capital information

At December 31, 2012, all the shares are fully paid. Common shareholders are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

The Company s shares are authorized by the CNV, the Buenos Aires Stock Exchange (the BCBA) and the New York Stock Exchange (the NYSE) for public trading. Only 440,920,997 of Class B shares are traded since Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares; and Class C shares are dedicated to the employee stock ownership program, as described below.

Each ADS represents 5 Class B shares and are traded on the NYSE under the ticker symbol TEO.

(b) Share ownership program

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

In 1999, Decree No. 1,623/99 of the Argentine Government eliminated the restrictions on some of the Class C shares held by the PPP, although it excluded Class C shares of the Fund of Guarantee and Repurchase subject to an injunction against their use. In March 2000, the shareholders meeting of the Company approved the conversion of up to unrestricted 52,505,360 Class C shares into Class B shares (these shares didn t belong to the Fund of Guarantee and Repurchase), most of which was sold in a secondary public offering in May 2000.

The Annual General and Extraordinary Meetings held on April 27, 2006, approved that the power for the additional conversion of up to 41,339,464 Class C ordinary shares into the same amount of Class B ordinary shares, be delegated to the Board of Directors. As granted by the Meetings, the Board transferred the powers to convert the shares to some of the Board s members and/or the Company s executive officers. As of December 31, 2011, all the 41,339,464 shares were converted into Class B ordinary shares in eleven tranches.

The remaining 4,593,274 Class C shares were affected by an injunction measure recorded in file *Garcías de Vicchi, Amerinda y otros c/ Sindicación de Accionistas Clase C del Programa de Propiedad Participada s/nulidad de acto jurídico* , which was released. The General Ordinary and Extraordinary and Special Class C Shares Meetings held on December 15, 2011, approved that the power for the additional conversion of up to 4,593,274 Class C shares into the same amount of Class B shares in one or more tranches, be delegated to the Board of Directors. Of such amount, 4,222,553 Class C shares have already been converted into Class B shares in 5 tranches. As of the date of these consolidated financial statements, 370,721 Class C shares are still pending to be converted into Class B shares.

(c) New Capital Market Act - Law No. 26,831

As of December 31, 2012, Article 24 of Decree No. 677/01 was in force, which provided that the filers could be excluded from the Obligatory Acquisition Publicly-Listed Regime by resolution of its Ordinary Shareholders Meeting and the inclusion of such resolution in its Bylaws. So did Telecom Argentina through its Ordinary and Extraordinary Shareholders Meeting held on April 30, 2003.

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On December 28, 2012 the new Capital Market Law (Law No. 26,831) was published in the Official Bulletin. This Law eliminates self-regulation of the capital market; grants new powers to the CNV and supersedes Law No. 17,811 and Decree No. 677/01, among other rules. The Law became effective on January 28, 2013. Since that date, governs the universal scope of the Statutory Regime of Public Offer of Mandatory Acquisition, as provided the Law, which states: Article 90. Universal scope. The Statutory Regime of Public Offer of Mandatory Acquisition regulated in this chapter and the residual rules of participation regulated in the following chapter includes all listed companies, even those that, under the previous regime, have opted to be excluded of its application.

Note 20 Financial instruments

Categories of financial assets and financial liabilities

The following tables set out, for financial assets and liabilities as of December 31, 2012 and 2011, in accordance with the categories established by IFRS 9, the supplementary disclosures on financial instruments required by IFRS 7 and the schedules of gains and losses.

		Fair value		
As of December 31, 2012	**Amortized cost**	**accounted through profit or loss**	**accounted through other comprehensive Income**	**Total**
Assets				
Cash and cash equivalents (1)	2,756	404		**3,160**
Investments	632	1		**633**
Trade receivables, net	2,204			**2,204**
Other receivables, net (2)	174			**174**
Total	**5,766**	**405**		**6,171**
Liabilities				
Trade payables	3,679			3,679
Loans	144			144
Salaries and social security payables	763			763
Other liabilities (2)	53			53
Total	**4,639**			**4,639**

		Fair value		
As of December 31, 2011	**Amortized cost**	**accounted through profit or loss**	**accounted through other comprehensive Income**	**Total**
Assets				
Cash and cash equivalents (1)	2,809	9		**2,818**
Investments		1		**1**
Trade receivables, net	1,820			**1,820**
Other receivables, net (2)	77			**77**
Total	**4,706**	**10**		**4,716**
Liabilities				
Trade payables	3,407			**3,407**
Loans	134			**134**

Salaries and social security payables	672	**672**
Other liabilities (2)	77	**77**
Total	**4,290**	**4,290**

(1) Includes $132 and $102 as of December 31, 2012 and 2011, respectively, corresponding to Cash and banks, which were measured as financial assets at amortized cost by the Company.

(2) Only includes financial assets and liabilities according to the scope of IFRS 7.

Gains and losses by category Year 2012

	Net gain/(loss)	Of which interest
Financial assets at amortized cost	553	391
Financial liabilities at amortized cost	(255)	(49)
Financial assets at fair value through profit or loss	17	
Financial liabilities at fair value through profit or loss	(2)	
Total	**313**	**342**

Gains and losses by category Year 2011

	Net gain/(loss)	Of which interest
Financial assets at amortized cost	308	236
Financial liabilities at amortized cost	(119)	(34)
Financial assets at fair value through profit or loss	8	
Financial liabilities at fair value through profit or loss	(1)	
Total	**196**	**202**

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Fair value hierarchy and other disclosures

IFRS 7 establishes a hierarchy of fair value, based on the information used to measure the financial assets and liabilities and also establishes different valuation techniques. According to IFRS 7, valuation techniques used to measure fair value shall maximize the use of observable inputs.

The measurement at fair value of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. The fair value hierarchy introduces three levels of input:

- Level 1: Fair value determined by quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value determined by unobservable inputs where the reporting entity is required to develop its own assumptions.

Financial assets and liabilities recognized at fair value as of December 31, 2012 and 2011, their inputs, valuation techniques and the level of hierarchy are listed below:

Mutual Funds: These funds are included in Cash and cash equivalents. The Group had mutual funds amounting to $404 and $9 as of December 31, 2012 and 2011, respectively. The fair value is based on information obtained from active markets and corresponds to quoted market prices as of year-end; therefore its valuation is classified as Level 1.

