TELECOM ARGENTINA SA
Form 6-K
April 08, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

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

of the Securities Exchange Act of 1934

For the month of April, 2010

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant s name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

(Address of principal executive offices)

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

Form 20-F __X__ Form 40-F ______

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

Yes ______ No __X__

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

Yes ______ No __X__

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

Yes ______ No __X__

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

Table of Contents

Telecom Argentina S.A.

TABLE OF CONTENTS

Item	
1.	Consolidated Financial Statements as of December 31, 2009

Table of Contents

TELECOM ARGENTINA S.A.

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

Table of Contents

TELECOM ARGENTINA S.A.

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

Consolidated Financial Statements as of December 31, 2009 and December 31, 2008 and for the years ended December 31, 2009, 2008 and 2007

$: Argentine peso

US$: US dollar

$3.80 = US$1 as of December 31, 2009

TELECOM ARGENTINA S.A.

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

INDEX

	Page
Consolidated Balance Sheets as of December 31, 2009 and 2008	1
Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007	2
Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2009, 2008 and 2007	3
Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007	4
Index to the Notes to the Consolidated Financial Statements	5
Notes to the Consolidated Financial Statements	6
Report of Independent Registered Public Accounting Firm	
Management s Report on Internal Control Over Financial Reporting	
Operating and financial review and prospects as of December 31, 2009	
Corporate information	

Table of Contents

TELECOM ARGENTINA S.A.

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

Consolidated Balance Sheets as of December 31, 2009 and 2008

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

	As of December 31, 2009	2008
ASSETS		
Current Assets		
Cash and banks	$ 62	$ 36
Investments	1,227	1,089
Accounts receivable, net	1,163	1,009
Other receivables, net	241	209
Inventories, net	243	251
Other assets, net	7	6
Total current assets	**2,943**	**2,600**
Non-Current Assets		
Other receivables, net	74	87
Investments	1	7
Fixed assets, net	6,839	6,188
Intangible assets, net	773	772
Other assets, net	3	3
Total non-current assets	**7,690**	**7,057**
TOTAL ASSETS	**$ 10,633**	**$ 9,657**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 2,212	$ 1,769
Debt	763	1,355
Salaries and social security payable	300	237
Taxes payable	769	626
Other liabilities	52	46
Contingencies	73	36
Total current liabilities	**4,169**	**4,069**
Non-Current Liabilities		
Accounts payable	24	27
Debt	58	688
Salaries and social security payable	82	83
Taxes payable	212	224
Other liabilities	186	146
Contingencies	374	319
Total non-current liabilities	**936**	**1,487**

TOTAL LIABILITIES	**$ 5,105**	**$ 5,556**
Noncontrolling interest	**92**	**81**
SHAREHOLDERS EQUITY	**$ 5,436**	**$ 4,020**
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY	**$ 10,633**	**$ 9,657**

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

Gerardo Werthein
Vice-President

1

Table of Contents

TELECOM ARGENTINA S.A.

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

Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007

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

	For the years ended December 31,		
	2009	**2008**	**2007**
Continuing operations			
Net sales	$ 12,226	$ 10,608	$ 9,074
Cost of services	(6,099)	(5,712)	(5,022)
Gross profit	**6,127**	**4,896**	**4,052**
General and administrative expenses	(449)	(364)	(310)
Selling expenses	(2,916)	(2,491)	(2,106)
Operating income	**2,762**	**2,041**	**1,636**
Gain on equity investees	13		
Financial results, net	(329)	(265)	(441)
Other expenses, net	(229)	(268)	(98)
Net income before income tax and noncontrolling interest.	**2,217**	**1,508**	**1,097**
Income tax expense, net	(797)	(535)	(292)
Noncontrolling interest	(15)	(12)	(23)
Net income from continuing operations	**1,405**	**961**	**782**
Discontinued operations			
Income from the operations			1
Income from assets disposal			101
Net income from discontinued operations			**102**
Net income	**$ 1,405**	**$ 961**	**$ 884**
Net income per share	**$ 1.43**	**$ 0.98**	**$ 0.90**

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

Gerardo Werthein
Vice-President

Table of Contents

TELECOM ARGENTINA S.A.

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

Consolidated Statements of Changes in Shareholders Equity

for the years ended December 31, 2009, 2008 and 2007

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

	Shareholders contributions				Unappropriated earnings			
	Common stock	Inflation adjustment of common stock	Total	Legal reserve	Foreign currency translation adjustments	Accumulated earnings (deficit)	Total	Total Shareholders equity
Balances as of January 1, 2007	**$ 984**	**2,688**	**3,672**		**49**	**(1,592)**	**(1,543)**	**$ 2,129**
Foreign currency translation adjustments					17		17	**17**
Net income for the year						884	884	**884**
Balances as of December 31, 2007	**$ 984**	**2,688**	**3,672**		**66**	**(708)**	**(642)**	**$ 3,030**
Foreign currency translation adjustments					21		21	**21**
Changes in the fair value of cash flow hedges, net of tax					8		8	**8**
Net income for the year						961	961	**961**
Balances as of December 31, 2008	**$ 984**	**2,688**	**3,672**		**95**	**253**	**348**	**$ 4,020**
Foreign currency translation adjustments (i)					19		19	**19**
Changes in the fair value of cash flow hedges, net of tax					(8)		(8)	**(8)**
Net income for the year						1,405	1,405	**1,405**
Balances as of December 31, 2009	**$ 984**	**2,688**	**3,672**		**(ii) 106**	**1,658**	**1,764**	**$ 5,436**

(i) Includes (13) corresponding to the foreign currency translation adjustment realized on capital reimbursement of Núcleo (Notes 5.m and 7.h).

(ii) The balance corresponds to foreign currency translation adjustments.

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

Gerardo Werthein
Vice-President

3

Table of Contents

TELECOM ARGENTINA S.A.

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

Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007

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

	For the years ended December 31,		
	2009	**2008**	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS			
Net income for the year from continuing operations	$ 1,405	$ 961	$ 782
Adjustments to reconcile net income to net cash flows provided by continuing operations			
Allowance for doubtful accounts and other allowances	182	108	124
Depreciation of fixed assets	1,119	1,267	1,377
Amortization of intangible assets	19	22	39
Gain on equity investees	(13)		
Consumption of materials	109	109	80
Gain on sale/disposal of fixed assets and other assets	(10)	(8)	(19)
Provision for lawsuits and contingencies	122	100	79
Holdings (gain) loss on inventories	7	(2)	59
Interest and other financial losses on loans	371	563	498
Income tax	167	353	245
Noncontrolling interest	15	12	23
Net increase in assets	(391)	(494)	(366)
Net increase in liabilities	186	328	25
Total cash flows provided by operating activities from continuing operations	**3,288**	**3,319**	**2,946**
CASH FLOWS FROM INVESTING ACTIVITIES FROM CONTINUING OPERATIONS			
Fixed asset acquisitions	(1,474)	(1,546)	(1,208)
Intangible asset acquisitions	(17)	(15)	(35)
Equity investees acquisitions		(97)	
Proceeds for the sale of fixed assets and other assets	15	12	21
Decrease (increase) in investments not considered as cash and cash equivalents	245	329	(533)
Total cash flows used in investing activities from continuing operations	**(1,231)**	**(1,317)**	**(1,755)**
CASH FLOWS FROM FINANCING ACTIVITIES FROM CONTINUING OPERATIONS			
Debt proceeds	361	91	45
Payment of debt	(1,852)	(1,444)	(1,290)
Payment of interest and debt-related expenses	(168)	(185)	(293)
Cash dividends paid	(19)	(20)	(38)
Payment of capital reimbursement of Núcleo	(8)		
Total cash flows used in financing activities from continuing operations	**(1,686)**	**(1,558)**	**(1,576)**
CASH FLOWS FROM INVESTING ACTIVITIES FROM DISCONTINUED OPERATIONS			
Proceeds for the sale of equity investees			182
Total cash flows provided by investing activities from discontinued operations			**182**

Net increase (decrease) in cash and cash equivalents from continuing operations.	**371**	**444**	**(385)**
Net increase in cash and cash equivalents from discontinued operations			**182**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**371**	**444**	**(203)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**902**	**458**	**661**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**$ 1,273**	**$ 902**	**$ 458**

See Note 6 for supplementary cash flow information.

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

Gerardo Werthein
Vice-President

4

Table of Contents

TELECOM ARGENTINA S.A.

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

Index to the Notes to the Consolidated Financial Statements

Note		Page
1	The Company and its operations	6
2	Regulatory framework	6
3	Preparation of financial statements	15
4	Summary of significant accounting policies	17
5	Breakdown of the main accounts	25
6	Supplementary cash flow information	29
7	Related party transactions	30
8	Debt	34
9	Shareholders equity	37
10	Income tax	38
11	Commitments and contingencies	39
12	Changes in useful lives of fixed assets in the Telecom Group	43
13	Segment information	44
14	Unconsolidated information	48
15	Differences between Argentine GAAP and US GAAP	49
16	Adoption of IFRS	62
17	Other financial statement information	63
18	Subsequent events	70

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

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

1. The Company and its operations

Telecom Argentina S.A. (Telecom Argentina or Telecom and together with its subsidiaries, the Company or the Telecom Group , indistinctively was created by a decree of the Argentine Government in January 1990 and organized as a *sociedad anónima* under the name Sociedad Licenciataria Norte S.A. in April 1990.

Telecom Argentina commenced operations on November 8, 1990 (the Transfer Date), upon the transfer to the Company of the telecommunications network of the northern region of Argentina previously owned and operated by the state-owned company, Empresa Nacional de Telecomunicaciones (ENTel).

