

TELECOM ARGENTINA SA
Form 20-F
April 30, 2012
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As filed with the Securities and Exchange Commission on April 30, 2012.

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

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

OR

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

Date of event requiring this shell company report

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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	477,753,405
Class C Ordinary Shares, nominal value P\$1.00 each	4,593,274

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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.

Item 17 Item 18

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

Yes No

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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 consolidated subsidiaries as of December 31, 2011. 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, 2011, 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, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009, and the notes thereto (the "Consolidated Financial Statements") are set forth on pages F-1 through F- 67 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 March 22, 2012.

The mandatory adoption of IFRS for public companies in Argentina is effective for fiscal years beginning January 1, 2012. Therefore, the consolidated financial statements as of December 31, 2011 for filing with the Argentine National Securities Commission ("CNV") were prepared in accordance with Generally Accepted Accounting Principles in Argentina ("Argentine GAAP"). Argentine GAAP differs in certain respects from IFRS. According to the CNV regulations, financial statements under IFRS for the year 2011 can be presented as "additional information" to the consolidated financial statements prepared under Argentine GAAP.

Our Consolidated Financial Statements as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009, 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.

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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\$4.304 = US\$1.00, the U.S. dollar ask rate published by the Banco de la Nación Argentina (Argentine National Bank) on December 31, 2011. On April 27, 2012, the exchange rate was P\$ 4.417 = US\$1.00.

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

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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 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 4 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.

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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 Telecom Group Management 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 charged for public 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 impact of legal or regulatory matters 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 Telecom Group'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 Telecom Group does not intend and does not assume any obligation to update the forward-looking statements contained in this Annual Report.

These forward-looking statements are based upon a number of assumptions and other important factors that could cause 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 Telecom Group'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. 2G networks are in current use all over Argentina and other parts of the world. 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.

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

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

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. ADSL can receive Mbps and transmit over 832 Kbps in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

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

AFJP (Administradoras de Fondos de Jubilaciones y Pensiones): Private entities in charge of managing the funds of the Retirement and Pension System contributions in the individual capitalization regime established by Law 24,241, enacted in 1993.

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.

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).

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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.

Bundle: Commercial offer including different telecommunication services (voice, Broadband Internet, IPTV, other) by an operator under the same brand.

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.

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Cell: Geographical portion of the territory illuminated 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.

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

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.

Concurso preventivo: A voluntary reorganization proceeding governed by Argentine law.

Convertibility Law: Law No. 23,928 and its Regulatory Decree No. 529/91. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar during the period 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): Powerful technology that increases the data transmission rate of the GPRS standard from rates of 30-40 Kbps/s to more than 100 Kbps/s and even up to 200 Kbps/s with optimal radio conditions.

FCR: France Cables et Radio S.A.

France Telecom Group: FCR and Atlas Services Belgium S.A., collectively referred to as the France Telecom Group.

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.

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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 surfing the web. 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 Net.

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 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 in the world and working on 900 MHz and 1,800 MHz band.

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

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.

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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).

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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.

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 cover 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.

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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.

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

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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).

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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): Standardized multiplexing protocols that transfer multiple digital bit streams over optical fiber.

SEC: 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.

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.

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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 *Empresa Nacional de Telecomunicaciones*.

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UMTS (Universal Mobile Telecommunications System): Third-generation mobile communication standard. It is composed of a Broadband system in which data travels at 2 Mbps; communication is faster, quality is better and multimedia contents can travel through the Net.

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 Contracts of Public Services Division.

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

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; teletex; videotex and videotelephone.

VoIP (Voice over IP): Transmission of voice communications over Internet Protocol (IP) data networks, such as IP-based LANs, intranets or the Internet.

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.

WAP (Wireless Application Protocol): A technology that allows access to the Internet using mobile handsets, even without the use of a computer.

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 three-year period ended December 31, 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.

The mandatory adoption of IFRS for public companies in Argentina is effective for fiscal years beginning January 1, 2012. Therefore, the consolidated financial statements as of December 31, 2010 for filing with the Argentine National Securities Commission (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 year 2011 and 2010 can be presented as additional information to the consolidated financial statements prepared under Argentine GAAP.

The selected consolidated income statement data for the years ended December 31, 2011, 2010 and 2009 and the selected consolidated balance sheet data as of December 31, 2011 and 2010 have been prepared in accordance with IFRS and have been derived from our Consolidated Financial Statements included elsewhere in this Annual Report. The selected consolidated balance sheet 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 ended December 31, 2010 and 2009 included in our Annual Report on Form 20-F for the year ended December 31, 2010, filed on June 29, 2011.

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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.

Table of Contents**CONSOLIDATED SELECTED INCOME STATEMENT AND FINANCIAL POSITION**

	2011(1) (US\$ millions, except per share and per ADS data in US\$)	2011	2010 (P\$ millions, except per share and per ADS data in P\$)	2009
INCOME STATEMENT DATA				
Total revenues	4,311	18,553	14,659	12,204
Operating expenses (without depreciation and amortization)	(2,913)	(12,538)	(9,785)	(8,043)
Operating income before depreciation and amortization (2)	1,398	6,015	4,874	4,161
Depreciation and amortization	(502)	(2,158)	(1,712)	(1,545)
Operating income	896	3,857	3,162	2,616
Other, net (3)	19	80	(137)	(401)
Income tax expense	(324)	(1,395)	(1,076)	(798)
Net income	591	2,542	1,949	1,417
<i>Net income attributable to the Owners of the Parent</i>	<i>584</i>	<i>2,513</i>	<i>1,935</i>	<i>1,405</i>
<i>Net income attributable to Noncontrolling Interest</i>	<i>7</i>	<i>29</i>	<i>14</i>	<i>12</i>
Number of shares outstanding at year-end (in millions of shares)	984	984	984	984
Net income per share (basic and diluted) (4)	0.59	2.55	1.97	1.43
Net income per ADS(5)	2.96	12.76	9.83	7.14
Dividends per share(6)	0.23	0.93	1.07	
Dividends per ADS(6)	1.14	4.65	5.35	
FINANCIAL POSITION DATA				
Current assets	1,266	5,450	3,624	2,943
PP&E and intangible assets	2,262	9,735	8,598	7,839
Other non-current assets	31	134	101	77
Total assets	3,559	15,319	12,323	10,859
Current liabilities	1,282	5,519	4,510	4,201
Non-current liabilities	380	1,635	1,302	1,061
Total liabilities	1,662	7,154	5,812	5,262
Total equity	1,897	8,165	6,511	5,597
<i>Equity attributable to Owners of the Parent</i>	<i>1,864</i>	<i>8,021</i>	<i>6,404</i>	<i>5,509</i>
<i>Noncontrolling Interest</i>	<i>33</i>	<i>144</i>	<i>107</i>	<i>88</i>
Capital Stock	229	984	984	984