Trade payables - Derivative financial instruments (Forward contracts to purchase US dollars at fixed exchange rates): The fair value of the Telecom Group s NDF contracts, disclosed below in the chapter Hedge Accounting was determined by information obtained in the most representative financial institutions in Argentina, the derivative financial instruments valuation was classified as Level 2.

During 2012 and 2011 there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

According to IFRS 7, it is also required to disclose fair value information about financial instruments whether or not recognized at fair value in the balance sheet, for which it is practicable to estimate fair value. The financial instruments which are discussed in this section include, among others, cash and cash equivalents, accounts receivable, accounts payable and other instruments.

Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company s fair values should not be compared to those of other companies.

The methods and assumptions used to estimate the fair values of each class of financial instrument falling under the scope of IFRS 7 as of December 31, 2012 and 2011 are as follows:

Cash and banks

Carrying amounts approximate its fair value.

Time deposits (included in Cash and cash equivalents and Investments)

The Company considers all short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months, to be cash and cash equivalents; and those which their original maturity or remaining maturity at the date of purchase exceed 3 months, as investments. The carrying amount reported in the statement of financial position approximates fair value.

Investments

Carrying amounts approximate its fair value.

Trade receivables, net

Carrying amounts are considered to approximate fair value due to the short term nature of these accounts receivables. All amounts that are assumed to be uncollectible within a reasonable period are written off and/or reserved.

Trade payables

The carrying amount of accounts payable reported in the consolidated statement of financial position approximates its fair value due to the short term nature of these accounts payable.

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Loans (except for NDF)

As of December 31, 2012 and 2011, the fair value of the Company s loans approximates its fair value and it was $144 and $134, respectively.

Salaries and social security payables

The carrying amount of Salaries and social security payables reported in the consolidated statement of financial position approximates its fair value.

Other receivables, net and other liabilities (except for NDF)

The carrying amount of other receivables, net and other liabilities reported in the consolidated statement of financial position approximates its fair value.

Hedge accounting

For transactions designated and qualifying for hedge accounting, Telecom Argentina documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

- ***During 2012***

During 2012, Telecom Argentina and Personal entered into several NDF contracts to purchase a total amount of US$20 million and US$26.3 million, respectively, maturing in September and December 2012 in order to hedge its exposure to US dollar fluctuations related to accounts payable. However, as the terms of the NDF did not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective. As of December 31, 2012, the changes in the fair value of these NDF resulted into a loss of approximately $1 for Telecom Argentina and $0.5 for Personal, which were recognized in Financial results and Trade Payables .

Also during 2012, Personal entered into several NDF contracts to purchase a total amount of US$6.4 million maturing in September 2012 in order to hedge its exposure to US dollar fluctuations related to accounts payable. This NDF contracts were regarded as effective.

As of December 31, 2012 all NDF contracts were cancelled.

- ***During 2011***

During October 2011, Personal entered into several NDF contracts to purchase a total amount of US$40 million maturing December 2011 in order to hedge its exposure to US dollar fluctuations related to accounts payable. However, as the terms of the NDF did not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective.

During October 2011, Personal also entered into several NDF contracts amounting to US$12.7 million (maturing December 2011 and March 2012), in order to hedge its exposure to US dollar fluctuations related to accounts payable. Personal designated these NDF contracts as effective cash flow hedges. As of December 31, 2011, US$6.4 million were outstanding and the changes in the fair value of these NDF (a debt amounting to $0.1 and included in Trade payables) were recognized in Other comprehensive income.

Note 21 Revenues

The Company discloses its service revenues in three groups by nature: Voice, Data and Internet. At December 31, 2012, 2011 and 2010, the customers by segment (unaudited) were the following:

	December 31,		
In thousands	**2012**	**2011**	**2010**
Fixed customer lines	4,045	4,057	4,019
ADSL subscribers	1,629	1,550	1,380
Personal mobile services customers	18,975	18,193	16,333
Núcleo mobile services customers	2,301	2,149	1,878

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In addition to service revenues, the table below also discloses the equipment sales and other income:

	Years ended December 31,		
	2012	2011	2010
Services			
Voice - Retail	2,475	2,357	2,211
Voice - Wholesale	739	747	687
Internet	1,993	1,553	1,204
Data	735	583	488
Total Fixed services	**5,942**	**5,240**	**4,590**
Voice - Retail	4,461	4,001	3,453
Voice - Wholesale	1,838	1,726	1,642
Internet	1,248	774	391
Data	5,765	4,482	2,997
Total Personal mobile services	**13,312**	**10,983**	**8,483**
Voice - Retail	329	286	211
Voice - Wholesale	85	67	43
Internet	154	84	48
Data	267	251	156
Total Núcleo mobile services	**835**	**688**	**458**
Total services revenues (a)	**20,089**	**16,911**	**13,531**
Equipment			
Fixed services - excluding network construction contracts	81	64	56
Fixed services - network construction contracts		25	14
Mobile services Personal	1,915	1,472	1,018
Mobiles services Núcleo	32	26	8
Total equipment revenues (b)	**2,028**	**1,587**	**1,096**
Other income			
Fixed services (i)	75	20	15
Mobile services Personal	4	10	10
Total other income (c)	**79**	**30**	**25**
Total revenues and other income (a)+(b)+(c)	**22,196**	**18,528**	**14,652**

(i) Includes $57 of supplier s indemnities.

Note 22 Operating expenses

Operating expenses disclosed by nature of expense amounted to $18,230, $14,671 and $11,490 for the years ended December 31, 2012, 2011 and 2010, respectively.

The main components of the operating expenses are the following:

Employee benefit expenses and severance payments

	Years ended December 31,		
	2012	**2011**	**2010**
Salaries	(2,390)	(1,870)	(1,429)
Social security expenses	(713)	(539)	(417)
Severance indemnities and termination benefits	(106)	(153)	(94)
Other employee benefits	(60)	(47)	(38)
	(3,269)	**(2,609)**	**(1,978)**

Interconnection costs and other telecommunication charges

	Years ended December 31,		
	2012	**2011**	**2010**
Fixed telephony interconnection costs	(217)	(216)	(213)
Cost of international outbound calls	(135)	(150)	(144)
Lease of circuits	(164)	(133)	(116)
Mobile services - charges for roaming	(366)	(245)	(199)
Mobile services - charges for TLRD	(825)	(753)	(705)
	(1,707)	**(1,497)**	**(1,377)**

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Fees for services, maintenance, materials and supplies

