

TELECOM ARGENTINA SA  
Form 20-F  
June 26, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2008**

**OR**

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

**OR**

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

Date of event requiring this shell company report

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: 54-11-4968-3602, Fax: 54-11-4968-3616, E-mail: pinsussa@ta.telecom.com.ar,**

**Alicia Moreau de Justo 50, 10 th 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 Class B Ordinary Shares,  nominal value P\$1.00 per share	New York Stock Exchange     New York Stock Exchange*

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

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

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

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

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

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

Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant 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:

US GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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**PRESENTATION OF FINANCIAL INFORMATION**

In this Annual Report on Form 20-F (the "Form 20-F" or "Annual Report"), the terms "the Company," "Telecom," "Telecom Group," "we," "us," and "our" refer to Telecom Argentina S.A. and its consolidated subsidiaries as of December 31, 2008, unless otherwise indicated.

The term "Telecom Argentina" refers to Telecom Argentina S.A. excluding its subsidiaries, as of December 31, 2008, Telecom Personal S.A., Núcleo S.A., Telecom Argentina USA, Inc., Micro Sistemas S.A. and Cubecorp Argentina S.A. Unless otherwise stated, references to the financial results of "Telecom" are to the consolidated financial results of Telecom Argentina and its consolidated subsidiaries.

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

*Consolidated Financial Statements.* Our Consolidated Financial Statements as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006, and the notes thereto (the "Consolidated Financial Statements") are set forth on pages F-1 through F-75 of this Annual Report.

The Consolidated Financial Statements are presented in Argentine pesos and are prepared in accordance with Argentine GAAP considering the regulations of the Comisión Nacional de Valores (the Argentine National Securities Commission - CNV). Differences exist between Argentine GAAP and US GAAP which might be material to the financial information herein. Such differences involve methods of measuring the amounts shown in the Consolidated Financial Statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities Exchange Commission (SEC). See Note 15 to our Consolidated Financial Statements contained elsewhere in this Annual Report for a description of the principal differences between Argentine GAAP and US GAAP, as they relate to us, and a reconciliation to US GAAP of net income and shareholders' equity.

*Exchange Rates.* In this Form 20-F, except as otherwise specified, references to "US\$" and "dollars" are to U.S. dollars, references to "P\$" and "pesos" are to Argentine pesos, references to the "yen" or "¥" are to Japanese currency, and references to "euro" or "€" are to the single currency of the participants in the European Economic and Monetary Union. The exchange rate between the dollar and the peso as of December 31, 2008 was P\$3.453=US\$1.00. Prior to January 6, 2002, the exchange rate had been fixed at one peso per U.S. dollar in accordance with the Convertibility Law during the period April 1, 1991 through January 6, 2002. However, as a result of the elimination of the fixed exchange rate and the devaluation of the peso, the exchange rate between the dollar and the peso has since declined substantially. As of June 24, 2009, the exchange rate (ask price) was P\$3.79=US\$1.00. Unless otherwise indicated, our Consolidated Financial Statements use the exchange rate as of each relevant date or year-end quoted by Banco de la Nación Argentina ("Banco Nación"). Such translation should not be construed as representing that the peso amounts actually represent actual dollar amounts or that any person could convert the peso amounts into dollars at the rate indicated or at any other exchange rate. For more information regarding historical exchange rates and the peso, see "Item 3 Key Information Exchange Rates." We have provided as a convenience, translations as of December 31, 2008 for other

currencies which are mentioned in this Annual Report, including the Japanese yen (P\$3.813=¥100), and the euro (P\$4.791= 1).

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

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

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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:

- the impact of the emergency laws and subsequent related laws enacted by the Argentine Government;
- our expectations for our future performance, revenues, income, earnings per share, capital expenditure, dividends, liquidity and capital structure;
- the implementation of our business strategy;
- our expectations regarding payments and prepayments of outstanding indebtedness;
- the effects of operating in a competitive environment; and
- the outcome of certain legal proceedings.

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

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



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

- uncertainties relating to political and economic conditions in Argentina;
- inflation, the devaluation of the peso and exchange rate risks;
- restrictions on the ability to exchange pesos into foreign currencies and transfer funds abroad;
- the elimination of indexes to adjust rates charged for certain public services;
- the final results of the contract renegotiation process with the Argentine Government regarding the adjustment to our rates charged for public services;
- the creditworthiness of our actual or potential customers;
- nationalization;
- technological changes;
- the impact of legal or regulatory matters or reform and changes in the legal or regulatory environment in which we operate; and
- the effects of competition.

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

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

**GLOSSARY OF TERMS**

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

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

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

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

*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 compression technology that allows combinations of services including voice, data and one-way full motion video to be delivered over existing copper feeder distribution and subscriber lines.

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

*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 (Área Múltiple Buenos Aires):* The area of the Federal District (or Buenos Aires city) and greater Buenos Aires (Gran Buenos Aires), which extends to the city of La Plata to the South, the city of Campana to the North, the city of General Rodríguez to the West and the city of Monte Grande to the Southwest.

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

*ANSES:* The Argentine administrator of Social Security pension and retirement benefits.

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

*Argentina:* Republic of Argentina.

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

*Argentine GAAP:* Generally Accepted Accounting Principles in Argentina.

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

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

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

*CAT:* Compañía Argentina de Teléfonos S.A.

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

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

*CETs:* Telecommunication centers where public telephone services are offered.

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

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

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

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

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

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

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

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

*Cubecorp:* Cubecorp Argentina S.A.

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

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

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

*FCR:* France Cables et Radio S.A.

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*France Telecom Group:* We refer to FCR and Atlas Services Belgium S.A. collectively 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.

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

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

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

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

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

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

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

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

*Microsistemas:* Micro Sistemas S.A.

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

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

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

*Nortel:* Nortel Inversora S.A.

*November Agreement:* An agreement between Telecom Argentina and the Argentine Government providing for rates to be dollar-based and, at the election of each of Telecom Argentina and Telefónica, adjusted semi-annually according to the U.S. consumer price index. The November Agreement was ratified by Decree No. 2585/91 and became effective on December 18, 1991. Subsequently, in accordance with the Public Emergency Law, these rates were pesified at the exchange rate of US\$ 1.00 = P\$ 1.00. See Item 4 Information on the Company The Business Voice, Data and Internet Rates.

*Núcleo:* Núcleo S.A.

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

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

*Personal:* Telecom Personal S.A.

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

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

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



Conditions and afterwards in different regulations by the SC.

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

*Public Emergency Law:* The Public Emergency and Foreign Exchange System Reform Law No. 25,561 adopted by the Argentine Government on January 6, 2002, as amended by Law No. 25,790, Law No. 25,820, Law No. 25,972, Law No. 26,077, Law No. 26,204 and Law No. 26,456. Among others, the Public Emergency Law grants the executive branch of the Argentine Government the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market and to renegotiate public service agreements.

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

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

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

*Regulatory Bodies:* Collectively, the SC and the CNC.

*RT:* Technical resolutions issued by the FACPCE. As of December 31, 2008, the RT effective and which applied to the Company were: 6, 7, 8, 9, 11, 14, 15, 16, 17, 18, 21, 22 and 23. These collective technical resolutions constitute Argentine GAAP, with the exception of RT 7 which establishes the auditing rules and RT 15 which

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regulates the role of the public accountant. In addition, RT 17 establishes that specific measurement questions not addressed by existing RTs must be resolved by applying general accounting measurement rules, the Argentine GAAP conceptual framework, the International Financial Reporting Standards issued by the International Accounting Standards Board ( IASB ), the International Accounting Standards developed by the International Accounting Standards Committee ( IASC ), the interpretations issued by the Standing Interpretation Committee ( SIC ) of the IASB and the interpretations of the International Financial Reporting Interpretations Committee ( IFRIC ) in the order listed.

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

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

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

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

*Sofora:* Sofora Telecomunicaciones S.A.

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

*STM (Servicio Telefónico Móvil):* Mobile Telephone Service.

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

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

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*Telco S.p.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/Telecom Group*: Telecom Argentina and its consolidated subsidiaries.

*Telecom Argentina*: Telecom Argentina S.A.

*Telecom Italia*: Telecom Italia S.p.A.

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

*Telecom Personal*: Telecom Personal S.A.

*Telefónica*: Telefónica de Argentina S.A.

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

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

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

*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.



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

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

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

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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**



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The following tables set forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2008. Our consolidated selected financial data should be read in conjunction with, and are qualified in their entirety by, our Consolidated Financial Statements and Item 5 Operating and Financial Review and Prospects.

Our selected consolidated income statement data for the years ended December 31, 2008, 2007 and 2006 and the selected consolidated balance sheet data as of December 31, 2008 and 2007 have been derived from our Consolidated Financial Statements included elsewhere in this Annual Report. Our selected consolidated balance sheet data as of December 31, 2006 has been derived from our consolidated financial statements as of December 31, 2006 and 2005 and for the three years in the period ended December 31, 2006, which are not included in this Annual Report.

Our selected consolidated income statement data for the years ended December 31, 2005 and 2004 and our selected consolidated balance sheet data as of December 31, 2005 and 2004 have been derived from our consolidated financial statements as of December 31, 2005 and 2004 and for the three years in the period ended December 31, 2005. The consolidated financial statements as of December 31, 2005 and 2004 and for the three years in the period ended December 31, 2005 are not included in this Annual Report.

We maintain our financial books and records and prepare our financial statements in pesos in conformity with Argentine GAAP, which differ in certain aspects from US GAAP. For a summary description of the principal differences between Argentine GAAP and US GAAP as they relate to us, see Note 15 to our Consolidated Financial Statements.

### *Recent Accounting Pronouncements*





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In March 2009, the FACPCE issued RT 26, Adoption of the International Financial Reporting Standards from the International Accounting Standards Board, which will be fully effective for fiscal years beginning on or after January 1, 2011. RT 26 also establishes certain disclosure requirements applicable to annual financial statements beginning on or after January 1, 2009. As of the date of this Annual Report, RT 26 has not been adopted by the CNV. The Company is currently analyzing the impact that the adoption of RT 26 will have on the Company's financial position and results of operations.

*Supplementary Unconsolidated Financial Information*



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For information regarding our financial and operating results on an unconsolidated basis, see Note 14 to our Consolidated Financial Statements.

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**CONSOLIDATED SELECTED INCOME STATEMENT AND BALANCE SHEET DATA**

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	As of and for the Year Ended December 31,					
	2008	2007	2006	2005	2004	
	(P\$ millions, except per share and per ADS data)					
<b>INCOME STATEMENT DATA</b>						
<i>Argentine GAAP Amounts</i>						
Continuing operations						
Net sales	10,608	9,074	7,372	5,668	4,451	
Cost of services, general and administrative and selling expenses	(8,567)	(7,438)	(6,478)	(5,171)	(4,057)	
Operating income	2,041	1,636	894	497	394	
Other, net (1)	(545)	(562)	(685)	(471)	(1,248)	
Gain on debt restructuring, net				1,424	209	
Income tax (expense) benefit, net	(535)	(292)	22	(119)	(24)	
Net income (loss) from continuing operations	961	782	231	1,331	(669)	
Discontinued operations (2)						
Net income from discontinued operations		102	13	3	3	
Net income (loss)	961	884	244	1,334	(666)	
Net income (loss) per share (3)	0.98	0.90	0.25	1.36	(0.68)	
Net income (loss) per ADS (4)	4.88	4.49	1.24	6.78	(3.38)	
<i>US GAAP Amounts (5)</i>						
Operating income	1,805	1,592	814	440	430	
Net income (loss)	1,109	1,148	572	1,138	(782)	
Net income (loss) from continuing operations per share (3)	1.13	1.06	0.57	1.16	(0.79)	
Net income from discontinued operations per share (3)		0.11	0.01			
Net income (loss) per share (3)	1.13	1.17	0.58	1.16	(0.79)	
Net income (loss) from continuing operations per ADS (4)	5.63	5.31	2.84	5.77	(3.99)	
Net income from discontinued operations per ADS (4)		0.52	0.07	0.01	0.02	
Net income (loss) per ADS (4)	5.63	5.83	2.91	5.78	(3.97)	
<b>BALANCE SHEET DATA</b>						
<i>Argentine GAAP Amounts</i>						
Current assets						
Current assets	2,592	2,384	1,767	1,542	4,439	
Fixed assets, net						
Fixed assets, net	6,188	5,738	5,739	5,958	6,894	
Total assets						
Total assets	9,649	9,171	8,720	8,563	12,335	
Current liabilities						
Current liabilities	4,061	3,643	3,373	2,206	10,232	
Current debt						
Current debt	1,355	1,474	1,395	905	9,434	
Non-current liabilities						
Non-current liabilities	1,487	2,419	3,146	4,449	1,547	
Non-current debt						
Non-current debt	688	1,724	2,703	3,996	1,219	
Minority Interest						
Minority Interest	81	79	72	41	30	
Common stock						
Common stock	984	984	984	984	984	
Total shareholders equity						
Total shareholders equity	4,020	3,030	2,129	1,867	526	
Total liabilities, minority interest, and shareholders equity						
Total liabilities, minority interest, and shareholders equity	9,649	9,171	8,720	8,563	12,335	
<i>US GAAP Amounts (5)</i>						
Total assets						
Total assets	9,512	9,112	8,814	8,711	12,688	
Current liabilities						
Current liabilities	3,195	2,909	2,644	1,856	10,225	
Non-current liabilities						
Non-current liabilities	2,103	3,609	4,727	6,000	2,758	
Minority interest						
Minority interest	81	56	56	36	31	
Total shareholders equity (deficit)						
Total shareholders equity (deficit)	4,133	2,538	1,387	819	(326)	



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- (1) Other, net includes gain on equity investees, financial results, net, other expenses, net and minority interest.
- (2) Corresponds to the sale in April 2007 of our equity interest in Publicom (representing 99.99% of the capital stock and voting shares of Telecom Argentina's former subsidiary, a publisher of directories) to Yell Publicidad S.A.
- (3) Calculated based on 984,380,978 shares outstanding during each year.
- (4) Calculated based on 196,876,196 ADSs equivalent to the shares outstanding during each year.
- (5) For a description of these differences please refer to Note 15 to the Consolidated Financial Statements. The following tables show the principal reconciling items between our consolidated selected Argentine GAAP and US GAAP amounts shown for all years presented.

	2008	2007	As of December 31, 2006 (P\$ millions)	2005	2004
<b>Total assets under Argentine GAAP</b>	<b>9,649</b>	<b>9,171</b>	<b>8,720</b>	<b>8,563</b>	<b>12,335</b>
<i>Valuation differences:</i>					
Foreign-currency translation		(72)	(50)	(10)	5
Capitalization of foreign currency exchange differences	(67)	(106)	(210)	(314)	(443)
Other adjustments	(11)	5	(3)	6	6
Tax effects on US GAAP adjustments	27	35	75	110	155
Valuation allowance					(285)
<i>Balance sheet classification differences:</i>					
Deferred income taxes	(27)	88	295	363	935
Other classifications (i)	(59)	(9)	(13)	(7)	(20)
<b>Total assets under US GAAP</b>	<b>9,512</b>	<b>9,112</b>	<b>8,814</b>	<b>8,711</b>	<b>12,688</b>

	2008	2007	As of December 31, 2006 (P\$ millions)	2005	2004
<b>Total current liabilities under Argentine GAAP</b>	<b>4,061</b>	<b>3,643</b>	<b>3,373</b>	<b>2,206</b>	<b>10,232</b>
<i>Valuation differences:</i>					
Other adjustments					5
Tax effects on US GAAP adjustments					(2)
Valuation allowance					2
<i>Balance sheet classification differences:</i>					
Deferred income taxes	273	173			
Financial indebtedness	(1,137)	(901)	(716)	(348)	
Other classifications (i)	(2)	(6)	(13)	(2)	(12)
<b>Total current liabilities under US GAAP</b>	<b>3,195</b>	<b>2,909</b>	<b>2,644</b>	<b>1,856</b>	<b>10,225</b>

(i) Includes the classifications corresponding to the acquisition and sale of indefeasible right of use. No classification was recorded for revenue recognition (installation fees), since the amounts involved were immaterial. See Notes 15.II.h and 15.II.i to the Consolidated Financial Statements.

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	2008	2007	As of December 31, 2006 (P\$ millions)	2005	2004
<b>Total non-current liabilities under Argentine GAAP</b>	<b>1,487</b>	<b>2,419</b>	<b>3,146</b>	<b>4,449</b>	<b>1,547</b>
<i>Valuation differences:</i>					
Foreign-currency translation			(1)	(3)	(6)
Debt Restructurings		579	875	1,300	235
Fair value option for Notes of Telecom Argentina	(254)				
Other adjustments	2	2	3	3	
Tax effects on US GAAP adjustments	88	(204)	(307)	(455)	(82)
Valuation allowance					137
<i>Balance sheet classification differences:</i>					
Deferred income taxes	(300)	(85)	295	363	935
Financial indebtedness	1,137	901	716	348	
Other classifications (i)	(57)	(3)		(5)	(8)
<b>Total non-current liabilities under US GAAP</b>	<b>2,103</b>	<b>3,609</b>	<b>4,727</b>	<b>6,000</b>	<b>2,758</b>

(i) Includes the classifications corresponding to the acquisition and sale of indefeasible right of use. No classification was recorded for revenue recognition (installation fees), since the amounts involved were immaterial. See Notes 15.II.h and 15.II.i to the Consolidated Financial Statements.

	2008	2007	As of December 31, 2006 (P\$ millions)	2005	2004
<b>Total minority interest under Argentine GAAP</b>	<b>81</b>	<b>79</b>	<b>72</b>	<b>41</b>	<b>30</b>
<i>Valuation differences:</i>					
Foreign-currency translation		(23)	(16)	(5)	1
<b>Total minority interest under US GAAP</b>	<b>81</b>	<b>56</b>	<b>56</b>	<b>36</b>	<b>31</b>

	2008*	2007	As of December 31, 2006 (P\$ millions)	2005	2004
<b>Total shareholders equity under Argentine GAAP</b>	<b>4,020</b>	<b>3,030</b>	<b>2,129</b>	<b>1,867</b>	<b>526</b>
<i>Valuation differences:</i>					
Foreign-currency translation		(72)	(49)	(7)	11
Capitalization of foreign currency exchange differences, net	(67)	(106)	(210)	(314)	(443)
Debt Restructurings		(579)	(875)	(1,300)	(235)
Fair value option for Notes of Telecom Argentina	253				
Other adjustments	(12)	3	(6)	3	1
Tax effects on US GAAP adjustments	(61)	239	382	565	239
Valuation allowance					(424)
Minority interest		23	16	5	(1)
<b>Total shareholders equity (deficit) under US GAAP</b>	<b>4,133</b>	<b>2,538</b>	<b>1,387</b>	<b>819</b>	<b>(326)</b>

\* On January 1, 2008, the Company adopted the provisions of SFAS No.159, The fair value option for financial assets and financial liabilities Including an amendment of FASB Statement No. 115 ( SFAS No.159 ). The adjustment under US GAAP, net of tax effect, at the adoption date was P\$408 million (P\$0.41 per share) which was recorded as a cumulative-effect adjustment to retained earnings as of January 1, 2008, while the subsequent effects of fair value measurement were shown as a reconciliation item to income statement in the US GAAP reconciliation as of and for the year ended December 31, 2008.





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	2008	2007	Year ended December 31, 2006 (P\$ millions)	2005	2004
<b>Operating income under Argentine GAAP</b>	<b>2,041</b>	<b>1,636</b>	<b>894</b>	<b>497</b>	<b>394</b>
<i>Valuation differences:</i>					
Foreign currency translation		2	6	2	1
Depreciation of foreign currency exchange differences	39	104	104	117	119
Inventories	(14)	(51)	(5)	(14)	(6)
Reversal of amortization of Telecom Debt issuance costs recorded under Argentine GAAP	7				
Other adjustments		(1)	(1)		
Income statement classification differences:					
Other expenses, net as operating loss under US GAAP	(268)	(98)	(184)	(162)	(78)
<b>Operating income under US GAAP</b>	<b>1,805</b>	<b>1,592</b>	<b>814</b>	<b>440</b>	<b>430</b>

	2008	2007	Year ended December 31, 2006 (P\$ millions)	2005	2004
<b>Total net income (loss) under Argentine GAAP</b>	<b>961</b>	<b>884</b>	<b>244</b>	<b>1,334</b>	<b>(666)</b>
<i>Valuation differences:</i>					
Foreign-currency translation		(4)	(17)	(10)	9
Depreciation of foreign currency exchange differences, net of reversal of its capitalization	39	104	104	129	123
Debt Restructurings		296	418	(1,230)	(235)
Extinguishment of Personal s and Nucleo s restructured debts			7	165	
Personal Pre APE Debt Restructurings					20
Fair value option for Notes of Telecom Argentina	205				
Other adjustments	(16)	9	(2)	(5)	(6)
Tax effects on US GAAP adjustments	(80)	(143)	(185)	328	34
Valuation allowance				424	(60)
Minority interest		2	3	3	(1)
<b>Total net income (loss) under US GAAP</b>	<b>1,109</b>	<b>1,148</b>	<b>572</b>	<b>1,138</b>	<b>(782)</b>

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**Exchange Rates**



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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, 2004	3.06	1.95	2.94	2.98
Year Ended December 31, 2005	3.04	2.86	2.92	3.03
Year Ended December 31, 2006	3.11	3.03	3.07	3.06
Year Ended December 31, 2007	3.16	3.08	3.12	3.15
Year Ended December 31, 2008	3.45	3.03	3.18	3.45
Month Ended December 31, 2008	3.47	3.38	3.42	3.45
Month Ended January 31, 2009	3.49	3.45	3.46	3.49
Month Ended February 28, 2009	3.57	3.48	3.51	3.57
Month Ended March 31, 2009	3.72	3.60	3.66	3.72
Month Ended April 30, 2009	3.72	3.67	3.69	3.71
Month Ended May 31, 2009	3.75	3.70	3.73	3.75
Month Ended June 30, 2009 (through June 24, 2009)	3.79	3.74	3.76	3.79

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

Sources: *Banco Nación*

On June 24, 2009, the closing exchange rate (ask price) quoted by Banco Nación was P\$3.79=US\$1.00.

### Capitalization and Indebtedness



Not applicable.

**Reasons for the Offer and Use of Proceeds**

Not applicable.



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**Risk Factors**

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

***Risks Relating to Argentina***



**Overview**



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Substantially all of our property, operations and customers are located in Argentina, and most of our indebtedness is denominated in foreign currencies. Accordingly, our financial condition and results of operations depend to a significant extent on economic and political conditions prevailing in Argentina and on the rates of exchange between the peso and 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 significant devaluation of the peso against major international currencies and our need to restructure our financial indebtedness. Although Argentina has experienced economic growth and political conditions have shown improvement in recent years, these conditions have affected and may continue to affect our financial condition and results of operations.

**Devaluation of the peso may adversely affect our results of operations, our capital expenditure program and the ability to service our debt obligations.**

Since we realize a substantial portion of our revenues in Argentina in pesos, any devaluation in the peso 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 (including costs of servicing our indebtedness denominated in foreign currencies). A significant depreciation in the Argentine peso against major foreign currencies also may have a material adverse impact on our capital expenditure program and significantly increase the amount of our debt obligations. It should be noted, however, that the exposure to the risk of devaluation of the peso has significantly decreased as a result of the mandatory and optional prepayments as well as the repurchases of the notes of Telecom Argentina. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Debt Obligations and Debt Service Requirements and Item 11 Quantitative and Qualitative Disclosures About Market Risk.

The Argentine peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In the five-month period ended May 31, 2009 the devaluation of the peso against the U.S. dollar was 9%. Given the economic and political uncertainties in Argentina, it is impossible to predict whether, and to what extent, the value of the peso may depreciate or appreciate against the U.S. dollar, the euro or other foreign currencies. We cannot predict how these uncertainties will affect the consumption of services provided by the Telecom Group or our ability to meet our debt obligations denominated in currencies other than the peso. Moreover, we cannot predict whether the Argentine Government will further modify its monetary policy and, if so, what impact any of these changes could have on the value of the peso and, accordingly, on our financial condition and results of operations.

**Substantial inflation may have an adverse effect on the economy and would negatively impact Telecom Argentina's margins.**





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In the recent 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 2008. The IMF expects the current economic crisis will cause regional inflation to decrease in 2009.

The *Instituto Nacional de Estadística y Censos* (the Argentine National Statistics and Census Institute or INDEC ) estimates that the Argentine consumer price increased from 9.8% in 2006, 8.5% in 2007, and 7.2% in 2008; and the wholesale price index increased 7.1% in 2006, 14.6% in 2007 and 8.8% in 2008. In the five months ending May 31, 2009, the consumer price index in Argentina increased 2.3% and the wholesale price index increased 2.1%. The INDEC has undergone changes both in its management and in the methodology used to calculate the CPI index (Consumer Price Index). As a result, public credibility of the INDEC as a reference for publishing Argentine inflation indexes has been adversely affected. There is also a substantial disparity between the inflation indexes published by the INDEC and the overall evolution of prices in the economy.

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The Argentine Government has implemented several actions in order to monitor and control prices for the most relevant goods and services, such as price controls and restrictions on imports and exports. Despite such actions and the effects of the current global economic crisis, the Argentine economy continues to experience significant inflation. If the BCRA issues significant amounts of currency to finance public sector spending, to intervene in the foreign exchange market or to assist financial institutions in distress, or if the value of the peso cannot be stabilized through strict fiscal and monetary policies, a significant increase in inflation rates can be expected.