(1) Argentine Peso amounts were translated into U.S. dollars using ask rate published by the Banco Nación de la República Argentina (National Bank of Argentina) on December 31, 2011.

(2) See Item 5 Operating and Financial Review and Prospects Management Overview for a description of the relevance for the Company of the Operating income before depreciation and amortization measure.

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

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

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- (5) Calculated based on 196,876,196 ADSs, which is equivalent to the weighted average number of ordinary shares outstanding during the period.
- (6) U.S. dollar amount was calculated based on the exchange rate prevailing on dividend payment date.

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	2011	2010	2009
Number of installed fixed lines (thousands)(1)	4,793	4,689	4,595
Number of fixed lines in service (thousands)(2)	4,141	4,107	4,060
Fixed lines in service per 100 inhabitants(3)	21	21	21
<i>Lines in service per employee</i>	<i>373</i>	<i>379</i>	<i>366</i>
<i>ARBU (in P\$/month) (national + international)</i>	<i>46</i>	<i>43</i>	<i>41</i>
Fixed Internet access lines (thousands)	1,550	1,380	1,214
Arnet subscribers (thousands)(4)	1,540	1,377	1,184
<i>ARPU/ADSL (access + ISP) (in P\$/month)</i>	<i>87</i>	<i>76</i>	<i>67</i>
Mobile subscribers in Argentina (thousands)	18,193	16,333	14,475
<i>Subscribers at year-end per employee</i>	<i>3,774</i>	<i>3,738</i>	<i>3,810</i>
<i>ARPU (in P\$/month)</i>	<i>51</i>	<i>44</i>	<i>41</i>
Mobile subscribers in Paraguay (thousands)(5)	2,149	1,878	1,806
<i>Subscribers at year-end per employee</i>	<i>4,945</i>	<i>4,512</i>	<i>4,251</i>
<i>ARPU (in P\$/month)</i>	<i>26</i>	<i>22</i>	<i>20</i>
Telecom Group Headcount	16,345	15,629	15,300

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- (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 Arnet GO and Mobile Arnet services.
- (5) Includes Wi - Max Internet customers.

Table of Contents**Exchange Rates**

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

	High	Low	Average(1)	End of Period
Year Ended December 31, 2007	3.16	3.08	3.12	3.15
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
Month Ended October 31, 2011	4.24	4.21	4.22	4.24
Month Ended November 30, 2011	4.28	4.24	4.26	4.28
Month Ended December 31, 2011	4.30	4.28	4.29	4.30
Month Ended January 31, 2012	4.34	4.30	4.32	4.34
Month Ended February 29, 2012	4.36	4.33	4.35	4.36
Month Ended March 31, 2012	4.38	4.34	4.36	4.38
April 2012 (through April 27, 2012)	4.42	4.38	4.40	4.42

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

Sources: Banco Nación de la República Argentina

On April 27, 2012, the exchange rate was P\$4.417=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 current growth is sustainable, as well as the Argentine government's ability to reduce high inflation rates and to improve trade balance and fiscal surplus, since it has depended to a significant extent on favorable exchange rates, high commodity prices, low international interest rates and a period of opening international commercial markets.

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, 2012, the devaluation of the peso against the U.S. dollar was 1.7%, according to the exchange rate published by the Banco de la Nación Argentina. However, during October and November 2011, new measures were implemented to limit the purchase of foreign currency. As a result, the implied exchange rate in the quotation of the Argentine Securities that trade in foreign markets and Argentina increased by approximately 11.7% in the three month period ended March 31, 2012. Given the economic and political conditions in Argentina, it

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is impossible to predict whether, and to what extent, the value of the peso may depreciate or appreciate against the U.S. dollar, the euro or other foreign currencies. We cannot predict how these 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.

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

In the past, Argentina has experienced periods of high levels of inflation. More recently, levels of inflation have increased since 2005 and have remained relatively high from 2006 to 2011. The recent economic recovery has led to higher inflation, resulting in increased costs, which may continue or even increase in the future.

The INDEC estimates that the Argentine consumer price increased by 7.2% in 2008, 7.7% in 2009, 10.9% in 2010 and 9.5% in 2011; and the wholesale price index increased by 8.8% in 2008, 10.0% in 2009, 14.6% in 2010 and 12.7% in 2011. In the three months ending March 31, 2012, the consumer price index in Argentina increased 2.6% and the wholesale price index increased 3.0%. There is a substantial disparity between the inflation indexes published by the INDEC and those higher estimated by private consulting firms.

The Argentine government has implemented several actions to monitor and control prices for the most relevant goods and services. Despite such actions, the Argentine economy continues to experience levels of annual consumer index of inflation close to 10%, according to the INDEC, which is substantially lower than private estimates. 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 financial institutions in distress, or if the value of the peso cannot be stabilized through strict fiscal and monetary policies, a significant increase in inflation rates could be expected.