	Years ended December 31, 2012	2011	2010
Maintenance of hardware and software	(297)	(238)	(157)
Technical maintenance	(373)	(327)	(277)
Service connection fees for fixed lines and Internet lines	(130)	(116)	(100)
Service connection fees capitalized as SAC	11	11	9
Service connection fees capitalized as Intangible assets	21	22	18
Other maintenance costs	(215)	(202)	(200)
Call center fees	(665)	(492)	(343)
Other fees for services	(447)	(365)	(273)
Directors and Supervisory Committee s fees	(14)	(12)	(10)
	(2,109)	**(1,719)**	**(1,333)**

Taxes and fees with the Regulatory Authority

	Years ended December 31, 2012	2011	2010
Turnover tax	(1,045)	(823)	(657)
Taxes with the Regulatory Authority	(517)	(425)	(330)
Tax on deposits to and withdrawals from bank accounts	(216)	(166)	(135)
Municipal taxes	(128)	(100)	(76)
Other taxes	(112)	(81)	(56)
	(2,018)	**(1,595)**	**(1,254)**

Commissions

	Years ended December 31, 2012	2011	2010
Agent commissions	(1,365)	(1,014)	(719)
Agent commissions capitalized as SAC (Note 3.i)	314	248	137
Distribution of prepaid cards commissions	(509)	(449)	(338)
Collection commissions	(317)	(230)	(171)
Other commissions	(72)	(70)	(64)
	(1,949)	**(1,515)**	**(1,155)**

Cost of equipment and handsets

	Years ended December 31, 2012	2011	2010
Inventories at the beginning of the year	(555)	(475)	(273)
Plus:			
Equipment acquisitions	(2,625)	(2,223)	(1,797)
SAC deferred costs	463	470	375
Currency translation effect	(2)	(1)	6
Decreases net of allowance of obsolescence	6	21	10
Handsets lent to customers at no cost - Núcleo	15	6	4
Decreases not charged to material cost	14	7	3
Less:			
Inventories as of December 31	641	555	475
Cost of equipment and handsets	**(2,043)**	**(1,640)**	**(1,197)**

Advertising

	Years ended December 31, 2012	2011	2010
Media advertising	(378)	(366)	(272)
Fairs and exhibitions	(142)	(120)	(77)
Other advertising costs	(140)	(113)	(92)
	(660)	**(599)**	**(441)**

Restructuring costs

	Years ended December 31, 2012	2011	2010
Dismissals indemnities (i)	(90)		
	(90)		

(i) Includes (54) charged to provisions related to the pending restructuring plan.

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Other operating expenses

	Years ended December 31, 2012	2011	2010
Transportation, freight and travel expenses	(364)	(301)	(239)
Delivery costs capitalized as SAC	33	17	13
Rental expense	(214)	(170)	(146)
Cost of mobile value added services	(326)	(182)	(142)
Energy, water and others	(294)	(154)	(131)
International and satellite connectivity	(124)	(109)	(97)
Other	(64)	(68)	(59)
	(1,353)	**(967)**	**(801)**

D&A

	Years ended December 31, 2012	2011	2010
Depreciation of PP&E	(1,792)	(1,538)	(1,302)
Amortization of SAC and service connection costs	(797)	(602)	(387)
Amortization of other intangible assets	(23)	(18)	(23)
	(2,612)	**(2,158)**	**(1,712)**
Gain on disposal of property, plant and equipment	**8**	**22**	**7**

Operating leases

Future minimum lease payments as of December 31, 2012, 2011 and 2010 are as follows:

	Less than 1 year	1-5 years	More than 5 years	Total
2010	193	259	23	**475**
2011	214	409	90	**713**
2012	262	415	77	**754**

Note 23 Operating income

	Years ended December 31, 2012	2011	2010
Operating income from services and other income			
Revenues and other income	**20,168**	**16,941**	**13,556**
Operating expenses	(13,583)	(10,895)	(8,588)
Operating income before D&A (a)	**6,585**	**6,046**	**4,968**
D&A	(2,612)	(2,158)	(1,712)
Gain on disposal of PP&E	8	22	7
Operating income from services and other income	**3,981**	**3,910**	**3,263**

Operating loss from equipment sales			
Revenues	**2,028**	**1,587**	**1,096**
Cost of equipments and handsets	(2,043)	(1,640)	(1,197)
Operating loss before D&A from equipment sales (b)	**(15)**	**(53)**	**(101)**
Total operating income	**3,966**	**3,857**	**3,162**
Consolidated operating income			
Operating income before D&A (a)+(b)	**6,570**	**5,993**	**4,867**
D&A	(2,612)	(2,158)	(1,712)
Gain on disposal of PP&E	8	22	7
Total operating income	**3,966**	**3,857**	**3,162**

The breakdown of Operating income by segment is as follows:

Year ended December 31, 2012	**Fixed services**	**Mobile services**	**Total consolidated**
Services revenues and other income			
Third party revenues	6,017	14,151	20,168
Intersegment revenues	1,047	129	1,176
Third party operating expenses	(5,327)	(8,256)	(13,583)
Intersegment operating expenses	(129)	(1,047)	(1,176)
Operating income before D&A from services (1)	**1,608**	**4,977**	**6,585**
Equipments and handsets revenues			
Third party revenues	81	1,947	2,028
Third party operating expenses	(44)	(1,999)	(2,043)
Operating income (loss) before D&A from equipments and handsets revenues (2)	**37**	**(52)**	**(15)**
Total operating income before D&A (3)=(1)+(2)	**1,645**	**4,925**	**6,570**
D&A (4)	(929)	(1,683)	(2,612)
Gain on disposal of PP&E (5)	7	1	8
Operating income (6)=(3)-(4)+(5)	**723**	**3,243**	**3,966**
Net effect of the intersegment eliminations (7)	(918)	918	
Net segment contribution to the Operating income before D&A (8)=(3)+(7)	**727**	**5,843**	**6,570**
Net segment contribution to the Operating income (9)=(6)+(7)	**(195)**	**4,161**	**3,966**