Telecom Argentina s license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina through October 10, 1999. As from such date, the Company began providing telephone services in the southern region of Argentina and competing in the previously exclusive northern region.

The Company provides fixed-line public telecommunication services, international long-distance service, data transmission and Internet services in Argentina. Accordingly, the Company had amended its by-laws in accordance with the prior approval obtained from the Department of Communications (SC , the Regulatory Authority) and the *Comisión Nacional de Valores (CNV*), the National Securities Commission in Argentina.

A description of the subsidiaries with their respective percentage of capital stock owned as of December 31, 2009, is presented as follows:

Reportable segment	Subsidiaries	Percentage of capital stock owned and voting rights (i)	Indirect control through	Date of acquisition
Voice, data and Internet	Telecom Argentina USA Inc. (Telecom USA)	100.00%		09.12.00
	Micro Sistemas Sociedad Anonima (Micro Sistemas) (ii)	99.99%		12.31.97
Wireless	Telecom Personal S.A. (Personal)	99.99%		07.06.94
	Núcleo S.A. (Núcleo)	67.50%	Personal	02.03.98
	Springville S.A. (Springville) (ii)	100.00%	Personal	04.07.09

(i) Percentage of equity interest owned has been rounded.
(ii) Dormant entity at December 31, 2009.

2. Regulatory framework

(a) Regulatory bodies and general legal framework

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

The provision of telecommunication services is regulated by the SC and supervised by the *Comisión Nacional de Comunicaciones*, the National Communications Commission (CNC). The CNC is in charge of general oversight and supervision of telecommunications services. The SC has the power to develop, suggest and implement policies which are applicable to telecommunications services; to ensure that these policies are applied; to review the applicable legal regulatory framework; to act as the enforcing authority with respect to the laws governing the relevant activities; to approve major technical plans and to resolve administrative appeals filed against CNC resolutions.

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

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

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

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

(b) Licenses granted as of December 31, 2009

As of December 31, 2009, 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, 2009, the Company s subsidiaries have been granted the following licenses:

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

Núcleo has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as PCS services, data transmission and videoconferences services and Internet access in certain areas of that country.

(c) Revocation of the license

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

- an interruption of all or a substantial portion of service;
- a modification of its corporate purpose or change of domicile to a jurisdiction outside Argentina;
- a sale or transfer of the license to third parties without prior approval of the Regulatory Bodies;
- any sale, encumbrance or transfer of assets which has the effect of reducing services provided, without the prior approval of the Regulatory Bodies;
- a reduction of Nortel Inversora S.A. s (Nortel , the parent company of the Company) interest in Telecom Argentina to less than 51%, or the reduction of Nortel s common shareholders interest in Nortel to less than 51%, in either case without prior approval of the Regulatory Bodies;
- any transfer of shares resulting in a direct or indirect loss of control in Telecom without prior approval of the Regulatory Bodies;
- an assignment or delegation of Telecom Italia S.p.A. s (Telecom Italia or the Operator) functions without the prior approval of the Regulatory Bodies;
- the Company s bankruptcy.

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

- repeated interruptions of the services;
- any transfer of the license and/or the related rights and obligations, without the prior approval of the Regulatory Authority;
- any encumbrance of the license;
- any voluntary insolvency proceedings or bankruptcy of Personal;
- a liquidation or dissolution of Personal, without the prior approval of the Regulatory Authority.

Núcleo s licenses are revocable mainly in the case of:

repeated interruptions of the services;

any voluntary insolvency proceedings or bankruptcy of Núcleo;

non-compliance with certain obligations.

7

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

(d) Decree No. 764/00

Decree No. 764/00 substantially modified three regulations:

General Regulation of Licenses

This regulation establishes a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, wireless, national and international, irrespective of whether these services are provided through telecommunications infrastructure owned by the service provider. Under the regulation, a licensee s corporate purpose does not need to be exclusively the provision of telecommunications services. In addition, the regulation does not establish any minimum investment or coverage requirements. Broadcasting service companies may also apply for a license to provide telecommunications services. The regulation further authorizes the resale of telecommunications services subject to the receipt of a license, and there are no restrictions on participation by foreign companies.

Argentine Interconnection Regulation

This regulation provides for an important reduction in the reference interconnection prices in effect at the time. The regulation also increases the number of infrastructure elements and services that the dominant operator is required to provide, including interconnection at the local exchange level, billing services and unbundling of local loops. This regulation also introduces interconnection for number translation services (NTS) such as Internet, audiotext, collect calling and the implementation of number portability, all of which shall be subject to future regulations.

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 to prepare a draft of the Number Portability Regulation.

Universal Service (SU) Regulation

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

On June 8, 2007, the SC issued Resolution No. 80/07 which stipulated that until the SU Fund 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 the Banco de la Nación Argentina. CNC Resolution No. 2,713/07, issued in August 2007, established how these contributions are to be calculated.

New SU Regulation

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

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

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

It also established that the SC will review SU programs which were established under the previous regulation, guaranteeing the continuity of those already being administered and implementing those that had been under review.

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

The Decree requires Telecom and Telefonica de Argentina S.A. (Telefonica) to extend the coverage of their fixed line networks, within their respective original region of activity, within 60 months from the effective date of publication of the Decree. The SC will determine on a case by case basis if the providers will be compensated with funds from the SU Fund.

The level of financing of SU 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 telecommunication services, net of taxes) to the SU Fund and keeps the pay or play mechanism for compliance with the mandatory monthly contribution to the SU Fund or, to claim the correspondent receivable, as the case may be.

Decree No. 558/08 also mandates the creation of the 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 trustors 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 two of which shall be appointed by Telecom and Telefonica and one by the rest of the providers and 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 the prior approval by the SC.

The Decree also requires telecommunications service providers to create, subject to the 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. At the date of issuance of these consolidated financial statements, the Technical Committee had been created and had begun to analyze the operative procedures associated to the functions derived from its responsibilities. Additionally, telecommunications service providers had already selected the Fiduciary institution and had sent the proposed Fiduciary agreement to the SC. The SC approved it in January 2009 through Resolution No. 7/09, but there is still pending resolution certain administrative and operative matters.

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

On January 12, 2009, the Company and Personal, filed claims before the SC objecting to the provisions of SC Resolution No. 405/08, based on the illegality of this rule, arguing that it contradicts Decree No. 558/08 because it violates the rights of both licensees to factor their compensation for the provision of the SU programs in the calculation of their investment contribution, in accordance with the pay or play mechanism stated in the Decree No. 558/08.

The management of the Group, with the opinion of its legal counsel, considers it has meritorious legal arguments for the claims filed against Resolution No. 405/08.

At the date of issuance of these consolidated financial statements, 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 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 Annex of the Resolution. The proposed projects approved by the 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.

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

In Telecom

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 $656 (unaudited) for the period initiated in July 2007 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 Personal

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the SU fund. As of December 31, 2009, this provision amounts to $155. In addition, since July 2007 and in compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713/07, Personal has deposited the correspondent contributions on their respective maturity date (amounting to $66 as of December 31, 2009) into a special individual account held under their name at the Banco de la Nación Argentina; these contributions were recorded as a receivable in the caption Other receivables of the consolidated balance sheets.

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 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).

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

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

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

In December 2006, the CNC issued a preliminary report regarding verification of Personal s SU reimbursement, which indicated that Personal completed the requirement of reimbursement of the SU 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 Personal to adjust the reimbursement applying the same rate used for overdue invoices from customers (that is, one and a half of the Banco Nacion Argentina interest rate collected by banks).

In September 2008, Personal has rejected this claim explaining its grounds for justification of the applied interest rate. However, the management of Personal has considered the reimbursement of the interests claimed by the CNC. As a result, Personal had recorded a provision of $10. During the third quarter of 2009, Personal has begun the reimbursement to its customers (amounting to $5 as of December 31, 2009).

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

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

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

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

(f) Public telephony in penal institutions

As stated by Decree No. 690/06, 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 become available.

At the date of issuance of these consolidated financial statements, the Company was evaluating feasible technical alternatives to implement in order to comply with this new rule.

(g) Tax Stability principle: impact of variations in Social Security contributions

On March 23, 2007, the SC issued Resolution No. 41/07 relating to the impact of variations in Social Security contributions occurring over the past several years.

Subsequent to November 8, 1990, there were several increases in the rates of Social Security Contributions, which were duly paid by Telecom. At the same time, and under the framework of the argentina@internet.todos Program, the Company paid, mostly during fiscal year 2000, reduced social security contribution rates.

Pursuant to Resolution No. 41/07, Telecom Argentina may offset the impact of costs borne as a result of increases in Social security contribution rates.

The Company made the required presentations to the SC of the net receivable under Resolution No. 41/07, which were subject to audits by the Regulatory Authority.

During the third quarter of 2007, the CNC performed the audits on the information given by the Company. The Company had access to documentation of the CNC s audits, which resulted in no significant differences from the net amounts it had determined. Consequently, the Company recorded a receivable from increases in social security contributions and cancelled payables from reduction in social security contribution rates and other fines due by the Company.

At December 31, 2009, the Company has a net receivable of $68 which, in addition with the receivable of $23 corresponding to the tax on deposits to and withdrawals from bank accounts (IDC), is included in the caption Other receivables ($4 as current receivables and $87 as non-current receivables).

Since the resolution allows the Company to offset the receivables with existing and/or future regulatory duties and the intention of the Company is to exercise its offsetting rights, the receivable was recorded net of reserves. At December 31, 2009, the reserves corresponding to these regulatory duties amounted to $79.

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

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

(h) Rendering of fixed telephony through mobile telephony infrastructure

By 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. Licensees will provide such service within their respective fixed telephony service original regions. The Company has started to install fixed lines based on this technology in order to satisfy service demand in rural and suburban areas.