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

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

The Argentine Government has historically exercised significant influence over the economy, and telecommunications companies in particular have operated in a highly regulated environment. Due to the Argentine economic crisis of 2001 and 2002, the Argentine Government promulgated numerous, far-reaching regulations affecting the economy and telecommunications companies in particular. In this context, the CNC adopted new interpretations of applicable regulations and imposed fines on telecommunications companies, particularly incumbent operators such as our company. See Item 8 Financial Information Legal Proceedings for more information. In addition, local municipalities in the regions where we operate have also introduced regulations and proposed various taxes and fees for the installation of infrastructure, equipment and expansion of fixed line and wireless networks. Local and federal tax authorities have also brought an increasing number of claims against us. We disagree with these proceedings and we are contesting them. However, we cannot assure you that the laws and regulations currently governing the economy or the telecommunications industry will not change, that the claims will be resolved in our favor, or that any changes to the existing laws and regulations will not adversely affect our business, financial condition or results of operations.

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



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The global financial crisis has resulted in a significant reduction in global GDP and a loss in consumer confidence in the financial sectors of many countries. In order 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.

As a result of changes in the Argentine governmental policies, domestic problems in Argentina, and given the global conditions described above, in November 2008 Argentina nationalized, through Law No. 26,425, all of its private pension and retirement system, which had been previously administered by 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. On average, approximately 20% of the share ownership and a significant portion of the public float of these companies were owned by AFJP and are now held by ANSES.

The government could exercise significant 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

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supervisory committee members with its ability to dictate tax and regulatory matters. Additionally, since AFJP was the primary institutional investor in Argentina, the nationalization of the private retirement system has had a significant impact on the levels of access to 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 caused a significant reduction in the volume of trading on and liquidity of Argentina's capital markets. Furthermore, the government's selection criteria for electing individuals to boards of directors in publicly-traded companies in which it owns shares is still unknown, as are its mandates to directors or supervisory committee members of said companies and the government's response to situations such as, among others, companies' participation in governmental bidding processes. Until the government's practices and policies are defined, these matters could create uncertainties for investors of public companies in Argentina, including Telecom Argentina.

Article 8 of Law No. 26,425 (which ratifies Article 76(f) of Law 24,241) limits ANSES' voting power to 5% of the company's total voting shares, even if ANSES holds a greater ownership position. However, there is a risk that the Argentine government could claim full voting rights at annual shareholder meetings, rather than limiting its voting rights to 5% of company shares, in accordance with the limitation prescribed by Law No. 26,425. In fact, ANSES, has already attempted to exercise voting powers commensurate with its total share ownership at various shareholder meetings of other companies. In the majority of these cases, these companies have opposed ANSES' actions and the parties have reached an agreement. As of the date of this Annual Report, the CNV has not yet taken a particular stance on this matter.

It is difficult for us to predict the actions that ANSES will take at Telecom Argentina's next shareholders' meeting. Additionally, we cannot predict the impact on the Company's corporate matters if ANSES were to designate members of the Company's Board and/or Supervisory Committee.

**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 recent global financial crisis and general weakness in the global economy may negatively affect emerging economies like Argentina. Although Argentina has experienced economic growth in recent years, current global financial instability has impacted and may continue to impact the Argentine economy and cause Argentina to return to a period of recession, higher inflation, unemployment and greater social unrest.

The recent global financial crisis has affected the Argentine economy in a number of ways, including the following: reduction in the level of economic activity and the level of investments, depreciation of the currencies of Argentina's main international trading partners, increased pressure on the devaluation of the peso as a result of greater investor and public risk aversion, a sharp decline in Argentina's export product prices and contraction of consumer and investor spending. Further, although the nationalization of Argentina's private pension system would likely help to maintain a positive primary surplus, it would complicate private access to the financial markets.

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 and results of operations.

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





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

In the past, the Argentinean government has responded to economic instability through significant government intervention that exacerbated social unrest. During 2008, the decision of the Government of Cristina Fernández de Kirchner to raise export taxes on certain key agricultural products has resulted in conflicts between the Government and the agricultural sector. If economic instability returns, there could be a material adverse effect on our results of operations and financial condition.

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In the event of further economic, social or political crises, companies in Argentina may also face the risk of further civil and social unrest, strikes, expropriation, nationalization, forced renegotiation or modification of existing contracts, and changes in taxation policies including tax increases and retroactive tax claims. In addition, Argentine courts have issued rulings changing existing jurisprudence on labor matters and requiring companies to assume increasing responsibility for and assumption of costs and risks associated with utilizing sub-contracted labor. 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.

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



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The Argentine Government's history of fiscal deficit was aggravated by the devaluation of the Argentine peso in early 2002. Since almost all of the financial obligations of the Argentine Government were denominated in foreign currencies at the time the dollar-peso parity was eliminated, there was an increase in the cost of financial services (in terms of Argentine pesos) of the debt of the Argentine Government. Since the Government's fiscal revenues were denominated in large part in Argentine pesos, the Government was severely affected in its ability to carry out its payment obligations using foreign currency and defaulted on a significant part of its public debt in 2002. The Government's sovereign debt default and its consequences may continue to negatively affect the ability of private companies, including Telecom, to obtain access to capital markets or other forms of financing.

The Argentine Government implemented a debt restructuring effort through a debt exchange offer that closed on February 25, 2005. Despite a 76.15% acceptance of the offer, amounts not tendered for exchange totaled approximately US\$20 billion. The settlement of the debt exchange was completed on June 2005 and, in 2006, the Argentine Government made an early payback of Argentina's debt to the IMF, which involved a disbursement of US\$9.5 billion. Nonetheless, a number of bondholders who held out from the exchange offer have initiated legal actions against the Argentine government. A judgment against the Argentine government in these pending cases could reduce sources for funding and investment capital and could potentially impact the government's ability to adopt measures that promote economic growth.

After the economic crisis in 2001, the Argentine Government has maintained a policy of fiscal surplus. To be able to repay its debt, the Argentine Government may be required to continue adopting austere fiscal measures that could adversely affect economic growth. As of December 31, 2008, the outstanding principal amount of Argentina's public debt was equivalent to US\$146 billion (of which approximately 52.5% is denominated in foreign currency).

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

**The Argentine banking system may be subject to instability.**



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The Argentine banking system collapsed during 2001 and 2002 when the Argentine Government restricted bank withdrawals and required the conversion of dollar deposits to pesos. From 2003 to 2007, a period of economic growth coupled with relative stability of the country's exchange rate and inflation have resulted in the restoration of public confidence, a gradual accumulation of deposits in Argentine financial institutions, and improved liquidity of the financial system. However, during 2008 certain events such as conflicts between the Argentine Government and certain sectors of the economy have deteriorated depositors' confidence, leading to a decrease in deposits, the dollarization of certain deposits and an increase in interest rates. The capital outflow of the private sector in 2008 reached approximately US\$11.7 billion and in the first quarter of 2009 it was approximately US\$3.6 billion.

Despite improvements in stability since 2002 and the high level of reserves held by the BCRA, we cannot be sure that another collapse will not occur in the future. The Argentine banking system's collapse or the collapse of one or more of the larger banks in the system would have a material adverse effect on the prospects for economic growth and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives for consumers. These conditions would have a material adverse effect on us by resulting in lower usage of our services and the possibility of a higher level of delinquent and uncollectible accounts.

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**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, the Board of Directors of Telecom Argentina frequently obtains and intends to obtain in the future, opinions of counsel concerning the compliance of the actions with Argentine law and Telecom Argentina's bylaws (or regulations if any). Although the issue is not free from doubt, based on advice of counsel, Telecom Argentina believes that a court in Argentina in which a case has been properly presented would hold that a non-controlling shareholder voting in good faith and without a conflict of interest in favor of such a resolution based on the advice of counsel that such resolution is not contrary to Argentine law or the Company's bylaws or regulations, would not be liable under this provision.

### *Risks Associated with Telecom and its Operations*



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



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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 negotiation between Telecom Argentina and the Argentine Government. According to the Public Emergency Law, while undertaking these negotiations, the Argentine Government must consider the effect of these rates on the competitiveness of the general economy, the quality of 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 services providers such as Telecom Argentina. The Public Emergency Law has been subsequently extended through December 31, 2009. 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, rate increases will be restricted to the termination charge for international incoming calls and the extension of the time bands for peak-hour tariffs applied to local and domestic long distance calls. See Item 4 Information on the Company Regulatory Framework Regulatory Environment Rates Letter of Understanding 2006.

The Letter of Understanding 2006 contemplated the signing and effectiveness of the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary steps. As of the date hereof, such fulfillment has yet to occur. Although we expect such fulfillment and effectiveness 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 meet them.

Rate restrictions may continue for a number of years and may affect revenues from fixed line and other services. While we intend to continue to strive to control operating costs and capital expenditures and improve productivity, those efforts may not offset, in whole or in part, the decline in operating margins that may result from mandatory rate freezing and the increase in costs due to high levels of inflation.

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

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**We are leveraged in foreign currency.**

As of December 31, 2008, our total nominal consolidated bank and financial indebtedness, denominated in dollars, euro, yen and guaraníes amounted to the equivalent of approximately US\$590 million, including accrued but unpaid interest and related derivatives. Our total consolidated peso-denominated debt amounted to P\$15 million, equivalent to US\$4 million. As of December 31, 2008, our total consolidated cash and banks and financial investments denominated in dollars, euro, yen and guaraníes amounted to the equivalent of approximately US\$244 million and our total consolidated peso-denominated cash and banks and financial investments amounted to P\$282 million, the equivalent of US\$82 million. Our leverage in foreign currency, in addition to the restrictions on access to foreign currency imposed by the BCRA, as described in this Risk Factors section, may affect our ability to service our indebtedness or obtain additional financing in the future, to withstand competitive pressure and adverse economic conditions or to take advantage of significant business opportunities that may arise.

In addition, our subsidiary Telecom Personal is and will continue to be leveraged in foreign currency. As of December 31, 2008, Telecom Personal's stand-alone outstanding debt was the equivalent of approximately US\$226 million, which is denominated in U.S. dollars and Paraguayan guaraníes. As of December 31, 2008, Telecom Personal's total cash and banks and current investments denominated in dollars amounted to approximately US\$89 million and Telecom Personal's total peso-denominated cash and banks and current investments amounted to P\$242 million, the equivalent of US\$70 million.

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

**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.**





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

Certain license conditions are not within our control. For example, any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina without prior approval of the regulatory authorities may result in the revocation of Telecom Argentina's license. Pursuant to the provisions of Telecom Argentina's List of Conditions as amended by Resolutions S.C. No. 111/03 and No. 29/04: (i) any reduction of ownership of Nortel in our capital stock to less than 51% without prior approval of the Regulatory Bodies; or (ii) any reduction of ownership of currently common shareholders in the capital stock with voting power of Nortel to less than 51% without prior approval of the Regulatory Bodies, may result in the revocation of Telecom Argentina's telecommunications license.

Nortel owns all of our Class A Ordinary Shares (51% of our total capital stock) and approximately 8.35% of our Class B Ordinary Shares (3.74% of our total capital stock) which, in the aggregate, represents approximately 54.74% of our total capital stock. We are directly controlled by Nortel by virtue of Nortel's ownership of a majority of our capital stock; however, Nortel's controlling interest is subject to certain agreements among Sofora's shareholders. In addition, the Telecom Italia Group and W de Argentina Inversiones (a company that is part of the Argentine Wertheim Group) are each required to maintain direct ownership of at least 15% of the common stock of Sofora.

As of the date of this Annual Report, we cannot predict if any measures will be taken by the Regulatory Bodies, the Argentine Antitrust Commission or relevant authorities, and whether if taken, they will affect our operations or the price of our shares.

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

We compete with licensed provider groups, comprised of, among others, independent fixed line service providers, wireless (cellular) and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina. As of December 31, 2008, more than 500 licenses for local and/or long distance services, payphones and value added services had been granted since the end of the exclusivity period.

We expect that we will face pressure on the rates we charge for services and we could experience a loss of market share for Voice, Data and Internet services as a result of this competition, particularly in the long distance service and Internet businesses. In addition, the market for wireless services is very competitive as certain of our competitors have substantial telecommunications experience. The Internet services and wireless telecommunications markets, which we expect will continue to account for an increasing percentage of our revenues in the future, are characterized by rapidly changing technology, evolving industry standards, changes in customer preferences and the frequent introduction of new services and products. To remain competitive in the Voice, Data and Internet services market, we must invest in our fixed-line network and information technology in order to maintain and improve service quality, sustain the growth in broadband services and continue developing the NGN. Specifically, in the Internet services market, we must constantly upgrade our access technology and software, embrace emerging transmission technologies and improve the responsiveness, functionality, coverage and features of our services. To remain competitive in the wireless telecommunications market, we must enhance our wireless networks by expanding our network infrastructure and extending 3G technology and bandwidth for mobile data transmission. We also aim to facilitate the synergy between fixed and mobile communications. In the Wireless segment, we expect to continue to devote resources to customer retention and loyalty and to the replacement of handsets due to technological updates. These enhancements and the introduction of new services will demand increased capital expenditures and high subscriber retention costs. We must also adapt to changing market conditions. Future technological developments may result in decreased customer demand for certain of our services or even render them obsolete. In addition, as new technologies develop, equipment may need to be replaced or upgraded or network facilities (in particular, wireless network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. Responding to these changes may require us to devote substantial capital to the development, procurement or implementation of new technologies.

We also anticipate that we will have to devote significant resources to the refurbishment and maintenance of our existing network infrastructure in order to comply with regulatory obligations regarding fixed line services and to remain competitive with the quality of our services.

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

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

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

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

adverse to our overall financial condition and results of operations.

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



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

### **Nortel, as our controlling shareholder, and Sofora as Nortel's controlling shareholder, exercise control over significant matters affecting us.**

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

Through their ownership of Sofora, 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. 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 amongst themselves certain matters relating to the election of our directors and of Nortel's and have given W de Argentina Inversiones veto power with respect to certain matters relating to us. However, as a result of the legal proceedings described below under Our principal shareholders are involved in various legal proceedings which may impact our corporate governance, the influence of our principal shareholders has been limited pending the outcome of such proceedings. See Item 8 Financial Information Legal Proceedings Legal Proceedings Relating to Share Ownership.

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

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

### **Our principal indirect shareholders are involved in various legal proceedings which may impact our corporate governance.**





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Our principal indirect shareholders are party to a number of legal proceedings which may affect our Board of Directors and matters of corporate governance. W de Argentina-Inversiones S.L., one of Telecom Argentina's principal indirect shareholders, has initiated a legal proceeding against another principal indirect shareholder of Telecom Argentina, Telecom Italia S.p.A. and the members appointed at the request of Telecom Italia S.p.A. to Telecom Argentina's Board of Directors, alleging that Telefónica de España's stake in Telco S.p.A. engenders a conflict of interest, since Telecom Argentina's main competitor is Telefónica de Argentina S.A. (a subsidiary of Telefónica de España). Argentine antitrust authorities are currently examining this matter. In connection with their review, in April 2009, Argentine antitrust authorities ordered members of the Board of Directors of Telecom Argentina appointed at the request of Telecom Italia S.p.A. to abstain from exercising their directly or indirectly their

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voting rights until this issue had been resolved. Also, an Argentine court provisionally suspended Telecom Argentina's annual shareholder meeting pending resolution of an appeal of the voting ban. In May 2009, the Argentine Antitrust Commission requested, among other things, the reestablishment of the previously-dissolved Steering Committee (an internal committee of the Board of Directors) and revocation of Telecom Argentina's decision to merge the roles of General Directors of Corporate Matters and Operations into one position of Chief Executive Officer. With regards to this request of the Argentine Antitrust Commission, an Argentine court has ordered Telecom Argentina to abstain from considering Resolution 64/09 and related measures, at the meeting of the Board of Directors to be held on June 12, 2009.

Regulatory review and litigation over this matter is ongoing and we cannot predict its outcome. For further detail, see Item 8 Financial Information Legal Proceedings Legal Proceedings Relating to Share Ownership.

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

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The indenture governing the notes issued pursuant to Telecom Argentina's APE and, as modified in 2006, contains certain standard operating and financial restrictions and covenants that could adversely affect our ability to finance our future operations or capital needs or to engage in certain business activities. These agreements limit, and in some cases prohibit, except in certain permitted situations, our ability to:

- incur liens;
- incur indebtedness;
- sell certain types of assets;
- enter into sale and leaseback transactions;
- engage in transactions with our shareholders and affiliates;
- make capital expenditures not expressly permitted;
- make restricted payments (including loans and investments);
- impose payment restrictions affecting restricted subsidiaries;
- issue equity interests of Telecom Personal resulting in a loss of control of Telecom Personal;
- engage in other lines of business; or
- engage in certain mergers.

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

In addition, the notes issued pursuant to Telecom Argentina's APE contain cash sweep provisions which will require Telecom Argentina to use any excess cash as defined in the notes, to prepay Telecom Argentina's notes, which will further limit our ability to finance our future operations or capital needs.

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

The terms of the Series A notes that Telecom Argentina issued pursuant to the APE include mandatory prepayment terms that may require Telecom Argentina to prepay the principal amortization of the notes before their scheduled payment date. As of the date of this Annual Report, Telecom Argentina has cancelled all scheduled amortizations of the Series A notes payable through October 2011 and 48.75% of the scheduled principal amortization payments of the Series A notes due in April 2012. Therefore, as of the date of this Annual Report, 37.679% of the original principal amount of Series A notes remain outstanding. All principal amortization payments were made on a pari passu basis, as required by the notes. In addition to making note payments (which are applied to prepay the remaining installments of the notes in direct order of maturity) or optional redemptions (which are applied pro rata 10 at par value), Telecom Argentina may retire the notes through purchases of the notes in the secondary market if the notes are available for purchase at a price below their par value. Telecom Argentina provides no assurance regarding the amount, timing or mechanism for any prepayment or redemption of the notes.

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**Our operations and financial condition could be affected by union activity.**



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In Argentina, labor organizations have substantial support and have considerable political influence. The demands of our labor organizations have increased as a result of the general labor dissatisfaction resulting from the disparity between the cost of living (which was significantly affected by the increased level of inflation) and salaries in Argentina (although the Argentine Government has attempted to alleviate this economic disparity by increasing the minimum legal wage, imposing salary amounts which will initially be treated as non remunerative and setting target annual wage increases). Certain claims initiated in 2005 by labor organizations with respect to fixed line services led to negotiations that resulted in the improvement of salary levels and a reduction of working hours. See Item 8 Financial Information Legal Proceedings Civil, tax, commercial, labor and regulatory proceedings Other Labor Claims. Moreover, certain labor organizations have advocated that certain of our non-unionized employees should be represented by trade unions. Union organizations could also request that we delegate currently outsourced tasks to Company employees. Furthermore, if the number of employees covered by trade unions increases, we may incur increased costs for the higher compensation that we and our contractors may need to pay to unionized employees.

In this context, we reached several agreements with various labor organizations representing in particular our fixed-line telephony employees. Please see Item 8 Financial Information Legal Proceedings Civil, tax, commercial, labor and regulatory proceedings.

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





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The Argentine Government has in the past and may in the future promulgate laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees (including higher levels of severance payments to former employees dismissed without proper cause). In the aftermath of the 2002 Argentine economic crisis, both the Government and private sector companies have experienced significant pressure from employees and labor organizations relating to wage levels and employee benefits. However, since early 2005, the Argentine Government has decided not to order new salary increases by decree. We cannot guarantee that the Government will not again adopt measures that will increase salaries or require us to provide additional benefits, which would increase our costs and, among other things, in the absence of an adjustment of regulated tariffs, reduce our profitability.

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

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



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

In addition, in recent years, certain changes in the treatment of employment matters under Argentine law have created new incentives for individuals to pursue employment-related litigation in Argentine courts. These changes include holdings that an employee of a subcontractor may file a direct action against the firm contracting the work, that any cap on severance pay in cases of dismissal without cause is unconstitutional, that an employee may bring a civil action in the event of an occupational accident, and the passage of an amendment to the Employment Contract Act to restrict an employer's ability to change the form and conditions of work expected of an employee. As a result of these changes, there may be a heightened risk of employment-related litigation. See Item 8 Financial Information Legal Proceedings Civil, tax, commercial, labor and regulatory proceedings.

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



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

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





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

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

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

These amendments may increase the number of legal actions commenced against various companies that provide goods and services to individual users or consumers. This possibility might 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 and on the results of our operations.

**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 our dividends, debt and trade liabilities.**



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In the past, the Argentine Government has imposed a number of monetary and currency exchange control measures, including restrictions on the free disposition of funds deposited with banks and restrictions or limitations on the access to foreign exchange markets and transfer of funds abroad, including for purposes of paying principal and interest on debt, trade liabilities to foreign suppliers and dividend payments to foreign shareholders. Although most significant restrictions or limitations have been eliminated, certain restrictions imposed by the BCRA on the access to foreign exchange markets and transfer of funds continue to apply to us and may in the future limit our ability to make payments on our debt to creditors and trade liabilities outside of Argentina. There can be no assurance that the BCRA will not increase restrictions for making payments of principal, interest and/or trade liabilities to our foreign creditors, dividend payments to foreign shareholders or require its prior authorization for such purposes, which would limit our ability to service our debt and/or comply with payments related to trade contracts with foreign suppliers. Limitations on the early repayment of our debt increase our exposure to foreign exchange risks. See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina.

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



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

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

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



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The market price of our shares is subject to change due to various factors which are outside of our control such as changes in market expectations, changes in the economic and political situation of Argentina, changes in measures used by investors or analysts to value our stock or market trends unrelated to our performance and operations. We cannot predict when such external factors will affect our stock price or whether their effects will be positive or negative.

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

Finally, currency fluctuations could impact the value of an investment in Telecom Argentina. Although Telecom Argentina's 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.

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





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There is a lower level of regulation of the Argentine securities markets and of the activities of investors in these markets as compared with the securities markets in the United States and certain other developed countries. We maintain our financial books and records and prepare our financial statements in conformity with Argentine GAAP, which differs in certain significant aspects from US GAAP. In this regard, we have included a description of the principal differences between Argentine GAAP and US GAAP as they relate to us in Note 15 to the Consolidated Financial Statements.

### **ITEM 4. INFORMATION ON THE COMPANY**



**INTRODUCTION**



**The Company**



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

As of December 31, 2008, our telephone system included approximately 4.3 million lines in service. This is equivalent to approximately 22 lines in service per 100 inhabitants in the Northern Region of Argentina and 384 lines in service per employee.

As of December 31, 2008, our Internet business has approximately 1.1 million customers and our Wireless reportable segment has approximately 12.6 million customers in Argentina and approximately 1.8 million customers in Paraguay.



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*Business Strategy*



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

We believe that the main drivers of growth will continue to be our broadband business and mobile service offerings, enabled by higher access speeds and the incorporation of new attractive and innovative alternatives that our competitors will find hard to imitate.

Telecommunication services in Argentina have shown high growth rates in recent years, particularly in the mobile and broadband fixed access segments. However, as is usual in developed markets, they have already reached the point of saturation or are close to saturation, resulting in tighter competition, increased costs for operators, and declining prices in real terms. The use of high-technology exacerbates this situation even more by facilitating the entry of new players, the so-called technology competitors, which, with low and highly focused investments, fuel competitive pressure and reduce the industry's profitability.

Our industry is evolving towards an ICT (Information & Communication Technology) paradigm, where the boundaries between telecommunication businesses, information technology and mass media increasingly fade, which translates into another significant challenge for all market participants.

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

In this context, the convergence of services constitutes a key opportunity to achieve market positioning by keeping abreast of emerging demands and counteracting the erosion of traditional revenue streams. Conceptually, the convergence of services comprises different implementation stages ranging from commercial branding to integration of technological platforms and customer care.

The Telecom Group has made great progress in this direction, introducing changes to its organization and processes that seek to improve business synergies. To this end, we are implementing a coordinated roadmap of our networks and systems, which allow us to launch several offering packages, including broadband access and local calls; innovative wireless digital handsets; SMS services compatible with the fixed and mobile networks; fixed video-telephony; and, more recently, the combination of ADSL technology with Wi-Fi connectivity at homes, and access to mobile Internet through the Third Generation ( 3G ) Mobile Broadband Technology network of Telecom Personal.

Some of the key components of our strategy include:

- Strengthen the actions aimed at enhancing our performance as an integrated fixed/mobile operator;
- Retain customers and traffic on fixed networks through offering packages for residential and business customers and increase ARPU on traditional products, maximizing the profitability of mature businesses;

- Continue the migration of our traditional telephone infrastructure to the NGN, which as of December 31, 2008 reached 590,000 lines of new technology;
- Increase the penetration and deployment of broadband, the adoption of which should be a catalyst that will speed up fixed/mobile service convergence and the offering of combined Value Added Services (VAS);
- Continue the deployment of fiber optics, to improve transmission capacity and access speed for our customers;

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- Expand coverage with our mobile service based on a differentiated strategy per region, and continue with the deployment of 3G technology. In 2008, the migration of mobile TDMA customers to GSM network was completed;
- Explore new technologies, such as IMS (IP Multimedia Subsystem), Wimax (Worldwide Interoperability for Microwave Access), Home Networking (which allows multiple computers to share files, printers and Internet connection) and fixed and mobile interactive multimedia services. To this end, Telecom has been developing a pilot test of new multimedia services so as to be prepared to offer such advanced services when and as permitted by the Regulatory Bodies.
- Develop a broad range of services in the Information and Communication Technology (ICT) market aimed at satisfying business customers' needs. In order to increase our positioning in this market, in July 2008 Telecom acquired the entire capital of Cubecorp, an Argentine company specialized in offering data center solutions.

We understand that success will largely depend on our flexibility and ability to quickly adapt to the requirements of a rapidly changing market, which demands a technological evolution to continue delivering the kind of leading-edge services that are provided in more developed countries.

*Organizational Structure*



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The following chart shows our principal subsidiaries and affiliated companies as of December 31, 2008, and jurisdiction of organization.

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(\*) Dormant entity.