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Year ended December 31, 2011	Fixed services	Mobile services	Total consolidated
Services revenues and other income			
Third party revenues	5,260	11,681	16,941
Intersegment revenues	885	97	982
Third party operating expenses	(4,458)	(6.437)	(10,895)
Intersegment operating expenses	(97)	(885)	(982)
Operating income before D&A from services (1)	**1,590**	**4,456**	**6,046**
Equipments and handsets revenues			
Third party revenues	89	1,498	1,587
Third party operating expenses	(59)	(1,581)	(1,640)
Operating income (loss) before D&A from equipments and handsets revenues (2)	**30**	**(83)**	**(53)**
Total operating income before D&A (3)=(1)+(2)	**1,620**	**4,373**	**5,993**
D&A (4)	(818)	(1,340)	(2,158)
Gain on disposal of PP&E (5)	20	2	22
Operating income (6)=(3)-(4)+(5)	**822**	**3,035**	**3,857**
Net effect of the intersegment eliminations (7)	(788)	788	
Net segment contribution to the Operating income before D&A (8)=(3)+(7)	**832**	**5,161**	**5,993**
Net segment contribution to the Operating income (9)=(6)+(7)	**34**	**3,823**	**3,857**

Year ended December 31, 2010	Fixed services	Mobile services	Total consolidated
Services revenues and other income			
Third party revenues	4,605	8,951	13,556
Intersegment revenues	739	61	800
Third party operating expenses	(3,619)	(4,969)	(8,588)
Intersegment operating expenses	(61)	(739)	(800)
Operating income before D&A from services (1)	**1,664**	**3,304**	**4,968**
Equipments and handsets revenues			
Third party revenues	70	1,026	1,096
Third party operating expenses	(45)	(1,152)	(1,197)
Operating income (loss) before D&A from equipments and handsets revenues (2)	**25**	**(126)**	**(101)**
Total operating income before D&A (3)=(1)+(2)	**1,689**	**3,178**	**4,867**
D&A (4)	(776)	(936)	(1,712)
Gain on disposal of PP&E (5)	5	2	7
Operating income (6)=(3)-(4)+(5)	**918**	**2,244**	**3,162**
Net effect of the intersegment eliminations (7)	(678)	678	
Net segment contribution to the Operating income before D&A (8)=(3)+(7)	**1,011**	**3,856**	**4,867**
Net segment contribution to the Operating income (9)=(6)+(7)	**240**	**2,922**	**3,162**

Note 24 Finance income and expenses

	Years ended December 31,		
	2012	**2011**	**2010**
Interest on cash equivalents	273	169	99

Interest on investments	21	1	1
Interest on receivables	89	67	58
Gains on Mutual Funds	16	8	7
Foreign currency exchange gains	161	69	26
Other	10	2	1
Total finance income	**570**	**316**	**192**
Interest on loans	(13)	(16)	(76)
Interest on salaries and social security payable, other taxes payables and accounts payable	(16)	(13)	(38)
Interest on provisions	(82)	(116)	(74)
Loss on discounting of other liabilities	(19)	(4)	(7)
Foreign currency exchange losses	(207)	(84)	(64)
Loss on derivatives	(1)	(1)	(68)
Loss on purchase of Notes			(2)
Other	(3)	(2)	
Total finance expenses	**(341)**	**(236)**	**(329)**
Total finance income (expenses), net	**229**	**80**	**(137)**

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Note 25 Earnings per share

The Company computes net income per common share by dividing net income for the year attributable to Telecom Argentina (Controlling Company) by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing the net income for the year by the weighted average number of common and dilutive potential common shares then outstanding during the year. Since the Company has no dilutive potential common stock outstanding, there are no dilutive earnings per share amounts.

For financial years 2012, 2011 and 2010, the weighted average of shares outstanding totaled 984,380,978 shares.

Note 26 Financial risk management

Financial risk factors

Telecom Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed. As regards to changes in interest rates, as of December 31, 2012 the Company had no outstanding floating rate borrowings. Therefore, the Company is not currently exposed to significant fluctuations in the cash flows of its debt obligations.
- credit risk: representing the risk of the non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the definition of guidelines for directing operations;
- the activity of the Board of Directors and Management which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;

- the exclusion of the use of financial instruments for speculative purposes.

The policies to manage and the sensitivity analyses of the above financial risks by Telecom Group are described below.

- **Market risk**

The main Telecom Group s market risks are its exposure to changes in foreign currency exchange rates in the markets in which it operates principally Argentina and Paraguay.

Foreign currency risk is the risk that the future fair values or cash flows of a financial instrument may fluctuate due to exchange rate changes. The Company s exposure to exchange variation risks is related mainly to its operating activities (when income, expenses and investments are denominated in a currency other than the Company s functional currency).

The financial risk management policies of the Group are directed towards diversifying market risks by the acquisition of goods and services in the functional currency and minimizing interest rate exposure by an appropriate diversification of the portfolio. This may also be achieved by using carefully selected derivative financial instruments to mitigate long-term positions in foreign currency.

As of December 31, 2012 and 2011, Telecom Argentina and Personal have no financial debt outstanding. However, both companies and Núcleo have part of its commercial debt nominated in USD and euros. Additionally, Núcleo s financial debt is denominated in guaraníes, its functional currency at fixed rates.

Additionally the Company has cash and cash equivalents denominated in USD (approximately 29% of total investments) that are also sensitive to changes in peso/dollar exchange rates and contribute to reduce the exposure to trade payables in foreign currency.

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The following table shows a breakdown of Telecom Argentina s net assessed financial position exposure to currency risk as of December 31, 2012 and 2011.

12.31.12

Amount of foreign currency (1)		Amount in local currency
US$	(138)	(686)
G	(118,791)	(136)
EURO	(10)	(63)
DEG	3	22
	Net debt	**(863)**

12.31.11

Amount of foreign currency (1)		Amount in local currency
US$	(136)	(592)
G	(182,167)	(171)
EURO	(16)	(90)
DEG	2	14
$U	2	1
	Net debt	**(838)**

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(1) US$ = United States dollar; G= Guaraníes; SDR= Special Drawing Rights; $U= Uruguayan peso.

The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. These analyses illustrate the effects produced by a given and assumed change in the levels of the relevant variables in the various markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on Other comprehensive income. A description on the sensitivity analysis of exchange rate and interest rate risks is given below:

Exchange rate risk Sensitivity analysis

Management estimates, based on the composition of the consolidated statement of financial position as of December 31, 2012, that every variation in the exchange rate of $0.10 peso against the U.S. dollar and proportional variations for Euros and guaraníes against the Argentine peso, plus or minus, would result in a variation of approximately $18 of the consolidated amounts of foreign currency position. This analysis is based on the assumption that this variation of the Argentine peso occurred at the same time against all other currencies.

This sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of certain of the financial instruments. The actual impact of market foreign exchange rate changes on the financial instruments may differ significantly from the impact shown in the sensitivity analysis.