(i) Tariff structure of the national and international regulated fixed line services

Rate Rebalancing

The variation in revenues resulting from the Rate Rebalancing for the two-year period beginning February 1997 was determined to amount to an increase of $9.5, by means of SC Resolution No. 4,269/99.

In December 2007, the Regulatory Authority notified the Company that it will offset this difference with the Resolution No. 41/07 receivables. As a consequence, during fiscal year 2007, the Company recorded a reserve on this matter on behalf of the CNC final results. In April 2009, the CNC notified the offsetting of the $9.5 Rate Rebalancing amount with the Resolution No. 41/07 receivables. So, the Company has reduced the receivable with the corresponding reserve.

Price Cap

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

In August 2009, the Regulatory Bodies finalized the 1999 Price Cap audit resulting in a payable by the Company of $3.1 plus interest. The Company has offset this balance with the credit resulting from SC Resolution No. 41/07, described in (g) above.

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 from November 2000 to November 2001.

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

In April 2001, the Argentine Government, 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, a preliminary injunction against Telecom Argentina disallowed Telecom to apply tariff increases by reference to the U.S. C.P.I. Telecom Argentina appealed this injunction arguing that if one part of the formula cannot be applied, the Price Cap system should be nullified. Finally, Public Emergency Law No. 25,561 explicitly prohibited tariff adjustments, so, at the date of issuance of these consolidated financial statements, the pesification and the freeze of the regulated tariffs are still in force. Additional information is given in Note 11.d Other claims.

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

On February 6, 2003, the Ministry of Economy, through Resolution No. 72/03, defined the mechanism to allow, going forward, tariff increases on basic telephony services reflecting the impact of the IDC. The amount of tax charged must be shown separately in customers bills. The Company has determined the existence of a remaining unrecovered amount of approximately $23 that arose before the issuance of Resolution No. 72/03, which will be claimed within the tariff renegotiation process (see (j) below).

In April 2007, the Company provided the CNC with supporting documentation on this amount for its audit. The Company had access to documentation of the Regulatory Authority s audits that corroborates the amounts claimed by the Company and the application of a similar offsetting mechanism pursuant to Resolution No. 41/07. Therefore, as of December 31, 2009 and 2008, the Company recorded as Other receivable a total of $23.

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

(j) Renegotiation of agreements with the Argentine Government

Telecom Argentina s tariff scheme and procedures are detailed in the Tariff Agreement entered into by Telecom Argentina and the Argentine Government in November 1991, as amended in February 1992. Pursuant to the Tariff Agreement, all tariffs were to be calculated in US dollars and converted into Argentine pesos at the time the customer was billed using the exchange rate prevailing at that time. Under the Convertibility law that was effective until January 2002, the applicable exchange rate was $1 to US$1. Tariffs were to be adjusted twice a year in April and October based on the variation of the U.S. C.P.I. These adjustments were not applied since 2000 according to a resolution of the SC.

However, in January 2002, the Argentine Government enacted Law No. 25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the Public Emergency Law), which provided, among other aspects, for the following:

- The pesification of tariffs;
- The elimination of dollar or other foreign-currency adjustments and indexing provisions for tariffs;
- The establishment of an exchange rate for dollar-denominated prices and rates of $1 =US$1; and
- The renegotiation of the conditions of the contractual agreements entered into between privatized companies and the Argentine Government.

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

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

The profitability of the service providers.

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

Furthermore, in July 2003, Decree No. 311/03 created the Unidad de Renegociación y Análisis de Contratos de Servicios Públicos (UNIREN), (Division for the Renegotiation and Analysis of Contracts of Public Utilities Services), a special division within the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services, pursuant to which the contractual relationships between the Argentine Government and the service providers were to be revised and renegotiated. In October 2003, the Argentine Government enacted Law No. 25,790 pursuant to which the original term to renegotiate the contracts was extended through December 31, 2004. As from that date, the Argentine Government enacted subsequent laws pursuant to which this term was extended through December 31, 2011.

In May 2004, the Company signed a Letter of Understanding (LOU) with the Argentine Government pursuant to which the Company committed not to modify the current tariff structure through December 31, 2004 and to continue with the tariff renegotiation process, which the Company expected to have concluded before December 31, 2004. The Company also committed to offer phone services to beneficiaries of governmental welfare programs and to extend internet services in the interior of the country at reduced prices.

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

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

New Letter of Understanding with the UNIREN

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

The main terms and conditions of the Letter include:

- The CNC and UNIREN have determined that Telecom Argentina satisfactorily complied with most of the requirements contemplated in the Transfer Agreement and by the regulatory framework. Isolated violations were satisfactorily remedied through fines and/or sanctions. Other matters arising in the normal course of business are still pending resolution, which was originally expected by June 30, 2006 (some of these matters are described below). Despite such expectation, the Regulatory Authority continues to analyze such open issues, the outcome of which will be disclosed when the analysis is completed;

- Telecom Argentina s commitments to invest in the technological development and updating of its network;

- Telecom Argentina s commitment to the achievement of its long-term service quality goals;

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

- The Argentine Government s commitment to create an appropriate and standardized regulatory framework for telecommunications services and to give Telecom Argentina fair and equivalent treatment to that given to other telecommunications providers that shall take part in the process;

- Telecom Argentina s commitment and the commitment of its indirect shareholders Telecom Italia S.p.A. and W de Argentina - Inversiones S.L., to suspend for a period of 210 working days any and all claims, appeals and petitions already filed or in the process of being filed, in administrative, arbitral or judicial offices, in Argentina or in any other country, that are founded in or related to any act or measure taken after the issuance of the Public Emergency Law with respect to the Transfer Agreement and the License. The suspension will take effect after the 30th day from the end of the public hearing convened to deal with the Letter. Once the Minutes of Agreement of the Renegotiation is ratified, any and all claims, appeals and/or proceedings will be disregarded;

An adjustment shall be made to increase the termination charge of international incoming calls to a local area to be equivalent to international values, which are at present strongly depreciated;

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

On May 18, 2006, the Letter was subject to a public hearing procedure, with the purpose of encouraging the participation of the users and the community in general, taking into consideration that the Letter s terms and conditions will provide the framework for the signing of the Minutes of Agreement of the Renegotiation. These Minutes of Agreement of Renegotiation shall be in effect once all the requirements stipulated in the regulatory framework are complied with, which among other things, requires that a Telecom Argentina 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.

At the date of issuance of these financial statements, the Company continues to await completion of the administrative steps required for the National Executive to submit to the National Congress a proposed Memorandum of Agreement for Renegotiation.

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

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

(k) Buy Argentine Act

In December 2001, the Argentine Government passed Public Law No. 25,551 (Compre Trabajo Argentino or the Buy Argentine Act) and in August 2002, passed Decree No. 1,600/02 which approved and brought into effect the Compre Trabajo Argentino. The law requires Telecom Argentina to give preference to national goods and services, as defined in Public Laws No. 25,551 and No. 18,875, in any procurement related to the rendering of public telephony services (sect.1 & 2).

Preference must be given so long as the price of such goods is equal to or lesser than the price of a foreign good (including customs duties, taxes and other expenses that are linked to the nationality of goods) increased by 7% (when the Argentine offeror is a small or medium size company) or 5% (when the Argentine offeror is any other company) (sect.3).

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

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

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

This regulation, thus, reduces the operating flexibility of the Company 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.

3. Preparation of financial statements

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles used in Argentina (Argentine GAAP), considering the regulations of the CNV, which differ in certain significant respects from generally accepted accounting principles in the United States of America (US GAAP). Such differences involve methods of measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission (SEC).

However, certain reclassifications and accommodations have been made to conform more closely to the form and content required by the SEC.

In March 2009, the Argentine Federation of Professional Boards of Economic Sciences (the FACPCE) approved Technical Resolution (RT) 26 Adoption of International Financial Reporting Standards , which will be fully effective for companies making public offering of securities (such as the Company) as from January 1, 2011. In June 2009, the FACPCE approved RT27 which provides for amendments to the existing RT for those companies not adopting IFRS. On December 30, 2009, the CNV issued Resolution No. 562/09 adopting RT26 with a few differences related to the companies obliged to adopt IFRS and the date of adoption. FACPCE is revising RT26 in order to align RT26 and CNV Resolution No. 562/09. Additional information is given in Note 16.

(b) Basis of consolidation

These consolidated financial statements include the accounts of Telecom Argentina and its subsidiaries over which it has effective control (Personal, Núcleo, Springville, Micro Sistemas and Telecom USA).

All significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

In accordance with Argentine GAAP, the presentation of the parent company s individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes (see Note 14 for a description of certain condensed unconsolidated information).

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

3. Preparation of financial statements (continued)

(c) Presentation of financial statements in constant Argentine Pesos

As required by the Argentine Government Decree No. 1,269/02 and CNV Resolution No. 415/02, the Company s consolidated financial statements have been restated in constant Argentine pesos until February 28, 2003, following the method established by RT 6 of the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA).

However, on March 25, 2003, the Argentine Government reinstructed the CNV to preclude companies from presenting price-level restated financial statements. Therefore, CNV Resolution No. 441/03 resolved discontinuing inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date.

In October 2003, the CPCECABA resolved to discontinue inflation accounting as of September 30, 2003. Since Argentine GAAP required companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution represented a departure from Argentine GAAP. Changes in wholesale price indices for the periods indicated were as follows:

Periods		% change
January 2002	February 2003	119.73
January 2002	September 2003	115.03

As recommended by Argentine GAAP, the following table presents a comparison between certain condensed balance sheet and income statement information for the year ended December 31, 2009, as restated for the effects of inflation through September 30, 2003, and the corresponding reported amounts which included restatement only through February 28, 2003:

	As reported (*) (I)	As restated through September 30, 2003 (**) (II)	Effect (II) (I)
Total assets	10,633	10,590	(43)
Total liabilities	5,105	5,089	(16)
Noncontrolling interest	92	92	
Shareholders equity	5,436	5,409	(27)
Net income	1,405	1,410	5

(*) As required by CNV resolution.
(**) As required by Argentine GAAP.