Moreover, high inflation may also 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, as reducing fiscal surplus, a trend that if continued, may cause the government to incur a fiscal deficit and lead to higher inflation or higher government debt.

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. 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 rate negotiations 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

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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.

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Also, in recent years the Argentine government has taken several actions reverting concessions and public services contracts that were privatized in the 90 s, such as Aguas Argentinas S.A., Aerolíneas Argentina S.A. and recently YPF S.A. In April 2012, Decree 530/12 from National Executive Branch established the intervention of YPF S.A., Argentina s largest company and the main oil and gas producer. In addition, a bill was presented to the Argentine Congress to declare the public interest of exploitation, production, transport and commercialization of oil and gas and also to declare the expropriation of 51% of the YPF S.A. s shares. There is no certainty about the consequences that the expropriation of YPF S.A. would have in Argentina s economy, on the confidence of local and international investors, on the business environment in Argentina and what reaction it will cause from other countries or international organizations or economic blocs. We cannot assure that these kinds of actions of the National government will not be extended to other companies and or other sectors in the 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 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 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 constitutes 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. The role that the government will play, acting through ANSES, in making investments in new issuances of equity and debt in capital markets, is unclear due to the absence of clearly established policies. This has reduced the volume of trading and the liquidity of Argentina s capital markets. Until the government s practices and policies are clearly established, these matters could create uncertainties for investors of public companies in Argentina, including Telecom Argentina.

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. 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 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.

Argentina s economy may not continue to grow at current rates or may contract in the future.

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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. Although Argentina has experienced economic growth in the most recent years, current global financial instability has impacted and may continue to impact the Argentine economy and cause Argentina to return to a period of recession, fiscal deficit, higher inflation, increased unemployment and greater social unrest.

Although the current state of the international financial markets in terms of volatility, liquidity and access to credit has improved as compared to 2008 and 2009, 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.

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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, diminish or even reverse the country's positive trade balance and, if coupled with an increase in capital outflows, reduce consumption and investment levels as a result of increased pressure on and volatility of exchange rates. Additionally, abrupt changes in monetary and fiscal policies could rapidly affect local economic output, while lack of appropriate levels of investment in certain economy sectors could reduce long term growth. Moreover, limited access to the international financial market could cause an increase in public spending not correlated with an increase in public revenues, which 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.

Argentina continues to face economic and legal uncertainty.

Although general economic conditions have shown improvement, and political protests and social disturbances have diminished considerably since the economic crisis of 2001 and 2002, the rapid and radical nature of the changes in the Argentine social, political, economic and legal environment over the past several years has given rise to uncertainties about the country's business environment.

In the event of further economic, social or political crises, companies in Argentina may face the risk of civil and social unrest, strikes, expropriation, nationalization, forced renegotiation or modification of existing contracts, and changes in taxation policies including tax increases and retroactive tax claims. In addition, Argentine courts have issued rulings changing existing jurisprudence on labor matters and 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 a fiscal surplus 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

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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. A judgment against the Argentine government in these pending cases could reduce sources of funding and investment capital and could potentially impact the government's ability to adopt measures that promote economic growth.

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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 September 30, 2011, 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 funds, 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, in 2008 and 2009, certain events such as conflicts between the Argentine government and certain sectors of the economy, together with the international financial crisis, decreased depositors' confidence, led to a slowdown in the growth of deposits, increased the dollarization of certain deposits and increased interest rates on loans granted to the nonfinancial sector.

Despite improvements in stability since 2002, and after the Argentine economic recovery experienced in 2010, we cannot be certain that another collapse will not occur in the future.

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.

In March 2012, Law No. 26,739 was enacted establishing the modification of the Organic Charter of the BCRA modifying the relationship between the monetary base and the level of reserves. The modification also changes the mission of the BCRA. According to this new law, the BCRA obtained more flexibility to attend the financial system's needs, issue Argentine pesos and finance the public sector, among others.

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

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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.

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

The SECOM 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. Possible delays in the allocation of new frequencies, the reallocation of the existing ones and their subsequent auction could affect 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 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.

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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 7.66% (7.71 % as of December 31, 2011) of our Class B Ordinary Shares (3.74% of our total capital stock) which, in the aggregate, represents approximately 54.74% of our total capital stock. We are directly controlled by Nortel by virtue of Nortel's ownership of a majority of our capital stock; however, Nortel's controlling interest is subject to certain agreements among Sofora's shareholders. In addition, the Telecom Italia Group and W de Argentina Inversiones (a company that is part of the Argentine Wertheim 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, 2011, 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 technology and bandwidth in mobile data transmission. In addition, a key factor for 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 segments. We also expect to continue to devote resources to customer retention and loyalty in such segments.

An increase in competition between service providers could be expected as a result of the implementation of the Number Portability Regulation that took place in March 2012 for Personal Mobile Services segment, which could also result in higher customer retention costs and increased churn amongst high value customers in the Argentinean mobile market. Our market share may be affected positively, negatively or not at all by the number portability.

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In addition, Personal will participate in the spectrum auction and hopes to acquire spectrum to complete its Spectrum cap throughout Argentina. We cannot ensure that Personal will be awarded spectrum in the tender. If the auction is delayed or the spectrum is awarded to other existing or new competitors, it could adversely affect its competitive position or ability to offer mobile services to its customers on a competitive basis, and may require higher capital expenditures regarding the construction of additional cell sites.

Also, 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 possible inclusion of new mobile virtual network operators. 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 particularly in the Internet 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 mobile industry could adversely affect us.

The mobile industry is currently subject to an important set of regulations that has enabled the development of a high competitive and intense capital expenditure environment. Notwithstanding that, in 2011 a bill was presented to the lower Congress Chamber proposing a substantial change through the declaration of the mobile industry as a public service. That bill did not obtain the necessary support to be treated at the lower Congress Chamber. We cannot assure that similar initiatives will not be proposed in the future and will not obtain the approval of the National Congress.