Interest rate risk Sensitivity analysis

As of December 31, 2012 and 2011, the Company had no outstanding floating rate borrowings. Therefore, the Company is not currently exposed to significant cash flow risk in this connection.

- **Credit risk**

Credit risk represents Telecom Group s exposure to possible losses arising from the failure of commercial or financial counterparts to fulfill their assumed obligations. Such risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterpart could arise or from factors more strictly technical, commercial or administrative.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Telecom Group s maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables, net recorded in the consolidated financial statements.

Date due	Banks and cash equivalents	Investments	Trade receivables, net	Other receivables, net	Total
Total due			767		767
Total not due	3,160	633	1,437	174	5,404
Total as of December 31, 2012	**3,160**	**633**	**2,204**	**174**	**6,171**

The accruals to the allowance for doubtful accounts are recorded: (i) for an exact amount on credit positions that present an element of individual risk (bankruptcy, customers under legal proceedings with the Company); (ii) on credit positions that do not present such characteristics, by customer segment considering the aging of the accounts receivable balances, historical write-offs, customer creditworthiness and changes in the customer payment terms. Total overdue balances not covered by the allowance for doubtful accounts amount to $767 at December 31, 2011 ($516 at December 31, 2011).

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Regarding the credit risk relating to the asset included in the Net financial debt or asset , it should be noted that the Company evaluates the outstanding credit of the counterparty and the levels of investment, based on their credit rating and the equity size of the counterparty. Deposits are made with leading high-credit-quality banking and financial institutions and generally for periods of less than three months.

The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company s account receivables are not subject to significant concentration of credit risk.

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and allocation of its credit positions among different first-class financial entities. Consequently, there are no significant positions with any one single counterpart.

- **Liquidity risk**

Liquidity risk represents the risk that the Company has no funds to meet its obligations of any nature (financial, labor, commercial).

The Company manages its cash and cash equivalents and its financial assets, matching the term of investments with those of its obligations. The average term of its investments may not exceed the average term of its obligations. This cash and cash equivalents position is invested in highly-liquid short-term instruments through first-class financial entities.

The Company maintains a liquidity policy that translates into a significant volume of available cash through its normal course of business as it is shown in the consolidated statement of cash flows. The Company has consolidated cash and cash equivalents amounting to $3,160 (equivalent to US$648 million) as of December 31, 2012 (in 2011, $2,818 equivalent to US$660 million).

The table below contains a breakdown of financial liabilities into relevant maturity groups based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity Date	Trade payables	Debt	Salaries and social security payables	Other liabilities	Total
Due	(*)147				147
First quarter 2013	3,490	8	378	23	3,899
Second quarter 2013		16	195	12	223
Third quarter 2013	21	8	98	5	132
Fourth quarter 2013	1	23	25	5	54
January 2014 thru December 2014	20	55	50	13	138
		28	36		64

January 2015 thru December 2015					
January 2016 and thereafter		34	70		104
	3,679	**172**	**852**	**58**	**4,761**

(*) As of the date of these consolidated financial statements, $88 was paid.

Capital management

The primary objective of the Group s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders and the level of indebtedness.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2012 and 2011.

The Company does not have to comply with regulatory capital adequacy requirements.

Note 27 Related party transactions

(a) Controlling group

Nortel, residing in A. Moreau de Justo 50 - 11th floor Ciudad Autónoma de Buenos Aires, holds 54.74% stake in the Company, meaning that exercises control of the Company in the terms of Art. 33 of Law No. 19,550. As of December 31, 2012, Nortel owns all of the Class A Preferred shares (51% of total shares of the Company) and 7.64% of the Class B Preferred shares (3.74168% of total shares of the Company).

All of the common shares of Nortel belong to Sofora. As of December 31, 2012 these shares represent 78.38% of the capital stock of Nortel.

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(b) Balances and transactions with related parties

Related parties (as described in IAS 24) are those legal entities or individuals which are related to the entity that is preparing its financial statements. Related party transactions and balances are disclosed in an entity s financial statements. The transactions between the companies controlled by Telecom Argentina (Telecom USA, Micro Sistemas, Personal, Núcleo and Springville) are eliminated in the preparation of the consolidated financial statements of the Group.

Under IAS 24, Telefónica, S.A. (of Spain) and its controlled companies, including Telefónica and Telefónica Móviles de Argentina S.A. are not considered related parties. As of the date of these consolidated financial statements, such situation has been confirmed by the commitments assumed before the CNDC to ensure the separation and independence between the Telecom Italia Group and the Telecom Group, on one hand, and Telefónica S.A. (of Spain) and its controlled companies, on the other, with respect to their activities in the Argentine telecommunications market, such as it has been corroborated by the applicable authorities.

The Company has transactions in the normal course of business with certain related parties. For the years presented, the Company has not conducted any transactions with executive officers and/or persons related to them.

The following is a summary of the balances and transactions with related parties as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010, respectively:

	Type of related party	As of December 31, 2012	As of December 31, 2011
Cash and cash equivalents			
Standard Bank S.A. (a) (f)	Other related party		69
Total cash and cash equivalents			**69**
Investments			
Nortel		2	
Total cash and cash equivalents		**2**	
Trade receivables, net			
TIM Participações S.A. (b)	Other related party	2	
Telecom Italia Sparkle S.p.A. (b)	Other related party	9	
TIM Participações S.A. (b)	Other related party		1
Telecom Italia S.p.A. (b)	Parent company	21	
Standard Bank (a) (f)	Other related party		1
Caja de Seguros S.A. (a)	Other related party	21	10
Latin American Nautilus Argentina S.A. (b)	Other related party	1	
Total trade receivables, net		**54**	**12**
Other receivables, net			
Sofora	Direct Parent company		1
Total other receivables, net			**1**
Trade payables			
Grupo Italtel (b) (d)	Other related party	97	59
Latin American Nautilus Ltd. (b)	Other related party	30	3
Telecom Italia S.p.A. (b)	Parent company	42	30
Telecom Italia Sparkle S.p.A. (b)	Other related party	10	4

Latin American Nautilus USA Inc. (b)	Other related party	2	3
Latin American Nautilus Argentina S.A. (b)	Other related party	1	2
TIM Participações S.A. (b)	Other related party	4	2
Caja de Seguros S.A. (a)	Other related party	23	10
La Caja Aseguradora de Riesgos del Trabajo ART S.A. (a)	Other related party	5	4
Total trade payables		**214**	**117**