(d) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Reclassifications

Certain reclassifications of prior year information have been made to conform to the current year presentation.

(f) Statement of cash flows

The Company considers all highly liquid temporary investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

The statement of cash flows has been prepared using the indirect method.

(g) Concentration of credit risk

The Company s cash equivalents and investments include money market mutual funds placed with various major financial institutions with high credit ratings. The Company s investment policy limits its credit exposure to any one issuer/obligor.

16

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

3. Preparation of financial statements (continued)

The Company s customers include numerous corporations. The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company s account receivables are not subject to significant concentration of credit risk. While receivables for sales to these various customers are generally unsecured, the financial condition and creditworthiness of customers are routinely evaluated. Fixed customer lines were 3,991,000 (unaudited) at December 31, 2009, 3,937,000 (unaudited) at December 31, 2008 and 3,849,000 (unaudited) at December 31, 2007 and wireless customer lines, excluding prepaid lines and Internet subscribers (Argentina and Paraguay combined) were 4,613,000 (unaudited) at December 31, 2009, 4,425,000 (unaudited) at December 31, 2008 and 3,767,000 (unaudited) at December 31, 2007.

The Company provides for losses relating to accounts receivable. The allowance for losses is based on management s evaluation of various factors, including the credit risk of customers and other information. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all significant events and/or transactions that are subject to reasonable and normal methods of estimation, and the accompanying consolidated financial statements reflect that consideration.

(h) Earnings per share

The Company computes net income per common share by dividing net income for the year by the weighted average number of common shares outstanding.

4. Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Company in the preparation of the financial statements.

(a) Foreign currency translation

The financial statements of the Company s foreign subsidiaries are translated in accordance with RT 18, Specific Considerations for the Preparation of Financial Statements . RT 18 establishes guidelines to classify foreign investments either as foreign operations or foreign entities . A company is to be regarded as a foreign entity if it is financially, economically and organizationally autonomous. Otherwise, a company is to be regarded as a foreign operation if its operations are integral to those of the Company. The Company s foreign subsidiaries have been classified as foreign entities since they are financially, economically and organizationally autonomous. Accordingly, and pursuant to RT 18, financial statements of foreign entities are translated using year-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as Foreign currency translation adjustments , a separate caption in the equity section.

(b) Revenue recognition

The Company s principal sources of revenues by reportable segments are:

Voice, data and Internet services

Fixed telephone services:

Domestic services revenues consist of monthly basic fees, measured service, long-distance calls and monthly fees for additional services, including call forwarding, call waiting, three-way calling, itemized billing and voicemail.

Revenues are recognized when earned. Unbilled revenues from the billing cycle dating to the end of each month are calculated based on traffic and are accrued at the end of the month.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from corresponding accounts receivable. Revenues derived from other telecommunications services, principally network access, long distance and airtime usage, are recognized monthly as services are provided.

Revenues from the sale of prepaid calling cards are recognized in the month in which the traffic is used or in which the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as Deferred revenue in accounts payable.

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

Revenues from installations consist primarily of amounts charged for the installation of local access lines. Installation fees are recognized at the time of installation or activation. The direct incremental cost related to installations and activations are expensed as incurred. Installation and activation costs exceed installation revenues for all periods presented. Reconnection fees charged to customers when resuming service after suspension are deferred and recognized ratably over the average life for those customers who are assessed a reconnection fee. Associated direct expenses are also deferred over the estimated customer relationship period in an amount equal to or less than the amount of deferred revenues. Reconnection revenues are higher than its associated direct expenses.

Interconnection charges represent amounts received by the Company from other local service providers and long-distance carriers for calls that are originated on their networks and transit and/or terminate on the Company s network. Revenue is recognized as services are provided.

The revenues and related expenses associated with the sale of equipment are recognized when the products are delivered and accepted by the customers.

International long-distance services:
The Company provides international telecommunications service in Argentina including voice and data services and international point-to-point leased circuits.

Revenues from international long-distance service reflect payments under bilateral agreements between the Company and foreign telecommunications carriers, covering inbound international long-distance calls.

Revenues are recognized as services are provided.

Data transmission and Internet services:
Data and Internet revenues mainly consist of fixed monthly fees received from residential and corporate customers for data transmission (including private networks, dedicated lines, broadcasting signal transport and videoconferencing services) and Internet connectivity services (dial-up and broadband). These revenues are recognized as services are rendered.

Revenues from the sale of modems and the related sale expenses (which are generally higher than the connection fees charged to customers) are recognized when the products are delivered and accepted by the customers.

Wireless telecommunication services

The Company provides wireless telephone service throughout Argentina via cellular and PCS networks. Cellular and PCS fees consist of monthly basic fees, airtime usage charges, roaming, charges for termination of calls coming from other cellular operators (TLRD), calling party pays charges (CPP) and additional charges for value-added services, including call waiting, call forwarding, three-way calling, voicemail, short message systems (SMS), and for other miscellaneous cellular and PCS services. These revenues are recognized as services are rendered.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from corresponding accounts receivable.

Equipment 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 and related expenses associated with the sale of wireless handsets, which are generally higher than the prices paid by the customers, are recognized when the products are delivered and accepted by them.

Revenues from the sale of prepaid calling cards are recognized in the month in which the traffic is used or in which the card expires, whatever happens first. Remaining unused traffic for unexpired calling cards is shown as deferred revenue in current liabilities.

(c) Foreign currency transaction gains/losses

Foreign currency transaction gains and losses are included in the determination of net income or loss.

However, CNV Resolution No.398 allowed the application of CPCECABA Resolution MD No.3/02, issued in March 2002, which provides that foreign currency transaction gains or losses on or after January 6, 2002, related to foreign-currency denominated debts as of such date must be allocated to the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements established in such standard are fulfilled. The Company adopted these resolutions and allocated the costs to fixed assets accordingly.

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

In July 2003, the CPCECABA suspended such accounting treatment and therefore required foreign currency transaction gains and losses to be included in the determination of net income as from July 28, 2003.

The net carrying value of these capitalized costs was $57 as of December 31, 2009 and $67 as of December 31, 2008, both in the Voice, data and Internet segment.

(d) Cash and banks

Cash and banks are stated at face value.

(e) Trade accounts, other receivables and payables, in currency, arising from the sale or purchase of goods and services and financial transactions

Certain receivables and payables on the sale or purchase of goods and services, respectively, and those arising from financial transactions, are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at the time of initial measurement. This method is also called the amortized cost method and is equivalent to the face value of the receivables/payables plus the accrued interest less the collections/payments made at year-end.

As mentioned in Note 3.g, the Company provides for losses relating to doubtful accounts based on management s evaluation of various factors.

(f) Other receivables and payables in currency not included in (e) and (g)

Other non-current receivables and non-current payables not included in (e) above and (g) below, are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at year-end.

Other current receivables and current payables are stated at face value.

(g) Deferred tax assets and liabilities and credits on minimum presumed income tax

Deferred tax assets and liabilities and minimum presumed income tax credits are stated at face value.

Since 2002, the Telecom Group, following the guidelines of the FACPCE, has treated the differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes as temporary differences. Additional information on the impact of this treatment in the Company s financial position is given in Note 10.

(h) Investments

Time deposits are valued at their cost plus accrued interest at year-end.

The Company has investments in certain government bonds. The Company has classified these securities as held-to-maturity as management has the intent and ability to hold those securities to maturity.

Mutual funds are carried at market value. Unrealized gains and losses are included in financial results, net, in the consolidated statements of income.

The 2003 Telecommunications Fund is recorded at the lower of cost or net realizable value.

(i) Inventories, net

Inventories are stated at replacement cost, which does not exceed the net realizable value. Where necessary, provision is made for obsolete, slow moving or defective inventory.

From time to time, the Management of Personal and Núcleo decide to sell wireless handsets at prices lower than their respective replacement costs. This strategy is aimed at achieving higher market penetration by reducing customer access costs while maintaining the companies overall wireless business profitability. As this policy is the result of management s decision, promotional prices are not used to calculate the net realizable value of such inventories.

(j) Other assets, net

Fixed assets held for sale are stated at cost, less accumulated depreciation at the time of transfer to the held-for-sale category. All amounts have been restated for inflation as mentioned in Note 3.c. which does not exceed the estimated realizable value of such assets. Where necessary, a provision was made for the adjustment of the restated cost at realizable value.

(k) Fixed assets, net

Fixed assets received from ENTel have been valued at their transfer price. Subsequent additions have been valued at cost less accumulated depreciation. All amounts have been restated for inflation as mentioned in Note 3.c.

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

As of the date of these financial statements, the Company has received the transfer of title pertaining to substantially all of the fixed assets received from ENTel, other than 14.7% of the total transferred buildings, representing $10 of net carrying value as of December 31, 2009. Nevertheless, the Company is in complete possession of these fixed assets and operates them normally.

For fixed assets whose operating condition warrants replacement earlier than the end of the useful life assigned by the Company to its fixed asset category, the Company calculates the depreciation charge based on the adjusted remaining useful life assigned in accordance with the related asset replacement.

The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statements of income.

Until the date of cancellation of its financial debt (see Note 8.2), the Company has capitalized interest on long-term construction projects. Additional information is given in Note 5.n.