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

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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. because they exceeded their 50 MHz spectrum cap was postponed several times. Finally, SECOM launched the auction; which is expected to take place in May 2012.

Personal is participating in the spectrum auction process and expects to acquire additional spectrum to complete its Spectrum cap throughout Argentina.

If Personal is not one of the tenders awarded, it could adversely affect its competitive position and may require higher tangible capital expenditures to offer mobile services to its customers on a competitive basis in comparison with other operators that would obtain additional spectrum resulting from the auction. See Item 4 Information on the Company Regulatory Framework Other Regulatory Regulations Regulations Applicable to PCS Services for a detailed description of Personal's license.

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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.

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 currently represents 74.01% of the total capital stock of Nortel. 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 Wertheim 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 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 the increased level of inflation) and a decline in the population's purchasing power.

In addition to the recategorization process expected 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. See Item 6 Directors, Senior Management and Employees Employees and Labor Relations.

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

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FAECyS) are included in the new collective bargain agreement for the mobile industry, we may incur increased costs for the higher compensation that we may need to pay.

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 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 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 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.

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

We are party to a number of legal proceedings, some of which have been pending for several years. We cannot be certain that these claims will be resolved in our favor, and responding to the demands of litigation may divert management's time and attentions 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 subcontractor may file a direct action against the firm contracting the work, that any cap on severance pay in cases of dismissal without cause is unconstitutional, that an employee may bring a civil action in the event of an occupational accident, and 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 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.

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 this litigation 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 is the authority to control 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. Although penalties are

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appealed in the administrative stage, if the appeals are not solved in our favor 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.

Moreover, 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 us 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) and, 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 disposition 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. Although significant restrictions or limitations have been eliminated over the years, certain restrictions imposed by the BCRA on the access to foreign exchange markets and transfer of funds continues to apply to us. In addition, during the months

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of October and November 2011, new 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. There can be no assurance that the BCRA or other government agencies will not increase controls and restrictions for making payments to our foreign creditors, dividend payments to foreign shareholders or require its prior authorization for such purposes, which would limit our ability to timely comply with payments related to our liabilities with foreign creditors or non-resident shareholders. See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina.

In addition, in October 2011, Decree No. 1,722 eliminated an exception for oil and mining companies, and thus requires these companies to settle in the foreign exchange market all their export receipts. Moreover, the National Insurance Bureau, issued in October 2011, Resolution No. 36,162 imposing the obligation for insurance companies to have all investments and liquid assets allocated in Argentina. We cannot ensure that similar measures will not be taking for other companies and or other sectors in the future.

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Starting in January 2012, the AFIP and the SCI must be notified in advance and must approve all import operations of goods and services. This new procedure could negatively affect the provision of imported products and services. 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 and political situation in Argentina, the way ANSES 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.

Finally, 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, 2011, 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 373 lines in service per employee.

As of December 31, 2011, our Internet business reached approximately 1.6 million accesses and our mobile business had approximately 18.2 million subscribers in Argentina and approximately 2.1 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 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 must also comply with.

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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.

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 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, new Value Added Services, access to social networks and content distribution.

Through our Broadband and mobile Internet, 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.

For those services not subject to rate freeze since 2001 as a result of the Pesification, 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.

We also developed a new identity for our mobile operations under the Personal brand, which has been increasing its market share. We believe our new identity represents the values in which we trust to successfully conduct our Number Portability activities in 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.

Organizational Structure

The following chart shows our subsidiaries as of December 31, 2011, and jurisdiction of organization.

(*) Dormant entity as of December 31, 2011.

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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, 2011:

Subsidiary(1)	Activity	Segment	Percentage of Ownership	Percentage of Telecom s Total Consolidated Revenues(4)
Telecom Personal S.A.	Mobile Services	Personal Mobile Services	99.99	67.2
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				71.3

(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, 2011.

(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

Telecom Argentina Annual shareholders meeting

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Telecom Argentina's shareholders, at their meeting held on April 27, 2012, approved, among other items:

- The allocation of retained earnings as of December 31, 2011, in accordance with the new requirements established by Resolution No. 593/11 (See Item 8 Financial Information Dividend Policy) as follows: (i) P\$121 million to the legal reserve, (ii) distribution of cash dividends of P\$807 million (P\$0.82 per share) to be paid on May 10, 2012, and (iii) the constitution of a voluntary reserve for future capital expenditures of P\$2,553 million.
- The number of members of the Supervisory Committee for the year 2012 and their appointment as follows: the shareholders decided to elect five members and five alternate members of the Supervisory Committee for the year 2012, in accordance with the provisions of Telecom Argentina's bylaws. As a result, one member and one alternate member were appointed at the request of ANSES through the exercise of cumulative voting procedures (See Item 10 Additional Information Memorandum and Articles of Association- Telecom Argentina's capital stock Voting Rights) and the remaining four members and four alternate members were elected by ordinary vote.

Personal Annual shareholders' meeting

Personal's shareholders, at their meeting held on April 19, 2012, approved, in accordance with the new requirements established by Resolution No. 593/11 (See Item 8 Financial Information Dividend Policy) among other items, the allocation of retained earnings as of December 31, 2011 as follows: (i) distribution of cash dividends of P\$800 million (P\$2.58 per share) in two installments, the first one on April 26, 2012 and the second one on June 18, 2012 in the amount of P\$250 million and P\$550 million, respectively, (ii) the constitution of a reserve for future cash dividends by P\$910 million, and (iii) the constitution of a voluntary reserve for the finance of working capital and capital expenditures in Argentina by P\$1,237 million. The shareholders also approved the delegation of authority in Personal's Board of Directors to determine the amount, time, terms and conditions to release the reserve for future cash dividends and the voluntary reserve for the finance of working capital and capital expenditures in Argentina.