Services rendered	Transaction description	Type of related party	Years ended December 31, 2012	2011	2010
Caja de Seguros S.A. (a)	Others	Other related party	148	57	19
Standard Bank (a) (f)	Others	Other related party	24	22	13
Telecom Italia Sparkle S.p.A. (b) (c)	International inbound calls	Other related party	12	19	11
TIM Participações S.A. (b)	Roaming	Other related party	13	10	16
Telecom Italia S.p.A. (b)	Roaming	Parent company	3	2	5
Latin American Nautilus Ltd. (b)	International inbound calls	Other related party			1
Latin American Nautilus Argentina S.A. (b)	International inbound calls and roaming	Other related party	3	1	
Total services rendered			**203**	**111**	**65**

Services received	Transaction description	Type of related party	Years ended December 31, 2012	2011	2010
La Caja Aseguradora de Riesgos del Trabajo ART S.A. (a)	Salaries and social security	Other related party	(36)	(26)	(21)
Caja de Seguros S.A. (a)	Insurance	Other related party	(14)	(11)	(8)
La Estrella Cía de Seguros de retiro S.A. (a)	Insurance	Other related party	(6)	(4)	(2)
Latin American Nautilus Ltd. (b).(c)	International inbound calls and data	Other related party	(101)	(84)	(60)
Grupo Italtel (b) (d)	Maintenance, materials and supplies	Other related party	(75)	(55)	(23)
Telecom Italia Sparkle S.p.A. (b) (c)	International outbound calls and others	Other related party	(29)	(32)	(32)
Telecom Italia S.p.A. (b)	Fees for services and roaming	Parent company	(28)	(30)	(20)
Latin American Nautilus USA Inc. (b)	International outbound calls	Other related party	(3)	(9)	(3)
TIM Participações S.A. (b)	Roaming	Other related party	(12)	(7)	(7)
Latin American Nautilus Argentina S.A. (b)	International outbound calls	Other related party	(8)	(6)	(6)
Etec S.A. (b) (e)	International outbound calls	Other related party			(11)
Total services received			**(312)**	**(264)**	**(193)**

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	Transaction description	Type of related party	Years ended December 31, 2012	2011	2010
Finance income (expense)					
Standard Bank (a) (f)	Interest	Other related party	5	4	2
Standard Bank (a) (f)	Loss on derivatives	Other related party			(12)
Nortel	Interest	Direct Parent company			1
Total finance expense			**5**	**4**	**(9)**

	Type of related party	Years ended December 31, 2012	2011	2010
Purchases of PP&E and intangible assets				
Italtel Group (b) (d)	Other related party	69	66	14
Telecom Italia S.p.A. (b)	Parent company	4		
Total purchases of PP&E and intangible assets		**73**	**66**	**14**

Commitments	Type of related party	As of December 31, 2012	As of December 31, 2011
	Parent Company		6
	Other related parties	384	278
		384	**284**

(a) Such companies relate to W de Argentina - Inversiones S.L.

(b) Such companies relate to Telecom Italia Group.

(c) Since June 2010, Telecom Italia Sparkle S.p.A. has assigned to Latin American Nautilus Ltd. all existing agreements with Telecom Argentina.

(d) This company ceased to be related party from January 2009 to September 2010.

(e) This entity is no longer related party as from January 2011.

(f) This entity is no longer related party as from November 2012.

The transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties. The Board of Directors approved transactions representing more than 1% of the total shareholders equity of the Company, after being approved by the Audit Committee in compliance with Decree No. 677/01.

(c) Key Managers

Compensation for the Key Managers, including social security contribution, amounted to $51, $54 and $47 for the years ended December 31, 2012, 2011 and 2010, respectively, and were recorded as expenses under the item line Employee benefits expenses and severance payments . The total expense remuneration is comprised as follows:

	Years ended December 31, 2012	2011	2010
Salaries (*)	22	19	15
Variable compensation (*)	17	22	20
Social security contributions	10	11	9
Termination benefits	2	2	3
	51	**54**	**47**

(*) Gross compensation. Social security and income tax retentions are in charge of the employee.

As of December 31, 2012, 2011 and 2010, respectively, an amount of $19, $28 and $21 remained unpaid.

The estimated compensation of the members of the Telecom Argentina s Board of Directors for fiscal year 2012 is approximately of $7. The compensation for the members of the Telecom Argentina´s Board of Directors approved by the Ordinary Annual Shareholders Meeting for fiscal years 2011 and 2010 were approximately of $7 and $5, respectively. The members and alternate members of the Board of Directors do not hold executive positions in the Company or Company s subsidiaries.

Note 28 Segment information

The Company conducts its business through six legal entities each one has been identified as an operating segment.

The Company has combined the operating segments into three reportable segments: Fixed services , Personal Mobile Services and Núcleo Mobile Services based on the nature of products provided by the entities and taking into account the regulatory and economic framework in which each entity operates.

Since fiscal year 2012, the Company s Management has changed the calculating method of the Operating income before D&A by not considering within it the Gain on disposal of PP&E previously disclosed within the line Revenues and other income and from this fiscal year are shown below Operating income before D&A , as part of Operating income . According to this, comparative figures for years ended December 31, 2011 and 2010 have been adapted in the consolidated income statements.

Segment financial information for the years 2012, 2011 and 2010 was as follows:

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For the year ended December 31, 2012