(\*\*) Cubecorp's activities are being carried out by Telecom Argentina since January 1, 2009 due to a merger process between both companies. The merger was approved by Cubecorp's shareholders' meeting on March 19, 2009 and it is still pending approval by Telecom Argentina's shareholders' meeting, which was provisionally suspended. (See Item 8 Financial Information Legal Proceedings Legal Proceedings Relating to Share Ownership. )

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*Consolidated Subsidiary Information*





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The following table presents information relating to our consolidated subsidiaries for the fiscal year ended as of December 31, 2008:

Subsidiary (1)	Activity	Reportable Segment	Percent Ownership	Percentage of Telecom s Total Consolidated Net Sales
Telecom Personal S.A.	Wireless Services	Wireless	99.99	61.9
Núcleo S.A. (2)	Wireless Services	Wireless	67.50	3.7
Cubecorp Argentina S.A. (3)	Datacenter Services	Voice, Data and Internet	100.00	0.1
Telecom Argentina USA, Inc.	International Service	Voice, Data and Internet	100.00	0.4
Micro Sistemas S.A. (4)	Electronic Equipment Sales	Voice, Data and Internet	99.99	
<b>Total</b>				<b>66.1</b>

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

(2) Interest held indirectly through Telecom Personal.

(3) Entity acquired during 2008 and subsequently merged with Telecom Argentina since January 1, 2009. See Note 12 to our Consolidated Financial Statements.

(4) Dormant subsidiary as of December 31, 2008.

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

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

### Recent Developments

#### *Telecom Personal and Núcleo Dividend Payments*

In April and June 2009, Telecom Personal paid its shareholders (Telecom Argentina and Nortel) P\$730 million, corresponding to the cash dividend approved at Telecom Personal s Annual Shareholders Meeting held on March 31, 2009.

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In April 2009, Nucleo paid its shareholders a dividend in guaraníes equivalent to P\$36 million, as approved at Nucleo's Annual Shareholders Meeting held on March 25, 2009. Telecom Personal received P\$24 million of this distribution.

### *Acquisition of Springville S.A.*

In April 2009, Telecom Personal acquired the shares of Springville S.A., for an amount of Uruguayan pesos 237,180, equivalent to US\$9,892. Springville S.A. is a Uruguayan company that, since its formation, has not carried out any operations. It was acquired by Telecom Personal for the purposes of rendering resale services relating to mobile telephony in Uruguay.

### *Legal Proceedings Relating to Share Ownership*

Nortel and Telecom Argentina's principal indirect shareholders are party to a number of legal proceedings which may affect their Boards of Directors and matters of corporate governance. In 2009, the Argentine Antitrust Commission has issued various resolutions regarding this matter. See Item 8 Financial Information Legal Proceedings Legal Proceedings Relating to Share Ownership.

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**History**



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

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

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

The Privatization Regulations provided for:

- the division of the Argentine telecommunications network operated by ENTel into two regions, the Northern Region and the southern region of Argentina (the Southern Region);
- the granting to Telecom Argentina and Telefónica of non-expiring licenses to provide basic telecommunication services in the Northern Region and Southern Region, respectively;
- the granting to Telintar and Startel, each joint subsidiaries of Telecom Argentina and Telefónica, of non-expiring licenses to provide international long-distance and data transmission, respectively; and
- the transfer by ENTel of substantially all of its assets and certain contracts into Telecom Argentina, Telefónica, Telintar and Startel.

On the Transfer Date, pursuant to the terms and conditions of a transfer contract (the Transfer Agreement), the Argentine Government sold 60% of the common stock to Nortel, a holding company formed by a consortium of investors including Telecom Italia among others. Nortel's common stock was subsequently transferred to an Argentine company named Sofora. As of December 31, 2008, Sofora was held 50% by the Telecom Italia Group, 48% by W de Argentina Inversiones, a holding company incorporated in the Kingdom of Spain, and a company of the Wertheim Group, and 2% by France Telecom Group. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders.

Pursuant to the Privatization Regulations, 10% of Telecom Argentina's common stock was transferred to a Share Ownership Plan for certain ex employees of ENTel and CAT by the Argentine Government, and the remaining 30% of Telecom Argentina's common stock was sold to investors, principally in Argentina, the United States and Europe, in an offering completed in March 1992. 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 expected to be 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 ). Since December 2003 the Telecom Italia Group has been the sole operator of 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 service market. See Regulatory Framework Liberalization of the Argentine Telecommunications Industry. The Argentine telecommunications market was opened to full competition beginning in November 2000. As a result, Telecom Argentina now offers services throughout Argentina and competes with Telefónica and with a number of additional operators throughout its markets.

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**THE BUSINESS**





**General**



## Edgar Filing: TELECOM ARGENTINA SA - Form 20-F

As of the date of this Annual Report, we conduct our business through six legal entities which represent five operating segments. We aggregate these operating segments into two reportable segments – Voice, Data and Internet and Wireless- following the nature of the products and services provided.

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

Reportable segment	Consolidated Company/Operating Segment
Voice, Data and Internet	Telecom Argentina Telecom Argentina USA, Inc. Cubecorp Argentina S.A. (i) Micro Sistemas S.A. (ii)
Wireless	Telecom Personal Núcleo

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(i) Cubecorp's activities are being carried out by Telecom Argentina since January 1, 2009 due to a merger process between both companies. The merger was approved by Cubecorp's shareholders' meeting on March 19, 2009 and it is still pending approval by Telecom Argentina's shareholders' meeting, which was provisionally suspended. (See Item 8 Financial Information Legal Proceedings – Legal Proceedings Relating to Share Ownership. )

(ii) Dormant entity at December 31, 2008.

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

- **Basic telephone services.** Telecom Argentina provides Basic telephone services, including local and domestic long-distance telephone services and public telephone services. As of December 31, 2008, Telecom Argentina had approximately 4.30 million lines in service;
- **International long-distance services.** Telecom Argentina provides international telecommunications service in Argentina including voice and data services and international point-to-point leased circuits;
- **Data transmission and Internet services.** Telecom Argentina provides data transmission and Internet connectivity services, including traditional dial-up and broadband connections, ADSL dedicated lines, private networks, national and international broadcasting signal transport and videoconferencing services. As of December 31, 2008, Telecom Argentina had approximately 1.1 million subscribers to our Internet service;
- **Information and Communication Technology Services.** The Telecom Group provides ICT services and value-added solutions; and

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

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***Wireless Telecommunication.*** We provide wireless services through our subsidiaries in Argentina and Paraguay. Our subsidiary Telecom Personal provides wireless telephone service throughout Argentina via cellular and PCS networks. Telecom Personal's service offerings include supplementary wireless Value Added Services. We also provide cellular and PCS services in Paraguay through Núcleo, a subsidiary of Telecom Personal. As of December 31, 2008, Telecom Personal had approximately 12.6 million wireless subscribers in Argentina and approximately 1.8 million in Paraguay.

See Note 13 to our Consolidated Financial Statements and: Item 5 Operating and Financial Review and Prospects Years ended December 31, 2008, 2007 and 2006 Results of Operations by Reportable Segment for additional information as to our results of operations by reportable segment.

**Voice, Data and Internet**



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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 October 2000, the telecommunications sector in Argentina is completely open to competition. Our operations are subject to a complex series of laws and regulations of the Argentine Government. In addition, we are subject to the supervision of the Regulatory Bodies. See Regulatory Framework 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, public telephone service, national and international long-distance and monthly basic charges and installation charges have been pesified (regulated services since the Transfer Day). We cannot predict when the Public Emergency Law will cease to be effective or how these or other government regulations may affect our future revenues. See Regulatory Framework Rate Regulations below and Item 5 Operating and Financial Review and Prospects Economic and Political Developments in Argentina.

*Telecom Argentina's Telephone Network*





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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, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
Number of installed lines(1)	4,442,629	4,238,542	3,896,637	3,828,147	3,803,006
Net lines installed (during each year)	204,087	341,905	68,490	25,141	2,921
Net lines installed cumulative(2)	2,871,665	2,667,578	2,325,673	2,257,183	2,232,042
Number of lines in service(3)	4,298,820	4,207,744	4,094,653	3,949,911	3,790,298
Net lines in service added for the year	91,076	113,091	144,742	159,613	134,439
Net lines in service added cumulative	2,896,851	2,805,775	2,692,684	2,547,942	2,388,329
Lines in service per 100 inhabitants(4)	22	22	21	21	20
Pending applications(5)	67,400	65,700	60,800	52,000	44,800
Public phones installed	58,375	70,550	81,568	82,771	83,847

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- (1) Reflects total number of lines available in Switches. Since the year 2006, also includes NGN lines.
  - (2) Cumulative net lines installed since the Transfer Day.
  - (3) Reflects number of lines capable of generating traffic. Includes direct inward dialing lines, which do not use installed line capacity.
  - (4) Corresponds to the Northern Region of Argentina.
  - (5) Corresponds to lines requested by clients, but not yet installed.

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*Revenues*



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Voice, Data and Internet 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 many of the services offered.

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

### a) *Retail Residential and Business customers*

*Monthly Basic Charges.* Telecom Argentina bills a monthly basic charge to its customers. The charge is based on pulses, valued at the price per pulse prevailing during the periods included in the invoice. The number of pulses varies depending on the type of customer. As of December 31, 2008, approximately 78% of lines in service were for residential customers and public telephony and approximately 22% were for professional, commercial and government customers. Additionally, due to the regulatory regime, Telecom Argentina is obliged to offer discounts to low consumption residential and retired customers.

*Measured Service Charges.* In addition to a monthly basic charge, Telecom Argentina bills a monthly measured service charge from almost all of its customers which is based on telephone usage. Measured service is billed at the price per minute at the time the call is made. 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 13.0 billion in 2008, 13.6 billion in 2007 and 13.8 billion in 2006. 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 wireless telephony and the resulting migration of traffic to wireless service. During 2008, we launched targeted and selective offer plans in urban areas with the objective of offsetting this trend and promoting customer loyalty in our fixed line customer base.

Domestic long-distance minutes have remained stable at 3.0 billion since 2006. Since the Northern Region was opened to competition in 1997, Telecom Argentina has maintained its position as the market leader for domestic long-distance traffic in the region.

In the years ended December 31, 2008 and 2007, approximately 78% of measured service revenue was generated by residential and professional customers, and approximately 22% was generated by business and government customers.

*International Long-Distance Service.* International long-distance traffic minutes increased to 157 million in 2008 from 142 million in 2007 and 128 million in 2006. Despite competition and the introduction of VoIP (Voice Over Internet Protocol), traffic volumes show a positive trend due to promotions targeted to the sector and an increase in commercial activity with foreign countries requiring increased international call volumes.

Since 1992, international tariffs 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.

Although Telecom Argentina still retains an important market share of international long-distance traffic in the Northern Region, over the past several years, there has been a gradual and constant decrease in Telecom Argentina's market share in that region due to strong growth in prepaid cards and the adoption of VoIP technology at competitive rates. However, Telecom Argentina continued to be the market leader for international long-distance in the Northern region in the last year.

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*Installation Charges.* Revenues from installation charges consist primarily of fees levied for installation of new phone lines. Telecom Argentina offers discounts in multiple localities to reduce the rate authorized by the government, with the aim of stimulating demand in those areas. 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, 2008, there were 58,375 public lines installed of which 6,032 are in the Southern Region. Local and domestic long-distance traffic saw a systematic reduction as a result of the strong development of the cellular telephone industry in Argentina. As a result, public-telephony local traffic for the year 2008 fell to 394 million minutes compared to 556 million minutes for the year 2007 and 702 million minutes for the year 2006. Domestic long-distance public-telephony traffic over the same period was 182 million minutes, 243 million minutes and 306 million minutes for 2008, 2007 and 2006, respectively. In contrast, international long-distance public-telephony traffic has experienced consistent increases reaching 69 million minutes during the year 2008, from 64 million minutes in the year 2007 and 52 million minutes in the year 2006 due to several promotions used to generate increased demand.

*Other National Telephone Services.* Telecom Argentina provides dedicated lines to businesses. Dedicated lines are dedicated point-to-point leased lines. In addition to installation fees, Telecom Argentina receives revenues from dedicated analog urban/interurban lines. 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).

*New Voice Products and Services.* Throughout 2008, Telecom Argentina introduced new products and services in the market, in response to customer needs and in line with its goal to increase ARPU in its access lines. The new products and services include the new line of Aladino handsets and the offering of value-added packages for voice. Additionally, Telecom Argentina continued providing customers with innovative services such as SMS from fixed telephone and video-call phones. The number of customers subscribing to these value-added packages significantly increased as compared to the previous year.

*Data Transmission Services.* The data services business includes nationwide data transmission services, virtual private networks, symmetric Internet access, national and international broadcasting signal transport and videoconferencing services. These services are provided mainly to corporations and governmental agencies. Telecom Argentina also provides certain Value Added Services, including electronic standard documents telecommunication software exchange and fax storage and delivery service. The data services business also includes the lease of networks to other providers, telecommunications consulting services, operation and maintenance of telecommunications systems, supply of telecommunications equipment and provision of related services. Corporate data transmission services are provided



mainly through frame relay and ATM networks. In 2007, Telecom Argentina developed an IP Virtual Private Network and began the migration of lines connected to the ATM networks to the IP Virtual Private Network. Telecom Argentina has a non-expiring license to provide the aforementioned services.

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

In 2008, Telecom Argentina acquired Cubecorp Argentina S.A. Cubecorp owns a 5,500 square-meter Data Center and has a significant client portfolio which will allow Telecom to further leverage its platform by selling ICT services and value-added solutions.

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

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

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

	December 31,		
	2008	2007	2006
ADSL (1)	1,042,000	783,000	457,000
Dial-Up	65,000	76,000	88,000

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

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

The market for broadband has experienced significant growth in the years 2007 and 2008 throughout the country, increasing 60% and 35% respectively to reach approximately 3.4 million connections at December 31, 2008.

Broadband Internet can be delivered through three technologies: cable modem, ADSL and wireless; cable modem and ADSL being the most widely used. In the local market ADSL connections exceeded the number of cable modem and wireless connections. Telecom Argentina markets its ADSL service through its Arnet brand and in partnership with other ISPs.

In 2006 Telecom Argentina introduced the Arnet 640 Kb service (a 640 kb speed ADSL service offered at a flat rate). Following the introduction of Arnet 640 Kb, our ADSL service demonstrated strong growth. During 2007 and 2008, Telecom Argentina continued to increase its customer base, in line with the market's expansion. Telecom Argentina's ADSL customer base reached 1 million clients in November 2008, thereby securing its leadership position in the broadband market. As of December 2008 our nationwide market share was 30.7%. Consistent with its previous strategy, Telecom Argentina increased the minimum connection speed of its main product from 640Kb to 1Mb in 2008.

Telecom Argentina implemented new broadband products in 2008. Among others, Telecom Argentina introduced Arnet Recargable, targeted to non-intensive users (which made Telecom Argentina the first Internet provider to introduce a broadband service with no fixed charge that provides customers with prepaid access to the Internet) and Arnet Go, targeted to users who value the ability to connect to the Internet from mobile computers. With this launch, Telecom Argentina became the only Internet service provider of a broadband product with combined

ADSL, Wi-Fi and 3G technologies.

Additionally, Internet revenues include Internet access services. Telecom Argentina offers its 0610, 0611 and 0612 ISP services. The 0610 service at rates reflecting up to a 30% discount compared to normal city rates for connections lasting 30 minutes, depending on the time and day of the connection. Traffic generated by these services has been decreasing, falling from 4.0 billion minutes in 2006 to 2.3 billion minutes in 2007 and to 1.4 billion minutes in 2008 with similar effects on net sales. After the implementation of an agreement reached with the Argentine Government, Telecom Argentina offers Internet dial-up access to locations in its region through more than 98% of the installed lines.

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b) *Wholesale*

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

New interconnection agreements with fixed and mobile operators went into effect during 2008. These agreements discontinued the application of CER and dollarized the rates of interconnection charges.

Additionally, Telecom Argentina signed new invoice and collection agreements with mobile operators for the Calling Party Pays service, increasing the collection rate from an average of 6%-7% to 15%. Collection of delinquent payments remains Telecom Argentina's responsibility.

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

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

- amounts earned from foreign telecommunications carriers for connection to the Argentine telephone network;
- bandwidth capacity under an Indefeasable Right of Use basis (IRU - S)
- international point-to-point leased circuits; and
- international data services.

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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 618 million in year 2008, 605 million in year 2007 and 578 million in year 2006.

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

In order to meet the growth in our ADSL customer base, Telecom Argentina has acquired several Indefeasable Rights of Use (IRUs) on 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, to permit 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. Nonetheless, its penetration of 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), grew by more than 35% during 2008.

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***Network and Equipment***

In line with the previous fiscal year, coverage, capacity, quality and availability have been the focus for the development and execution of Telecom Argentina's network strategy during 2008.

Within this context, Telecom Argentina continued with the deployment of fiber optic connections to ensure that broadband availability in each city conforms to the increasing requirements of our customers. Additionally, Telecom Argentina continued with its strategy of having a single transmission backbone for all services, from fixed and mobile voice, to Internet and corporate connectivity solutions.

Telecom Argentina have started a process to update the IP structure, enabling higher node and link capacities. This process is expected to be completed during 2009 upon the introduction of 40 Gbit links to meet the increasing demands of current and future systems.

The DWDM implementation continues to be of great importance in the national long-distance network, which has allowed Telecom Argentina to exceed prior capacity limits and facilitated the availability of national long-distance Ethernet transmission (local area computer network standard) in the capital cities of all the provinces and in most locations with higher customer volume.

With regards to Telecom Argentina's fixed access network, it has a need to replace subscriber centers - which are already 100% digitalized - with other NGN centers, and the need to reach customers' homes with an increasingly higher broadband. In order to achieve these goals, Telecom Argentina is deploying a strategy called Fiber to the Cabinet (FTTC) and exploring Fiber to the Building (FTTB) and Fiber to the Home (FTTH) alternatives, depending on implementation characteristics and needs. Today Telecom Argentina has over 250 outdoor nodes with voice and data capacity of up to 20Mb.

Moreover, the deployment speed of new generation lines has been maintained; these lines are used to supply the new demand and replace the current old-generation digital lines.

**Wireless**

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

***Wireless Telecommunication Services in Argentina Telecom Personal***

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The market for wireless telephone services in Argentina is characterized by rapid growth and intense competition. Operators are generally free from regulation to determine the pricing of services, with the limited exception of calling party pays, or CPP, charges for termination of calls originating on a fixed line network. See Regulatory Framework Other Regulatory Regulation Calling Party Pays CPP. There are currently three wireless operators offering nationwide service. According to the CNC, penetration of cellular service in Argentina has increased from approximately 76% of the population as of December 31, 2006 to approximately 96% and 107.5% as of December 31, 2007, and 2008, respectively.

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 wireless telephony services in Argentina are provided through our wholly-owned subsidiary, Telecom Personal. We provide wireless services throughout Argentina via STM, SRMC and PCS networks. Telecom Personal utilizes GSM technology and 3G technology in its networks and primarily offers its services of STM and SRMC services on the 850 MHZ frequency band, and PCS service on the 1900 MHZ frequency band.

Telecom Personal's business is growing rapidly. From December 31, 2007 to December 31, 2008, its subscriber base in Argentina grew approximately 18%. As of December 31, 2008, Telecom Personal had approximately 12.6 million subscribers. At December 31, 2007, Telecom Personal had approximately 10.7 million subscribers and at December 31, 2006, Telecom Personal had approximately 8.4 million subscribers. Growth in Telecom Personal's cellular subscriber base results in growth in net sales in the wireless segment. Net sales of Telecom Personal for the year 2008, 2007 and 2006 were P\$6,565 million, P\$5,339 million and P\$3,964 million, respectively.

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Telecom Personal offers advanced supplementary wireless services, known as Value Added Services. During 2008, Telecom Personal capitalized on the increased speed of its 3G network to expand and improve its roster of services, including the following:

- Full Mp3
- Mobile TV
- Blog and Photo album
- Internet en tu Personal : Unlimited access to the mobile version of Windows Live Messenger, Hotmail, Yahoo mail, MySpace, Facebook, Hi5, Yahoo Weather and Yahoo Finance.
- Personal Finder: Allows the customer to locate friends, addresses and points of interest.
- SIM Messenger: Allows the customer to enter MSN and chat with contacts as if using a PC. Personal was the first mobile company in Argentina and the second in the world in providing this service.

Additionally, services in development include text messaging, multimedia messaging and data connectivity, BlackBerry (mobile e-mail), Ring Back Tones (musical ringtones) and mobile Intranet (wireless access to the corporate network).

The offering of Value Added Services is expected to increase profitability by increasing ARPU and facilitating growth in MMS Mobile Message Service/ Data services thereby differentiating our service offerings from SMS. Telecom Personal's ARPU in Argentina was approximately P\$41 per month for year 2008 and P\$39 for year 2007.

*Service Plans.* Telecom Personal wireless customers are offered a variety of flexible pricing options for wireless services. These options include prepaid, post-paid and cuentas claras plans.

*Prepaid Plans.* Under prepaid plans, the customer pays in advance for telephone calls and Value Added Services using a prepaid card. When the card runs out of minutes, the customer can recharge the prepaid card using a prepaid system or can purchase virtual prepaid phone cards on Telecom Personal's website, at ATMs, at kiosks 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. With the Ultra Light Plan, the more credit a subscriber puts on the card, the lower the rates are per minute. During the year, a plan for the provision of new features, products and services was implemented, including the following packages: Personal Te Conviene, Pack Plus for Data, P\$12 Calling Card as well as other holiday offerings (for Christmas and Mother's Day, among others).

*Post-paid Plans.* Telecom 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, GPRS, a multimedia personalized greeting, telephone technical support and call waiting. The plans deploy Personal Digital Invoicing,



enabling customers to view, download and print their invoices from the web.

Under both plans, a subscriber pays a monthly bill consisting of a monthly user fee plus Value Added Services and a charge for minutes used in excess of the amount included in the plan. These plans generally offer 100 to 400 free minutes per month. Once the free minutes have been used, the subscriber can continue using the wireless 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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*Cuentas Claras Plans.* Under the *cuentas claras* plans, a subscriber pays a set monthly bill and, once the contract minutes per month have been used, the subscriber can obtain additional minutes by recharging the phone card through the prepaid system.

As of December 31, 2008, Telecom Personal had approximately 12.6 million subscribers. Of these, approximately 8.3 million were prepaid subscribers, representing 66.1% of Telecom Personal's total customer base, approximately 1.4 million were post-paid subscribers, representing 11.6% of Telecom Personal's total customer base and approximately 2.8 million were *cuentas claras* plan subscribers, representing 22.3% of Telecom Personal's total customer base. From December 31, 2007 to December 31, 2008, the percentage of prepaid and *cuentas-claras* plan subscribers out of Telecom Personal's total customer base remained stable while the percentage of post-paid subscribers increased. As of December 31, 2007, Telecom Personal's prepaid subscribers accounted for 66.2% of its total customer base, post-paid subscribers represented 10.6% of Telecom Personal's total customer base and *cuentas claras* plan subscribers represented the remaining 23.2% of Telecom Personal's total customer base. As of December 31, 2006, Telecom Personal's prepaid subscribers accounted for 65.7% of its then total customer base, post-paid subscribers represented 9.0% of Telecom Personal's total customer base and *cuentas claras* plan subscribers represented the remaining 25.3% of Telecom Personal's total customer base.

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

	2008	As of December 31, 2007	2006
Cellular subscribers:(1)			
Prepaid	8,303,000	7,062,000	5,539,000
Post-paid	1,454,000	1,134,000	759,000
<i>Cuentas Claras</i>	2,807,000	2,470,000	2,127,000
Total	12,564,000	10,666,000	8,425,000

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

*Network and Equipment*

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

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

To this end, Telecom Personal's radio access network is supported by a regional transmission network that is shared with the fixed telephony business. 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, Telecom Personal measures relevant parameters and benchmarks its network against those of its competitors.

By the end of fiscal year 2008, the access network's radio bases exceeded 2600 distributed throughout the country. Total customer migration to GSM was completed and the remainder of the TDMA network was shut down. As a result, the radio spectrum allocated to analog services was completely freed, thereby enabling its reallocation to second and/or third generation services according to needs.

In 2008, Telecom Personal completed migration of its core network to a distributed architecture. This migration and network redistribution will facilitate the lowering of Telecom Personal's transmission costs and improve its awareness of service availability.

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Given international trends and business evolution, we are deploying a 3G access layer that enables a general roll-out of mobile broadband services. This new wireless access technology substantially increases voice and data traffic capacity, speed and flexibility for the introduction of new services. During fiscal year 2008, Telecom Personal accelerated its deployment of 3G access nodes, installing over 600 new nodes and achieving over 60% of GSM traffic.

*Wireless Telecommunications Services in Paraguay Núcleo*

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

The market for cellular telephony in Paraguay continued experiencing a significant level of competition in 2008, due to aggressive rate policies, new product and service launches, and marketing promotions. As of December 31, 2008, Núcleo had an approximate 36% share of the cellular services market in Paraguay, with about 1,811,000 customers, an increase of about 192,000 customers, or approximately 11.9%, from December 31, 2007. Núcleo's wireless clients are divided into three categories: 1,647,000 prepaid subscribers, 140,000 subscribers under the segment Plan Control and 24,000 postpaid subscribers. As of December 31, 2007, Núcleo had approximately 1,619,000 wireless subscribers, an increase of approximately 455,000 subscribers, or about 39.0%, from December 31, 2006. Núcleo's internet subscribers amounted to 15,000 on December 31, 2008 as compared to 7,000 on December 31, 2007.

