

TELECOM ARGENTINA SA
Form 6-K
March 27, 2008
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of March, 2008

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant's name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No

If is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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Telecom Argentina S.A.

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TELECOM ARGENTINA S.A.

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

Consolidated Financial Statements as of December 31, 2007 and December 31, 2006 and for the years ended December 31, 2007, 2006 and 2005

\$: Argentine peso

US\$: US dollar

\$3.149 = US\$1 as of December 31, 2007

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

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(In millions of Argentine pesos - see Note 3.c)

	As of December 31, 2007	As of December 31, 2006
ASSETS		
Current Assets		
Cash and banks	\$ 45	\$ 30
Investments	947	631
Accounts receivable, net	898	743
Other receivables, net	332	128
Inventories, net	157	176
Other assets, net	5	15
Current assets from discontinued operations, net		44
Total current assets	2,384	1,767
Non-Current Assets		
Other receivables, net	282	412
Investments	2	1
Fixed assets, net	5,738	5,739
Intangible assets, net	760	781
Other assets, net	5	10
Non-Current assets from discontinued operations, net		10
Total non-current assets	6,787	6,953
TOTAL ASSETS	\$ 9,171	\$ 8,720
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 1,640	\$ 1,481
Debt	1,474	1,395
Salaries and social security payable	164	131
Taxes payable	266	221
Other liabilities	50	36
Contingencies	49	85
Current liabilities from discontinued operations		24
Total current liabilities	3,643	3,373
Non-Current Liabilities		
Debt	1,724	2,703

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Salaries and social security payable	43	32
Taxes payable	289	68
Other liabilities	120	102
Contingencies	243	234
Non-Current liabilities from discontinued operations		7
Total non-current liabilities	2,419	3,146
TOTAL LIABILITIES	\$ 6,062	\$ 6,519
Minority interest	79	72
SHAREHOLDERS EQUITY	\$ 3,030	\$ 2,129
TOTAL LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY	\$ 9,171	\$ 8,720

The accompanying notes are an integral part of these consolidated financial statements.

Valerio Cavallo
Chief Financial Officer

Carlos Felices
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

*Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005**

(In millions of Argentine pesos, except per share data in Argentine pesos - see Note 3.c)

	For the years ended December 31,		
	2007	2006	2005
<u>Continuing operations</u>			
Net sales	\$ 9,074	\$ 7,372	\$ 5,668
Cost of services	(4,963)	(4,484)	(3,676)
Gross profit	4,111	2,888	1,992
General and administrative expenses	(342)	(267)	(236)
Selling expenses	(2,133)	(1,727)	(1,259)
Operating income	1,636	894	497
Gain on equity investees		5	7
Financial results, net	(441)	(484)	(308)
Other expenses, net	(98)	(184)	(162)
Gain on debt restructuring			1,424
Net income before income tax and minority interest	1,097	231	1,458
Income tax (expense) benefit, net	(292)	22	(119)
Minority interest	(23)	(22)	(8)
Net income from continuing operations	782	231	1,331
<u>Discontinued operations</u>			
Income from the operations	1	13	3
Income from assets disposal	101		
Net income from discontinued operations	102	13	3
Net income	\$ 884	\$ 244	\$ 1,334
Net income per share	\$ 0.90	\$ 0.25	\$ 1.36

The accompanying notes are an integral part of these consolidated financial statements.

Valerio Cavallo
Chief Financial Officer

Carlos Felices
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

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

Consolidated Statements of Changes in Shareholders' Equity

for the years ended December 31, 2007, 2006 and 2005

(In millions of Argentine pesos - see Note 3.c)