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the related assets, based on the rates specified below (additional information is given in Note 12):

Asset	Estimated useful life (years)
Buildings received from ENTel	35
Buildings	50
Tower and pole	15
Transmission equipment	3-20
Wireless network access	5-10
Switching equipment	5-13
Power equipment	7-15
External wiring	10-20
Computer equipment	3-5
Telephony equipment and instruments	5-10
Installations	3-10

The Company is subject to asset retirement obligations (ARO) associated with its cell and switch site operating leases. The Company, in most cases, has the right to renew the initial lease term. Accordingly, the Company records a liability for an ARO. When the liability is initially recorded, the entity capitalizes 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, an entity 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 timing or amount of estimated cash flows should be 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 should be 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 should be treated as modifications of an existing ARO, and should be measured at the historical interest rate used to measure the initial ARO.

Fixed assets as a whole does not exceed the estimated realizable value (See 4.m below).

(l) Intangible assets, net

Intangible assets are stated at cost, less accumulated amortization. All amounts have been restated for inflation as mentioned in Note 3.c.

Intangible assets comprise the following:

Software obtained or developed for internal use

The Company has capitalized certain costs associated with the development of computer software for internal use. These costs are being amortized on a straight-line basis over a period ranging between 5 years and 7.5 years.

Debt issue costs

Expenses incurred in connection with the issuance of debt are deferred and are being amortized under the interest method over the life of the related issuances.

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

PCS license

The Company adopted RT 17, Overall considerations for the preparation of financial statements , on January 1, 2002. This standard prescribes the accounting treatment for both identifiable intangibles and goodwill after initial recognition. Upon adoption of this standard, amortization of indefinite life intangibles ceased. Impairment testing of these assets is now required. The Company identified Personal s PCS licenses as indefinite life intangibles.

PCS and Band B of Paraguay licenses

Núcleo s PCS and Band B licenses were amortized under the straight-line method over 10 years through fiscal year 2007. Renovation costs are being amortized in 5 years.

Rights of use

The Company purchases network capacity under agreements which grant the exclusive right to use a specified amount of capacity for a period of time. Acquisition costs are capitalized and amortized over the terms of the respective capacity agreements, generally 15 years.

Exclusivity agreements

Exclusivity agreements were entered into with certain retailers and third parties relating to the promotion of the Company s services and products. Amounts capitalized are being amortized over the life of the agreements, which range from fiscal year 2009 to fiscal year 2028.

Customer relationships

Acquired in the purchase of shares of Cubecorp, it is amortized over the terms of permanence of the customers which was estimated in 15 years.

Intangible assets as a whole does not exceed the estimated realizable value (See 4.m below).

(m) Impairment of long-lived assets

The Company periodically evaluates the carrying value of its long-lived assets and certain intangible assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows, discounted and without interest cost, from such an asset, is less than its carrying value. In that 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 using the anticipated cash flows discounted at a rate commensurate with the risk involved.

The devaluation of the Argentine peso, which occurred in January 2002, and the pesification of Telecom Argentina s tariffs materially affected the Company s financial position and results of operations, and changed the rules under which the Company operated. However, as indicated in Note 2.j., Law No. 25,561 authorized the Argentine Government to renegotiate the conditions of the contracts with the privatized companies, taking into account their profitability, among other criteria.

In this regard, 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. In the preparation of such estimates and in connection with the fixed-line business, the Company has considered different scenarios, some of which contemplate the modification of the current level of Telecom Argentina s regulated tariffs which would enable Telecom Argentina to finance the technological renovation of its fixed-line network in the next years.

Based on the foregoing, the Company considered an impairment charge not to be necessary for its long-lived assets.

(n) Capital leases

Fixed asset acquisitions financed by leases are recorded at the estimated price which would have been paid on a cash basis, with the unpaid amount discounted using the internal rate of return at the moment of the initial measurement (including the purchase price option), recorded as a liability.

At December 31, 2009 the Company has cancelled all its capital leases and in January 2010 has exercised the purchase price options in the amount of $0.1. A summary by major class of fixed assets covered by capital leases at December 31, 2009 is as follows:

	Book value	Lease terms	Amortization period
Computer equipment	19	3 years	5 years
Accumulated depreciation	(10)		
Net value	**9**		

(o) Severance indemnities

Severance payments made to employees are expensed as incurred.

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

(p) Taxes payable

Income taxes

As per Argentinean Tax Law, the provisions for income taxes have been computed on a separate return basis (i.e., the Company does not prepare a consolidated income tax return). All income tax payments are made by the subsidiaries as required by the tax laws of the countries in which they respectively operate. The Company records income taxes using the method required by RT 17.

Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax bases. RT 17 also requires companies to record a valuation allowance for that component of net deferred tax assets which are not recoverable. The statutory income tax rate in Argentina was 35% for all years presented.

Cash dividends received from a foreign subsidiary are computed on the statutory income tax rate. As per Argentinean Tax Law, income taxes paid abroad may be recognized as tax credits.

The statutory income tax rate in Paraguay was 10% for all years presented. As per Paraguayan Tax Law, dividends paid are computed with an additional income tax rate of 5%. Additionally, when dividends are paid to foreign shareholders, there is an additional income tax rate of 15%, which is deducted from the amounts paid to the shareholders.

Tax on minimum presumed income

The Company is subject to a tax on minimum presumed income. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on the tax basis of certain assets. The Company s tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the tax on minimum presumed income exceeds income tax during any fiscal year, such excess may be computed as a prepayment of any income tax excess over the tax on minimum presumed income that may arise in the next ten fiscal years.

For the year ended December 31, 2009, Telecom has estimated a provision for income taxes.

Turnover tax

Under Argentine tax law, the Company is subject to a tax levied on gross revenues. Rates differ depending on the jurisdiction where revenues are earned for tax purposes. Average rates were approximately 4.0% for the years ended December 31, 2009, 2008 and 2007.

(q) Other liabilities

Pension benefits

Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or privately managed fund plans to which employees may elect to contribute. Amounts payable to such plans are accounted for on an accrual basis. The Company does not sponsor any stock option plan.

Retirement liabilities shown under other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability. Benefits consist of the payment of a single lump sum equal to the salary of one month for each five years of service. There is no vested benefit obligation until the occurrence of those conditions. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits. The net periodic pension costs are recognized as employees render the services necessary to earn pension benefits. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as required by RT 23. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement.

The following tables summarize benefit costs for the years ended December 31, 2009, 2008 and 2007, as well as the benefit obligations associated with postretirement benefit plans as of December 31, 2009 and 2008:

	As of December 31,	
	2009	**2008**
Accumulated benefit obligation	$ 6	$ 5
Effect of future compensation increases	5	4
Projected benefit obligation	**$ 11**	**$ 9**

	Years ended December 31,		
	2009	**2008**	**2007**
Service cost	$ 1	$ 1	$ 1
Interest cost	3	3	3
Total benefit cost	**$ 4**	**$ 4**	**$ 4**

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

The actuarial assumptions used are based on market interest rates, past experience and management s best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. The main assumptions used in determining expense and benefit obligations are as follows:

	2009	2008	2007
Discount rate (1)	10.3-12.3%	10.5%	10.5%
Projected increase rate in compensation (2)	12.6-16.7%	10-16%	10.5-14%

(1) Represents estimates of real rate of interest rather than nominal rate in $.
(2) In line with an estimated inflationary environment for the next three fiscal years.

Deferred revenue on sale of capacity

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Revenues are deferred and recognized as services are provided.

Court fee

Under the out-of-court restructuring agreement (Acuerdo Preventivo Extrajudicial or APE), the Company was subject to a court fee of 0.25% levied on the total amount finally approved as restructured by the court. The fee is paid in up to one hundred and ten monthly installments with an annual interest rate of 6% through September 2014.

Legal fee

Pursuant to Law No. 26,476 Tax Regularization Regime (Régimen de Regularización Impositiva Ley Nº 26,476 see Note 11.d.2 -), the Company is subject to a legal fee which shall be paid in twelve monthly consecutive installments without interest as from final judgment.

(r) Exchange of debt instruments

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 a rate commensurate with the risks of the debt instrument and time value of money. This criterion was used by Telecom Argentina to account for its respective debt restructuring which was finished in August 2005 and fully cancelled on October 15, 2009 as described in Note 8.

The new debt was initially recorded at fair value. Fair value was determined as the present value of the future cash flows to be paid under the terms of the new debt instruments discounted at a rate commensurate with the risks of the debt instrument and time value of money at the time of the debt restructuring (August 2005). Based on the opinion of an external financial expert, the estimated payments of the restructured debt have been discounted to its present value (at each measurement date) using the August 31, 2005 discount rate of (i) 10.5% for the dollar nominated notes; (ii) 9.2% for the euro nominated notes and (iii) 7.3% for the Japanese yen nominated notes (all tax-free rates for the noteholders, as applicable).

(s) Litigation

The Company, in the ordinary course of business, is subject to various legal proceedings. The reserve for contingencies was established considering the potential outcome of these matters and the legal counsel s opinion.

(t) Derivatives to hedge the Company s exposure to foreign currency and/or interest rate fluctuations

The Company has adopted the Caption No. 2 of RT 18 issued by the FACPCE, Accounting for Derivative Instruments and Hedging Activities , which requires the recognition of all derivative financial instruments as assets and/or liabilities at their estimated fair value, whether designated in a hedging relationship or not.

Changes in the fair value of effective cash flow hedges are recognized as a separate component of Shareholders equity of the balance sheet (in the item line Foreign currency translation adjustments) and subsequently reclassified to earnings when the hedged items affect earnings. Gains and losses from fair value hedges are recognized in earnings in the period of any changes in the fair value of the related recognized asset or liability.