Núcleo's revenues from connection charges with other operators have been affected by the issuance of Resolution N° 379/08, which decreased interconnection charges between mobile and basic service networks. However, Núcleo believes this resolution will promote increased competition among operators, since it reduces extra charges for communication between clients subscribing to different service providers.

In 2008, Núcleo launched a variety of services for both its residential and business clients. In June 2008, Núcleo launched the Personal Free plan, which eliminated the interconnection charge to customers communicating with customers of other service providers. Two other market operators have followed Núcleo in implementing this measure. Overall, the elimination of this interconnection charge has helped to further develop Paraguay's mobile telephony market. Another significant offering consisted of the Reduced Time Segment, a plan through which the customer may choose a time segment in the morning, the afternoon or at night to make calls at lower prices. The Reduced Time Segment and Personal Free plans were the key factors to improving and maintaining Núcleo's competitive market position.

Among the new services, Núcleo's launch of the 3.5G technology enabled increase of the range of services it offers and provided the fastest mobile internet navigation for customers to access the internet. During 2008, coverage of the International Roaming service was also expanded including Roaming for prepaid lines, which account for the largest portion of Núcleo's customers.

During the first quarter of 2008, the Internet business unit substantially expanded its services through an extension of the Wimax network coverage, which enabled data and Internet connection to 19 new sites in the interior of Paraguay.

Additionally, during 2008 several strategic alliances were made with local providers specializing in different access technologies. This allowed Núcleo to enhance its internet service and expand its portfolio of products under the Hipuu! brand, which provides Internet and data transmission through Wimax wireless accesses, mobile access through the 3G network, fiber optic-based access for high-capacity needs, and satellite solutions for requests for access coming from geographically isolated sites.

*Network and Equipment*

With respect to Núcleo's network, in 2008 Núcleo focused on extending its GSM technology coverage. Núcleo installed ninety new sites, amounting to a 40% increase in installed capacity as compared to the beginning of the fiscal year. At present, Núcleo provides potential coverage to approximately 90% of the Paraguayan population.

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One of the year's milestones was the deployment of the Paraguay's first 3.5G network. In March of 2008, Núcleo launched 100 locations, several months before its competition.

Núcleo continued with the realization of various projects at the network level, implementing an intelligent platform with two nodes, one in Asunción and another one in Ciudad del Este. These nodes enable online metering and the development of new services.

Regarding Value Added Services, in order to facilitate the evolution to 3G networks, the GPRS node was replaced. This enables higher traffic capacity and better data service, transmitting at rates higher than 1Mbps, which allows the introduction of new mobile broadband applications.

**Description of the Operator**

The Telecom Italia Group, which holds an indirect interest in the Telecom Group, has been our exclusive operator since December 2003. The Telecom Italia Group is engaged primarily in the communications sector, specifically, in the fixed and mobile national and international telecommunications sector, the television sector and the office products sector. The Telecom Italia Group operates mainly in Europe, the Mediterranean Basin and in South America.

As of December 31, 2008, the Telecom Italia Group was one of the world's largest fixed telecommunications operators. In particular, by the end of 2008, in Italy, the Telecom Italia Group had reached approximately 20.0 million fixed network connections, 17.4 million physical accesses (accesses refers to any telecommunications connections offered by the Telecom Italia Group, including consumer and business connections), a wholesale customer portfolio of 5.0 million accesses for telephone services and 34.8 million mobile telephone lines. In addition, the Telecom Italia Group's broadband portfolio in Italy reached 8.1 million accesses as of December 31, 2008 (including 6.8 million retail accesses and 1.3 million wholesale accesses). As of December 31, 2008, the Telecom Italia Group had 36.4 million mobile telephone lines in Brazil.

**Competition**

*Voice, Data and Internet Services*

*Basic Telephony and International Long-Distance Services.* Prior to November 1999, Telecom Argentina held an exclusive license to provide Basic telephone services to the Northern Region. The Argentine telecommunications market has been open to full competition since November 2000. As of the date of this Annual Report, the main licensees providing local and/or fixed long-distance telephone service are Tectel (now commercially known as Telmex), Telephone2, Impsat (commercially known as Global Crossing), Claro, IPlan, Comsat, Telefónica (principally in the Southern Region) and Telecom Argentina (principally in the Northern Region). Telefónica has the dominant market share for provision of telecommunications service in the Southern Region. Some of these competitors may be better capitalized than us and have substantial telecommunications experience. Accordingly, if economic conditions in

Argentina improve and competitors increase their presence in the Northern Region, Telecom Argentina expects that it will face additional pressure on the rates it charges for its services and experience limited loss in market share in the Northern Region.

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

*Wireless Telecommunications Services*

*Wireless Telecommunications Services in Argentina.* The wireless telecommunications market in Argentina has been open to competition since 1993 and was expanded to include PCS services in 1999. 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 allowed operators to focus competition on Value Added Services.

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Currently, there are three operators providing nationwide services. These three operators are Telecom Personal, Telefónica Móviles 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 wireless telecommunication services in those cities.

América Móvil, operating in Argentina under the trade name Claro (formerly CTI) is one of the country's largest wireless operators in terms of number of customers 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 wireless operators in Argentina in terms of number of customers. 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 37.5MHz (25 + 12.5MHz), and a total of 50 MHz (20 + 30) for PCS. It also holds a total of 80 MHz (40MHz + 40 MHz) for its PCS licenses for the Northern Region, and a total of 60 MHz (20 MHz + 40 MHz) for its PCS license in the Southern Region. This Southern region is Unifón's original service area, where it also holds 25MHz license for STM. The economic concentration that resulted from Unifón and Movicom's merger exceeds the maximum limit of the 50 MHz of spectrum assignation (for the services of STM-SRMC-PCS and SRCE) permitted by Article 4 of the Annex to the Article 1 of Decree 266/1998. In Reg. 343/05, regulatory authorities approved the merger on the condition that the resulting entity decrease its spectrum holdings to the permitted levels in accordance with a schedule ending at year-end 2008. Currently Movistar has not completed the required decrease in its spectrum.

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

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

*Wireless Telecommunications Services in Paraguay.* Currently there are four participants in the wireless service market in Paraguay. As of December 31, 2008, Núcleo had an approximate 36% share of the cellular services market in Paraguay, Telefónica Celular del Paraguay S.A. (a Millicom International Cellular subsidiary) had approximately 51%, Hola Paraguay S.A. had approximately 5% and América Móvil (under the brand name Claro) had approximately 8%. Official statistics are not published in Paraguay and, therefore, this information regarding subscriber amounts represents an estimate.

## **REGULATORY FRAMEWORK**

### **Regulatory Bodies and general legal framework**



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

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

- The Privatization Regulations, including the List of Conditions;
- The Transfer Agreement;

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- The Licenses granted to Telecom Argentina and its subsidiaries;
- The Tariff Agreements; and
- Various governmental decrees, including Decree No. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum management.

Núcleo, Telecom 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's subsidiary, is supervised by the Federal Communications Commission ( FCC ).

**Licenses granted as of December 31, 2008**

As of December 31, 2008, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

- Local fixed telephony;
- Public telephony;
- Domestic and international long-distance telephony;
- Domestic and international point-to-point link services;
- Domestic and international telex services;
- Value added services, data transmission, videoconferencing and broadcasting signal services; and

- Internet access.

As of December 31, 2008, the Company's subsidiaries have been granted the following licenses:

- Telecom Personal has been granted a non-exclusive, non-expiring license to provide mobile telecommunication services in the northern region of Argentina and data transmission and value added services throughout the country. In addition, Personal owns licenses to provide mobile radio communication services in the Federal District and Greater Buenos Aires areas, as well as a non-expiring license to provide PCS services throughout the country and it is registered to provide national and international long-distance telephone services; and
- Núcleo has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as PCS services and Internet access in certain areas of that country.

#### **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 serious non-performance of material obligations;
- 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;
- an assignment or delegation of the Operator's functions without the prior approval of the Regulatory Bodies;  
and
- a bankruptcy of Telecom Argentina.

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

- repeated interruptions of Telecom 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 Telecom Personal and,
- a liquidation or dissolution of Telecom Personal, without the prior approval of the Regulatory Authority.

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

- an interruption of services;
- a bankruptcy of Núcleo and,
- non-compliance with certain obligations.

#### **Liberalization of the Argentine Telecommunications Industry**

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

The Plan focused on three central principles:

- providing universal telephone service to all segments of the Argentine population;
- establishing limitations on anti-competitive activities; and
- creating fair and transparent guidelines for granting future licenses.

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

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

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

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

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

As of December 31, 2008, Telecom Argentina had installed 6,032 public lines in the Southern Region. Telecom Argentina has installed public telephony telecommunication centers, or CETs, providing access to public telephony services, Internet and fax services in the Southern Region in major cities including Buenos Aires, La Plata, Mar del Plata, Mendoza, San Luis, Villa Mercedes, Tandil, San Juan, Ushuaia and Junín. Telecom Argentina competes with a number of other companies for the provision of public telephone services.

**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 Argentine interconnection regulation;
- the regulation governing the administration, management and control of the wireless 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, wireless, national and international, irrespective of whether these services are provided through telecommunications infrastructure owned by the service provider. Under the regulation, a licensee's corporate purpose does not need to be exclusively the provision of telecommunications services. In addition, the regulation does not establish any minimum investment or coverage requirements. The regulation further authorizes the resale of telecommunications services subject to the receipt of a license, and there are no restrictions on participation by foreign companies. This regulation governs the license through which Telecom Argentina offers services in the Southern Region and is complementary to Telecom Argentina's obligations pursuant to its preexisting licenses.

*Argentine 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 shall be subject to future regulations.

On January 22, 2009, the SC issued Resolution No. 8/09 through which it created a Working Commission composed by members of the SC and the CNC and gave them a term of 120 days to prepare a draft of the Number Portability Regulation.

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

*Universal Service ( SU ) Regulation.* The Universal Service regulation requires entities that receive revenues from telecommunications services to contribute 1% of these revenues (net of taxes) to the Universal Service Fiduciary Fund ( the SU Fund ). The regulation adopted a "pay or play" mechanism for compliance with the mandatory contribution to the SU fund. The regulation establishes a formula for calculating the subsidy for the provision of SU which takes into account the cost of providing this service and any foregone revenues. Additionally, the regulation creates a committee responsible for the administration of the SU Fund and the development of specific SU programs. The Regulatory Authority has not instituted this committee nor has it implemented the SU Fund pursuant to this regulation.

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

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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 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.

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.

Decree No. 558/08 also mandates the creation of an SU Fund and orders that it must be established within 180 days from the date of publication. Providers of telecommunications services shall act in their capacity as trustees for this fund, and shall rely on the assistance of a Technical Committee made up of seven members (two members shall be appointed by the SC, one member shall be appointed by the CNC, three members shall be appointed by the telecommunication services providers—one each shall be appointed by Telecom Argentina and Telefónica and one by the rest of the providers—another member will be appointed by independent local operators). This Technical Committee will be informed by the SC of the programs that will be financed and will be 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 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. As of the date of issuance of this Annual Report, the Technical Committee had been created and had begun to analyze the scope of its functions and the procedures associated with them. Additionally, telecommunications service providers had already selected the fiduciary institution and had sent the proposed fiduciary agreement to the SC. The SC approved the proposed agreement in January 2009 through SC Resolution No. 7/09. As of the date of this Annual Report, effective creation of the SU Fund is still pending resolution of certain administrative matters.

On December 9, 2008, the SC issued Resolution No. 405/08 which requires telecommunication service providers to deposit 1% of their revenues into special accounts, as defined in Decree No. 558/08, without passing on any costs incurred for the provision of their services.

On January 12, 2009, Telecom Argentina and Telecom Personal filed claims before the SC objecting to the provisions of SC Resolution No. 405/08. Both companies maintained that the resolution was illegal, arguing that it contradicts Decree No. 558/08 because it violates both licensees' rights to factor their compensation for the provision of SU programs in the calculation of their investment contribution, in accordance

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with the pay or play principle prescribed in Decree No. 558/08. The management of Telecom Group considers that the Telecom Group has meritorious legal arguments for the claims filed against Resolution No. 405/08.

At the date of issuance of this Annual Report, the SU programs are still pending approval by the SC.

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, international long distance and Internet in towns that currently do not provide basic telephone services. SC Resolution No. 88/09

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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 proposed projects approved by SC will be sent to the Technical Committee of the SU Fund so that availability of funds can be evaluated and they can be included in a bidding process provided for in Decree No. 558/08.

*In Telecom Argentina*

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

Several years after the market's liberalization and the effectiveness of the first SU regulations, these regulations have yet to be implemented. Therefore, service providers affected by these regulations have not received set-offs for providing services as required by the SU regime.

In compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713 /07, Telecom Argentina has estimated a receivable of P\$401 million for the period July 2007 - December 2008 and filed its calculations for review by the regulatory authority. This receivable has not yet been recorded since it is subject to the approval of the SU programs, the review of the SC and the availability of funds in the SU Trust.

*In Telecom Personal*

Since January 2001, Telecom Personal has been recording a provision related to its obligation to make contributions to the SU Fund. As of December 31, 2008, this provision amounted to P\$121 million. In addition, in compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713/07, Telecom Personal has assessed an account payable of P\$39 million for the period of July 2007 - December 2008. As a result, as of December 31, 2008, Telecom Personal had deposited the corresponding contributions on their respective maturity date (amounting to P\$36 million) into a special individual account held under their name at Banco Nación; these contributions were recorded as a receivable as of December 31, 2008.

As of January 2001, Personal, as well as the other wireless providers, had charged SU fund amounts to customers. SC Resolution No. 99/05 required entities that derived revenues from telecommunications services to contribute 1% of these revenues to the SU fund, and prohibited billing to customers any SU amounts. As a result, the CNC, through CNC Note No. 726/05, requested that Telecom Personal discontinue billing SU amounts to customers and reimburse all collected SU amounts plus interest (applying the same rate used for overdue invoices from customers).

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Although the SC resolutions were appealed, management decided to reimburse the SU amounts which had been billed to post-paid customers from January 1, 2001 through June 28, 2005, the date on which Telecom Personal ceased billing SU amounts.

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

During the first quarter of 2006, Telecom Personal fully reimbursed all previously billed SU amounts plus interest to its active post-paid customers (amounting to P\$15 million, calculated using the Banco Nación Argentina interest rate collected by banks). In addition, as of May 2006, Telecom Personal had reimbursed the SU amounts billed to its former customers and former post-paid customers that have changed into prepaid customers (amounting to P\$4 million). An amount of P\$6 million still remains pending and is available for collecting.

In December 2006, the CNC issued a preliminary report regarding verification of Telecom Personal's SU reimbursement. The report indicated that Telecom Personal completed the requirement of reimbursement of the SU

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amounts including interest. However, the report stated that the interest rate applied differed from the rate required by the CNC. Finally, on August 7, 2008, the CNC ordered Telecom Personal to adjust the reimbursement applying the same rate used for overdue invoices from customers (i.e. one and a half of the Banco Nación interest rate collected by banks).

In September 2008, Telecom Personal has rejected this claim, explaining its grounds for justification of the applied interest rate. However, Telecom Personal's management has considered the reimbursement of the interests claimed by the CNC. As a result, at December 31, 2008, Telecom Personal has recorded a provision of P\$9 million in the line item Financial results, net. Telecom Personal estimates the reimbursement would begin during July 2009.

*Telecom Argentina's Request for Reconsideration of Decree No. 764/00*

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

- the contested regulations contain inequities that violate the provisions adopted in connection with the privatization of the Basic telephone service;
- broadcasting companies may render telecommunications services through one entity while Telecom is unable to do so; and
- the reduction of interconnection rates does not compensate for the access deficit which itself is not being recognized or compensated pursuant to Universal Service Regulations.

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

*Rates*

*Transfer Agreement.* Pursuant to the original terms of the Transfer Agreement, Telecom Argentina was permitted to adjust the rates it charged for domestic telephone calls in accordance with the monthly variation of the Argentine consumer price index, or, in certain circumstances, a weighted average of the Argentine consumer price index and the devaluation of the Argentine currency against the dollar. However, the Convertibility Law, which took effect on April 1, 1991, prohibited peso-based price adjustment mechanisms, thereby preventing the operation of this indexing

mechanism.

*Rate Agreement.* On November 28, 1991, Telecom Argentina and Telefónica signed an agreement (known as the November Agreement) with the Argentine Government providing for rates to be dollar-based, adjusted semi-annually according to the U.S. consumer price index, or the US CPI. The November Agreement was ratified by Decree No. 2585/91 and became effective on December 18, 1991. On February 28, 1992 the Argentine Government and Telecom Argentina entered into a supplemental agreement, known as the February Agreement, which was ratified by Decree No. 506/92 (the November Agreement, as supplemented by the February Agreement, is referred to herein as the Rate Agreement. These adjustments were not applied since 2000 according to a resolution of the SC. Under the Convertibility law that was effective until January 2002, the applicable exchange rate was P\$1.00 to US\$1.00.

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

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



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- eliminated contract clauses providing for adjustments to the value of payments with reference to the United States dollar or other foreign currencies as well as any indexation clauses (based on price indexes of other countries) or similar mechanism; and
- established that certain agreements signed between the Argentine Government and privatized companies (such as Telecom Argentina) will be renegotiated, including tariffs that Telecom Argentina may charge in the future.

The Argentine Government is entitled to renegotiate these agreements based on the following criteria:

- The overall impact of tariffs for public services on the economy and income levels;
- Service quality and investment plans, as contractually agreed;
- The customers' interests and access to the services;
- The security of the systems; and
- The profitability of the service providers.

Decree No. 293/02, dated February 12, 2002, entrusted the Ministry of Economy with the renegotiation of the agreements. Initially, the contractual renegotiation proposals were to be submitted to the Argentine Government within 120 days after the effective date of the Decree, although this term was further extended for an additional 180 days. Telecom Argentina filed all information as required by the Argentine Government, which included information on the impact caused by the economic crisis on Telecom Argentina's financial position and its revenues, the pre-existing mechanisms for tariff adjustments, operating costs, indebtedness, payment commitments with the Argentine Government and future and on-going investment commitments.

Furthermore, in July 2003, Decree No. 311/03 created the Unidad de Renegociación y Análisis de Contratos de Servicios Públicos ( UNIREN ), (Division for the Renegotiation and Analysis of Contracts of Public Utilities Services), a special division within the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services, pursuant to which the contractual relationships between the Argentine Government and the service providers were to be revised and renegotiated. In October 2003, the Argentine Government enacted Law No. 25,790 pursuant to which the original term to renegotiate the contracts was extended through December 31, 2004. Since that date, the Argentine Government enacted subsequent laws pursuant to which this term was extended through December 31, 2009.

*Letter of Understanding 2004.* As part of our negotiations under Decree No. 293/02 on the tariff structure, on May 20, 2004, Telecom Argentina and Telefónica signed the Letter of Understanding 2004 with the Argentine Government pursuant to which it committed not to modify the current tariff structure through December 31, 2004 and to continue with the tariff renegotiation process, which Telecom Argentina expected to have concluded before December 31, 2004. Telecom Argentina also committed to offer phone services to beneficiaries of governmental welfare programs and to extend internet services in the interior of the country at reduced prices. This agreement was implemented by several SC Resolutions (Resolutions N° 261/04, 272/04 and 73/05).

Even though Telecom Argentina fulfilled its commitments under the LOU, the Argentine Government did not make a specific offer related to the renegotiation of the tariffs at the date set in the LOU.

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

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

- The technical supervising offices (CNC and UNIREN) have determined that Telecom Argentina satisfactorily complied with most of the requirements contemplated in the Transfer Agreement and by the regulatory framework; and those requirements not fulfilled have been dealt with through sanctions. At the time the Letter of Understanding was executed, some matters relating to Telecom Argentina's usual and regular activities as a Licensee were pending, and were expected to be determined by June 30, 2006. Despite such expectation, the regulatory authority continues to analyze such open issues, the outcome of which will be disclosed when the analysis is completed;
- Telecom Argentina's commitment to invest in the technological development and updating of its network;
- Telecom Argentina's commitment to the achievement of its long-term service quality goals;
- The signing parties' commitment to comply with and maintain the terms set forth in the Transfer Agreement, and in the regulatory framework in effect;
- The Argentine Government's commitment to create an appropriate and standardized regulatory framework for telecommunications services and to give Telecom Argentina fair and equivalent treatment to that given to other telecommunications companies that shall take part in the process;
- Telecom Argentina's commitment and the commitment of its indirect stockholders Telecom Italia and W de Argentina Inversiones, to suspend for a period of 210 working days any and all claims, appeals and petitions already filed or in the process of being filed, in administrative, arbitral or judicial offices, in Argentina or in any other country, that are founded in or related to any act or measure taken after the issuance of the Public Emergency Law with respect to the Transfer Agreement and to the License granted to Telecom Argentina by Decree No. 2,347/90, after 30 days from the end of the public hearing convened to deal with the Letter of Understanding 2006 have elapsed, and to discontinue said claims, appeals and petitions after the Minutes of Agreement of the Renegotiation have been ratified (As of the date of this Annual Report, both Telecom Argentina and its indirect stockholders Telecom Italia and W de Argentina Inversiones have honored this commitment).
- An adjustment shall be made to increase the termination charge of international incoming calls to a local area to be equivalent to international values (at present such charges are strongly depreciated); and

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

On May 18, 2006, the Letter of Understanding 2006 was subject to a public hearing procedure, with the purpose of encouraging the participation of the users and the community in general, taking into consideration that the Letter's terms and conditions will provide the framework for the signing of the Minutes of Agreement of the Renegotiation. These Minutes of Agreement of the Renegotiation shall be in effect once all the requirements stipulated in the regulatory framework are complied with, which among other things, requires that a Telecom Argentina Stockholders Meeting be held to approve said Minutes. Both Telecom Argentina and its indirect stockholders Telecom Italia S.p.A. and W de Argentina - Inversiones S.L. have timely fulfilled the Agreement's commitments.

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

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

Decree No. 92/97 provided for a significant reduction in domestic and international long-distance rates, an increase in basic telephony charges, the elimination of Free Pulses and an increase in urban rates. The Rate Rebalancing was undertaken as part of the Argentine Government's plan to create a competitive environment in the Argentine telecommunications industry. 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 licensee's revenues. In developing the tariff structure implemented by Decree No. 92/97, the Argentine Government relied on studies which demonstrated that because of the elasticity of demand for telephone service, an increase in demand for lower-priced services would compensate for the rate reductions. Decree No. 92/97 established corrective mechanisms to facilitate neutral results on revenues. The *Banco Interamericano de Reconstrucción y Fomento*, or InterAmerican Bank for Reconstruction and Development, was responsible for making measurements on a semi-annual basis, over a two-year period, to determine the effects of the Rate Rebalancing. Decree No. 92/97 provides for a mechanism to offset changes in revenue resulting from the Rate Rebalancing at the time of applying the Price Caps.

The variation in revenues resulting from the Rate Rebalancing for the two-year period beginning February 1997 was determined to amount to an increase of P\$9.5 million in accordance with SC Resolution No. 4,269/99. In December 2007, the regulatory authority notified the Company of its intention to offset this amount with the Resolution No. 41/07 receivables. As a result, during fiscal year 2007, Telecom Argentina recorded a reserve 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 month-end rates for various components of local service and domestic long-distance service which have been in effect since 1999:

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

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

The Letter of Understanding 2006 described 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 be reduced annually until the Regulatory Bodies determine that there is effective competition in the markets we serve. The Price Cap was a regulation mechanism applied in order to calculate changes in Telecom Argentina tariffs, based on changes in the U.S. Consumer Price Index ( U.S. C.P.I. ) and an efficiency factor. A 2% (measured in real dollar terms) reduction in the prior year s rates was

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required for each of the third through the seventh year following the Transfer Date (through November 7, 1997). In addition, following the extension of the exclusivity period, rates were required to be 4% lower (measured in real dollar terms) than the prior year's rates. This requirement was maintained pursuant to the Rate Agreement, whereby Telecom Argentina was permitted to effect aggregate rate reductions by lowering rates for some or all categories of service, provided that net reductions meet the applicable targets. The application of annual reductions to the general level of rates established in the List of Conditions (price cap) has been implemented mainly by reducing the long-distance rates and (in Price Cap 1998) discounts to certain public entities, including the fire departments and public libraries. The CNC notified Telecom Argentina of the completion of the Price Cap 1998 audit which did not show a balance to be applied. In September 2007, the CNC finalized the 1999 Price Cap audit resulting in an amount payable by Telecom Argentina of P\$10.2 million, the calculation of which is currently being reviewed by the management of Telecom Argentina. Telecom Argentina intends to offset this balance with the credit resulting from SC Resolution No. 41/07. See Tax Stability: Social Security Contribution Variations.

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

Among other issues, the agreement contemplated:

- a 19.5% reduction in the monthly basic charges for commercial and governmental customers;
- a 5.5% reduction in revenues from residential customers from local Basic telephone service (these reductions were made available to customers that requested the rate reduction); and
- the continuance of the 0610 Internet access dial-up charge to residential customers.

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

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

On April 6, 2000, the Argentine Government, Telefonica 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 Telefonica) for the period of November 2000 to November 2001.

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The 2000 Price cap audit results are still pending. Should the outcome is a payable by Telecom Argentina it can be offset with the Resolution No. 41/07 receivables.

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

However, in October 2001 a preliminary injunction against Telecom Argentina disallowed Telecom Argentina to apply tariff increases by reference to the U.S. C.P.I. Telecom Argentina appealed this injunction arguing that if one part of the formula cannot be applied, the Price Cap system should be nullified. Finally, Public Emergency Law No. 25,561 explicitly prohibited tariff adjustments. As of the date of this Annual Report, the pesification and the freeze of the regulated tariffs 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 tariff regulation procedure. See Item 8 Financial Information Legal Proceedings Civil, tax, commercial, labor and regulatory proceedings Consumer Trade Union Proceeding.