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 Empresa Nacional de Telecomunicaciones (ENTel). This transfer was made pursuant to the Argentine government's privatization program as set forth in the State Reform Law approved in August 1989 and subsequent decrees (the Privatization Regulations), which specified the privatization procedure for ENTel.

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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 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 Wertheim 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 which represent six operating segments. 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.

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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, 2011.

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, 2011, 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;
- *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, 2011, 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 / HSDP / HSDPA+ 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, 2011, Personal had approximately 18.2 million mobile subscribers in Argentina and Núcleo had approximately 2.1 million in Paraguay.

See Note 28 to our Consolidated Financial Statements and Item 5 Operating and Financial Review and Prospects Years ended December 31, 2011, 2010 and 2009 Results of Operations by Segment for additional information as to our results of operations by segment.

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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 Rate Regulations below.

The Argentine government has taken certain measures that have affected revenues from the services we provide. By the enactment of the Public Emergency Law since January 6, 2002, the rates charged by Telecom Argentina for fixed line services such as measured service, 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.

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, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007
Number of installed lines (1)	4,792,530	4,688,977	4,595,043	4,442,629	4,238,542
Net lines installed (during each year)	103,553	93,934	152,414	204,087	341,905
Net lines installed cumulative (2)	3,221,566	3,118,013	3,024,079	2,871,665	2,667,578
Number of lines in service (3)	4,141,135	4,107,082	4,060,260	4,010,056	3,917,530
Net lines in service added for the year	34,053	46,822	50,204	92,526	96,124
Net lines in service added cumulative	2,739,166	2,705,113	2,658,291	2,608,087	2,515,561
Lines in service per 100 inhabitants (4)	21	21	21	21	20
Pending applications (5)	133,977	83,984	77,172	67,429	65,700
Public phones installed	40,079	44,846	50,275	58,375	70,550

- (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.

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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, 2011 and 2010, 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 11.5 billion in 2011, 12.2 billion in 2010 and 12.5 billion in 2009. During the past three years, despite increased economic activity in Argentina and the growth in our fixed line customer base, the volume of local minutes has decreased slightly due to the strong growth in mobile telephony and the resulting migration of traffic to mobile service. During 2011, 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 2.8 billion in 2011 and 2.9 billion in 2010 and 2009. Ever since the Northern Region was opened to competition in 1997, Telecom Argentina has maintained its position as the regional market leader for domestic long-distance traffic. During 2011, 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.

In the year ended December 31, 2011 and 2010, approximately 80% of measured service revenue was generated by residential and professional customers, and approximately 20% was generated by business and government customers.

International Long-Distance Service. International long-distance traffic minutes increased to 156 million in 2011 from 145 million in 2010, mainly due to an increase in the MOU (Minutes of Use) of residential customers, while in 2010 it had decreased from 151 million in 2009. The decrease in 2010 was mainly due to strong competition and the introduction of VoIP.

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.

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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 continued to demonstrate a slow growth in Argentina, whereas it is decreasing in various other parts of the world.

Public Telephone Services. As of December 31, 2011, there were 40,079 public lines installed of which 2,942 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 2011 fell to 202 million compared to 247 million minutes for 2010 and to 300 million minutes for 2009. The traffic in domestic long-distance public telephony was 120 million minutes for 2011, 139 million minutes for 2010 and 150 million minutes for 2009. The traffic in international long-distance public telephony has experienced a slight increase in 2011 growing to 70 million minutes from 68 million in 2010 and 67 million minutes in 2009.

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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 2011, 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.

The following table illustrates the evolution of Internet services:

	2011	December 31, 2010	2009
Fixed access lines (1)	1,550,000	1,380,000	1,214,000
Arnet subscribers (2)	1,540,000	1,377,000	1,184,000

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

(2) Includes Arnet GO and Mobile Arnet services. Arnet subscribers refer to customers to which Telecom Argentina provides Internet service.

The market for Broadband has experienced significant growth in 2009, 2010 and 2011 throughout the country, increasing 16%, 17% and 15%, 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 four years, Telecom Argentina continued to increase its customer base in line with or exceeding the market's expansion. As of December 31, 2011, we reached approximately 1.6 million accesses. During 2011, 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.

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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. The service provides customers, through the payment of a monthly fee, the ability to access a vast library of content. Another important value-added service introduced in 2011 was Arnet Móvil, which provides access to Internet through the Personal 3G network. This service is aimed to broaden the service already offered to customers with a fixed broadband connection.

In December 2011, with the launch of 10 mega Arnet , the portfolio of access speeds available was expanded, creating a new alternative in terms of average speed.

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.

As 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 2011 included:

- implementing and deploying an integrated core communication system accessing mobile radios for individual safety in the City of Buenos Aires;
- implementing a hospital management system connecting several health care centers in the province of Salta,

- developing virtual desks and servers to implement internal IT solutions on a comprehensively virtualized platform for a multinational information technology company; and
- implementing a solution that consists of installing, training and maintaining an innovative digital billboard system for the major airport in Argentina.

Additionally, the following projects have been carried out and are expected to be completed in 2012:

- entering into a contract to control content in the country-wide school connectivity program;
- entering into a contract to control access to soccer stadiums;
- entering into a contract to supply, install and maintain a comprehensive 911 public safety; and system in the city of Paraná.

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 calling party pays fees. These fees are payable by mobile operators as well as fixed-line operators.

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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 2011, we continued to increase the number of clients connected to Telecom Argentina's video matrix located in the city of Buenos Aires. In 2011, Telecom Argentina provided the national and international video signal transport in standard and high definition for Latin America's Football Cup. The transport of video signals covered twenty-six calendar days and was distributed to several Argentine channels and producers.

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 727 million in 2011, 607 million minutes in 2010 and 643 million minutes in 2009.

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

In order to meet the growth in our 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 the U.S.