	Common stock	Shareholders' contributions Inflation adjustment of common stock	Total	Legal reserve	Unappropriated earnings Foreign currency translation adjustments	Accumulated deficit	Total	Total Shareholders equity
Balances as of January 1, 2005	\$ 984	3,044	4,028	277	24	(3,803)	(3,502)	\$ 526
Foreign currency translation adjustments					7		7	7
Net income for the year						1,334	1,334	1,334
Balances as of December 31, 2005	\$ 984	3,044	4,028	277	31	(2,469)	(2,161)	1,867
As approved by the Shareholders Ordinary Meeting held on April 27, 2006:								
Absorption of accumulated losses		(356)	(356)	(277)		633	356	
Foreign currency translation adjustments					18		18	18
Net income for the year						244	244	244
Balances as of December 31, 2006	\$ 984	2,688	3,672		49	(1,592)	(1,543)	\$ 2,129
Foreign currency translation adjustments					17		17	17
Net income for the year						884	884	884
Balances as of December 31, 2007	\$ 984	2,688	3,672		66	(708)	(642)	\$ 3,030

The accompanying notes are an integral part of these consolidated financial statements.

Valerio Cavallo
Chief Financial Officer

Carlos Felices
Chairman of the Board of Directors

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005**

(In millions of Argentine pesos - see Note 3.c)

	For the years ended December 31,		
	2007	2006	2005
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Net income for the year	\$ 884	\$ 244	\$ 1,334
Net income from discontinued operations	(102)	(13)	(3)
Net income for the year from continuing operations	782	231	1,331
Adjustments to reconcile net income to net cash flows provided by continuing operations			
Allowance for doubtful accounts and other allowances	124	103	55
Depreciation of fixed assets	1,377	1,342	1,453
Amortization of intangible assets	39	49	44
Gain on equity investees		(5)	(7)
Consumption of materials	80	66	58
Loss on sale/disposal of fixed assets and other assets	(19)	(7)	(6)
Provision for lawsuits and contingencies	79	153	172
Holdings loss on inventories	59	5	14
Interest and other financial losses on loans	498	534	70
Gain on debt restructuring			(1,424)
Income tax	284	(43)	108
Minority interest	23	22	8
Net increase in assets	(366)	(283)	(147)
Net (decrease) increase in liabilities	(14)	193	236
Total cash flows provided by operating activities	2,946	2,360	1,965
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Fixed asset acquisitions	(1,208)	(825)	(547)
Intangible asset acquisitions	(35)	(41)	(33)
Proceeds for the sale of fixed assets and other assets	21	17	
Proceeds for the sale of equity investees (Note 12)	182		
(Increase) decrease in investments not considered as cash and cash equivalents	(533)	45	668
Total cash flows provided by (used in) investing activities	(1,573)	(804)	88
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Debt proceeds	45	36	1,236
Payment of debt	(1,290)	(1,113)	(4,684)
Payment of interest and debt-related expenses	(293)	(414)	(944)
Dividends paid	(38)		
Payment of capital reimbursement of Nucleo		(4)	

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Total cash flows used in financing activities	(1,576)	(1,495)	(4,392)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(203)	61	(2,339)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	661	600	2,939
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 458	\$ 661	\$ 600

See Note 6 for supplementary cash flow information.

The accompanying notes are an integral part of these consolidated financial statements.

Valerio Cavallo
Chief Financial Officer

Carlos Felices
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

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

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TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

1. The Company and its operations

Telecom Argentina STET-France Telecom S.A. (Telecom Argentina or Telecom and together with its subsidiaries, the Company or the Telecom Group , indistinctively) 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. on April 23, 1990. In November 1990, this legal name was changed to Telecom Argentina STET-France Telecom. However, as a result of a change in the Company's controlling group and the termination of the Management Agreement relationship with respect to France Cables et Radio S.A. (a subsidiary of France Telecom S.A.) as joint operator of the Company, at the Extraordinary and Ordinary Shareholders Meeting held on February 18, 2004, the shareholders approved the change of the legal name of the Company to Telecom Argentina S.A. Accordingly, the Company amended its by-laws to effect this change in accordance with the prior approval obtained from the Department of Communications (SC , the Regulatory Authority) and the *Comisión Nacional de Valores* (CNV), the National Securities Commission in Argentina.

The Company provides fixed-line public telecommunication services, international long-distance service, data transmission, Internet services and directories publishing services in Argentina. The Company also provides wireless telecommunication services in Argentina and Paraguay.