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*Installation Charges.* Under the Rate Agreement, Telecom Argentina was required to gradually reduce installation charges so as to achieve pricing levels equal to those for internationally mature networks (estimated in the Rate Agreement to be US\$250) and to eliminate distinctions between residential and commercial users. Decree No. 92/97 established that beginning in November 1997 installation charges may not exceed the amount charged in mature international markets. In accordance with this decree, the current maximum permitted charge is US\$150 (pursuant to the Public Emergency Law, this charge was pesified at the exchange rate of US\$1.00=P\$1.00). Telecom Argentina has been applying several promotions to installation charges. Average levels of promotional installation charges in 2008 were P\$68.

*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 tariff reductions for domestic and international long-distance services, Free Pulses were eliminated for all categories of customers, monthly basic charges were equalized throughout the country. Decree No. 92/97, however, provided for a special reduced tariff that is available to certain low consumption residential and retired customers.

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

*Letter of Understanding Relating to Basic Services.* Pursuant to the Letter of Understanding 2006, described under Letter of Understanding 2006, the Government has agreed that Telecom Argentina can increase the termination charges applied to incoming international calls and reduce the time bands for off-peak local tariffs. As of the date of this Annual Report, Telecom Argentina is expecting the completion of certain administrative steps required for the National Executive to submit to the National Congress a proposed Memorandum of Agreement for Renegotiation.

*Tax on deposits to and withdrawals from bank accounts ( IDC ).* On February 6, 2003, the Ministry of Economy, through Resolution No. 72/03, defined the mechanism to allow, going forward, tariff increases on Basic telephone services reflecting the impact of the IDC. The amount of tax charged must be shown separately in customers' bills. Telecom Argentina has determined 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 tariff renegotiation process (See Rates Letter of Understanding 2006. ). In April 2007, Telecom Argentina provided the CNC with supporting documentation on this amount for its audit. Telecom Argentina had access to documentation of the CNC's audits that corroborates the amounts claimed by Telecom Argentina and the application of a similar offsetting mechanism pursuant to Resolution N° 41/07. Therefore, during fiscal year 2007, Telecom Argentina recorded as Other receivables 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 planned use of the savings and increases that have resulted.

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

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

Consequently, Telecom Argentina recorded a receivable from increases in social security contributions and cancelled payables from reduction in social security contribution rates and other fines due by the Company. At December 31, 2008, Telecom Argentina has a net receivable of P\$81 million which, in addition with the receivable of P\$23 million corresponding to the tax on deposits to and withdrawals from bank accounts ( IDC ), is included in the line item Other receivables (P\$11 million as current receivables and P\$93 million as non-current receivables).

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Since the resolution allows Telecom Argentina to offset the receivables with existing and/or future regulatory duties and its intention is to exercise its offsetting rights, the receivable was recorded net of reserves. At December 31, 2008, the reserves corresponding to these regulatory duties amounted to P\$86 million.

Since December 2008, Telecom Argentina has begun the billing to the customers of the increases in the rates of its social security contributions accrued from October 2008, applying the same mechanism used to bill the IDC.

***Other Regulatory Regulations***

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

Subsequently, as a result of the claims submitted by several carriers objecting to General Resolution No. 613/01, the Ministry of Economy issued General Resolution No. 75/03, which introduced several changes to the regulations providing for SPM. The main changes relate to the following: long-distance carriers' freedom to provide SPM, changes in blockage modality due to delinquency, changes in the service connection modality and greater flexibility of obligations connected with service promotion and advertising. General Resolution No. 75/03 also provides that origin providers, both fixed and mobile, must have their equipment and networks available to provide the SPM service within 120 days of February 6, 2003. Our equipment and networks have been able to provide this service since 2002. As of the date of this Annual Report, this long-distance service modality is not implemented.

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

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

The Buy Argentine Act also mandates that Telecom Argentina publish any bid for services in the Official Bulletin in order to provide any and all prospective offerors with the information necessary for them to participate. This mandatory publication requires considerable lead-time prior to the issuance of the purchase order and has had the result of extending the period needed to complete certain purchases. Non-compliance with the Act is subject to criminal sanctions.

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

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

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

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

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

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

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

At the date of issuance of this Annual Report, Telecom Argentina was evaluating feasible technical alternatives to implement in order to comply with this new rule.

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

Telecom Argentina has installed fixed lines based on this technology in order to satisfy service demand in rural and suburban areas.

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

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

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

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

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

Law No. 25,891. Law No. 25,891 was adopted on April 2, 2004, but material regulations under this law are still pending. It is intended to regulate the commercial distribution of wireless services and includes mandated registration of personal data for all customers, creating a Public Registry in the SC named *Registro Público Nacional de Clientes y Usuarios de Comunicaciones Móviles*.

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*Regulations Applicable to PCS Services*

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

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

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

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

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

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

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

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

**CAPITAL EXPENDITURES**

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Capital expenditures (investment in fixed assets and intangible assets excluding materials (net of amounts transferred to fixed assets) and asset retirement obligations) amounted to P\$1,597 million in the year ended December 31, 2008, P\$1,302 million in the year ended December 31, 2007 and P\$1,055 million in the year ended December 31, 2006.

The following table sets forth our actual consolidated capital expenditures for the years ended December 31, 2008, 2007 and 2006.

	Year ended December 31,		
	2008	2007	2006
	(P\$ millions)(1)		
Land and buildings	104	68	42
Switching and transmission	391	416	382
Access and outside plant	478	277	285
Computer equipment	456	397	207
Rights of use, exclusivity agreements and licenses	41	27	52
Other	127	117	87
<b>Subtotal capital expenditures(2)(3)</b>	<b>1,597</b>	<b>1,302</b>	<b>1,055</b>
Materials	90	139	170
Asset retirement obligations	10	2	3
<b>Total fixed assets and intangible assets capital expenditure</b>	<b>1,697</b>	<b>1,443</b>	<b>1,228</b>



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- (1) The allocation of work in progress among items is estimated.
- (2) Includes capitalized interest on fixed assets of P\$20 million, P\$23 million and P\$14 million as of December 31, 2008, 2007 and 2006, respectively.
- (3) Includes materials consumption amounting to P\$331 million, P\$381 million and P\$334 million as of December 31, 2008, 2007 and 2006, respectively.

In addition, the following table shows capital expenditures, for the years ended December 31, 2008, 2007 and 2006 by reportable segment:

	Year ended December 31,		
	2008	2007	2006
	(P\$ millions)		
<b>Voice, Data and Internet</b>			
Land and buildings	38	20	16
Switching and transmission	235	267	170
Access and outside plant	208	131	106
Computer equipment	216	162	112
Rights of use, exclusivity agreements and licenses	40	27	52
Other	97	82	37
<b>Subtotal</b>	<b>834</b>	<b>689</b>	<b>493</b>
Materials	90	110	99
Asset retirement obligations	2		1
<b>Voice, Data and Internet</b>	<b>926</b>	<b>799</b>	<b>593</b>
<b>Wireless</b>			
Land and buildings	66	48	26
Switching and transmission	156	149	212
Access and outside plant	270	146	179
Computer equipment	240	235	95
Licenses	1		
Other	30	35	50
<b>Subtotal</b>	<b>763</b>	<b>613</b>	<b>562</b>
Materials		29	71
Asset retirement obligations	8	2	2
<b>Wireless</b>	<b>771</b>	<b>644</b>	<b>635</b>
<b>Total fixed assets and intangible assets capital expenditure</b>	<b>1,697</b>	<b>1,443</b>	<b>1,228</b>

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During 2008, capital expenditures in the Voice, Data and Internet reportable segment were targeted mainly at the enhancement of broadband services, the deployment of NGN and the provision of infrastructure to mobile operators.

With respect to the Wireless reportable segment, capital expenditures have been deployed to expand the 2G network and extend the 3G network coverage to many cities in the interior of Argentina.

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

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We estimate that our capital expenditures will be approximately P\$1.6 - P\$1.7 billion for 2009. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures.

The Company continues to make significant investments designed to take advantage of growth opportunities in our businesses. In the Voice, Data and Internet reportable segment, we invest to sustain the growth in broadband services, to continue developing the NGN, to supply mobile operators with the necessary infrastructure and to continue updating commercial and support systems. In the Wireless reportable segment, we are in the process of expanding the network infrastructure and extending the 3G technology coverage and bandwidth for mobile data transmission.

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

**PROPERTY, PLANT AND EQUIPMENT**

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

	As of December 31, 2008			
	Voice, Data and Internet		Wireless	Total
	(P\$ millions)(*)			
Land and buildings	862		132	994
Switching and transmission	1,057		759	1,816
Access and outside plant	1,459		556	2,015
Computer equipment	478		550	1,028
Other	78		52	130
<b>Fixed assets, net carrying value without materials and asset retirement obligations</b>	<b>3,934</b>		<b>2,049</b>	<b>5,983</b>
Asset retirement obligations	2		10	12
Materials	103		90	193
<b>Total fixed assets, net carrying value</b>	<b>4,039</b>		<b>2,149</b>	<b>6,188</b>

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

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

	2008	2007	2006
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	(thousands)		
Fixed telephony customers	3,937	3,849	3,750
Internet (*)	1,122	866	545
Wireless subscribers	14,375	12,285	9,589

(\*) In 2008 and 2007, includes 15,000 and 7,000 customers in Paraguay, respectively.

As of December 31, 2008, we have entered into purchase commitments totaling P\$876 million primarily for switching equipment, external wiring, infrastructure works, inventory and other services. In general, the contracts were financed, directly or indirectly, by domestic and foreign vendors.

Our current major suppliers of equipment are Ericsson Group, Nokia Siemens Network Group, Huawei Tech Investment Co. Ltd., Italtel Argentina S.A. and IBM Argentina S.A.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

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**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

You should read the following discussion in conjunction with our Consolidated Financial Statements, including the notes to those financial statements, which appear elsewhere in this Annual Report. Our Consolidated Financial Statements have been prepared in accordance with Argentine GAAP, which differs in certain significant aspects from US GAAP. For a discussion of the principal differences between Argentine GAAP and US GAAP as they relate to us and a reconciliation of net income and shareholders' equity to US GAAP, see "Differences between Argentine GAAP and US GAAP" in Note 15 to the Consolidated Financial Statements.

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

**Management Overview**

The Telecom Group ended the 2008 fiscal year with a solid financial situation as well as a strong market position. The Telecom Group has continued to expand its customer base, reaching 4.3 million fixed lines, 1.1 million broadband and Internet connections, and 14.4 million cellular subscribers. In every business segment, the market share of the Telecom Group has increased or remained stable. Due to this fact, the Company is considered to be one of the leading companies in the Argentine telecommunications sector. The Company has attained this position without neglecting its commitment to generate economic value for its shareholders. Improvement in terms of profitability continues. In addition, the strong cash flow generation has allowed us to increase our capital expenditures, to acquire a new company - Cubecorp, a Data center services provider - and, at the same time, to substantially reduce our net financial debt.

Continuing the trend of prior years, net sales in 2008 grew by 16.9% compared to 2007, reaching P\$10,608 million. Operating income before depreciation and amortization in 2008 increased by P\$278 million from 2007, reaching P\$3,330 million, equivalent to 31.4% of net sales. Operating income increased P\$405 million in 2008 compared to 2007, reaching P\$2,041 million, equivalent to 19.2% of net sales.

Our results of operations continue to be affected by the Pesification and freeze of regulated tariffs and by the fluctuation of the exchange rate of the peso against the U.S. Dollar and the euro. For a discussion of these and other factors that may affect our results of operations, please see "Factors Affecting Results of Operations" and "Trend Information" below.

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For a detailed analysis of our results of operations for fiscal year 2008, see Years ended December 31, 2008, 2007 and 2006 below.

### *Economic and Political Developments in Argentina*

Beginning in the second half of 2001 through the first half of 2002, Argentina experienced a deep recession and an economic and political crisis. The rapid and radical nature of changes in the Argentine social, political, economic and legal environment created a very unstable macroeconomic environment. In January 2002, the Argentine Government abandoned the Convertibility regime which had fixed the peso/U.S. dollar exchange rate at 1:1 and adopted emergency economic measures which, among other things, converted and froze our tariffs into pesos at a

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1:1 peso/U.S. dollar ratio (referred to herein as "Pesification"). Capital outflows increased in the first half of 2002, leading to a massive devaluation of the peso and an upsurge in inflation. By the end of 2002, the peso had devalued by 237% (having devalued 280% as of June 30, 2002) while the wholesale price index increased 118% and the consumer price index increased 41%.

The Argentine economy has steadily improved since 2003. Gross domestic product increased 8.8% in 2003, 9.0% in 2004, 9.2% in 2005, 8.5% in 2006, 8.7% in 2007 and 6.8% in 2008. The increase in the consumer price index was 3.7% in 2003, 6.1% in 2004, 12.3% in 2005, 9.8% in 2006, 8.5% in 2007 and 7.2% in 2008, while the wholesale price index increased 2.0% in 2003, 7.9% in 2004, 10.7% in 2005, 7.1% in 2006, 14.6% in 2007 and 8.8% in 2008 as reported by the INDEC, though, since 2007, the public credibility of the INDEC as a reference for reporting Argentine economic statistics has been challenged. For further detail regarding Argentine economic conditions see Item 3 Key Information Risk Factors Risks relating to Argentina Substantial inflation may have an adverse effect on the economy and would negatively impact Telecom Argentina's margins.

The peso remained stable against the U.S. dollar during the period 2003-2007, with US\$1.00 trading for P\$2.93 on December 31, 2003, P\$2.979 on December 31, 2004, P\$3.032 on December 31, 2005, P\$3.062 on December 31, 2006 and P\$3.149 on December 31, 2007.

The evolution of Argentina's economic activity during 2008 continued exhibiting an overall positive trend of growth for the sixth year in a row. Nonetheless, during the second half of 2008, Argentina's economic activity was affected by the international crisis. Overall, as reported by the INDEC, Argentina's gross domestic product increased by 6.8% during 2008 as compared with the prior year, the Argentine consumer price index increased 7.2% over year 2008 (as compared to 8.5% in 2007), and the wholesale price index increased 8.8%.

The exchange rate remained relatively stable during the first part of 2008, with an active policy by the Central Bank of the Argentine Republic (BCRA). From September onwards, the peso began to devalue vis-à-vis the dollar, though to a lesser extent as compared with the trend of the currencies of the other Latin American countries. The peso/dollar exchange rate was P\$3.453 per US\$1.00 at December 31, 2008 as compared of P\$3.149 per US\$1.00 at December 31, 2007. Additionally, the country risk soared due to a strong international aversion to risk and the effects of the nationalization of the AFJP.

Towards the end of 2008, the economic activity in Argentina suffered a deceleration that is expected to worsen in 2009. As a result, the investment growth and consumption rates are expected to drop, while a fall in the prices of primary products may endanger the tax surplus. Nonetheless, this deceleration is expected to cause a reduction of inflationary pressures on the economy. Governmental implementation of monetary, tax and incentive policies to regulate production and employment will be of utmost importance to overcome the economic deceleration.

In sum, despite internal and external economic impact experienced in 2008, Argentina's economy has improved over the past year, primarily due to increases in prices of principal products produced and the maintenance of a tax surplus. However, because the substantial majority of our property and operations are located in Argentina, macroeconomic and political conditions in Argentina will continue to affect us. The Argentine Government has exercised and continues to exercise significant influence over many aspects of the Argentine economy. Accordingly, Argentine governmental actions concerning the economy could significantly affect private sector entities in general and our operations in particular, as well as affect market conditions, prices and returns on Argentine securities, including ours. While the key components of our business were strong in 2008, and our operating results have increased as a result of growth in our wireless and Internet business, our operating results and financial condition remain vulnerable to fluctuations in the Argentine economy.

**Critical Accounting Policies**

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



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

*Use of estimates*

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

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

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

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

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

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

*Income Taxes Deferred income tax and tax on minimum presumed income*

*Income tax*

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

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

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*Tax on minimum presumed income*

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

*Accounting for and Recoverability of Long-Lived Assets*

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

*Initial Valuation and Depreciation*

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

*Recoverability*

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

Under Argentine GAAP, the carrying value of a long-lived asset is considered impaired by the Company when the expected discounted cash flows from such asset are less than its carrying value. In such event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily by using the anticipated cash flows discounted at a rate commensurate with the risk involved. Once an impairment loss is identified and recognized under Argentine GAAP, future reversal of impairment loss is permitted only if the original conditions which generated such impairment disappear or are no longer in existence.

Under U.S. GAAP, recoverability of assets that are held and used is measured by comparing the sum of the future undiscounted cash flows to their carrying value. If the carrying value of the assets exceeds the sum of the future undiscounted cash flows, impairment is considered to exist.

If an impairment is considered to exist on the basis of undiscounted cash flows, the impairment charge is measured using an estimation of the assets' fair value, typically using a discounted cash flow method. Once an impairment loss is identified and recognized subsequent write-ups are prohibited because an impairment loss establishes a new cost for written down long-lived assets.

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

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

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

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*Intangible assets with indefinite useful life PCS license*

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

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

*Contingencies*

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

*Allowance for Doubtful Accounts*

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

*Asset Retirement Obligations*

We are subject to asset retirement obligations ( ARO ) associated with our cell and switch site operating leases. We have the right to renew the initial term of most of these leases. Under Argentine GAAP, there are no specific standards for the recognition of asset retirement obligations. Therefore, we record a liability for an ARO with respect to the leases following the guidance provided by SFAS 143. When the liability is initially recorded, we capitalize a cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the estimated useful life of the related asset. Subsequent to the initial measurement, we should recognize changes in the ARO that result from (1) the passage of time and (2) revisions made to either the timing or amount of estimated cash flows. Changes resulting from revisions in the

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timing or amount of estimated cash flows are recognized as increases or decreases in the carrying amount of the ARO and the associated capitalized retirement cost. Increases in the ARO as a result of upward revisions in undiscounted cash flow estimates are considered new obligations and initially measured using current credit-adjusted risk-free interest rates. Any decreases in the ARO as a result of downward revisions in cash flow estimates are treated as modifications of an existing ARO, and are measured at the historical interest rate used to measure the initial ARO.

As of December 31, 2008, our asset retirement obligations included in other non current liabilities amounted to P\$37 million and the related net carrying value of the capitalized cost included in fixed asset amounted to P\$12 million.

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***Debt Restructuring Results***

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

Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment and that the old debt instrument be derecognized. Argentine GAAP clarifies that from a debtor's perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument should be initially recorded at fair value and that amount should be used to determine the debt extinguishment gain or loss to be recognized. Fair value should be determined by the present value of the future cash flows to be paid under the terms of the new debt instrument discounted at an estimated prevailing market interest rate. This criterion was used by Telecom Argentina to account for its respective debt restructuring in August 2005. The new restructured debt is subsequently accreted to their respective face value using the interest method and, consequently, a loss on accretion is recorded in the statement of income.

The estimate of present value of the debt requires management to periodically make certain assumptions in the determination of its expectations regarding future cash flows to be paid, mainly due to mandatory prepayment features provided in the terms of our restructured debt contracts. Changes in our current expectations about future cash flows of Telecom Argentina could impact our future financial debt prepayment and present value of debts under Argentine GAAP.

As of December 31, 2008, the total consolidated debt recorded on the consolidated balance sheet was P\$2,043 million, net of the effect on discounting of Telecom Argentina's debt of P\$9 million.

***Fair value of Notes of Telecom Argentina under US GAAP***

Telecom Argentina's notes were valued under Argentine GAAP as described in *Debt Restructuring Results* above. Under US GAAP, on January 1, 2008 Telecom Argentina adopted the provisions of SFAS No.159, *The fair value option for financial assets and financial liabilities* Including an amendment of FASB Statement No. 115 ( SFAS No.159 ). Fair value measurements require the use of different valuation techniques which are also based on observable inputs. The fair value of Telecom Argentina's notes as of December 31, 2008 was based on the purchase price of notes bought by the Telecom Argentina in the last quarter of 2008 or, if the purchase price was not available, on the average quoted market prices provided by financial agencies. Telecom Argentina's determination of fair value may change in the future due to the changes in the inputs available and its related valuation techniques used to estimate fair value.

***New Accounting Standards under Argentine GAAP***

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In March 2009, the FACPCE issued RT 26, Adoption of the International Financial Reporting Standards from the International Accounting Standards Board, which will be fully effective for fiscal years beginning on or after January 1, 2011. RT 26 also establishes certain disclosure requirements applicable to annual financial statements beginning on or after January 1, 2009. As of the date of this Annual Report, RT 26 has not been adopted by the CNV. The Company is currently analyzing the impact that the adoption of RT 26 will have on the Company's financial position and results of operations.

### **Years ended December 31, 2008, 2007 and 2006**

For purposes of these sections the fiscal years ended December 31, 2008, 2007 and 2006 are called year 2008, year 2007 and year 2006, respectively.

Our results of operations are prepared in accordance with Argentine GAAP, which differs in certain aspects from US GAAP. See Note 15 to our Consolidated Financial Statements.



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

Reportable Segment	Company of the Telecom Group/ Operating Segment
Voice, Data and Internet	Telecom Argentina S.A. Telecom Argentina USA, Inc. Cubecorp Argentina S.A. (i) Micro Sistemas S.A. (ii)
Wireless	Telecom Personal S.A. Núcleo S.A.

(i) Cubecorp's activities are being carried out by Telecom Argentina since January 1, 2009 due to a merger process between both companies. The merger was approved by Cubecorp's shareholders' meeting on March 19, 2009 and it is still pending approval by Telecom Argentina's shareholders' meeting, which was provisionally suspended. See Item 8 Financial Information Legal Proceedings Legal Proceedings Relating to Share Ownership.

(ii) Dormant entity at December 31, 2008.

The main products and services in each reportable segment are:

- Voice, Data and Internet: local area, national long-distance and international communications, supplementary services (including call waiting, itemized invoicing and voicemail), interconnection with other operators, data transmission (including private networks, point-to-point traffic, radio and TV signal transmission), outsourcing of IT solutions and Internet services (dial-up and high-speed broadband).
- Wireless: local area, national long-distance and international communications, data transmission, sale of handsets, and Value Added Services, such as call waiting, voicemail, short message systems, multimedia and Internet access.

The following table shows our net sales as a percentage of total consolidated net sales within our reportable segments for the year ended December 31, 2008:

Reportable Segment	Net Sales (millions P\$)	Percent of Consolidated Net Sales
Voice, Data and Internet	3,653	34.4
Wireless	6,955	65.6
<b>TOTAL</b>	<b>10,608</b>	<b>100.0</b>

Additional information regarding reportable segments is disclosed in Note 13 to our Consolidated Financial Statements.

### *Factors Affecting Results of Operations*

Described below are certain factors that may be helpful in understanding our operating results. These factors are based on the information currently available to our management and may not represent all of the factors that are relevant to an understanding of our current or future results of operations. Additional information regarding trends expected to influence our results of operations in 2009 are analyzed below under Trend Information.

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

*Rate Regulation.* Revenue from our Voice, Data and Internet reportable segment will depend principally on the number of lines in service, the minutes of use or traffic for local and long-distance services and the rates charged for services. The rates that Telecom Argentina charges in its fixed telephony service (including both monthly basic

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charges and measured service charges), installation charges in the fixed telephony business, public telephone charges and charges for Internet dial-up traffic are subject to regulation. These rates were pesified and rate increases were frozen by the Argentine Government in 2002. Telecom Argentina has been in discussions with regulators with respect to rate adjustments and on March 6, 2006, Telecom Argentina signed the Letter of Understanding 2006 with the Argentine Government whereby we agreed to comply with the current regulatory framework in exchange for the ability to raise certain of our regulated rates. In particular, the Government has agreed that Telecom Argentina can increase the termination charges applied to incoming international calls and reduce the time bands for off-peak local tariffs. The agreement is still subject to the implementation of certain administrative steps and the pending approval by the legislative branch. Although the Company's management expects that the contract renegotiation process will be satisfactorily completed, to date there is no certainty regarding either the outcome of the negotiations or the timing of such outcome.

*Competition.* The Argentine telecommunications market has become increasingly competitive. In our Voice, Data and Internet reportable segment, competition is mainly focused in long-distance and Internet service as well as in government and corporate accounts. For the past several years, the Argentine wireless market has been characterized by rapid growth and increasingly competitive conditions. We expect that the Wireless reportable segment will continue to be affected by competitive pricing pressure, at least in the short to medium term, and by the pressure exerted by relevant international operators.

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

*Capital Expenditures.* The Company continues to make significant investments designed to take advantage of growth opportunities in our businesses. In the Voice, Data and Internet reportable segment, we invest to sustain the growth in broadband services, to continue developing the NGN, to supply mobile operators with the necessary infrastructure and to continue with the updating of commercial and support systems. In the Wireless reportable segment, we are in the process of expanding the network infrastructure and extending the 3G technology coverage and bandwidth for mobile data transmission.

*Wireless Subscriber Acquisition Costs and Promotional Activities.* Our Wireless reportable segment has reached a significant level of subscriber acquisition costs as a result of the increase of the customer base and intense competition. The Voice, Data and Internet reportable segment also has increased its promotional activities, particularly with respect to ADSL services, where our competitors have intensified their marketing campaigns.

*Currency Effects.* The majority of our revenues are received in pesos whereas the majority of our financial indebtedness is substantially denominated in foreign currencies. Additionally, a significant portion of the materials and supplies related to the construction and maintenance of our networks are incurred in foreign currencies. Consequently, the Pesification of our regulated rates and subsequent fluctuations in the exchange rates between the peso and the U.S. dollar and other currencies will continue to affect the amount of our revenues in comparison to our debt service obligations and other costs incurred in foreign currencies.

*(A) Consolidated Results of Operations*

In the year ended December 31, 2008, we reported net income of P\$961 million, compared to net income of P\$884 million for the year ended December 31, 2007.