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 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 2011, Telecom Argentina USA, Inc., began to operate a node of high-definition video in Miami, thus extending the Telecom video matrix to the international market. This development has allowed the first international video transmissions in high definition to U.S. broadcasters during the 2011 Latin America s

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Football Cup held in Argentina. This node also presents future opportunities for video transmission of international events.

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 2011.

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 2011, over 93% of our customers were served through premises interconnected by fiber optic networks, which ensure a lower cost per bit and increase future availability, based upon adding new electronic equipment. For 7% of our customers in small areas where fiber optic service is not available, we provided them with high-capacity SDH radio links and used 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 to address the existing Ethernet flows on DWDM and release existing SDH capacity.

With regard to the fixed access network, we have identified two overlapping 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 23% of our active customers use NGN technology, which enables us to attend to the demand for new voice services.

In response to our customers' need for more bandwidth, we implemented a plan to shorten the loop, which consists of installing outdoor cabinets with the capability to provide services consistent with the competitive Broadband market. 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 will allow us to offer value-added services that will 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 2011, we installed the first building with FTTH.

Beginning in 2012, our strategy will be to provide FTTB for most new buildings and FTTC/FTTH for new neighborhoods to satisfy the demand for higher Internet access speed, which is expected to develop in the near future.

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In 2011 we installed the first multiservice network node in the Buenos Aires Metropolitan Area, which includes MPLS-TP technology and enables the same connection site to provide various services with high-capacity levels.

During 2011, we continued to replace the main Backbone IP nodes in Argentine provinces with new-generation nodes. As a result, smaller-capacity nodes were moved to the network's periphery, allowing Telecom Argentina to meet the growing needs of present and future systems. In addition, we have completed the work to connect every provincial capital in the original exclusive zone to the secured Fiber Optic rings.

Regarding operations, MPM continued to be implemented on the access network. When a cabinet area needs to be restored due to its high claim rate, MPM helps maintain the improvements achieved over time. In 2011, about 1,500 areas were restored, reaching a cumulative 4,000 restored areas using all the restoration methodologies available.

Work also continued to replace telephone posts. We intend to replace all older posts in the next five years.

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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 rapid growth and intense competition. Operators are generally free from regulation to determine the pricing of services, with the limited exception of calling party pays (CPP) charges for termination of calls originating on a fixed line network. See Regulatory Framework Other Regulatory 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 117.7% of the population as of December 31, 2009, to approximately 126.7% in 2010 and to 134.2% in 2011, respectively. This information regarding penetration of mobile service is an estimate, as there are no official statistics published in Argentina.

Service providers in Argentina are making significant capital expenditures in new network infrastructure for the deployment of 3G 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 is growing rapidly. From December 31, 2010, to December 31, 2011, its subscriber base in Argentina grew approximately 11%. As of December 31, 2011, Personal had approximately 18.2 million subscribers compared to approximately 16.3 million subscribers as of December 31, 2010, and approximately 14.5 million subscribers as of December 31, 2009.

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 a prepaid card. When the card runs out of credit, the subscriber can recharge the prepaid card using a prepaid system or can purchase virtual prepaid phone cards 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 contact 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.

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Mixed Plans (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:

	2011		As of December 31, 2010		2009	
		% of Total		% of Total		% of Total
<u>Mobile subscribers:(1)</u>						
Prepaid	12,414,000	68.2	11,426,000	70.0	10,051,000	69.5
Post-paid	2,640,000	14.5	2,111,000	12.9	1,715,000	11.8
<i>Cuentas Claras</i>	3,139,000	17.3	2,796,000	17.1	2,709,000	18.7
Total	18,193,000	100.0	16,333,000	100.0	14,475,000	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.

New products and services. Personal continued to deepen its strategy of innovation and leadership with the launch of various products, promotions and benefits to meet the diverse communication needs of different types of customers. The consolidation of third-generation coverage (3G and HSPA+), together with the evolution of Value Added Services powered by smartphones and tablets, defined the kind of offers developed over 2011.

Regarding innovation, the presentation of a new mobile Internet offer called *Internet P\$1 per day* allowed an 80% increase in the number of Personal's customers who access the Internet through their mobile devices for a fixed charge per day. Another relevant development was the launch of *SIM Facebook* before a similar launch by any other operator worldwide. *SIM Facebook* enables Personal's customers to access social networks through its handsets, regardless of the device or the plan they have.

Personal continued to expand its *Todo Incluido* plans, which include free voice minutes, SMS and data transmission, along with Personal Black, the premium customer care service platform for mobile subscribers in Argentina. For a fixed rate, the plan includes unlimited data services, a portfolio of exclusive smartphones at discounted prices and additional preferential benefits. As a result of this strategy, one in two smartphones sold in the Argentine market is Personal.

In 2011, Personal also increased the granting of benefits in recharges and service packages for its customers, as well as special benefits for Club Personal members repositioning Personal in terms of convenience.

Personal's ARPU was approximately P\$51 per month for 2011 and P\$44 per month for 2010.

b) *Wholesale*

International Business. During 2011, Personal continued to expand roaming data coverage to provide better 3G coverage to its customers. We entered into over 242 data agreements (GPRS/EDGE) reaching over than 110 3G launchings of a total of 288 international roaming agreements, which provide service in 155 countries.

With the main purpose of increasing the number of destinations reached by the international roaming service, a roaming Hub was engaged, which facilitated the process of integration to about 60 new destinations.

Finally, Personal expanded the destinations reached by international SMS, via SMS Hub, to ensure both the delivery and reception of messages. This solution benefited over 200,000 customers using the service. With regard to coverage growth in 2011, our clients can use services in over 150 countries, and in 20 of them they can benefit from full coverage, with integrated message exchange on both GSM and CDMA technology.

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Domestic Business. During 2011, 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 expired contracts with existing operators of such services with positive impact in our business due to the recovery of a historic number of bad debts since certain Cooperatives paid their overdue debts in the negotiation process.