Telecom Argentina commenced operations on November 8, 1990 (the Transfer Date), 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 November 8, 1997, with the possibility of a three-year extension. In March 1998, the Argentine Government extended the exclusivity period to late 1999 and established the basis for a transition period towards deregulation of the telecommunications market.

In this context, the SC provided for a transition period, which ended on October 10, 1999. As from such date, the Company began providing telephone services in the southern region of Argentina and competing in the previously exclusive northern region.

2. Regulatory framework

(a) Regulatory bodies and general legal framework

Telecom Argentina and Telecom Personal S.A. (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 *Comisión Nacional de Comunicaciones*, the National Communications Commission (CNC). The CNC is responsible for the general oversight and supervision of telecommunications services. The SC has the authority to develop, suggest and implement policies; 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 the 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:

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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.

Nucleo, Personal s Paraguayan controlled company, is supervised by the *Comisión Nacional de Telecomunicaciones de Paraguay*, the National Communications Commission of Paraguay (CONATEL).

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TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

2. Regulatory framework (continued)

(b) Licenses granted as of December 31, 2007

As of December 31, 2007, 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 broadcasting signal services; and

Internet access.

As of December 31, 2007, 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 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 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

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Nucleo S.A. (Nucleo) has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as PCS services and Internet access in certain areas of that country.

(c) Revocation of the license

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

the interruption of all or a substantial portion of service;

the serious non-performance of material obligations;

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

any sale, encumbrance or transfer of assets which may result in a reduction of level of services provided, without the prior approval of the regulatory authority;

the 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 authorities;

the assignment or delegation of Telecom Italia S.p.A.'s (Telecom Italia or the Operator) functions without the prior approval of the regulatory authority; and

the Company's bankruptcy.

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;

the voluntary insolvency proceedings or bankruptcy of Personal and,

the liquidation or dissolution of Personal, without the prior approval of the Regulatory Authority.

Nucleo's licenses are revocable mainly in the case of:

interruption of services;

the bankruptcy of Nucleo and,

non-compliance with certain obligations.

(d) Decree No. 764/00

Decree No. 764/00 substantially modified three regulations which basic guidelines are as follows:

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

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

2. Regulatory framework (continued)

General Regulation of Licenses

This regulation establishes a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, wireless, national and international, irrespective of whether these services are provided through telecommunications infrastructure owned by the service provider. Under the regulation, a licensee's corporate purpose does not need to be exclusively the provision of telecommunications services. In addition, the regulation does not establish any minimum investment or coverage requirements. Broadcasting services companies may also apply for a license to provide telecommunications services. 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.

Argentine Interconnection Regulation

Compared to the prior interconnection regulation (Decree No. 266/98), this regulation provides for an important reduction in the reference prices for interconnection in effect at the time. The regulation also increases the number of functions that the dominant operator must provide, including the obligation to provide interconnection at the local exchange level, to provide billing services and to unbundle the local loop. This regulation also introduces interconnection for number translation services (NTS) such as Internet, audiotext, collect calling and the implementation of number portability, all of which shall be subject to future regulations.

Universal Service (SU) Regulation

The SU regulation requires entities that receive revenues from telecommunications services to contribute 1% of these revenues (net of taxes) to the SU fund. The regulation adopts a pay or play mechanism for compliance with the mandatory contribution to the SU fund. The regulation establishes a formula for calculating the subsidy for the provision of SU, which takes into account the cost of providing this service and any foregone revenues. Additionally, the regulation creates a committee responsible for the administration of the SU fund and the development of specific SU programs. However, material regulations to implement SU programs are still pending.

On June 8, 2007, the SC issued Resolution No. 80/07 which stipulates that until the SU Fund is effectively implemented, telecommunication service providers, such as Telecom Argentina and Personal, are required to deposit the contributions corresponding to future obligations originating since the Resolution was issued onward into a special individual account held in their name at the Banco de la Nación Argentina. The amounts to be deposited would be determined according to the provisions of CNC Resolution No. 2,713/07, issued in August 2007.