We reported consolidated net sales of P\$10,608 million in year 2008 compared to P\$9,074 million in year 2007. The increase of P\$1,534 million can be largely attributed to the growth in the Wireless reportable segment and in the ADSL services.

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In 2008, operating costs (including depreciation and amortization) totaled P\$8,567 million representing an increase of P\$1,129 million, or 15.2%, due to higher salaries and social security, taxes, maintenance, material and supplies, TLRD and Roaming costs, fees for services, advertising costs, and costs of wireless handsets, among other reasons. The higher costs are associated with the increase in sales, the effects of inflation on the cost structure and, in particular, with the growing competition in the wireless and broadband services markets in Argentina.

Although the economic situation in Argentina continued showing positive growth trends, our fixed telephone service is still affected by the Pesification of the rates in early 2002; as a result, the increase in the structure of disbursement costs for the Voice, Data and Internet reportable segment (which was 23.8%) is higher than the increase in net sales (which was 10.6%). Consequently, our operations continue to be influenced by the Pesification and freezing of regulated tariffs and macroeconomic factors (particularly exchange rates and inflation).

**(A.1) Year 2008 Compared to Year 2007**

	Year Ended December 31,			Change by segment		
	2008	2007	Total Change	Voice, Data and Internet	Wireless	
	(P\$ millions)		%	(P\$ millions)		
Net sales	10,608	9,074	16.9	1,534	351	1,183
Cost of services, general and administrative and selling expenses	(8,567)	(7,438)	15.2	(1,129)	(497)	(632)
<b>Operating income</b>	<b>2,041</b>	<b>1,636</b>	<b>24.8</b>	<b>405</b>	<b>(146)</b>	<b>551</b>
Financial results, net	(265)	(441)	(39.9)	176	96	80
Other, net (1)	(280)	(121)	131.4	(159)	(151)	(8)
Income tax	(535)	(292)	83.2	(243)	(83)	(160)
<b>Net income from continuing operations</b>	<b>961</b>	<b>782</b>	<b>22.9</b>	<b>179</b>	<b>(284)</b>	<b>463</b>
<b>Income from discontinued operations</b>		<b>102</b>	<b>(100.0)</b>	<b>(102)</b>	<b>(102)</b>	
<b>Net income</b>	<b>961</b>	<b>884</b>	<b>8.7</b>	<b>77</b>	<b>(386)</b>	<b>463</b>

(1) Other, net includes Other expenses, net and Minority interest.

**Net Sales**

As in previous years, the primary factors affecting our net sales are rates, the volume of use of services in fixed line services and the growth in wireless telecommunication and Internet services.

During year 2008, net sales increased approximately 16.9% to P\$10,608 million from P\$9,074 million in 2007. The increase is largely attributable to the increase of P\$1,183 million in revenues generated by the Wireless reportable segment (reaching 65.6% of the Company's consolidated net sales). It should be noted that both reportable segments showed revenue increases, but at different growth rates.

Net sales in Voice, Data and Internet reportable segment increased by 10.6% compared to 2007. Internet sales, including internet equipment, led growth in this segment with a 39.2% increase (P\$207 million) mainly as a result of the 33.1% increase in our ADSL customer base. Data sales, including data equipment, grew by 25.4%, largely attributed to a higher number of leased circuits, dedicated traffic and a substantial growth in a private network service with additional new features. Finally, Voice sales grew by 3.8% due to an increase in the customer base, generating a higher number of monthly basic charges and charges for supplementary services, partially offset by a slight reduction in traffic volume. Regulated voice services are still affected by the Pesification of rates to pesos as discussed in Item 4 Information on the Company The Business Voice, Data and Internet Rates in more detail.

Net sales for the Wireless reportable segment grew by 20.5% compared to 2007. The net increase was mainly due to growth in Argentina by 23.0% partially offset by a decrease in Paraguay of 9.9%. As a result of the strong



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	2008	2007	Total Change	Voice, Data and Internet	Wireless
	(P\$ millions)		%	(P\$ millions)	
Salaries and social security	1,217	960	26.8	187	70
Taxes	825	660	25.0	27	138
Maintenance, materials and supplies	541	447	21.0	66	28
Bad debt expense	67	71	(5.6)	(2)	(2)
Interconnection costs	156	151	3.3	5	
Costs of international outbound calls	145	138	5.1	7	
Fees for services	389	300	29.7	41	48
Advertising	388	306	26.8	48	34
Cost of wireless handsets and Voice, Data, and Internet equipment	1,026	893	14.9	20	113
Agent s commissions and commissions for the distribution of prepaid cards	769	704	9.2	14	51
Other commissions	159	130	22.3	5	24
TLRD and Roaming	941	760	23.8		181
Other operating expenses	655	502	30.5	85	68
Depreciation of fixed assets and amortization of intangible assets	1,289	1,416	(9.0)	(6)	(121)
<b>Total Cost of Services, General and Administrative and Selling Expenses</b>	<b>8,567</b>	<b>7,438</b>	<b>15.2</b>	<b>497</b>	<b>632</b>



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The main operating costs and the changes in costs between years 2008 and 2007 are illustrated below:

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(1) Includes bad debt expense, other commissions and other operating expenses.

*Salaries and Social Security*



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During year 2008, salaries and social security charges were approximately P\$1,217 million, representing a 26.8% increase from 2007. This was primarily due to the increase in salary levels, mainly for unionized personnel reflecting an adjustment in collective bargaining agreements. For year 2008, salaries and social security payments were approximately 11.5% of net sales, compared to 10.6% of net sales in year 2007.

### *Taxes*



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Expenses related to taxes increased 25.0% to P\$825 million in year 2008 from P\$660 million in year 2007, mainly due to the impact of taxes that are calculated on the basis of revenues, reflecting an increase in total net sales during the year.

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*Maintenance, Materials and Supplies*

Expenses related to maintenance, materials and supplies increased 21.0% to P\$541 million in year 2008 from P\$447 million in year 2007. This increase was due to higher maintenance costs across segments, particularly in the Voice, Data and Internet reportable segment. The main reason for the change was an increased need for supplies as a result of the larger number of installed basic telephony and ADSL lines and an increase in the prices of certain supplies due to the effects of inflation.

*Fees for Services*

Our fees for various services, including technical, commercial, legal, security, and auditing services, totaled P\$389 million for year 2008 and P\$300 million for year 2007. This increase was due mainly to the renegotiation of most of the contracts because of the effects of inflation and to higher service costs in both segments, especially costs related to Call Centers and software and hardware fees.

*Advertising*



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Costs related to advertising increased by P\$82 million, or 26.8%, to P\$388 million in year 2008, mainly due to higher media advertising expenses for wireless and Internet services as a result of efforts to retain and expand both customer bases, as well as the sponsorship of the 2008 Beijing Olympic Games.

*Cost of wireless handsets and Voice, Data, and Internet equipment*





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During year 2008, the cost of wireless handsets and Voice, Data and Internet equipment increased to P\$1,026 million from P\$893 million in year 2007. The increase in costs incurred in the Wireless reportable segment was primarily attributable to an increase in the cost of handsets resulting from the expansion of the subscriber base. In addition, as a consequence of technological advances and new service offerings, more customers upgraded their mobile phone sets. That effect was partially offset by a decrease in subsidies offered to agents and other third party distributors.

*Agent s Commissions and Commissions for the Distribution of Prepaid Cards*



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Sales commissions increased by P\$65 million to P\$769 million in year 2008 from P\$704 million in year 2007. The steady increase over the past few years in agent s commissions and commissions for the distribution of prepaid cards is mainly due to Telecom Personal s efforts to expand its high-value subscriber base and to the increase in the prepaid subscriber base, respectively.

*TLRD and Roaming*



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During year 2008, costs of TLRD and roaming increased 23.8% to P\$941 million from P\$760 million in year 2007. The change was due to an increase in wireless traffic among wireless operators as a consequence of a strong growth in the total customer base and to an increase in the volume of total traffic.

*Other Operating Expenses*



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Other operating expenses, which include lease of circuits, transportation and freight, rental and energy expenses, among others, increased 30.5% to P\$655 million in year 2008 from P\$502 million in year 2007 in both reportable segments as a result of increased revenues and an increase in the customer base and the effects of inflation.

*Depreciation of Fixed Assets and Amortization of Intangible Assets*





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Depreciation of fixed assets and amortization of intangible assets decreased by P\$127 million, or 9.0%, to P\$1,289 million during 2008 mainly as a consequence of the end of the amortization period for certain assets (among others, TDMA network equipment as a result of the migration to GSM technology) in the Wireless reportable segment. Depreciation expense was equal to approximately 12.2% of net sales for year 2008 and 15.6% of net sales for year 2007.

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**Operating Income**

During the year ended December 31, 2008, consolidated operating income was P\$2,041 million, with an increase of P\$405 million, or 24.8%, compared to 2007. Operating income represented 19.2% of net sales in 2008.

The increase, net, in operating income in 2008 was due to strong growth in the Wireless reportable segment resulting from higher net sales, partially offset by an increase in salaries and social security costs, fees for services, cost for subscriber acquisition, costs of roaming and TLRD and tax expenses. Although sales increased in Voice, Data and Internet reportable segment, they were completely offset by an increase in salaries and social security costs, fees for services, maintenance, materials and supplies and advertising expenses, among others.

**Financial Results, Net**

Net financial results amounted to a loss of P\$265 million for 2008, reflecting a reduction in loss of 39.9% as compared to prior year 2007. Financial results, net represent 2.5% of consolidated sales in year 2008, as compared to 4.9% in year 2007.

As a result of a P\$1,090 million reduction in net financial debt, or 54.7% compared to the net financial debt at the end of the previous year, interest on net financial debt decreased by P\$125 million.

In 2008, the devaluation of the peso against the US dollar was 9.6% and 3.4% against the euro. This caused a net foreign currency exchange loss of P\$158 million, which included the effect of derivative financial instruments entered into to hedge foreign exchange exposure. These instruments generated a P\$29 million loss in the year 2008 and a P\$141 million gain in 2007.

**Other, Net**

*Other expenses, net*



Other expenses, net mainly include severance payments and provisions for lawsuits and other contingencies.

Other expenses, net, increased P\$170 million or 173.5% from year 2007, reaching P\$268 million in 2008. The change was mainly attributable to the fact that other expenses, net in 2007 included a gain of P\$69 million related to the impact of SC Resolution N° 41/07 and a tax gain on deposits and withdrawals from bank accounts of P\$23 million recognized in 2007 as a result of the regulatory resolution N°. 72/03 implemented by the Ministry of Economy (see Note 2.g and 2.i to the Consolidated Financial Statements).

Severance costs amounted to P\$144 million in 2008 as compared to P\$84 million in 2007, mainly due to a 114% increase in the number of employees retired or dismissed, partially offset by a 30% decrease in the average retirement and severance cost per employee.

Provision for contingencies charges have decreased at Telecom Argentina due to lower costs in connection with labor and fiscal complaints. Telecom Personal, conversely, has experienced a slight increase in those charges.

### **Income Tax**

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

(i) As regards the current tax expenses of Telecom Argentina, in 2007, the Company was not required to pay taxes as a result of the determination of an accumulated loss carryforward. In 2008, enough tax profit was generated to offset the entire accumulated loss carryforward and therefore a tax liability was determined, which will be offset against a tax credit for minimum presumed income and other withholdings. With regards to Telecom Personal, in 2007, enough tax profit was generated to offset the entire accumulated loss carryforward; therefore, a tax liability was determined. This tax liability was offset by a tax credit for minimum presumed income and other withholdings. In fiscal year 2008, tax profits generated gave rise to tax liabilities. This tax liability will be offset against a tax credit for minimum presumed income and other withholdings. In the years under review, Núcleo reported a tax profit and the charge was increased by the overcharge stemming from the payment of dividends to shareholders.



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	Year Ended December 31,			Total Change		Voice, Data and Internet	Wireless	
	2007		2006					
	(P\$ millions)		%					(P\$ millions)
Net sales	9,074		7,372	23.1		1,702	249	1,453
Cost of services, general and administrative and selling expenses	(7,438)		(6,478)	14.8		(960)	(218)	(742)
<b>Operating income</b>	<b>1,636</b>		<b>894</b>	<b>83.0</b>		<b>742</b>	<b>31</b>	<b>711</b>
Financial result, net	(441)		(484)	(8.9)		43	113	(70)
Other, net (1)	(121)		(201)	(39.8)		80	77	3
Income tax (expense) benefit, net	(292)		22	N/A		(314)	(93)	(221)
<b>Net income from continuing operations</b>	<b>782</b>		<b>231</b>	<b>238.5</b>		<b>551</b>	<b>128</b>	<b>423</b>
<b>Income from discontinued operations</b>	<b>102</b>		<b>13</b>	<b>684.6</b>		<b>89</b>	<b>89</b>	
<b>Net income</b>	<b>884</b>		<b>244</b>	<b>262.3</b>		<b>640</b>	<b>217</b>	<b>423</b>

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

**Net Sales**

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

During year 2007, net sales increased approximately 23.1% to P\$9,074 million from P\$7,372 million in 2006. The increase is largely attributable to the increase of P\$1,453 million in revenues generated by the Wireless reportable segment.

In the Voice, Data and Internet reportable segment, voice sales grew by 5.4% due to the increase in the customer base, which was partially offset by a slight reduction in traffic volume. Data sales grew by 12.4% due to the increase in the customer base and expanded corporate offerings. Internet sales led growth in this segment with a 22.4% increase as a result of the 71.3% increase in our ADSL customer base.

Wireless revenues increased 33.6% compared to 2006. In Argentina, revenues, net of intercompany sales, grew by 34.7% as a result of a 26.6% increase in the customer base. In Paraguay, net sales grew by 22.0%, which can be largely attributed to a 39.7% increase in the customer base.

In 2007, service revenues in the Wireless reportable segment amounted to P\$5,182 million, representing 37.3% growth from 2006. Year 2007 service revenue growth was 38.7% in Argentina and 22.8% in Paraguay.

As in the previous year, net sales of the Wireless reportable segment represented more than 50% of the Company's consolidated net sales (reaching 63.6%) in 2007.

The chart below shows net sales for years 2007 and 2006 and their breakdown between reportable segments:



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

Table of Contents**Cost of Services, General and Administrative and Selling Expenses**

Total cost of services, general and administrative and selling expenses increased 14.8% to P\$7,438 million in 2007 from P\$6,478 million in 2006. The change was mainly due to the increase in disbursement costs in the two reportable segments as a result of the increase in direct cost of sales, the effect of inflation in the overall cost structure and heavy competition in the wireless and broadband businesses in Argentina. Depreciation and amortization expenses increased by P\$25 million, mainly attributable to the Wireless reportable segment.

	Year Ended December 31,		Total Change	Change by segment		
	2007	2006		Voice, Data and Internet	Wireless	
	(P\$ millions)			%	(P\$ millions)	
Salaries and social security	960	829	15.8	131	81	50
Taxes	660	539	22.4	121	21	100
Maintenance, materials and supplies	447	317	41.0	130	80	50
Bad debt expense	71	63	12.7	8	(4)	12
Interconnection costs	151	159	(5.0)	(8)	(8)	
Costs of international outbound calls	138	111	24.3	27	27	
Fees for services	300	259	15.8	41	33	8
Advertising	306	225	36.0	81	19	62
Cost of wireless handsets and Voice, Data and Internet equipment	893	999	(10.6)	(106)	(8)	(98)
Agent s commissions and commissions for the distribution of prepaid cards	704	548	28.5	156	8	148
Other commissions	130	113	15.0	17	4	13
TLRD and Roaming	760	582	30.6	178		178
Others	502	343	46.4	159	72	87
Depreciation of fixed assets and amortization of intangible assets	1,416	1,391	1.8	25	(107)	132
<b>Total Cost of Services, General and Administrative and Selling Expenses</b>	<b>7,438</b>	<b>6,478</b>	<b>14.8</b>	<b>960</b>	<b>218</b>	<b>742</b>

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The main operating costs and the changes in costs between years 2007 and 2006 are illustrated below:

- 
- (1) Includes bad debt expense, other commissions and other operating expenses.

*Salaries and Social Security*

During year 2007, salaries and social security charges were approximately P\$960 million, representing a 15.8% increase from 2006. This was primarily due to the increase in salary levels. Additionally, labor costs rose as a consequence of the increase in the number of full time employees in the Wireless reportable segment. As of December 31, 2007, we had 15,392 employees compared to 15,138 employees as of December 31, 2006.

For year 2007, salaries and social security payments were approximately 10.6% of net sales. For year 2006, salaries and social security payments were approximately 11.2% of net sales.

*Taxes*

Expenses related to taxes increased 22.4% to P\$660 million in year 2007 from P\$539 million in year 2006, mainly due to the impact of taxes that are calculated on the basis of revenues, reflecting an increase in total net sales during the year.

*Maintenance, Materials and Supplies*

Expenses related to maintenance, materials and supplies increased 41.0% to P\$447 million in year 2007 from P\$317 million in year 2006. This increase was due to higher maintenance costs across segments, particularly in the Voice, Data and Internet reportable segment.

*Bad Debt Expense*

During year 2007, bad debt expense increased to P\$71 million from P\$63 million in year 2006. The allowance for doubtful accounts represented 0.8% of net sales for 2007, as compared to 0.9% of net sales in 2006. The net increase was due mainly to growth in the wireless customer base partially offset by improved recovery of past due accounts in the Voice, Data and Internet reportable segment.

*Fees for Services*

Our fees for various services, including legal, security, and auditing services, totaled P\$300 million for year 2007 and P\$259 million for year 2006. This increase was due mainly to higher service costs in the Voice, Data and Internet reportable segment. In 2007, fees for services included P\$26 million paid to the Operator as compensation

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for the services of highly qualified personnel and technical assistance provided to us in accordance with an agreement entered into between Telecom and Telecom Italia Group at the beginning of 2005 which is annually renewable. Such amounts were charged based on hours of service at international market rates for such services.

*Advertising*

Costs related to advertising increased by P\$81 million, or 36.0%, to P\$306 million, mainly due to higher media advertising expenses for wireless and Internet services as a result of efforts to retain and expand both customer bases.

*Cost of wireless handsets and Voice, Data and Internet equipment*

During year 2007, the cost of wireless handsets and Voice, Data and Internet equipment decreased to P\$893 million from P\$999 million in year 2006, mainly attributable to decreased handset sales in the Wireless reportable segment. The decrease was mainly due to lower subsidies offered to customers, agents and other third party distributors.

*Agent's Commissions and Commissions for the Distribution of Prepaid Cards*

Sales commissions increased by P\$156 million to P\$704 million in year 2007 from P\$548 million in year 2006. The increase in agent's commissions and commissions for the distribution of prepaid cards is mainly due to Telecom Personal's efforts to expand its high-value subscriber base and to the increase in the prepaid subscriber base, respectively.

*TLRD and Roaming*

TLRD and roaming services revenue increased by P\$178 million, or 30.6%, to P\$760 million in year 2007. The change was mainly due to the growth in the wireless subscriber base and higher wireless traffic.

*Other Operating Expenses*

Other operating expenses increased 46.4% to P\$502 million in year 2007 from P\$343 million in year 2006 for both reportable segments. The change was mainly attributable to increased revenues and to the increase in the customer base. For an analysis of the increase in other operating expenses in the Voice, Data and Internet and Wireless reportable segments, see Results of Operations by Reportable Segment below.

*Depreciation of Fixed Assets and Amortization of Intangible Assets*

Depreciation of fixed assets and amortization of intangible assets increased by P\$25 million, or 1.8%, to P\$1,416 million during 2007 mainly as a consequence of increased capital expenditures in the Wireless reportable segment, partially offset by the end of the amortization period for certain assets in the Voice, Data and Internet reportable segment. Additionally, during 2007, the Company performed an integral review of the useful lives of its fixed assets. As a result, since September 30, 2007, Telecom Argentina and Telecom Personal have changed the useful life of certain fixed assets resulting in a P\$14 million decrease in depreciation expense for year 2007. Depreciation expense was equal to approximately 15.6% of net sales for year 2007 and 18.9% of net sales for year 2006.

**Operating Income**

During the year ended December 31, 2007, consolidated operating income was P\$1,636 million, with an increase of P\$742 million, or 83.0%, compared to 2006. Operating income represented 18.0% of net sales in 2007. Improvement in operating income in terms of sales margin was seen across both reportable segments but at different rates of increase. Voice, Data and Internet grew from 10.7% of net segment sales in 2006 to 10.8% of net segment sales in 2007 due to the systematic decline of fixed asset depreciation while the Wireless reportable segment grew from 13.1% of net segment sales in 2006 to 22.1% of net segment sales in 2007.

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The increase in operating income in 2007 was mainly due to strong growth in the Wireless reportable segment resulting from higher net sales, partially offset by an increase in salaries and social security costs, maintenance, materials and supplies, cost for subscriber acquisition, costs of roaming and TLRD, advertising, and tax expenses.

**Financial Results, Net**

Net financial and holding resulted in a loss of P\$441 million for 2007, reflecting a 8.9% loss decrease over the loss of P\$484 million for 2006.

As a result of a P\$1,359 million reduction in net financial debt, or 40.5% compared to the net financial debt at the end of 2006, interest on net financial debt decreased by P\$129 million. This financial cost represents 3.5% of consolidated sales in year 2007, as compared to 6.1% in year 2006.

In 2007, the devaluation of the peso against the US dollar was 2.8% and 14.7% against the euro. This caused a net foreign currency exchange loss of P\$267 million, which was partially offset by gains on derivative financial instruments entered into to hedge foreign exchange exposure. These instruments generated a P\$141 million gain in the year 2007 and a P\$114 million gain in 2006.

**Other, Net**

*Gain (Loss) on Equity Investees*

No gain or loss was reported during 2007. In 2006, a P\$5 million gain was reported, mainly due to the realization of P\$6 million exchange differences generated by the P\$10 million capital reimbursement made by Núcleo to its shareholders.

*Other expenses, net*

Other expenses, net included severance payments, provisions for lawsuits and other contingencies and income from sales of fixed assets.

Other expenses, net, decreased P\$86 million or 46.7% from year 2006, amounting to P\$98 million in 2007 mainly due to a gain related to the impact of SC Resolution N° 41/07 of P\$69 million and a tax gain on deposits and withdrawals from bank accounts of P\$23 million (see Note 2.g and 2.i to the Consolidated Financial Statements).

During years 2007 and 2006, approximately P\$84 million and P\$48 million of other expenses, net, respectively, were recorded related to accrued severance payments and costs of termination benefits for employees who were dismissed during the period or voluntarily retired pursuant to our employee reduction program. Although fewer employees were dismissed or voluntarily retired during 2007, the amount of severance payments and termination benefits costs increased during 2007 mainly due to the fact that the average severance payment per employee increased by approximately 92%.

**Income Tax (Expense) Benefit, Net**

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

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

As regards the current tax expenses of Telecom Argentina in the 2007 and 2006 fiscal years, Telecom Argentina was not required to pay taxes in 2007 as a result of an accumulated tax loss carryforward. As regards Personal, it generated enough profit in 2007 to offset the entire tax loss carryforwards accumulated at the beginning of the year, resulting in a tax liability which was offset against a tax credit for minimum presumed income and other



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withholdings. Núcleo reported, in the years under review, a taxable profit. The tax expense of Núcleo in 2007 increased by the overcharge related to the payment of dividends to shareholders. As per Paraguayan tax law, an additional income tax rate of 5% is imposed on dividends that are paid.

As regards the deferred tax, the expenses mainly arose from the reduction of the tax loss carryforwards of Telecom Argentina (P\$364 million) and Telecom Personal (P\$163 million), partially offset by income generated by variations in the temporary differences (P\$205 million in Telecom Argentina and P\$76 million in Telecom Personal), including, among others, a reduction of the deferred tax liability on fixed assets and its adjustment for inflation, and the higher allowance for doubtful accounts and provisions for lawsuits and other contingencies.

With respect to the recoverability of tax loss carryforwards, the Company recognized, as of December 31, 2007, P\$130 million worth of tax credit due to tax loss carryforwards, of which P\$95 million expired in fiscal year 2007. For that reason, as of December 31, 2007, the related allowance amounted to P\$95 million, representing a P\$100 million reduction from the end of the previous year, compared to an P\$81 million reduction in 2006. Additionally, Personal set up an P\$11 million allowance during 2007 related to certain deferred tax assets of doubtful collectability.

**Income from discontinued operations**

In April 2007, Telecom sold its equity interest in Publicom (representing 99.99% of the capital stock and voting shares of the directory publishing subsidiary) to Yell Publicidad S.A. Under Argentine GAAP, the transaction was accounted for under discontinued operations. As a result, the Company has consolidated Publicom as of December 31, 2007 and 2006, identifying the results of discontinued operations in a separate line item in its consolidated statement of income. As of December 31, 2007, P\$102 million were accounted for as net income from discontinued operations, of which P\$101 million corresponded to the sale of Publicom, and P\$1 million to Publicom's net income prior to the date of sale.

**Net Income**

For year 2007, we recorded net income of approximately P\$884 million. The Voice, Data and Internet reportable segment accounted for a gain of P\$77 million while the Wireless reportable segment contributed a P\$807 million gain to our consolidated net income in 2007.