- ***Income statement information***

	Fixed services	Mobile services Personal	Núcleo	Subtotal	Eliminations	Total
Total revenues and other income (1)	**7,145**	**15,354**	**873**	**16,227**	**(1,176)**	**22,196**
Employee benefit expenses and severance payments	(2,380)	(825)	(64)	**(889)**		**(3,269)**
Interconnection costs and other telecommunication charges	(507)	(1,947)	(128)	**(2,075)**	875	**(1,707)**
Fees for services, maintenance, materials and supplies	(950)	(1,242)	(76)	**(1,318)**	159	**(2,109)**
Taxes and fees with the Regulatory Authority	(449)	(1,542)	(27)	**(1,569)**		**(2,018)**
Commissions	(169)	(1,745)	(92)	**(1,837)**	57	**(1,949)**
Cost of equipments and handsets	(44)	(1,964)	(35)	**(1,999)**		**(2,043)**
Advertising	(171)	(436)	(53)	**(489)**		**(660)**
Provisions	(89)	(65)	1	**(64)**		**(153)**
Bad debt expenses	(56)	(211)	(8)	**(219)**		**(275)**
Restructuring costs	(83)	(7)		**(7)**		**(90)**
Other operating expenses	(602)	(776)	(60)	**(836)**	85	**(1,353)**
Operating income before D&A	**1,645**	**4,594**	**331**	**4,925**		**6.570**
Depreciation of PP&E	(833)	(830)	(129)	**(959)**		**(1,792)**
Amortization of intangible assets	(96)	(696)	(28)	**(724)**		**(820)**
Gain on disposal of PP&E	7	1		**1**		**8**
Operating income	**723**	**3,069**	**174**	**3,243**		**3,966**
Financial results, net	52	186	(9)	**177**		**229**
Net income before income tax expense	**775**	**3,255**	**165**	**3,420**		**4,195**
Income tax expense, net	(273)	(1.170)	(20)	**(1.190)**		**(1,463)**
Net income	**502**	**2,085**	**145**	**2,230**		**2,732**
Net income attributable to Telecom Argentina (Controlling Company)						**2,685**
Net income attributable to non-controlling interest						**47**
						2,732

(1)

	Fixed services	Personal	Núcleo	Subtotal	Eliminations	Total
Service revenues	5,942	13,312	835	**14,147**		**20,089**
Equipment sales	81	1,915	32	**1,947**		**2,028**
Other income	75	4		**4**		**79**
Subtotal third party revenues	**6,098**	**15,231**	**867**	**16,098**		**22,196**
Intersegment revenues	1,047	123	6	**129**	(1,176)	
Total revenues and other income	**7,145**	**15,354**	**873**	**16,227**	**(1,176)**	**22,196**

- ***Balance sheet information***

PP&E, net	5,399	2,851	785	**3,636**		**9,035**
Intangible assets, net	372	1,115	28	**1,143**	(1)	**1,514**

Capital expenditures on PP&E (a)	1,347	902	166	**1,068**		**2,415**
Capital expenditures on intangible assets (b)	83	733	27	**760**	(1)	**842**
Total capital expenditures (a)+ (b)	**1,430**	**1,635**	**193**	**1,828**	(1)	**3,257**
Total additions on PP&E and intangible assets	**1,548**	**1,679**	**190**	**1,869**	(1)	**3,416**
Net financial asset (debt)	1,454	2,295	(101)	**2,194**		**3,648**

- ***Geographic information***

	Total revenues and other income		**Total non-current assets**
	Breakdown by location of operations	**Breakdown by location of the Group´s customers**	**Breakdown by location of operations**
Argentina	21,286	21,030	9,991
Abroad	910	1,166	832
Total	**22,196**	**22,196**	**10,823**

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For the year ended December 31, 2011

- ***Income statement information***

	Fixed services	Personal	Mobile services Núcleo	Subtotal	Eliminations	Total
Total revenues and other income (1)	**6,234**	**12,558**	**718**	**13,276**	**(982)**	**18,528**
Employee benefit expenses and severance payments	(1,949)	(605)	(55)	**(660)**		**(2,609)**
Interconnection costs and other telecommunication charges	(491)	(1,621)	(110)	**(1,731)**	725	**(1,497)**
Fees for services, maintenance, materials and supplies	(815)	(966)	(64)	**(1,030)**	126	**(1,719)**
Taxes and fees with the Regulatory Authority	(367)	(1,205)	(23)	**(1,228)**		**(1,595)**
Commissions	(139)	(1,353)	(84)	**(1,437)**	61	**(1,515)**
Cost of equipments and handsets	(59)	(1,568)	(13)	**(1,581)**		**(1,640)**
Advertising	(154)	(400)	(45)	**(445)**		**(599)**
Provisions	(164)	(61)		**(61)**		**(225)**
Bad debt expenses	(28)	(134)	(7)	**(141)**		**(169)**
Other operating expenses	(448)	(536)	(53)	**(589)**	70	**(967)**
Operating income before D&A	**1,620**	**4,109**	**264**	**4,373**		**5,993**
Depreciation of PP&E	(731)	(686)	(121)	**(807)**		**(1,538)**
Amortization of intangible assets	(87)	(504)	(29)	**(533)**		**(620)**
Gain on disposal of PP&E	20	2		**2**		**22**
Operating income	**822**	**2,921**	**114**	**3,035**		**3,857**
Financial results, net	(27)	118	(11)	**107**		**80**
Net income before income tax expense	**795**	**3,039**	**103**	**3,142**		**3,937**
Income tax expense, net	(278)	(1,103)	(14)	**(1,117)**		**(1,395)**
Net income	**517**	**1,936**	**89**	**2,025**		**2,542**
Net income attributable to Telecom Argentina (Controlling Company)						**2,513**
Net income attributable to non-controlling interest						**29**
						2,542

(1)

Service revenues	5,240	10,983	688	**11,671**		**16,911**
Equipment sales	89	1,472	26	**1,498**		**1,587**
Other income	20	10		**10**		**30**
Subtotal third party revenues	**5,349**	**12,465**	**714**	**13,179**		**18,528**
Intersegment revenues	885	93	4	**97**	(982)	
Total revenues and other income	**6,234**	**12,558**	**718**	**13,276**	**(982)**	**18,528**

- ***Balance sheet information***

PP&E, net	4,886	2,740	621	**3,361**		**8,247**
Intangible assets, net	385	1,078	25	**1,103**		**1,488**
Capital expenditures on PP&E (a)	1,187	997	134	**1,131**		**2,318**

Capital expenditures on intangible assets (b)	176	661	37	**698**	**874**
Total capital expenditures (a)+ (b)	**1,363**	**1,658**	**171**	**1,829**	**3,192**
Total additions on PP&E and intangible assets	**1,530**	**1,658**	**171**	**1,829**	**3,359**
Net financial asset (debt)	833	1,969	(118)	**1,851**	**2,684**

- ***<u>Geographic information</u>***

	Total revenues and other income		**Total non-current assets**
	Breakdown by location of operations	**Breakdown by location of the Group´s customers**	**Breakdown by location of operations**
Argentina	17,769	17,488	9,208
Abroad	759	1,040	661
Total	**18,528**	**18,528**	**9,869**

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For the year ended December 31, 2010