In Telecom

By the end of 2002, the SC formed a Working group whose main purpose was to analyze the method to be applied in measuring the costs of the SU performance in particular the application of the HCPM Model, based in incremental costs of a theoretical network, as well as the definition and methodology for the calculation of the Non-Monetary Benefits, in order to determine the costs to offset for the performance of the SU. Said Working group determined that efforts should be made in the short term to go on with the initial programs, independently from the HCPM model, and that there was a need to carry out a thorough revision of the present General Regulations of the SU to make said regulations operative in the short term, according to the existing social needs.

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After more than eight years from the beginning of the opening of the market and the coming into effect of the first regulations of the SU and after seven years from the coming into effect of its amendments-, said regulations are still to be implemented. Therefore, those under said regulations suppliers have not received set-offs for the supplies under the SU, which supplies they have been delivering since the beginning of the abovementioned opening of the market. In addition, as the Regulatory Authority has not issued any rules or regulations as regards the SU performance in general and the trust fund in particular, no contribution has been made effective to said fund.

In compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713 /07, for the period July 2007 - December 2007 Telecom has estimated a receivable of \$140 and filed the calculations for review by the Regulatory Authority. This receivable has not been recorded since it is subject to the review by the Regulatory Authority and the availability of funds in the trust. Such receivable arose since Telecom is obligated to provide telecommunication services in places or cities that are not profitable.

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TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

2. Regulatory framework (continued)

In Personal

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the SU fund. As of December 31, 2007, this provision amounts to \$97.

As from January 2001, Personal, as well as the other wireless providers, had charged SU fund amounts to customers.

SC Resolution No. 99/05 required entities that derived revenues from telecommunications services to contribute 1% of these revenues to the SU fund, and prohibited billing to customers any SU amounts.

As a consequence, the CNC requested that Personal:

- a) discontinue billing SU amounts to customers;
 - b) reimburse all collected SU amounts plus interest (applying the same rate used for overdue invoices from customers);
 - c) clearly identify the reimbursed amounts in the invoices; and
 - d) file certain information to the regulatory authority for the verification of the reimbursements.
- Although the SC resolutions were appealed, management decided to reimburse the SU amounts which had been billed to post-paid customers from January 1, 2001 through June 28, 2005, the date on which Personal ceased billing SU amounts.

Although Personal reimbursed the SU amounts, it will not surrender its rights to consider the resolutions illegitimate and without merit.

During the first quarter of 2006, Personal fully reimbursed its active post-paid customers all previously billed SU amounts plus interest (amounting to \$15). In addition, as from May 2006, Personal has reimbursed the SU amounts billed to its former customers and former post-paid customers that have changed into prepaid customers (amounting to \$4) and still remains pending an amount of \$6 that is available for collecting.

In December 2006, the CNC issued a preliminary report on the verification and control of the SU reimbursement, which stated that Personal fulfilled the reimbursement of the amounts including interest. However, the CNC is analyzing if the interest rate applied is that required by the CNC. As of the date of these financial statements, Personal has not received any claim on this matter. If any, Personal's management together with its legal counsel believes that it has solid legal grounds to justify the interest rate applied.

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

As a consequence, as of December 31, 2007, Personal had deposited the correspondent contributions on their respective maturity date (amounting to \$9) into the special individual account held in their name at the Banco de la Nación Argentina; these contributions were recorded as a receivable in the line item Other receivables of the consolidated balance sheets.

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

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

Subsequently, as a result of the claims submitted by several carriers objecting to General Resolution No. 613/01, the Ministry of Economy issued General Resolution No. 75/03, which introduced several changes to the regulations providing for SPM. The main changes relate to the following: long-distance carriers freedom to provide SPM, changes in blockage modality due to delinquency, changes in the service connection modality and greater flexibility of obligations connected with service promotion and advertising. Resolution No. 75/03 also provides that origin providers, both fixed and wireless, must have their equipment and networks available to provide the SPM service on June 6, 2003. As of the date of these consolidated financial statements, this long-distance service modality is not implemented.