***(B) Results of Operations by Reportable Segment***

***(B.1) Voice, Data and Internet Reportable Segment***

Results of operations for our Voice, Data and Internet reportable segment for years 2008, 2007 and 2006 are comprised as follows:

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	Year Ended December 31,			% of Change	
	2008	2007	2006	2008-2007	2007-2006
	(P\$ millions)			Increase/(Decrease)	
<b>Continuing operations</b>					
Net sales	3,653	3,302	3,053	10.6	8.2
Cost of services, general and administrative and selling expenses	(3,441)	(2,944)	(2,726)	16.9	8.0
<b>Operating income</b>	<b>212</b>	<b>358</b>	<b>327</b>	<b>(40.8)</b>	<b>9.5</b>
Financial result, net	(166)	(262)	(375)	(36.6)	(30.1)
Other, net (1)	(212)	(61)	(138)	247.5	(55.8)
Income tax (expense) benefit, net	(143)	(60)	33	138.3	N/A
<b>Net loss from continuing operations</b>	<b>(309)</b>	<b>(25)</b>	<b>(153)</b>	<b>1,136.0</b>	<b>(83.7)</b>
<b>Discontinued operations</b>					
Income from discontinued operations		102	13	(100.0)	684.6
<b>Net income (loss)</b>	<b>(309)</b>	<b>77</b>	<b>(140)</b>	<b>N/A</b>	<b>N/A</b>

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

Table of Contents*Net Sales*

During year 2008, net sales from our Voice, Data and Internet reportable segment increased 10.6% to P\$3,653 million from P\$3,302 million in year 2007. During year 2007, net sales from our Voice, Data and Internet reportable segment increased 8.2% to P\$3,302 million from P\$3,053 million in year 2006. The increase in each year was due to several factors, including an increase in the customer base, which in turn generated greater basic and supplementary monthly charges. Particularly, in 2008, the base of ADSL subscribers grew 33.1% as compared to 2007, representing an increase in ADSL Internet revenues of P\$214 million, offset by a reduction of P\$7 million in Dial-Up 0610 Internet traffic in 2008 as compared to 2007. Other factors in the growth in net sales in 2008 were the increase in our revenues from data transmission services, the increase in our provision of interconnection services as a consequence of the general expansion of the wireless business and the increase in the customer base, generating a higher number of monthly basic charges and charges for supplementary services.

Revenues from our Voice, Data and Internet reportable segment for years 2008, 2007 and 2006 are comprised as follows:

	Year Ended December 31,			% of Change	
	2008	2007	2006	2008-2007	2007-2006
	(P\$ millions)			Increase/(Decrease)	
Measured service charges	968	960	941	0.8	2.0
Monthly basic charges	799	746	716	7.1	4.2
Internet revenues	731	524	428	39.5	22.4
Interconnection revenues	400	373	318	7.2	17.3
International long-distance service	269	270	242	(0.4)	11.6
Public telephone service	86	117	131	(26.5)	(10.7)
Data transmission	205	172	153	19.2	12.4
Installation charges	19	18	23	5.6	(21.7)
Equipment sales (1)	41	18	7	127.8	157.1
Other national telephone services	135	104	94	29.8	10.6
<b>Total Voice, Data and Internet</b>	<b>3,653</b>	<b>3,302</b>	<b>3,053</b>	<b>10.6</b>	<b>8.2</b>

(1) As of December 31, 2008, this item is composed of P\$25 million of voice equipment, P\$12 million of data equipment and P\$4 million of Internet equipment. As of December 31, 2007, this item was composed of P\$13 million of voice equipment, P\$4 million of Internet equipment and P\$1 million of data equipment.

The chart below shows net sales for the years 2008, 2007 and 2006 and their breakdown by service type:

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(1) Includes installation charges, equipment sales and other national telephone services.

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*Measured Service Charges and Monthly Basic Charges*

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

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

Revenues from measured service and monthly basic charges represented 48.4% of our total segment net sales for year 2008, compared to 51.7% of our total segment net sales for year 2007. Revenues from traffic and monthly basic charges increased 3.6% to P\$1,767 million in year 2008 from P\$1,706 million in year 2007. Measured service charges increased 0.8% to P\$968 million in year 2008 from P\$960 million in year 2007. Monthly basic charges increased 7.1% to P\$799 million in year 2008 when compared with year 2007, mainly due to the increase in customer lines. Lines in service as of December 31, 2008 increased to approximately 4,299,000 compared to approximately 4,208,000 as of December 31, 2007 due to continuing recovery in demand. However, fixed telephony tariffs remained unchanged since 2002 as a result of the Pesification and freeze on tariffs imposed by the Argentine Government.

*Revenues from measured service and monthly basic charges represented 51.7% of our total segment net sales for year 2007, compared to 54.3% of our total segment net sales for year 2006. Revenues from traffic and monthly basic charges increased 3.0% to P\$1,706 million in year 2007 from P\$1,657 million in year 2006. Measured service charges increased 2.0% to P\$960 million in year 2007 from P\$941 million in year 2006. Monthly basic charges increased 4.2% to P\$746 million in year 2007 when compared with year 2006, mainly due to the increase in customer lines. Lines in service as of December 31, 2007 increased to approximately 4,208,000 compared to approximately 4,095,000 as of December 31, 2006 due to the recovery in demand.*

*Internet Revenues*

Revenues from Internet subscription fees and Internet-related Value Added Services increased 39.5% to P\$731 million in year 2008 compared to P\$524 million in 2007, and increased 22.4% in year 2007 compared to P\$428 million in 2006, mainly due to an increase in the number of ADSL subscribers in each year.

As of December 31, 2008, the number of ADSL subscribers reached approximately 1,042,000, compared to 783,000 as of December 31, 2007, increasing by 33.1%. During 2007, ADSL subscribers increased 71.3% from 457,000 as of December 31, 2006. Internet dial-up customers totaled approximately 65,000 as of December 31, 2008 compared to 76,000 as of December 31, 2007, decreasing by 14.5%. As of December 31, 2008 and 2007, dial-up minutes represented 9.0% and 13.3%, respectively, of total traffic measured in minutes transported over the fixed-line network. Dial-up minutes have fallen in the last years due to the steady migration of customers to ADSL services.

*Interconnection Revenues*

During year 2008, revenues from interconnection services, which primarily include access, termination and long-distance transport of calls, increased 7.2% to P\$400 million from P\$373 million in 2007. During year 2007, revenues from interconnection services increased 17.3% to P\$373 million from P\$318 million in 2006. The increase in each year was mainly due to the increase in wireless traffic transported and terminated on Telecom's fixed line network.

*International Long-Distance Service*

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

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During year 2008, international long-distance service revenues decreased 0.4% to P\$269 million from P\$270 million in year 2007. The slight decrease was mainly due to a decrease in prices partially offset by higher incoming and outgoing traffic. During year 2007, international long-distance service revenues increased 11.6% to P\$270 million from P\$242 million in year 2006. The increase was mainly due to higher incoming and outgoing traffic partially offset by a decrease in prices.

*Public Telephone Service*

Revenues from public telephone service decreased by 26.5% to P\$86 million in year 2008 from P\$117 million in year 2007. Revenues from public telephone service decreased by 10.7% to P\$117 million in year 2007 from P\$131 million in year 2006. The decrease in each year was mainly due to reduced traffic on public telephones and decreased use of telecommunication centers as a result of expanded cellular usage.

*Data Transmission*

Revenues from data transmission services increased 19.2% to P\$205 million in year 2008 from P\$172 million in year 2007. The change was mainly due to an increase in various data transmission services, including an increase in private virtual network services, leases of circuits, volumes of traffic for dedicated lines, and growth in data center services as a result of the acquisition of Cubecorp. The majority of our revenues from data transmission services are denominated in US dollars and, consequently, in 2008, were affected by the fluctuations in the exchange rate between the peso and the US dollar resulting in an increase in data transmission revenues. During year 2007, revenues from data transmission services increased 12.4% to P\$172 million from P\$153 million in year 2006. The increase was mainly due to an increase in the demand for data transmission services, especially due to the fulfillment of a significant connection-provision contract with the government of the province of Buenos Aires, which aimed to provide a network that integrates all of the province's municipalities.

*Installation Charges*

During year 2008, installation charges from new customers increased by 5.6% to P\$19 million from P\$18 million in year 2007 due to an increase in the amount of new connected lines during the period 2008 to 2007, as compared to the period 2007 to 2006. During year 2007, installation charges from new customers decreased by 21.7% to P\$18 million from P\$23 million in year 2006 due to a decrease in the amount of new connected lines during the period 2007 to 2006 as compared to period 2006 to 2005.

*Equipment Sales*

Revenues from equipment sales increased 127.8% to P\$41 million in year 2008 from P\$18 million in year 2007. During year 2007, revenues from equipment increased by 157.1%, to P\$18 million in year 2007 from P\$7 million in year 2006. The increase in 2008 was mainly due to higher sales of new Aladino telephone sets, which allow SMS services or video calls on fixed lines depending on the model, higher sales of modems as a result of the expansion of our Internet services, and higher sales of data equipment.

*Other National Telephone Services*

Revenues from other national telephone services are derived mainly from dedicated lines, access charges and miscellaneous customer charges. During year 2008, revenues from other national telephone services increased 29.8% to P\$135 million from P\$104 million in year 2007. During year 2007, revenues from other national telephone services increased 10.6% to P\$104 million from P\$94 million in year 2006. The increase in each year was mainly due to higher revenues related to billing and collection services charged to other operators.

*Cost of Services, General and Administrative and Selling Expenses*

During year 2008, total cost of services, general and administrative expenses for the Voice, Data and Internet reportable segment increased 16.9% to P\$3,441 million compared to P\$2,944 million in year 2007. During year 2007, total cost of services, general and administrative expenses for the Voice, Data and Internet reportable segment increased 8.0% to P\$2,944 million compared to P\$2,726 million in year 2006. The increase in each year was mainly due to increases in salaries and social security charges, taxes, maintenance, materials and supplies costs, fees for services and advertising.



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Detailed below are the major components of our cost of services, general and administrative and selling expenses for the years ended December 31, 2008, 2007 and 2006 related to our Voice, Data and Internet reportable segment:

	2008	Year Ended December 31,		% of Change	
		2007	2006	2008-2007	2007-2006
		(P\$ millions)		Increase/(Decrease)	
Salaries and social security	931	744	663	25.1	12.2
Taxes	223	196	175	13.8	12.0
Maintenance, materials and supplies	373	307	227	21.5	35.2
Bad debt expense	10	12	16	(16.7)	(25.0)
Interconnection costs	156	151	159	3.3	(5.0)
Costs of international outbound calls	145	138	111	5.1	24.3
Fees for services	181	140	107	29.3	30.8
Advertising	137	89	70	53.9	27.1
Commissions for the distribution of prepaid cards and Other commissions	94	75	63	25.3	19.0
Cost of sales of equipment	38	18	26	111.1	(30.8)
Others	331	246	174	34.6	41.4
<b>Subtotal before depreciation and amortization</b>	<b>2,619</b>	<b>2,116</b>	<b>1,791</b>	<b>23.8</b>	<b>18.1</b>
Depreciation of fixed assets and amortization of intangible assets	822	828	935	(0.7)	(11.4)
<b>Total Voice, Data and Internet</b>	<b>3,441</b>	<b>2,944</b>	<b>2,726</b>	<b>16.9</b>	<b>8.0</b>

The main operating costs and the changes in costs between years 2008, 2007 and 2006 are illustrated below:

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(1) Includes bad debt expense, commissions for the distribution of prepaid cards and other commissions, cost of sales of equipment and other operating expenses.



*Salaries and Social Security*



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During year 2008, salaries and social security charges were approximately P\$931 million, representing a 25.1% increase from 2007. During year 2007, salaries and social security charges were approximately P\$744 million, representing a 12.2% increase from 2006. These increases were primarily due to salary increases, particularly for unionized personnel of Telecom Argentina (approximately 73% of its personnel) reflecting an adjustment in collective bargaining agreements, partially offset by a decrease in the number of employees in this reportable segment.

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For year 2008, salaries and social security payments were approximately 25.5% of segment net sales. For year 2007, salaries and social security payments were approximately 22.5% of segment net sales.

*Taxes*

Expenses related to taxes increased 13.8% to P\$223 million in year 2008 from P\$196 million in year 2007, and increased 12.0% to P\$196 million in year 2007 from P\$175 million in year 2006, mainly due to higher turnover taxes and other taxes on sales as a consequence of the increase in revenues.

*Maintenance, Materials and Supplies*

Maintenance, materials and supplies expense increased 21.5% to P\$373 million in year 2008 from P\$307 million in year 2007. During 2007, maintenance, materials and supplies expenses increased 35.2% to P\$307 million in year 2007 from P\$227 million in year 2006. The increase in each year was primarily due to higher maintenance costs for network equipment, buildings and utility vehicles and the increase in the prices of certain supplies due to the effects of inflation.

*Costs of International outbound calls*

During year 2008, we recorded P\$145 million in costs of international outbound calls compared with P\$138 million recorded in year 2007 and P\$111 million recorded in year 2006. The increase in each year was mainly due to the increase in international call traffic originating in our network and requiring fees for transport across international lines.

*Fees for Services*

Fees for various services, including technical, commercial, legal, security and auditing services totaled approximately P\$181 million for year 2008, P\$140 million for year 2007 and P\$107 million for year 2006. This increase was due mainly to the renegotiation of most of the contracts because of the effects of inflation and higher service costs in both segments, especially those related to the Call Centers and the software and hardware fees.

*Advertising*

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During year 2008, we recorded P\$137 million in costs of advertising compared with P\$89 million recorded in year 2007. During year 2006, we recorded P\$70 million in advertising costs. The increase in each year was mainly due to increased advertising campaigns as a result of competition in the Internet services market. Particularly, in year 2008, the Company incurred advertising costs in connection with its sponsorship of the 2008 Beijing Games.

### *Commissions for the Distribution of Prepaid Cards and Other Commissions*

During year 2008, we recorded P\$94 million in costs relating to commissions for the distribution of prepaid cards and other commissions, compared with P\$75 million in year 2007. This increase was mainly due to an increase in the volume of commissions partially offset by less traffic on public telephones and through telecommunication centers. During year 2006, we recorded P\$63 million in costs relating to commissions for the distribution of prepaid cards and other commissions.

### *Cost of Sales of Equipment*

During years 2008, 2007 and 2006, we recorded P\$38 million, P\$18 million and P\$26 million in cost of sales of equipment mainly related to sales of Aladino telephone sets, Internet modems and data equipment.

### *Other Operating Expenses*

Other operating expenses include accrued expenses such as transportation costs, insurance, energy and rentals. During year 2008, our other operating expenses amounted to P\$331 million compared to P\$246 million in 2007 and P\$174 million in 2006. The increase in each year is related to increased revenues and higher prices due to the effects of inflation.



Table of Contents*Depreciation of Fixed Assets and Amortization of Intangible Assets*

Depreciation expense were P\$822 million in year 2008, P\$828 million in year 2007 and P\$935 million in year 2006. Depreciation expenses as a percentage of net sales of the segment were approximately 22.5% in 2008, 25.1% in 2007 and 30.6% in 2006, respectively. The decreases were primarily attributable to the end of the amortization period for certain assets.

During 2007, the Company performed an integral review of the useful lives of its fixed assets. As a result, since September 30, 2007, Telecom Argentina has changed the useful life of certain fixed assets, resulting in a P\$9 million decrease in depreciation expense for year 2007 in the Voice, Data and Internet Reportable Segment.

*Operating Income*

In 2008, the operating income from our Voice, Data and Internet reportable segment decreased 40.8% to P\$212 million from P\$358 million in 2007. The decrease was mainly due to the fact that the annual increase in operating costs, excluding depreciation and amortization, exceeded the annual increase in sales in the segment. Depreciation in year 2008 was at a similar level of year 2007, with a slight 1% decrease. In 2007, the operating income from our Voice, Data and Internet reportable segment increased 9.5% to P\$358 million from P\$327 million in 2006. The increase in year 2007 was mainly due to decreases in depreciation charges partially offset by the increase in operating expenses.

The following table shows our operating income from the Voice, Data and Internet reportable segment in years 2008, 2007 and 2006 and its percentage of net sales in each year.

	2008	Year Ended December 31, 2007 (P\$ million / %)	2006	2008-2007 Increase / (Decrease)	2007-2006 Increase / (Decrease)
Operating income before depreciation and amortization	1,034	1,186	1,262	(12.8)%	(6.0)%
<i>As % of net sales</i>	28.3%	35.9%	41.3%	(7.6)%	(5.4)%
Depreciation and amortization	(822)	(828)	(935)	(0.7)%	(11.4)%
<i>As % of net sales</i>	(22.5)%	(25.1)%	(30.6)%	2.6%	5.5%
<b>Operating income</b>	<b>212</b>	<b>358</b>	<b>327</b>	<b>(40.8)%</b>	<b>9.5%</b>
<i>As % of net sales</i>	5.8%	10.8%	10.7%	(5.0)%	0.1%

Our operating income before depreciation and amortization from the Voice, Data and Internet reportable segment was P\$1,034 million, P\$1,186 million and P\$1,262 million, representing 28.3% of net sales in 2008, 35.9% of net sales in 2007 and 41.3% of net sales in 2006, respectively. These decreases in the operating margin from 2006 to 2008 correspond mainly to an increase in operating expenses such as salaries and social security charges, taxes, maintenance, materials and supplies costs, costs of international outbound calls, fees for services, and advertising which, cumulatively, were larger than the increase in net sales of each year.

*Financial Results, Net*

During year 2008, we recorded a net financial loss of approximately P\$166 million compared to a net financial loss of approximately P\$262 million in year 2007, reflecting a reduction in loss of 36.6% as compared to the previous year. The difference was mainly due to lower net financial interest of P\$86 million in year 2008 as a result of a significant reduction in net financial debt compared to year 2007. In 2008, the devaluation of the peso against the US dollar was 9.6% and 3.4% against the euro. This caused a net foreign currency exchange loss of P\$107 million (including the effect of derivative financial instruments entered into to hedge foreign exchange exposure), which represents an increase of P\$12 million compared to the net foreign currency exchange loss of P\$95 million of year 2007.

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During year 2007, we recorded a net financial loss of approximately P\$262 million compared to a net financial loss of approximately P\$375 million in year 2006. The difference was mainly due to lower net financial interest of P\$113 million in year 2007 compared to year 2006.

***Other, Net***

***Gain (Loss) on Equity Investees***

No gain or loss on equity investees was reported during 2008 and 2007. During year 2006, a loss of P\$1 million was recorded due to a decline in value of our investment in 2003 Telecommunication Fund (See Note 11.b to the Consolidated Financial Statements).

***Other Expenses, Net***

Other expenses, net include severance payments and provisions for lawsuits and other contingencies.

For year 2008, other expenses, net increased by P\$151 million to P\$212 million compared to year 2007. Other expenses, net in year 2008 mainly consist of higher provisions for lawsuits and other contingencies and severance payments and termination benefits, as a result of an increase in the number of employees retired or dismissed, partially offset by a decrease in the average retirement and severance cost per employee. For year 2007, other expenses, net decreased by P\$76 million, or 55.5%, to P\$61 million compared to year 2006. Other expenses, net in year 2007 mainly consists of gain related to the impact of SC Resolution No. 41/07 of P\$69 million and tax benefit on deposits and withdrawals from bank accounts of P\$23 million (see Notes 2.g and 2.i to the Consolidated Financial Statements) and higher gain on sale of fixed assets and other assets, partially offset by higher provisions for lawsuits and other contingencies and severance payments and termination benefits.

***Income Tax (Expense) Benefit, Net***

Income tax (expense) benefit, net includes three effects: (i) the current tax for the year payable according to fiscal legislation applicable to Telecom Argentina and Telecom Argentina USA; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to fiscal vs. accounting criteria; and (iii) the analysis of recoverability of deferred tax assets, particularly, tax loss carryforwards accumulated by Telecom Argentina.

During year 2008, our Voice, Data and Internet reportable segment recorded an income tax expense of P\$143 million compared to P\$60 million in year 2007. The income tax expense in year 2008 is mainly attributable to the provision for current income tax (amounting to P\$238 million), partially offset by income generated by a deferred tax on the temporary differences arising out of the asset and liability valuations according to fiscal vs. accounting criteria (amounting to P\$93 million) and a P\$2 million reduction in the allowance for net deferred tax assets.

During year 2007, we recorded an income tax expense of P\$60 million in this segment compared to an income tax benefit of P\$33 million in year 2006. The income tax expense in year 2007 is mainly attributable to the reduction of the tax loss carryforwards of Telecom Argentina (which were reduced by P\$364 million), which was partially offset by the income generated by the rest of temporary differences (amounting to P\$205 million) including, among others, a reduction of the deferred tax liability on fixed assets and its adjustment for inflation, and the higher allowance for doubtful accounts and provisions for lawsuits and other contingencies. As of December 31, 2007, a valuation allowance of P\$95 million was recorded in Telecom Argentina, representing a reduction of P\$100 million in its valuation allowance compared to year 2006.

During year 2006, we recorded income tax benefit of P\$33 million due to a reversal of a portion of the valuation allowance of our deferred income tax asset partially offset by the income tax expense due to taxable net income in 2006.

***Net Loss from continuing operations***

For year 2008, the Voice, Data and Internet reportable segment recorded a net loss of approximately P\$309 million in comparison with a net loss of approximately P\$25 million in year 2007. The higher net loss in year 2008 is mainly due to lower operating income, higher other expenses, net and higher income tax expense partially offset by lower financial loss, net as discussed above.

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For year 2007, the Voice, Data and Internet reportable segment recorded a net loss of approximately P\$25 million in comparison with a net loss of approximately P\$153 million in year 2006. The lower net loss in year 2007 is mainly due to higher operating income, lower financial loss, net and lower other expenses, net, partially offset by higher income tax expense, as discussed above.

For year 2006, the Voice, Data and Internet reportable segment recorded net loss of approximately P\$153 million, mainly due to the financial loss, net as a consequence of the fluctuation of the Peso-to-Dollar exchange rate during year 2006 and the net financial interest.

***Income from Discontinued Operations***

In April 2007, Telecom Argentina sold its 99.99% shareholding in Publicom (the directory publishing company) to Yell Publicidad S.A. According to Argentine GAAP, net income from the operations of Publicom and from the sale of Publicom has been accounted for under discontinued operations, which was included in a specific caption Results from discontinued operations in the consolidated statements of income for the years ended December 2008, 2007 and 2006. The net income from discontinued operations for year 2007 amounted to P\$102 million, of which P\$101 million corresponded to the sale of Publicom, and P\$1 million to Publicom's net income prior to the date of sale. Comparatively, during the year 2006, the net income from the discontinued operations amounted to P\$13 million, related to net income from the operations of Publicom.

***Net Income (Loss)***

For year 2008, the Voice, Data and Internet reportable segment recorded a net loss of approximately P\$309 million. Since there are no results from discontinued operations for year 2008, see Net Loss from continuing operations for an explanation of net losses for 2008.

For year 2007, the Voice, Data and Internet reportable segment recorded a net income of approximately P\$77 million mainly due to the net income of P\$102 million reflecting discontinued operations of Publicom which was partially offset by P\$25 million loss from continuing operations.

For year 2006, the Voice, Data and Internet reportable segment recorded a net loss of approximately P\$140 million, mainly due to the financial loss, net as a consequence of the fluctuation of the peso-to-dollar exchange rate during year 2006 and the net financial interest.

**(B.2) Wireless Reportable Segment**

Results of operations from our Wireless reportable segment for years 2008, 2007 and 2006 are comprised as follows:

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	2008	Year Ended December 31,		% of Change	
		2007	2006	2008-2007	2007-2006
		(P\$ millions)		Increase/(Decrease)	
Net sales	6,955	5,772	4,319	20.5	33.6
Cost of services, general and administrative and selling expenses	(5,126)	(4,494)	(3,752)	14.1	19.8
<b>Operating income</b>	<b>1,829</b>	<b>1,278</b>	<b>567</b>	<b>43.1</b>	<b>125.4</b>
Financial results, net	(99)	(179)	(109)	(44.7)	64.2
Other, net (1)	(68)	(60)	(63)	13.3	(4.8)
Income tax	(392)	(232)	(11)	69.0	2,009.1
<b>Net income</b>	<b>1,270</b>	<b>807</b>	<b>384</b>	<b>57.4</b>	<b>110.2</b>

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

Table of Contents*Net Sales*

We provide wireless telephone service throughout Argentina and Paraguay through Telecom Personal and Núcleo, respectively, via cellular and PCS networks. Net sales from Argentina and Paraguay were approximately 94.4% and 5.6%, respectively, of total segment net sales in 2008, 92.5% and 7.5%, respectively, in 2007 and 91.8% and 8.2%, respectively, in 2006.

	2008	Year Ended December 31, 2007 (P\$ millions)	2006	% of Change 2008-2007 2007-2006 Increase/(Decrease)	
<b>Argentina</b>					
Service revenues (1)	5,853	4,756	3,428	23.1	38.7
Handset sales	712	583	536	22.1	8.8
<b>Total net sales in Argentina</b>	<b>6,565</b>	<b>5,339</b>	<b>3,964</b>	<b>23.0</b>	<b>34.7</b>
Average number of subscribers during the year (thousands)	11,513	9,718	7,046	18.5	37.9
<b>Paraguay</b>					
Service revenues	382	426	347	(10.3)	22.8
Handset sales	8	7	8	14.3	(12.5)
<b>Total net sales in Paraguay</b>	<b>390</b>	<b>433</b>	<b>355</b>	<b>(9.9)</b>	<b>22.0</b>

(1) Certain components of service revenues are not included in the ARPU calculation.