In 2011, Personal also negotiated space on the Buenos Aires subway network and added other significant sites to improve the service provision.

In addition, 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.

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.

Personal's network infrastructure supplements the infrastructure of Telecom Argentina's fixed network. Therefore, the development strategy for Personal's network aims to maximize the synergies of investments of the Telecom Group as an integrated operator group (both fixed and mobile).

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 coverage of this access network is constantly undergoing improvements in breadth, depth and capacity. Improvements in breadth address the number of cities covered; improvements in depth address continuity of coverage, and lastly, improvements in capacity address strategies 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.

By the end of 2011, we had over 2,900 2G network radio access bases distributed throughout the country. 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.

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, 2011 there were more than 2,400 new-generation access nodes installed.

During 2011, a plan was instituted to modernize equipment in the mobile network through a technological swap that enables GSM and 3G equipment to be replaced by equipment consistent with both technologies, which can be further upgraded to a new version with LTE technology using an specific software.

The capacity increase required to satisfy the growing demand for mobile bandwidth in 2011, and the bandwidth that will have to be attended to in 2012, is based on a substantial increase in the number of radio base sites, and on the implementation of six sectors technology, an innovative 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 display of fiber optic to the radio bases.

With regards to the core network, we consolidated the migration to a split or distributed architecture. This migration and network redistribution will lower Personal's transmission costs and improve its awareness of service availability in areas distant from the switching equipment, which were previously monolithic. This also provides a convergent core network for GSM or 3G services and ensures the future benefit of the investments made.

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As to the operation, the MPM began to be used on the mobile network. During 2011, the MPM was used on ten sites throughout the country, with an increase in radio base availability. The expansion process is expected to begin in 2012.

Also, Personal's mobile network began to be deployed 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 make a substantial improvement in the use of tower structures commonly used to deploy mobile networks (by shortening the height of the facilities needed on the post, and also optimizing the capillarity and reach of the B nodes).

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.

The market for mobile telecommunications services in Paraguay continued experiencing a significant level of competition in 2011 due to aggressive rate competition, new product and service launches, and marketing promotions. As of December 31, 2011, Núcleo had approximately a 32% share of the market for mobile telecommunications services in Paraguay (an increase of 2% compared to 2010). The subscriber base for its core mobile services increased 15% as compared to the previous year. As of December 31, 2011, Núcleo had 1,792,000 pre-paid subscribers, 220,000 subscribers with the service plan Control Plan and 129,000 post-paid subscribers.

During 2011, Núcleo focused its offers and promotions in obtaining a better perception of its prices in the market. To satisfy the needs of its customer base with more alternatives, Núcleo migrated from an offer of unlimited packages to more varied and accessible packages as a way of maintaining a positive perception by its customers.

New customer care channels were put in place such as mail, SMS, chat and social networks (Facebook, Twitter, Google+, Foursquare and YouTube).

In addition, Núcleo consolidated its brand for retail customers, highlighting closeness, youth and convenience and continued to be the leader in preference among the young segment.

Also, Núcleo achieved leadership in mobile Internet reaching more than 50% of the market's top of mind, based on speed and mobility attributes.

Núcleo's Network and Equipment

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During 2011, Núcleo commissioned 36 new cell sites in four departments in Paraguay, adding 68 new locations to its GSM network. As a result, Núcleo became the leader in coverage in the western region of Paraguay. Further to these sites, in 2011, Núcleo installed another 43 sites in different regions in Paraguay, finishing 2011 with an increase of 20% in the number of cell sites installed.

With regard to its 3G network, in 2011, Núcleo commissioned 158 B nodes, representing an increase of 53% in the number of B nodes in the 3G network compared to 2010. Also, Núcleo has doubled the browsing bandwidth from 5 Mhz to 10 Mhz, with connection speeds in excess of 1 Mbps.

Also in 2011, Núcleo continued expanding the circuit core and the package core, updating hardware and software of all the nodes in Asunción and Ciudad del Este and commissioning two new controllers in the Northern area and in Asunción which enabled Núcleo to meet the data traffic increase experienced by its 3G network.

Finally, in relation to Value-Added Services, Núcleo updated and expanded all its service platforms, especially by implementing the second *SMS Gateway* (the platform that controls SMS interconnection so they can be sent to and received from other operators and service providers), resulting in ensuring and providing SMS traffic redundancy outside the network. Also, Núcleo performed adjustments and migrations in the nodes controlling network signal traffic, which saved 30% of the processing capacity for this type of traffic, which is highly sensitive to the data growth experienced by the network in the last few years.

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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), Telephone2, 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, Netizen, Gigared, UOL, 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.

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

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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 assignment (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 services in Buenos Aires. Nextel Argentina's service currently focuses on business subscribers in the principal cities of Argentina.

With the introduction of Number Portability in 2012, competition is expected to intensify. The acquisition and retention of high-value customers will continue to be a key factor to Personal's strategy, which will be

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focused on maintaining customer's consumption through the launch of new products and services that will enable retention of existing customers and take advantage of the opportunities that Number Portability is expected to generate.

See Regulatory Framework Regulatory Environment Decree No. 764/00 for a description of Number Portability and also Regulatory Framework Other Regulatory 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, 2011, Nucleo's major competitor was Telefónica Celular del Paraguay S.A. (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 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 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 is 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 is subsidiary, is supervised by the Federal Communications Commission (FCC).

Licenses granted as of December 31, 2011

As of December 31, 2011, 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;

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

As of December 31, 2011, 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.

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;

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- 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.

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

- repeated interruptions of Personal s 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; 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.

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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. During the Transition Period, 640,000 new lines had to be installed, of which 15% of these new lines were required to be installed for customers in suburban areas; 19,000 new public telephones had to be added to the existing network (50% of which are to be coin-operated telephones), and 2,000 telephones were required to be installed in low-income areas.

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 obligate 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), Telephone2, 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. 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.