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TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

2. Regulatory framework (continued)

(f) Public telephony in penal institutions

In June 2006, Decree No. 690/06 was issued, which granted the SC the powers to adapt the specific rules and regulations relative to the public telephony which is rendered in penal institutions. As a consequence of this, in August 2007, the SC issued Resolution No. 155/07, where it approves the Rule for Communications that are started in Penal Institutions . Said management stipulates technical requirements that must be complied with by all the telephone lines installed in penal institutions and system with the purpose of registering all the communications carried out.

Said rule shall be in force in one year, which may be extended to a similar period, counting as from sixty days from the date in which the technical definition the CNC must issue is actually available.

At the date of issuance of these consolidated financial, the Company was evaluating the technical and economic impacts resulting from complying with this new rule.

(g) Regulation of Prepaid Calling Cards

In December 2006, the SC approved, through Resolution No. 242/06, the Regulation of Prepaid Calling Cards for Telecommunication Services. This regulation, designed to ensure market transparency and avoid the existence of irregularly issued cards, sets forth certain requirements that said cards must meet and creates a Telecommunications Prepaid Calling Cards Registry that reports to the CNC. It mandated that 180 days after the regulation becomes effective no cards may be issued unless they are registered with said Registry.

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

(h) Tax Stability principle: impact of changes in Social Security contributions

On March 23, 2007, the SC issued Resolution No. 41/07 addressing the treatment of the impact of changes in Social Security contributions that occurred in 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. 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 has the right to offset the net impact of rate increases in social security contributions.

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.

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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 audits, which resulted in no significant differences from the amounts as determined by Telecom.

At December 31, 2007, the Company identified a receivable of approximately \$91 and a payable from the argentina@internet.todos Program amounted to \$23. By means of Resolution No. 41/07, the Company offset both amounts, resulting in a remaining balance of \$68. Additionally, on September 19, 2007, the Regulatory Authority authorized to offset fines due by the Company amounting to \$1.6 with the net receivable as of that date, confirming the effectiveness of the offsetting mechanism provided by the Resolution.

Therefore, at December 31, 2007, the Company has a net receivable of \$66, which is included in the line item Other receivables (\$12 as current receivables and \$54 as non-current receivables). The net effect of the application of the Resolution is a pretax gain of \$87 (\$18 included in Salaries and social security and \$69 included in Other expenses, net in the consolidated statement of income).

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 provisions that were previously shown in Contingencies. At December 31, 2007, the allowance corresponding to these matters and to the tax on deposits to and withdrawals from bank accounts amounted to \$76 (see (j) below and Note 17.e).

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2. Regulatory framework (continued)

(i) Rendering of fixed telephony through mobile telephony infrastructure

In August 2007, by SC Resolution No. 151/07, fixed service with primary category is added to the granting of particular frequency bands, with the purpose of rendering a basic telephone service through the use of wireless infrastructure pertaining to the mobile telephony service in rural and suburban areas, which are within the licensees' fixed telephony service original Region.

During the last quarter of 2007, the Company has installed fixed lines based on this technology in rural and suburban areas, in order to render this service in those areas.

(j) 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 million, by means of SC Resolution No. 4,269/99.

In December 2007, the Regulatory Authority notified the Company its intention of offsetting this difference with the Resolution No. 41/07 receivables. As a consequence, as of December 31, 2007, the Company recorded a liability on this matter on behalf of the CNC final results.

Price Cap

The Price Cap was a regulation mechanism applied in order to calculate changes in Telecom tariffs, based on changes in the U.S. Consumer Price Index (U.S. C.P.I.) and an efficiency factor.

In September 2007, the Regulatory Bodies finalized the 1999 Price Cap audit resulting in a payable by the Company of \$10.2. Management of the Company is reviewing the results, and if the amount is appropriate, the Company intends to offset this balance with the credit resulting from SC Resolution No. 41/07, described in (i) above.

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 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 Argentina 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.