- ***Income statement information***

	Fixed services	Personal	Mobile services Núcleo	Subtotal	Eliminations	Total
Total revenues and other income (1)	**5,414**	**9,569**	**469**	**10,038**	**(800)**	**14,652**
Employee benefit expenses and severance payments	(1,505)	(433)	(40)	**(473)**		**(1,978)**
Interconnection costs and other telecommunication charges	(456)	(1,428)	(77)	**(1,505)**	584	**(1,377)**
Fees for services, maintenance, materials and supplies	(686)	(691)	(52)	**(743)**	96	**(1,333)**
Taxes and fees with the Regulatory Authority	(304)	(934)	(16)	**(950)**		**(1,254)**
Commissions	(114)	(1,051)	(45)	**(1,096)**	55	**(1,155)**
Cost of equipments and handsets	(45)	(1,139)	(13)	**(1,152)**		**(1,197)**
Advertising	(142)	(266)	(33)	**(299)**		**(441)**
Provisions	(71)	(59)		**(59)**		**(130)**
Bad debt expenses	(24)	(92)	(3)	**(95)**		**(119)**
Other operating expenses	(378)	(456)	(32)	**(488)**	65	**(801)**
Operating income before D&A	**1,689**	**3,020**	**158**	**3,178**		**4,867**
Depreciation of PP&E	(687)	(529)	(86)	**(615)**		**(1,302)**
Amortization of intangible assets	(89)	(312)	(9)	**(321)**		**(410)**
Gain on disposal of PP&E	5	2		**2**		**7**
Operating income	**918**	**2,181**	**63**	**2,244**		**3,162**
Financial results, net	3	(129)	(11)	**(140)**		**(137)**
Net income before income tax expense	**921**	**2,052**	**52**	**2,104**		**3,025**
Income tax expense, net	(329)	(737)	(10)	**(747)**		**(1,076)**
Net income	**592**	**1,315**	**42**	**1,357**		**1,949**
Net income attributable to Telecom Argentina (Controlling Company)						**1,935**
Net income attributable to non-controlling interest						**14**
						1,949

(1)

	Fixed services	Personal	Núcleo	Subtotal	Eliminations	Total
Service revenues	4,590	8,483	458	**8,941**		**13,531**
Equipment sales	70	1,018	8	**1,026**		**1,096**
Other income	15	10		**10**		**25**
Subtotal third party revenues	**4,675**	**9,511**	**466**	**9,977**		**14,652**
Intersegment revenues	739	58	3	**61**	(800)	
Total revenues and other income	**5,414**	**9,569**	**469**	**10,038**	**(800)**	**14,652**

- ***Balance sheet information***

	Fixed services	Personal	Núcleo	Subtotal	Eliminations	Total
PP&E, net	4,366	2,440	559	**2,999**		**7,365**
Intangible assets, net	296	921	16	**937**		**1,233**
Capital expenditures on PP&E (a)	918	815	188	**1,003**		**1,921**

Capital expenditures on intangible assets (b)	76	475	21	**496**	**572**
Total capital expenditures (a)+ (b)	**994**	**1,290**	**209**	**1,499**	**2,493**
Total additions on PP&E and intangible assets	**1,087**	**1,266**	**181**	**1,447**	**2,534**
Net financial asset (debt)	874	504	(154)	**350**	**1,224**

- ***<u>Geographic information</u>***

	Total revenues and other income		**Total non-current assets**
	Breakdown by location of operations	**Breakdown by location of the Group´s customers**	**Breakdown by location of operations**
Argentina	14,138	13,871	8,108
Abroad	514	781	591
Total	**14,652**	**14,652**	**8,699**

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Note 29 Quarterly consolidated information (unaudited information)

Quarter	Revenues	Operating income before D&A	Operating income	Financial Results, net (loss) gain	Net income	Net income attributable to Telecom Argentina
Fiscal year 2012:						
March 31	5,126	1,647	1,033	61	708	698
June 30	5,254	1,492	849	51	586	577
September 30	5,645	1,587	921	47	629	616
December 31	6,092	1,844	1,163	70	809	794
	22,117	**6,570**	**3,966**	**229**	**2,732**	**2,685**
Fiscal year 2011:						
March 31	4,134	1,431	958	19	640	634
June 30	4,450	1,474	971	(2)	636	627
September 30	4,775	1,496	934	21	616	609
December 31	5,139	1,592	994	42	650	643
	18,498	**5,993**	**3,857**	**80**	**2,542**	**2,513**
Fiscal year 2010:						
March 31	3,251	1,152	759	(64)	440	437
June 30	3,466	1,178	764	(6)	485	484
September 30	3,768	1,204	782	(23)	483	479
December 31	4,142	1,333	857	(44)	541	535
	14,627	**4,867**	**3,162**	**(137)**	**1,949**	**1,935**

Note 30 Restrictions on distribution of profits and dividends

(a) Restrictions on distribution of profits

Under the Argentine Corporations Law, the by-laws of the Company and rules and regulations of the CNV, a minimum of 5% of net income for the year in accordance with the statutory books, plus/less previous years adjustments and accumulated losses, if any, must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock).

As provided RG No. 609/12 of the CNV, since this fiscal year, positive retained earnings generated by the adoption of IFRS ($370 for Telecom Argentina), will be reassigned to a Special Reserve that can only be unaffected for its capitalization or to absorb negative retained earnings. The constitution of the Special Reserve shall be approved by the Ordinary Annual Shareholders Meeting to consider the consolidated financial statements for fiscal year 2012.

(b) Dividends

The Company is able to distribute dividends up to the limit of retained earnings determined under the Argentine Corporate Law, as abovementioned in a).

	2012	2011	2010
Dividends declared and paid by Telecom Argentina during the year ($0.82, $0.93 and $1.07 peso per share, respectively)	**807**	**915**	**1,053**
Proposed for approval at the Annual General Meeting (not recognized as a liability as at December 31)	**(*)**	**807**	**915**

(*) As of the date of these consolidated financial statements, Telecom Argentina s Board of Directors has resolved to defer the proposal of assignation of retained earnings up to the call of the Annual Shareholders Meeting.

Note 31 Subsequent events as of December 31, 2012

In January 2013 the Company entered into an agreement with Latin American Nautilus MED, Latin American Nautilus USA and Latin American Nautilus Argentina (all three together, LAN), a transaction that was approved by the Board of Directors on December 20, 2012. The transaction extends the term of existing agreements of lease-mode IP international capacity with LAN until December 2016, and also increasing its capacity to 20 Gbps. The agreement amounts to US$53.7 million for the four years that includes the operation. Such amount was fully paid by the Company on February 26, 2013 in pesos, amounting to $267.6.