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

Derivatives not designated or qualifying as a hedging instrument or ineffective derivatives are adjusted to fair value through earnings, being recorded in the item line Gain (loss) on derivatives of the statement of income s caption Financial results, net .

These instruments were negotiated with institutions and corporations with significant financial capacity; therefore, the Company considered that the risk of non-compliance with the obligations agreed to by such counterparties to be minimal.

The Company does not enter into derivative contracts for speculative purposes.

As part of its hedging policy, the Telecom Group has entered into the following derivatives:

1. Foreign currency swap contracts related to Notes

During fiscal year 2005, the Company entered into foreign exchange currency swap contracts to hedge its exposure to the Euro and Japanese yen-denominated Notes fluctuations with respect to the US dollar. Considering that the Company s cash flows generation is in Argentine pesos and the terms of the swap do not perfectly match the terms of the Euro and Japanese yen-denominated obligations, these hedges were regarded as ineffective. These swap agreements expired in October 2008.

2. Non-Deliverable Forward (NDF) contracts to purchase foreign currency and other derivatives

Between October 2008 and January 2009, the Company entered into several contracts to purchase a total amount of US$ 108.5 million and Yen 5,120 million, to hedge its exposure to foreign currency fluctuations with respect to its Notes. Additionally, in January 2009, the Company entered into a derivative contract (an Euro Zero Cost Collar) as supplementary of those contracts, to hedge its exposure to foreign currency fluctuations with respect to the Euro-denominated Notes. These contracts have expired in April 2009 and were regarded as ineffective.

The Company also entered into several NDF contracts amounting to US$185 million in order to hedge its exposure to US dollar fluctuations with respect to its Notes, which were liquidated in October 2009 jointly with Telecom s Notes. The Company designated these NDF contracts as ineffective cash flow hedges. For the year ended December 31, 2009, the changes in the fair value of these hedges were recognized as a loss in the financial results as Gain (loss) on derivatives in an amount of $39.

Personal entered into several NDF contracts amounting to US$159 million in order to hedge its exposure to US dollar fluctuations with respect to its Notes, which were liquidated during fiscal year 2009. Personal designated these NDF contracts as ineffective cash flow hedges. For the year ended December 31, 2009, the changes in the fair value of these hedges were recognized as a loss in the financial results as Gain (loss) on derivatives in an amount of $42.

3. NDF contracts to purchase foreign currency for Notes and accounts payable

Personal entered into several contracts to purchase foreign currency which main characteristics at December 31, 2009, are the following:

a) For Notes

	Currency	Amount (in million)	Average exchange rate	Date	Expiring date	Book value at December 31, 2009 assets (liabilities)
Personal	US$	25.2	4.384 $ /US$	August/December 2009	June 2010 December 2010	(3)
	US$	90.0	4.344 $ /US$	December 2009	December 2010	1
		115.2				(*) (2)

(*) Includes $1 in Other current receivables and $(3) in Current debt (which corresponds to related parties, see Note 7.e).

When entering into these NDF contracts, the management objective was to reduce its exposure to foreign currency fluctuations and denominate its Notes in Argentine peso. Consequently, as the main terms of the NDF were substantially similar to the terms of the foreign currency-denominated obligations, these hedges were regarded as effective. For the year ended December 31, 2009, the changes in the fair value of these hedges were recognized as a loss in the financial results as Gain (loss) on derivatives in an amount of $2.

During January 2010, and continuing with its Notes hedging policy, Personal entered into several NDF contracts amounting to US$72 million in order to hedge its exposure to US dollar fluctuations with respect to its Notes, maturing December 2010. Personal designated these NDF contracts as effective cash flow hedges.

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

b) For accounts payable

During fiscal year 2009, Personal entered into several NDF contracts amounting to US$23.5 million, maturing between September 2009 and August 2010, in order to hedge its exposure to US dollar fluctuations related to accounts payable.

However, as the terms of the NDF do not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective. Therefore, the changes in the fair value of these NDF until the cancellation date and the subsequent changes were recognized as a gain (loss) in the item line Financial results, net . At December 31, 2009, US$8.5 million are outstanding, maturing July and August 2010.

For the year ended December 31, 2009, the changes in the fair value of these hedges were recognized as a loss in the financial results as Gain (loss) on derivatives in an amount of $6 with counterpart in the item line Accounts payable .

During January 2010, Personal entered into several NDF contracts amounting to US$30.2 million (maturing January through December 2010), in order to hedge its exposure to US dollar fluctuations related to accounts payable. The Company designated these NDF contracts as effective cash flow hedges.

(u) Vacation expenses

Vacation expenses are fully accrued in the period the employee renders services to earn such vacation.

(v) Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2009, 2008 and 2007 are shown in Note 17.h. under the caption Advertising .

(w) Results from discontinued operations

Under Argentine GAAP, the sale of the former subsidiary Publicom, approved by the Company s Board of Directors in March 2007, shall be accounted for as Discontinued operation in accordance with the guidelines of RT 9, that considers that an entity s component is discontinued if: i) it has been sold at the date of issuance of the financial statements; ii) it constitutes a separate line of business and iii) it is identified either as operating purposes or financial reporting purposes.

By this means, the Company has consolidated Publicom as of the disposal date identifying the results of operations in a separate line Income from discontinued operations of the consolidated statements of income. Therefore, the Company has separated the cash and cash equivalents provided by investing activities from discontinued operations in the consolidated statements of cash flows.

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of December 31, 2009		As of December 31, 2008	
Cash	$	12	$	9
Banks		50		27
	$	**62**	**$**	**36**

(b) Investments

Investments consist of the following:

	As of December 31, 2009		As of December 31, 2008	
Current				
Time deposits (Note 17.d)	$	1,075	$	718
Mutual funds (Note 17.c)		120		144
Related parties (Note 7.e)		32		4
Government bonds (Note 17.c)				223
	$	**1,227**	**$**	**1,089**
Non current				
Related parties (Note 7.e)	$		$	6
2003 Telecommunications Fund		1		1
	$	**1**	**$**	**7**

25

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

5. Breakdown of the main accounts (continued)

(c) Accounts receivable

Accounts receivable consist of the following:

	As of December 31, 2009	As of December 31, 2008
Current		
Voice, data and Internet	$ 621	$ 538
Wireless (i)	676	602
Wireless related parties (Note 7.e)	10	5
Subtotal	**1,307**	**1,145**
Allowance for doubtful accounts (Note 17.e)	(144)	(136)
	$ 1,163	**$ 1,009**
Non current		
Voice, data and Internet	$	$ 1
Allowance for doubtful accounts (Note 17.e)		(1)
	$	**$**

(i) Includes $19 as of December 31, 2009 and $20 as of December 31, 2008 corresponding to Núcleo s receivables.

(d) Other receivables

Other receivables consist of the following:

	As of December 31, 2009	As of December 31, 2008
Current		
Prepaid expenses	$ 80	$ 65
SU credits (Note 2.d)	66	36
Tax credits	60	48
Restricted funds	10	9

Credit on SC Resolution No. 41/07 and IDC (Note 2.g and i)		4		11
Derivatives (Note 4.t)		1		22
Other		36		41
Subtotal		**257**		**232**
Regulatory contingencies (Notes 2 g and i and 17.e)		(4)		(11)
Allowance for doubtful accounts (Note 17.e)		(12)		(12)
	$	**241**	**$**	**209**
Non current				
Credit on SC Resolution No. 41/07 and IDC (Note 2.g and i)	$	87	$	93
Restricted funds		24		15
Other tax credits		21		17
Prepaid expenses		19		21
Credit on minimum presumed income tax		7		20
Other		12		13
Subtotal		**170**		**179**
Regulatory contingencies (Notes 2 g and i and 17.e)		(75)		(75)
Allowance for doubtful accounts (Note 17.e)		(21)		(17)
	$	**74**	**$**	**87**

(e) Inventories

Inventories consist of the following:

	As of December 31, 2009		As of December 31, 2008	
Wireless handsets and equipment (Note 17.f)	$	264	$	267
Allowance for obsolescence (Note 17.e)		(21)		(16)
	$	**243**	**$**	**251**

(f) Other assets

Other assets consist of the following:

	As of December 31, 2009		As of December 31, 2008	
Current				
Fixed assets held for sale	$	8	$	7
Allowance for other assets (Note 17.e)		(1)		(1)
	$	**7**	**$**	**6**
Non current				
Fixed assets held for sale	$	6	$	6
Allowance for other assets (Note 17.e)		(3)		(3)
	$	**3**	**$**	**3**

26

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

5. Breakdown of the main accounts (continued)

(g) Fixed assets

Fixed assets consist of the following:

	As of December 31, 2009	As of December 31, 2008
Non current		
Net carrying value (Note 17.a)	$ 6,864	$ 6,207
Write-off of materials (Note 17.e)	(25)	(19)
	$ 6,839	**$ 6,188**

(h) Accounts payable

Accounts payable consist of the following:

	As of December 31, 2009	As of December 31, 2008
Current		
Fixed assets suppliers	$ 1,053	$ 773
Other assets and services suppliers	690	607
Inventories suppliers	246	157
Subtotal	**1,989**	**1,537**
Deferred revenues	135	134
Agent commissions	45	21
Related parties (Note 7.e)	32	62
SU reimbursement (Note 2.d)	11	15
	$ 2,212	**$ 1,769**
Non current		
Fixed assets suppliers Related parties (Note 7.e)	$ 24	$ 27

(i) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of December 31, 2009	As of December 31, 2008
Current		
Vacation, bonuses and social security payable	$ 264	$ 193
Termination benefits	36	44
	$ 300	**$ 237**
Non current		
Termination benefits	$ 82	$ 83