Regarding the number portability, on January 22, 2009, the SC issued Resolution No. 8/09 through which it created a Working Commission composed of members of the SC and the CNC to prepare a draft of the Number Portability Regulation.

Subsequently, on August 19, 2010, through Resolution SC 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.

The implementation timetable was approved by Resolutions No. 8/2011 and 3/2011 jointly issued by the SC and the Ministry of Domestic Trade.

The resolution also provides for the creation of a Portability Committee, formed with representatives of mobile operators and, among other responsibilities, is in charge of coordinating and supervising the NP's implementation process and functioning, reporting to the SC about fulfillment of the objectives included in the timetable, defining the NP's technical and operative procedures and specifications, and preparing the Bidding Specifications for the hiring of the Database Administrator, all of the above being subject to the SC's approval.

At the beginning of 2011, the Portability Committee sent for the SC's approval the agreed Portability processes and specifications for the selection of the Database Administrator.

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 proper application of the NP, the bidding specifications and model contract for the selection of the Database Administrator, and the network technical specification for the implementation of the NP in the mobile communication networks.

On July 7, 2011, the Portability Committee convened companies with extensive international experience to participate in the private tender for the selection of the Database Administrator. Telcordia Technologies Inc. together with its Argentine partner, Telmark S.A. (hereinafter the Administrator of the Portability), were the companies selected in the process.

The results of the proceedings were reported to the SC 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.

Mobile providers made the adjustments to their respective networks, as well as developments and testing of the necessary information technology applications. The NP was implemented 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

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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.

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 Argentina S.A. because this company had exceeded its 50 MHz spectrum cap. The total spectrum to be auctioned in each region is: 30 MHz in Region I (North); 37.5 in Region II (AMBA); and 35 MHz in Region III (South).

Personal is participating in the spectrum auction process and expects to acquire additional spectrum to complete its Spectrum cap along throughout Argentina. For such purpose, Personal can expect to acquire up to 5 MHz in the first Region, up to 7.5 MHz in the second Region and up to 10 MHz in the third Region.

As of the date of this Annual Report, the SC has postponed the auction and it is expected to take place in May 2012.

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, issued by Decree No. 764/00, adopted a pay or play mechanism for compliance with the mandatory contribution to the SU fund. 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 required to deposit any contributions accrued since the issuance of such Resolution into a special individual account held in their name at Banco Nación. CNC Resolution No. 2,713/07, issued in August 2007, established how these contributions are to be calculated.

New Universal Service Regulation

Decree No. 558/08, published on April 4, 2008, replaced the SU Fund regime created by Decree No. 764/00, and approved a new Universal Service regime. Decree No. 558/08 established that the SC would assess the value of service providers direct program contributions made 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.

The Decree requires telecommunications service providers to contribute 1% of their revenues (from telecommunications 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.

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. The regulation establishes that the SC will review SU

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

Under Decree No. 558/08, 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 - one each appointed by

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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 in a timely manner and is in full operation of the functions derived from its responsibilities.

The Decree also requires telecommunications service providers to create, subject to SC approval, a procedure to select the fiduciary institution and to provide a proposed fiduciary agreement within 60 days from its effective date of publication. Telecom Argentina and Personal selected Banco Itaú as the fiduciary institution. The fiduciary institution and the proposed fiduciary agreement were approved by the SC in January 2009 through SC Resolution No. 7/09.

On April 4, 2009, by means of SC Resolution No. 88/09, the SC created a new program denominated Telephony and Internet for towns without provision of Basic telephone services that will be subsidized with funds from the SU Fund. The new program seeks to provide local telephony, domestic long-distance services, international long-distance services and Internet services in towns that currently do not provide Basic telephone services. SC Resolution No. 88/09 specifies the methodology that licensees will have to follow for proposals to render these services in several of the 1,491 towns and 1,496 schools identified in the Resolution's Annex. The bases for the bidding process for 400 localities under this program were published in March 2012.

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 will 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 and the bidding for the Internet for public libraries program is under development.

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. As of the date of this Annual Report, SU Initial Programs are still pending the approval of 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

Over ten years after the deregulation of the market and effectiveness of the SU regulations, superseded by Decree No. 558/08, 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 for the period initiated in July 2007 through December 31, 2011, 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.

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On April 8, 2011, the SC issued Resolution No. 43/11 notifying Telecom Argentina that investments associated with High-Cost Areas valued at approximately P\$829 million since July 2007 and included in the above-mentioned receivables are not 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.

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 into an account held under their name at the Banco de la Nación Argentina. As of December 31, 2010, these contributions amounted to P\$112 million and were recorded as a receivable in the caption Other receivables of the consolidated balance sheet.

During the first quarter of 2011, the abovementioned funds were transferred to the trustee's escrow account for the SU Fund, in compliance with the provisions of SC Resolution No. 154/10. 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 Resolution SC 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.

In June 2011, under the provisions of Resolution SC No. 88/09, Personal submitted to the SC a new SU project for the rendering of Basic telephone services, Broadband Internet access and mobile services in almost 150 cities included under the scope of this resolution. This project, in addition to the ones submitted by other service providers, will cause the SC to order to the SU Technical Committee to launch a new tender process.

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.

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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 Telecom Argentina's Management believes that the contract renegotiation process will be satisfactorily completed, they are unable to predict the outcome of the negotiations that are continuing with regard to further rate increases and the future rate scheme. Also, they are unable to predict whether the Argentine government, as a result of the current rate renegotiations, will impose additional conditions or requirements.

Table of Contents**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 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	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

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- (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

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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.

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, tax, commercial, labor and regulatory 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 2011 were P\$62.

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.

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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

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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, 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. As a result, the Company recorded as *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.

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, 2011, Telecom Argentina has a net receivable of P\$67 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, 2011, the allowances corresponding to these regulatory duties amounted to P\$90 million.

In 2011, 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 Regulatory Regulations

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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 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.

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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.