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However, a preliminary injunction against Telecom Argentina disallowed Telecom 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 issuance of these consolidated financial statements, the pesification and the freeze of the regulated tariffs are still in force. Additional information is given in Note 11.c Other claims.

Tax on deposits to and withdrawals from bank accounts (IDC)

On February 6, 2003, the Ministry of Economy, through Resolution No. 72/03, defined the mechanism to allow, as from that date, tariff increases of the basic telephony services reflecting the impact of the IDC. The amount of the tax charged must be shown separately on the customers' bills. The Company has determined 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 (k) below).

In April 2007, the Company provided the CNC with supporting documentation of this amounts for audit. The Company had access to documentation of the Regulatory Authority's audits that corroborate the estimations made. Also, the CNC set a similar offsetting mechanism as determined by Resolution No. 41/07. Therefore, the Company recorded as Other receivable a total of \$23.

In accordance with the New Letter of Understanding (see (k) below) these matters should have been fulfilled by the Regulatory Bodies no further than June 30, 2006.

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2. Regulatory framework (continued)

(k) 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 tariffs 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. Tariffs 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 tariffs;

The elimination of dollar or other foreign-currency adjustments and indexing provisions for tariffs;

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 tariffs 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.

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, 2008.

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 tariff 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 tariffs at the date set in the LOU.

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2. Regulatory framework (continued)

New Letter of Understanding with the UNIREN

On March 6, 2006, Telecom Argentina signed a new Letter of Understanding (the Letter) with the UNIREN. Once the procedures set forth in the current regulations are fulfilled, the Letter will constitute the necessary precedent for the signing of the *Acta Acuerdo de Renegociación del Contrato de Transferencia de Acciones* (the Minute of Agreement of the Renegotiation) approved by Decree No. 2,332/90, as stated in Section 9 of Public Emergency Law.

The main terms and conditions of the Letter include:

The CNC and UNIREN determined that Telecom Argentina satisfactorily complied with the majority of the obligations required by the Transfer Agreement and 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. The Regulatory Authority is currently analyzing these matters and their resolutions will be gradually known;

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 objectives;

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

The Argentine Government s commitment to consolidate 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 may 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 proceedings filed or in the process of being filed, in administrative, arbitral or judicial offices, in Argentina or in any other jurisdiction, on the grounds of any act or measure taken after the enactment of the Public Emergency Law with respect to the Transfer Agreement and the License. The suspension will take effect as from the 30th day of the conclusion of the public hearing to be held to debate the Letter. Once the Minute of Agreement of the Renegotiation is ratified, any and all claims, appeals and/or proceedings will be disregarded;

The ending termination charge of international incoming calls to a local area will be increased to be equivalent to international standards, which is at present strongly depreciated;

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

On May 18, 2006, the Letter was debated in a public hearing aimed at obtaining the necessary consensus for the final signing of the Minute of Agreement of the Renegotiation. The Minute of Agreement of Renegotiation will be effective once all the requirements stipulated in the Agreement and in the regulatory framework are complied with, which among other things, requires that a Telecom Argentina Stockholders Meeting be held to approve the Minute. Both Telecom Argentina and its indirect stockholders Telecom Italia S.p.A. and W de Argentina Inversiones S.L. have opportunely fulfilled the Agreement's commitments.

During fiscal year 2007, the Regulatory Authority has resolved some of these matters, as the closing of some Price Cap audits, the issuance of Resolution No. 41/07 and the IDC offsetting mechanism.

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2. Regulatory framework (continued)

At the date of issuance of these financial statements, the Company is expecting the fulfillment of the necessary steps for the signing of the Minutes of Agreement of the Renegotiation.

Although there can be no assurance as to the ultimate outcome of these matters, it is the opinion of the Company's management that the renegotiation agreement process will be successfully completed.

(I) 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 non-national good (including Customs duties, taxes and other expenses related to a good's nationalization) increased by 7% (when the offeror is a small or medium size company) or 5% (when the offeror is any other company) (sect.3).

Compre Trabajo Argentino als