(j) Taxes payable

Taxes payable consist of the following:

	As of December 31, 2009	As of December 31, 2008
Current		
Income tax, net (Note 10)	$ 431	$ 290
Tax on SU (Note 2.d)	155	122
Internal taxes	43	25
VAT, net	33	67
Turnover tax	25	47
Regulatory fees	24	22
Municipal taxes	12	8
Other	46	45
	$ 769	**$ 626**
Non current (Note 10)		
Deferred tax liabilities	$ 199	$ 224
Law No. 26,476 Tax Regularization Regime	13	
	$ 212	**$ 224**

(k) Other liabilities

Other liabilities consist of the following:

	As of December 31, 2009	As of December 31, 2008
Current		
Guarantees received	$ 16	$ 16
Deferred revenue on sale of capacity and related services	12	10
Customer loyalty programs	5	5
Court fee	3	3
Other	16	12
	$ 52	**$ 46**

Non current				
Deferred revenue on sale of capacity and related services	$	112	$	86
Asset retirement obligations		44		37
Retirement benefits		11		9
Legal fee (Note 11.d.2)		11		
Court fee		7		11
Customer loyalty programs		1		2
Other				1
	$	**186**	**$**	**146**

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

5. Breakdown of the main accounts (continued)

(l) Net sales

Net sales consist of the following:

	Years ended December 31,		
	2009	**2008**	**2007**
Voice	$ 2,825	$ 2,701	$ 2,601
Internet	1,058	735	528
Data	274	217	173
Voice, data and Internet	**4,157**	**3,653**	**3,302**
Prepaid and post-paid	2,754	2,362	1,988
Roaming, TLRD and CPP	1,633	1,645	1,412
Value added services	2,331	1,736	1,264
Sale of handsets	796	712	583
Other	114	110	92
Wireless in Argentina	**7,628**	**6,565**	**5,339**
Prepaid and post-paid	200	184	242
Roaming, TLRD and CPP	61	78	102
Value added services	139	95	62
Sale of handsets	6	8	7
Internet	19	13	5
Other	16	12	15
Wireless in Paraguay	**441**	**390**	**433**
Total net sales	**$ 12,226**	**$ 10,608**	**$ 9,074**

(m) Gain on equity investees

Gain on equity investees consist of the following:

	Years ended December 31, 2009	2008	2007
Foreign currency translation adjustment realized on capital reimbursement of Núcleo	**$ 13**	**$**	**$**

(n) Financial results, net

Financial results, net consist of the following:

	Years ended December 31, 2009	2008	2007
Generated by assets			
Interest income	$ 125	$ 89	$ 95
Related parties (Note 7.e)	5	1	1
Foreign currency exchange gain	103	104	26
Holding (gain) loss on inventories (Note 17.f)	(7)	2	(59)
Other		3	(1)
Total generated by assets	**$ 226**	**$ 199**	**$ 62**
Generated by liabilities			
Interest expense	$ (173)	$ (203)	$ (294)
Less capitalized interest on fixed assets	15	20	23
Gain (loss) on discounting of debt and other liabilities	12	(53)	(84)
Foreign currency exchange loss	(310)	(233)	(293)
Gain (loss) on derivatives	(94)	(29)	141
Loss on derivatives related parties (Note 7.e)	(9)		
Gain (loss) on purchase of Notes	(2)	34	
Other	6		4
Total generated by liabilities	**$ (555)**	**$ (464)**	**$ (503)**
	$ (329)	**$ (265)**	**$ (441)**

(o) Other expenses, net

Other expenses, net consist of the following:

	Years ended December 31, 2009	2008	2007
Net reversal of provisions related to Law No. 26,476 Tax Regularization Regime (Note 11.d.2)	$ 36	$	$
Provision for contingencies (Note 17.e)	(158)	(100)	(79)
Severance payments and termination benefits	(73)	(144)	(84)
Allowance for obsolescence of inventories (Note 17.e)	(25)	(12)	(7)
Allowance for doubtful accounts and other assets	(4)	(6)	(4)
Provision for regulatory contingencies (Note 17.e)	(6)	(12)	(42)
Allowance for obsolescence of materials (Note 17.e)	(16)	(11)	
Gain on sale of fixed assets and other assets	13	9	19
Gain on SC Resolution No. 41/07 and IDC (Note 2.g and i)			92
Other, net	4	8	7
	$ (229)	**$ (268)**	**$ (98)**

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

6. Supplementary cash flow information

The statement of cash flows has been prepared using the indirect method.

The following table reconciles the balances included as cash and banks and current investments in the balance sheet to the total amounts of cash and cash equivalents at the beginning and end of the years shown in the statements of cash flows:

	As of December 31,			
	2009	**2008**	**2007**	**2006**
Cash and banks	$ 62	$ 36	$ 45	$ 30
Current investments	1,227	1,089	947	631
Total as per balance sheet	**$ 1,289**	**$ 1,125**	**$ 992**	**$ 661**
Less:				
Items not considered cash and cash equivalents				
Related parties	(16)			
Time deposits with maturities of more than three months			(534)	
Government bonds		(223)		
Total cash and cash equivalents as shown in the statement of cash flows	**$ 1,273**	**$ 902**	**$ 458**	**$ 661**

The cash flows provided by operating activities (originated in financial transactions) are as follows:

	Years ended December 31,		
	2009	**2008**	**2007**
Foreign currency exchange gain on cash and cash equivalents	$ 61	$ 70	$ 17
Interest income generated by current investments	76	44	52
Interest income generated by accounts receivable	49	46	42
Interest income generated by related parties	3		
Collection (payment) on swap settlement	(84)	170	12
Subtotal (originated in financial transactions)	**105**	**330**	**123**
Income tax paid	(630)	(182)	(47)
Other cash flows provided by operating activities	3,813	3,171	2,870
Total cash flows provided by operating activities	**$ 3,288**	**$ 3,319**	**$ 2,946**

Income taxes eliminated from operating activities components:

	Years ended December 31, 2009	2008	2007
Reversal of income tax included in the statement of income	$ 797	$ 535	$ 292
Income taxes paid (includes payments in advance)	(630)	(182)	(47)
Total income taxes eliminated from operating activities	**$ 167**	**$ 353**	**$ 245**

Changes in assets/liabilities components:

	Years ended December 31, 2009	2008	2007
Increase in assets			
Investments not considered as cash or cash equivalents	$ (33)	$ (23)	$ (2)
Trade accounts receivable	(281)	(175)	(221)
Other receivables	(38)	(188)	(92)
Inventories	(38)	(107)	(51)
Other assets	(1)	(1)	
	$ (391)	**$ (494)**	**$ (366)**
Net (decrease) increase in liabilities			
Accounts payable	$ 131	$ 52	$ (22)
Salaries and social benefits payable	63	112	44
Taxes payable	(17)	194	44
Other liabilities	25	8	9
Contingencies	(16)	(38)	(50)
	$ 186	**$ 328**	**$ 25**

Main non-cash operating transactions:

	Years ended December 31, 2009	2008	2007
Credit on minimum presumed income tax offset with income taxes	$ 7	$ 285	$ 162
Derivatives	8	200	129
Credit on income tax from cash dividends paid by foreign companies		5	7
Legal fee from Tax Regularization Regime	14		
Foreign currency translation adjustments in assets	92	47	56
Foreign currency translation adjustments in liabilities	36	8	30

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

6. Supplementary cash flow information (continued)

Most significant investing activities:

Fixed assets acquisitions include:

	Years ended December 31,		
	2009	**2008**	**2007**
Acquisition of fixed assets (Note 17.a)	$ (1,801)	$ (1,656)	$ (1,416)
Plus:			
Cancellation of accounts payable used in prior years acquisitions	(652)	(626)	(445)
Less:			
Acquisition of fixed assets through incurrence of accounts payable	945	703	623
Capitalized interest on fixed assets	15	20	23
Wireless handsets lent to customers at no cost (i)	16	3	5
Asset retirement obligations	3	10	2
	$ (1,474)	**$ (1,546)**	**$ (1,208)**

(i) Under certain circumstances, the Company lends handsets to customers at no cost pursuant to term agreements. Handsets remain the property of the Company and customers are generally obligated to return them at the end of the respective agreements.

Intangible assets acquisitions include:

	Years ended December 31,		
	2009	**2008**	**2007**
Acquisition of intangible assets (Note 17.b)	$ (23)	$ (41)	$ (27)
Plus:			
Cancellation of accounts payable used in prior years acquisitions	(7)	(5)	(14)
Less:			
Acquisition of intangible assets through incurrence of accounts payable	13	31	6
	$ (17)	**$ (15)**	**$ (35)**

Equity investee acquisitions include:

	Years ended December 31, 2009	2008	2007
Cash paid for the acquisition of the shares of Cubecorp	$	$ (98)	$
Cash and cash equivalents included in the acquisition of Cubecorp		1	
	$	**$ (97)**	**$**

The following table presents the cash flows from purchases, sales and maturities of securities which were not considered cash equivalents in the statement of cash flows:

	Years ended December 31, 2009	2008	2007
Collection of (investment in) time deposits with maturities of more than three months	$	$ 534	$ (532)
Loan to Nortel	(8)	(5)	(1)
Collection (acquisition) of Government bonds	253	(200)	
Total cash flows from investments not considered as cash equivalents	**$ 245**	**$ 329**	**$ (533)**

Financing activities components:

	Years ended December 31,		
	2009	**2008**	**2007**
Bank overdrafts	$ 218	$ 16	$
Debt proceeds	143	75	45
Payment of Notes	(1,409)	(1,119)	(932)
Purchase of Notes	(108)	(237)	
Payment of bank overdrafts	(218)	(16)	
Payment of bank loans	(117)	(72)	(358)
Payment of interest on Notes	(149)	(180)	(264)
Payment of interest on bank loans	(13)	(5)	(29)
Payment of interest on bank overdrafts	(6)		
Payment of capital reimbursement of Núcleo	(8)		
Cash dividends paid	(19)	(20)	(38)
Total financing activities components	**$ (1,686)**	**$ (1,558)**	**(1,576)**

During the second quarter of 2007 ,the Company collected $182 corresponding to the sale of the equity investee in Publicom, separated as cash flow from investing activities from discontinued operations.