An important operational measure used in the Wireless reportable segment is ARPU, which we calculate by dividing adjusted total service revenue (excluding outcollect wholesale roaming, cell site rental and activation fee revenue and including intercompany wireless sales) by the average number of subscribers during the period. ARPU is not a measure calculated in accordance with Argentine GAAP and our measure of ARPU may not be calculated in the same manner as similarly titled measures used by other companies. In particular, certain components of service revenues are excluded from Telecom Personal's ARPU calculations presented in this Annual Report. Management believes that this measure is helpful in assessing the development of the subscriber base in the Wireless reportable segment. The following table shows the reconciliation of total service revenues in Argentina to such revenues included in the ARPU calculations:

	2008	Year Ended December 31, 2007 (P\$ millions)	2006
<b>Total service revenues in Argentina</b>	<b>5,853</b>	<b>4,756</b>	<b>3,428</b>
Components of service revenues not included in the ARPU calculation:			
Outcollect wholesale roaming	(229)	(207)	(150)
Cell sites rental	(8)	(7)	(6)
Activation fees	(35)	(32)	(33)
Intercompany wireless sales	25	13	11
<b>Total service revenues in Argentina included in the ARPU calculation</b>	<b>5,606</b>	<b>4,523</b>	<b>3,250</b>

*Net Sales in Argentina*

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During year 2008, Telecom Personal's net sales in Argentina increased 23.0% to P\$6,565 million from P\$5,339 million in year 2007, mainly due to increases in the number of subscribers. ARPU in Argentina during 2008 was approximately P\$41 per customer per month and was approximately P\$39 per customer per month in 2007 and 2006.

The total number of Telecom Personal's subscribers in Argentina was approximately 12,564,000 as of December 31, 2008, representing an increase of approximately 1,898,000, or 17.8%, as compared to 2007. This increase was fueled by increased penetration of cellular services in Argentina. As of December 31, 2008, the subscriber base in Argentina amounted to approximately 8,303,000 prepaid subscribers, or 66.1% of the total subscriber base, approximately 1,454,000 post-paid subscribers, or 11.6% of the total subscriber base and approximately 2,807,000 cuentas claras plan subscribers, or 22.3% of the total subscriber base. Total wireless traffic increased 16.8% during year 2008 as compared to year 2007.



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During year 2007, Telecom Personal's net sales in Argentina increased 34.7% to P\$5,339 million from P\$3,964 million in year 2006, mainly due to the increase in the subscribers base.

The total number of Telecom Personal's cellular subscribers in Argentina was approximately 10,666,000 as of December 31, 2007, which represents an increase of approximately 2,241,000, or 26.6%, as compared to 2006. As of December 31, 2007, the subscriber base in Argentina amounted to approximately 7,062,000 prepaid subscribers, or 66.2% of the total subscriber base, approximately 1,134,000 post-paid subscribers, or 10.6% of the total subscriber base and approximately 2,470,000 cuentas claras plan subscribers, or 23.2% of the total subscriber base. Total wireless traffic increased 30.7% during year 2007 as compared to year 2006.

### *Net Sales in Paraguay*

Núcleo, which provides wireless telephone services in Paraguay, generated P\$390 million in net sales during year 2008, a 9.9% decrease from the P\$433 million in year 2007. The decrease in revenue was mainly due to lower traffic volumes and the effect of the international crisis which affected the exchange rates, especially in the last semester of 2008 (since they are converted from guaraníes to Argentine pesos). Núcleo had approximately 1,826,000 subscribers as of December 31, 2008 (1,811,000 are wireless subscribers and 15,000 are Internet subscribers), which represents an increase of approximately 200,000 customers, or 12.3%, as compared to the level at December 31, 2007. As of December 31, 2008, Núcleo had approximately 1,647,000 prepaid subscribers, representing 90.9% of Núcleo's total wireless subscriber base. The number of GSM subscribers was approximately 1,705,000 customers, or 94.1% of Núcleo's total wireless subscriber base.

In 2007, Núcleo's net sales were P\$433 million, representing a 22.0% increase from the P\$355 million generated in year 2006. The growth in revenue was mainly due to sales of the prepaid services. Núcleo had approximately 1,626,000 subscribers as of December 31, 2007 (1,619,000 were wireless subscribers and 7,000 were Internet subscribers), which represents an increase of approximately 462,000 customers, or 39.7%, as compared to the level at December 31, 2006. As of December 31, 2007 Núcleo had approximately 1,456,000 prepaid subscribers, representing 89.9% of the total wireless subscriber base. The number of GSM subscribers was approximately 1,414,000 customers, or 87.3% of Núcleo's total wireless subscriber base.

### *General*

During year 2008, total net sales from our Wireless reportable segment, consisting of service revenues and handset sales, increased 20.5% to P\$6,955 million from P\$5,772 million in year 2007. During year 2007, total net sales increased 33.6% to P\$5,772 million from P\$4,319 million in year 2006.

Revenues from our Wireless reportable segment for years 2008, 2007 and 2006 are comprised as follows:

		Year Ended December 31,			% of Change	
		2008	2007	2006	2008-2007	2007-2006

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	(P\$ millions)			Increase		
Prepaid services	1,176	1,045	742	12.5		40.8
Monthly basic charges and airtime usage charges	1,455	1,244	906	17.0		37.3
Calling Party Pays	582	599	525	(2.8)		14.1
TLRD and Roaming services	1,142	915	650	24.8		40.8
Value added services	1,742	1,269	816	37.3		55.5
Other service sales	138	110	136	25.5		(19.1)
<b>Subtotal Service Revenues</b>	<b>6,235</b>	<b>5,182</b>	<b>3,775</b>	<b>20.3</b>		<b>37.3</b>
Handset sales	720	590	544	22.0		8.5
<b>Total Wireless</b>	<b>6,955</b>	<b>5,772</b>	<b>4,319</b>	<b>20.5</b>		<b>33.6</b>

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*Service Revenues*

Service revenues in the Wireless reportable segment consist of recurring monthly basic charges, airtime usage charges, prepaid services, roaming charges billed to our customers for their use of our and other carriers' networks, roaming charges billed to other wireless service providers whose customers use our network, TLRD and CPP charges, additional charges for Value Added Services and for other miscellaneous cellular and PCS services.

As a result of the strong growth of the customer base, generally all types of service revenues have grown considerably during the years presented. Revenues from post-paid services (including a monthly basic charges and air time usage charges), prepaid services and Value Added Services grew by 22.9% in year 2008 compared to year 2007 (an increase of 26.0% in Argentina, partially offset by a decrease of 9.8% in Paraguay).

Service revenues were approximately 89.6% of total reportable segment net sales in 2008, 89.8% in 2007 and 87.4% in 2006, respectively.

*Prepaid Services*

Prepaid services sales increased 12.5% to P\$1,176 million in year 2008 from P\$1,045 million in year 2007. The variation was primarily due to an increase in the number of subscribers to approximately 9,950,000 as of December 31, 2008, an increase of approximately 1,432,000 customers, or 16.8%, as compared to December 31, 2007.

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During year 2007, prepaid service sales increased 40.8% from P\$742 million in year 2006, mainly as a result of an increase in the number of subscribers which reached approximately 8,518,000 as of December 31, 2007, an increase of approximately 1,961,000 customers, or 29.9%, as compared to December 31, 2006.

### *Monthly Basic Charges and Airtime Usage Charges*

During year 2008, monthly basic charges and airtime usage charges increased 17.0% to P\$1,455 million from P\$1,244 million in year 2007. Monthly basic charges and airtime usage charges increased 37.3% in year 2007 from P\$906 million in year 2006. The increase in each year was mainly due to an increase in subscriber base and an increase in the volume of total traffic.

### *Calling Party Pays*

Sales for Calling Party Pays service decreased 2.8% to P\$582 million in year 2008 from P\$599 million in year 2007, and increased 14.1% in year 2007 from P\$525 million in year 2006. The major decrease occurred in Paraguay, as a result of lower traffic volumes and the effects of foreign currency translation from guaraníes to Argentine pesos. This decrease was partially offset by a slight increase in total traffic volume in Argentina.

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*TLRD and Roaming Services*

During year 2008, TLRD and roaming services revenue was P\$1,142 million, representing a 24.8% increase from P\$915 million in year 2007. The change was due to a strong growth in the total customer base and to an increase in the volume of total traffic. TLRD and roaming services revenue increased 40.8% in year 2007 from P\$650 million in year 2006.

*Value Added Services*

Value added services which include Short Message Service (SMS), Multimedia Messaging System (MMS), General Packet Radio Service (GPRS), among others, increased 37.3% to P\$1,742 million in year 2008 from P\$1,269 million in year 2007, and increased 55.5% in year 2007 from P\$816 million in year 2006. The increase in each year was largely due to Telecom Personal's efforts to create Value Added Services that featured technological innovation.

*Other Service Sales*

During year 2008, other service sales, was P\$138 million representing an increase of 25.5% from P\$110 million in year 2007. During year 2007, other service sales decreased 19.1% from P\$136 million in year 2006.

*Handset sales*

Handset sales consist principally of revenues from the sale of wireless handsets to new and existing customers and to agents and other third-party distributors. The revenues associated with the sale of wireless handsets, and related expenses are recognized when the products are delivered and accepted by the customers, agents and other third party distributors. In an effort to attract new customers and to maintain existing customers (by upgrading their handsets), Telecom Personal, like its competitors, may offer handsets to customers, agents and other third party distributors below cost.

This subsidy decreased along all the years presented. It was approximately P\$268 million or 27.1% of total cost of handsets in 2008, P\$285 million or 32.6% of total cost of handsets in 2007 and P\$429 million or 44.1% of total cost of handsets in 2006, respectively.

During year 2008, handset sales increased to P\$720 million from P\$590 million in year 2007, while during year 2007, handset sales increased to P\$590 million from P\$544 million in year 2006. The increase in each year was mainly due to the expansion of the subscriber base. Also, as a consequence of technological advances and the offer of state-of-the-art services, more customers renewed their mobile handsets.

*Cost of Services, General and Administrative and Selling Expenses*

Total costs of services, general and administrative and selling expenses in our Wireless reportable segment increased 14.1% to P\$5,126 million in year 2008 from P\$4,494 million in year 2007. During year 2007, these costs increased 19.8% from P\$3,752 million in year 2006. In each year, costs for subscriber acquisition, roaming and TLRD, maintenance, materials and supplies, salaries and social security costs and tax expenses were the main items that contributed to year over year increases in Argentina and Paraguay.

Detailed below are the major components of the cost of services, general and administrative and selling expenses for the years ended December 31, 2008, 2007 and 2006 in the Wireless reportable segment:

	Year Ended December 31,				% of Change	
	2008	2007	2006	2008-2007	2007-2006	
	(P\$ millions)				Increase/(Decrease)	
Salaries and social security	286	216	166	32.4	30.1	
Taxes	602	464	364	29.7	27.5	
Maintenance, materials and supplies	168	140	90	20.0	55.6	
Bad debt expense	57	59	47	(3.4)	25.5	
Fees for services	208	160	152	30.0	5.3	

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	Year Ended December 31,				% of Change		
	2008		2007		2006	2008-2007	2007-2006
	(P\$ millions)				Increase/(Decrease)		
Advertising	251		217		155	15.7	40.0
Cost of wireless handsets	988		875		973	12.9	(10.1)
Agent's commissions and distribution of prepaid cards commissions	726		675		527	7.6	28.1
Other commissions	108		84		71	28.6	18.3
TLRD and roaming	941		760		582	23.8	30.6
Other operating expenses	324		256		169	26.6	51.5
<b>Subtotal costs before depreciation of fixed assets and amortization of intangible assets</b>	<b>4,659</b>		<b>3,906</b>		<b>3,296</b>	<b>19.3</b>	<b>18.5</b>
Depreciation of fixed assets and amortization of intangible assets	467		588		456	(20.6)	28.9
<b>Total wireless</b>	<b>5,126</b>		<b>4,494</b>		<b>3,752</b>	<b>14.1</b>	<b>19.8</b>
<b>Argentina</b>							
Costs before depreciation of fixed assets and amortization of intangible assets	4,404		3,647		3,091	20.8	18.0
Depreciation of fixed assets and amortization of intangible assets	375		510		383	(26.5)	33.2
<b>Total costs in Argentina</b>	<b>4,779</b>		<b>4,157</b>		<b>3,474</b>	<b>15.0</b>	<b>19.7</b>
<b>Paraguay</b>							
Costs before depreciation of fixed assets and amortization of intangible assets	255		259		205	(1.5)	26.3
Depreciation of fixed assets and amortization of intangible assets	92		78		73	17.9	6.8
<b>Total costs in Paraguay</b>	<b>347</b>		<b>337</b>		<b>278</b>	<b>3.0</b>	<b>21.2</b>

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(1) Includes maintenance, materials and supplies, bad debt expense, other commissions and other operating expenses.



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*Salaries and Social Security*

During year 2008, salaries and social security charges increased 32.4% to P\$286 million from P\$216 million in year 2007. During year 2007, salaries and social security charges increased 30.1% from P\$166 million in year 2006. The increase in each year was mainly due to the salary increases implemented. Similarly, labor costs increased as a result of the increase in the number of full time employees. The Wireless reportable segment had 4,109 employees as of December 31, 2008, 3,919 as of December 31, 2007, and 3,636 as of December 31, 2006, respectively.

Salaries and social security were approximately 4.1% of total segment net sales in 2008, 3.7% of total segment net sales in 2007 and 3.8% of total segment net sales in 2006, respectively.

*Taxes*

During year 2008, taxes increased 29.7% to P\$602 million from P\$464 million in year 2007. During year 2007, taxes increased 27.5% from P\$364 million in year 2006. The increase in each year was attributable to the increase in total segment net sales.

Tax-related expenses were approximately 8.7% of total segment net sales for 2008, 8.0% for 2007 and 8.4% for 2006, respectively.

*Maintenance, Materials and Supplies*

During year 2008, maintenance, materials and supplies expenses increased 20.0% to P\$168 million from P\$140 million in year 2007. During year 2007, such costs increased 55.6% to P\$140 million from P\$90 million in year 2006. The increase in each year was mainly due to an increase in maintenance tasks of radio base systems related to the development of the GSM network and during the last year, the costs of the maintenance of BlackBerry's equipments increased as compare to year 2007. The increase was also due to higher price of certain supplies generated by the effects of the inflation.

Costs related to maintenance, materials and supplies were approximately 2.4% of total segment net sales for 2008, 2.4% for 2007 and 2.1% for 2006, respectively.

*Fees for Services*

During year 2008, fees for various services such as legal, security and auditing fees and other services were P\$208 million, representing an increase of 30.0% from P\$160 million in year 2007. During year 2007, fees for services increased 5.3% from P\$152 million in year 2006. The

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increase in year 2008 was a result of an increase in the rates for the principal services received for the effects of inflation and higher service costs related to call centers and the software and hardware fees.

Fees for services were approximately 3.0% of total segment net sales for 2008, 2.8% for 2007 and 3.5% for 2006, respectively.

### *Advertising*

During year 2008, advertising expenses including media, promotional and institutional campaigns, increased by P\$251 million representing an increase of 15.7% from P\$217 million in year 2007. This variation was mainly due to higher media advertising expenses as a result of efforts to retain and expand the wireless customer base. During year 2007, advertising expenses increased 40.0% from P\$155 million in year 2006. The increase was a result of Telecom Personal's efforts to expand its customer base.

Advertising expenses accounted for approximately 3.6% of total segment net sales for 2008, 3.8% for 2007 and 3.6% for 2006, respectively.

### *Cost of Wireless Handsets*

During year 2008, the cost of handsets sold increased to P\$988 million from P\$875 million in year 2007. The increase was mainly due to an expansion of the subscriber base and increased customer upgrade of mobile phone

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sets as a result of technological advances and new service offerings. That effect was partially offset by lower subsidies offered to agents and other third party distributors. During year 2007, the cost of handset sales decreased 10.1% from P\$973 million in year 2006. The decrease was mainly due to lower subsidies offered to customers, agents and other third party distributors.

Costs of handsets sold accounted for approximately 14.2% of total segment net sales for 2008, 15.2% for 2007 and 22.5% for 2006, respectively.

*Agent s Commissions and Commissions for the Distribution of Prepaid Cards*

During year 2008, agent s commissions and commissions for the distribution of prepaid cards increased to P\$726 million from P\$675 million in year 2007, representing an increase of 7.6%. During year 2007, agent s commissions and commissions for the distribution of prepaid cards increased 28.1% from P\$527 million in year 2006. The increase in agent s commissions and commissions for the distribution of prepaid cards in each year was mainly due to Telecom Personal s efforts to expand its high-value subscriber base and to the increase in the prepaid subscriber base, respectively.

Agent s commissions and commissions for the distribution of prepaid cards accounted for approximately 10.4% of total segment net sales for 2008, 11.7% for 2007 and 12.2% for 2006, respectively.

*Other Commissions*

During year 2008, other commissions, such as the commission paid for the invoice and collection process, increased 28.6% to P\$108 million from P\$84 million in year 2007. During year 2007, other commissions increased 18.3% from P\$71 million in year 2006. The increases were mainly due to the increase in the subscriber base.

Other commissions accounted for approximately 1.6% of total segment net sales for 2008, 1.5% for 2007 and 1.6% for 2006, respectively.

*TLRD and roaming*

During year 2008, costs of TLRD and roaming increased 23.8% to P\$941 million from P\$760 million in year 2007. During year 2007, costs of TLRD and roaming increased 30.6% from P\$582 million in year 2006. The increases were due to an increase in wireless traffic among wireless operators as a consequence of a strong growth in the total customer base and to an increase in the volume of total traffic.

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Costs of TLRD and roaming accounted for approximately 13.5% of total segment net sales for 2008, 13.2% for 2007 and 13.5% for 2006, respectively.

### *Other Operating Expenses*

Other operating expenses increased 26.6% to approximately P\$324 million in year 2008 from P\$256 million in year 2007. During year 2007, other operating expenses increased 51.5% from P\$169 million in year 2006. The increases were mainly due to increased costs related to growth in the following categories of expenses and due to higher costs because of the effects of inflation:

- Value Added Services provided by third parties to Telecom Personal's clients increased 56.9% to approximately P\$91 million in year 2008 from P\$58 million in year 2007. During year 2007, costs of Value Added Services increased 56.8% from P\$37 million;
- Use of public network increased 22.6% to approximately P\$38 million in year 2008 from P\$31 million in year 2007. During year 2007, use of public network increased 63.2% from P\$19 million in year 2006. The increases were mainly due to an increase in total volume of traffic;
- Transportation and freight, including the distribution of wireless handsets and prepaid cards, increased 15.6% to approximately P\$74 million in year 2008 from P\$64 million in year 2007. During year 2007, such costs increased 93.9% from P\$33 million in year 2006. The increases were mainly due to the higher costs related to the distribution of inventories and to the increase in traveling expenses.

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- Cell sites rental in Argentina increased 28.6% to approximately P\$36 million in year 2008 from P\$28 million in year 2007. During year 2007, cell sites rental increased 21.7% from P\$23 million in year 2006. The increases were mainly due to the deployment of the GSM network; and
- Rental expense in Argentina increased 40.0% to approximately P\$35 million in year 2008 from P\$25 million in year 2007. During year 2007, rental expense increased 56.3% from P\$16 million in year 2006. The increases were mainly due to new commercial offices opened in order to improve customer care and expand the customer base.

Other operating expenses accounted for approximately 4.7% of total segment net sales for 2008, 4.4% for 2007 and 3.9% for 2006, respectively.

*Depreciation of Fixed Assets and Amortization of Intangible Assets*

During year 2008 depreciation of fixed assets and amortization of intangible assets decreased 20.6% to P\$467 million from P\$588 million in year 2007. The decrease was mainly as a consequence of the end of amortization period for certain assets (among others, TDMA network equipment as a result of the migration to GSM technology). Additionally, during 2007, Telecom Personal changed the useful life of certain fixed assets resulting in a P\$5 million decrease in depreciation expense as compared to year 2006.

Depreciation of fixed assets and amortization of intangible assets expenses accounted for approximately 6.7% of total segment net sales in 2008, 10.2% in 2007 and 10.6% in 2006, respectively.

*Operating Income*

In year 2008, our operating income from the Wireless reportable segment was P\$1,829 million, representing an increase of 43.1% from P\$1,278 million in year 2007. The increase was mainly due to growth in service revenues partially offset by increases in costs, such as salaries and social security, taxes, advertising, maintenance, materials and supplies costs, fees for services, costs for subscriber acquisition, other operating expenses, and increases in the cost of providing roaming and TLRD services.

The following table shows our operating income from the Wireless reportable segment in years 2008 and 2007, the percentage of net sales in each year and changes between years and by geographic area.

		Year Ended December 31,			Change by geographic area		
		2008	2007	Total Change	Argentina	Paraguay	
		(P\$ millions / %)		%	(P\$ millions)		

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Operating income before SAC and depreciation of fixed assets and amortization of intangible assets (non-GAAP)(1)	3,308	2,825	17.1	483	533	(50)
<i>As % of net sales</i>	47.6%	48.9%		(1.3)%		
SAC (non-GAAP)(2)	(1,012)	(959)	5.5	(53)	(64)	11
<i>As % of net sales</i>	(14.6)%	(16.6)%		2.0%		
<b>Operating income before depreciation of fixed assets and amortization of intangible assets</b>	<b>2,296</b>	<b>1,866</b>	<b>23.0</b>	<b>430</b>	<b>469</b>	<b>(39)</b>
<i>As % of net sales</i>	33.0%	32.3%		0.7%		
Depreciation of fixed assets and amortization of intangible assets	(467)	(588)	(20.6)	121	135	(14)
<i>As % of net sales</i>	(6.7)%	(10.2)%		3.5%		
<b>Operating income</b>	<b>1,829</b>	<b>1,278</b>	<b>43.1</b>	<b>551</b>	<b>604</b>	<b>(53)</b>
<i>As % of net sales</i>	26.3%	22.1%		4.2%		

(1) Operating income before SAC and depreciation of fixed assets and amortization of intangible assets is not a measure calculated in accordance with Argentine GAAP or US GAAP and, therefore, should not be considered as an alternative to operating income or any other measure of performance under Argentine GAAP or US

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GAAP. This measure may not be calculated in the same manner as similarly titled measures used by other companies. In addition to the GAAP measure operating income, management uses this non-GAAP measure to assess operating results. Operating income before SAC and depreciation and amortization provides information about the operational performance excluding the effect of significant one time commercial costs (Subscriber Acquisition Costs, or SAC) and the effect of non-cash depreciation and amortization charges (i.e. amortization and depreciation of fixed and intangible assets). Management believes that this measure is especially relevant in assessing segment performance during periods of significant subscriber growth as is currently the case in Argentina, and as such provides investors with meaningful information concerning development of the wireless business. See Note 13 to our Consolidated Financial Statements for more information regarding segment performance. This measure is reconciled to the GAAP measure operating income by adding back depreciation and amortization charges and wireless SAC charges, each as shown in the table above.

(2) The components of wireless SAC that arise from the accounting records are as follows:

	Year Ended December 31,			Total Change	Change by geographic area			
	2008		2007		Argentina		Paraguay	
	(P\$ millions)				%	(P\$ millions)		
Handset net sales	720		590	22.0	130		129	1
Cost of handsets	(988)		(875)	12.9	(113)		(111)	(2)
<b>Gross loss on handset sales</b>	<b>(268)</b>		<b>(285)</b>	<b>(6.0)</b>	<b>17</b>		<b>18</b>	<b>(1)</b>
Advertising	(251)		(217)	15.7	(34)		(29)	(5)
Agent s commissions	(493)		(457)	7.9	(36)		(53)	17
<b>Total SAC</b>	<b>(1,012)</b>		<b>(959)</b>	<b>5.5</b>	<b>(53)</b>		<b>(64)</b>	<b>11</b>

In year 2008, our operating income before SAC and depreciation of fixed assets and amortization of intangible assets from the Wireless reportable segment was P\$3,308 million representing an increase of 17.1% from P\$2,825 million in year 2007. It represents 47.6% of total segment net sales in year 2008, and 48.9% of total segment net sales in year 2007. The increase was mainly due to a 20.3% increase in service revenues, partially offset by a higher level of operating costs, including a 32.4% increase in salaries and social security costs, a 20.0% increase in maintenance, materials and supplies, a 29.7% increase in taxes, a 23.8% increase in cost of TLRD and roaming, a 30.0% increase in fees for services and a 26.6% increase in other operating expenses.

In year 2007, our operating income from the Wireless reportable segment was P\$1,278 million, representing an increase of 125.4% from P\$567 million in year 2006. The increase was mainly due to growth in service revenues partially offset by increases in advertising, maintenance, materials and supplies costs, other operating expenses, transportation and freight, commissions for the distribution of prepaid cards and wireless handsets, and increases in the cost of providing roaming and TLRD services.

The following table shows our operating income from the Wireless reportable segment in years 2007 and 2006, the percentage of net sales in each year and changes between years and by geographic area.

	Year Ended December 31,			Total Change	Change by geographic area			
	2007		2006		Argentina		Paraguay	
	(P\$ millions / %)				%	(P\$ millions)		
Operating income before SAC and depreciation of fixed	2,825		1,959	44.2	866		828	38

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assets and amortization of intangible assets (non-GAAP) (1)									
<i>As % of net sales</i>	48.9%	45.4%			3.5%				
SAC (non-GAAP) (2)	(959)	(936)	2.5		(23)		(9)		(14)
<i>As % of net sales</i>	(16.6)%	(21.7)%			5.1%				
<b>Operating income before depreciation of fixed assets and amortization of intangible assets</b>	<b>1,866</b>	<b>1,023</b>	<b>82.4</b>		<b>843</b>		<b>819</b>		<b>24</b>
<i>As % of net sales</i>	32.3%	23.7%			8.6%				

	Year Ended December 31,		Total Change	Change by geographic area	
	2007	2006		Argentina	Paraguay
	(P\$ millions / %)		%	(P\$ millions)	
Depreciation of fixed assets and amortization of intangible assets	(588)	(456)	28.9	(132)	(127)
<i>As % of net sales</i>	(10.2)%	(10.6)%		0.4%	
<b>Operating income</b>	<b>1,278</b>	<b>567</b>	<b>125.4</b>	<b>711</b>	<b>692</b>
<i>As % of net sales</i>	22.1%	13.1%			