7. Related party transactions

(a) Controlling group

As of December 31, 2009, Nortel is the controlling shareholder of Telecom Argentina. Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares of Telecom Argentina, representing 54.74% of the total common stock of Telecom Argentina.

Nortel s ordinary shares (67.79% of the capital stock) are owned by Sofora Telecomunicaciones S.A. (Sofora). As of December 31, 2009, Sofora s shares are owned by the Telecom Italia Group (50%) and by W de Argentina Inversiones S.L. (50%).

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

7. Related party transactions (continued)

In connection with these transactions, a Shareholders Agreement between W de Argentina - Inversiones S.L., Telecom Italia S.p.A. and Telecom Italia International N.V. for the joint management of Sofora, Nortel, Telecom and its subsidiaries was executed.

The Telecom Italia Group is the operator of Telecom Argentina.

(b) Call options acquired by Telecom Italia International N.V.

In September 2003, Telecom Italia International N.V. acquired, for an aggregate purchase price of US$60 million, two call options on W de Argentina Inversiones S.L. entire interest in Sofora (jointly, the Telecom Italia International N.V. Options). The Telecom Italia International N.V. Options are: (i) a call option for the purchase of 48% of Sofora s share capital, which can be exercised since December 31, 2008, and (ii) a call option on 2% of Sofora s share capital, which can be exercised between December 31, 2008 and December 31, 2013.

According to SC Note No. 1,004/08, dated June 26, 2008 and to SC Note No. 2,573/08, dated December 30, 2008, the exercise of the Telecom Italia International N.V. Options is subject to the prior approval of the SC.

Additionally, the Argentine Antitrust Commission (or the CNDC) Resolution No. 123/08 resolved that until the CNDC issues its decision in the matter of Telecom Italia International N.V. Options, as provided by Law No. 25,156, the Telecom Italia Group companies *must refrain from exercising, assigning, transferring or taking any other action with respect to those purchase options* .

The Telecom Italia Group filed an appeal against CNDC Resolution No. 123/08. On January 28, 2009, the CNDC, through Resolution No. 6/09, rejected the appeal on the grounds that the parties did not lose their rights, because CNDC Resolution No. 123/08 only implies a suspension of the terms provided in the Options purchase contract until the Regulatory Authority mentioned in Law No. 25.156 issues a decision regarding the Transaction, as mentioned in d) below. Given the rejection of the appeal, Telecom Italia Group filed a complaint with the Second National Court of Appeals for Federal Civil and Commercial Matters (the CNACCF), requesting its review. The CNACCF declared itself competent to review the appeal, granted the appeal and served the National Government with notice of said appeal. A decision regarding said appeal is currently pending.

On March 26, 2009, the First National Court of Appeals for Federal Administrative Litigious Matters issued a precautionary measure declaring the suspension of the exercise of Telecom Italia International N.V. s rights set forth in the purchase option contract, upon request of the company Grupo Dracma S.A., presided by Mr. Adrián Werthein, and W de Argentina- Inversiones S.L. This suspension will be effective until the SC renders a final decision regarding the validity of the legal effects in Argentina of the Transaction described in d) below, or, alternatively, when a final decision is rendered regarding the underlying matter for which the precautionary measure was issued, whichever occurs first. Telecom Italia International N.V. filed a special federal appeal against said precautionary measure, and upon its rejection, filed an appeal with Argentina s Supreme Court of Justice. The matter is still pending before Argentina s Supreme Court of Justice.

Telecom Argentina has been informed that W de Argentina Inversiones S.L. filed a complaint against Telecom Italia International N.V., before the National Commercial Court of First Instance N° 8, Secretariat N° 15 of the City of Buenos Aires, with the purpose of obtaining a decree of nullity on the Telecom Italia International N.V. Options. During said proceedings, the intervening judge ordered entry of the complaint in Sofora s stock ledger, pursuant to the terms of section 229 of the National Civil and Commercial Code of Procedure. As of the date of issuance of these consolidated financial statements, resolution of the complaint is still pending.

With respect to Resolutions No. 483/2009 and No. 3/2010 issued by the Secretary of Internal Commerce (SCI) and the precautionary measure issued on August 31, 2009, by the First Instance Federal Court in Contentious Administrative Matters No. 6 dated August 31, 2009, in favor of Telecom Italia International N.V. regarding the Telecom Italia International N.V. Options, it is noted the following: (i) the administrative resolutions have been repealed; and (ii) the above-mentioned precautionary measure has been affirmed by the National Federal Court of Appeals in Contentious Administrative Federal Matters, Chamber III. A special federal appeal has been filed against this decision. At the time of issuance of these financial statements, the special federal appeal remains under review.

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

7. Related party transactions (continued)

(c) Related parties

Related parties (as described in FACPCE RT 21) are those legal entities or individuals which are related to the indirect shareholders of the Company.

(d) Changes in the equity stocks of the indirect shareholders of Telecom Italia

On October 25, 2007, a consortium made up of Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.A. (Benetton) and Telefonica, S.A. (of Spain) bought Olimpia S.p.A. s entire stock through the Italian company Telco S.p.A., which held approximately 23.6% of Telecom Italia S.p.A. s voting shares (the Transaction) . In accordance with the last public statement available (Telecom Italia S.p.A. s financial statements as of September 30, 2009), Telco S.p.A. currently owns approximately 22.4% of Telecom Italia S.p.A. s voting shares.

After the Transaction, since October 2007, Pirelli & C. S.p.A., its controlled subsidiaries and its related parties have ceased to be related parties of Telecom and its subsidiaries.

The Transaction has generated different opinions with respect to its impact on Argentina s telecommunications market in light of the Law for Defense of the Competition (Ley de Defensa de la Competencia or LDC) and the existing regulatory framework.

Consequently, the Transaction required the intervention of various administrative bodies whose decisions have been subject to various presentations and complaints before administrative and judicial courts. Consequently, as of the date of issuance of these consolidated financial statements, those decisions are still pending.

Additional information on the Transaction and its consequences can be reviewed at www.cnv.gov.ar (section Autopista de Información Financiera) and at www.sec.gov.

(e) Balances and transactions with related parties

The Company has transactions in the normal course of business with certain related parties. For the years presented, the Company has not conducted any transactions with executive officers and/or persons related to them. Those balances and transactions are less than $1; therefore they are not shown due to rounding.

The following is a summary of the balances and transactions with related parties as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007:

	As of December 31, 2009	As of December 31, 2008
Investments		

Nortel (Note 17.d)	$	16	$	
Standard Bank S.A. (Note 17.c) (a)		16		4
	$	**32**	**$**	**4**
Accounts receivable				
TIM Celular S.A. (b)	$	3	$	2
Telecom Italia S.p.A. (b)		2		3
Standard Bank S.A. (a)		5	$	
	$	**10**	**$**	**5**
Non-current investments				
Nortel (Note 17.d)	$		$	6
	$		**$**	**6**
Current accounts payable:				
Telecom Italia Sparkle S.p.A. (b)	$	18	$	12
Latin American Nautilus USA Inc. (b)		5		1
Telecom Italia S.p.A. (b)		3		2
Latin American Nautilus Argentina S.A. (b)		2		4
Etec S.A. (b)		2		1
Latin American Nautilus Ltd. (b)				3
TIM Celular S.A. (b)				1
Italtel Argentina S.A. (b) (c)				37
La Caja Aseguradora de Riesgos del Trabajo ART S.A. (a)		2		1
	$	**32**	**$**	**62**
Current debt				
Standard Bank S.A. (a)	$	3	$	
	$	**3**	**$**	
Non-current accounts payable:				
Telecom Italia Sparkle S.p.A. (b)	$	22	$	24
Latin American Nautilus Argentina S.A. (b)		2		2
Latin American Nautilus USA Inc. (b)				1
	$	**24**	**$**	**27**

Table of Contents

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements (Continued)

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

7. Related party transactions (continued)

		Years ended December 31,		
	Transaction description	**2009**	**2008**	**2007**
Services rendered:				
TIM Celular S.A. (b)	Roaming	$ 12	$ 14	$ 12
Telecom Italia Sparkle S.p.A. (b)	International inbound calls	9	7	6
Telecom Italia S.p.A. (b)	Roaming	7	6	7
Latin American Nautilus Argentina S.A. (b)	International inbound calls	1	1	2
Entel S.A. (Bolivia) (b) (d)	International inbound calls			3
Caja de Seguros S.A. (a)	Others	2		
Standard Bank (a)	Usage of fixed telephony	9	5	5
Standard Bank (a)	Interest	3		1
Standard Bank (a)	Loss on derivatives	(9)		
Nortel S.A	Interest	2	1	
Total services rendered		**$ 36**	**$ 34**	**$ 36**
Services received:				
Telecom Italia Sparkle S.p.A. (b)	International outbound calls and data	$ (75)	$ (41)	$ (17)
Telecom Italia S.p.A. (b)	Fees for services and roaming	(27)	(14)	(28)
TIM Celular S.A. (b)	Roaming and Maintenance, materials and supplies	(7)	(5)	(6)
Etec S.A. (b)	International outbound calls	(7		