

TELECOM ARGENTINA SA
Form 20-F
June 30, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2005
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from to

Commission file number: 1-13464

TELECOM ARGENTINA S.A.

(Exact name of Registrant as specified in its charter)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Alicia Moreau de Justo 50

(C1107AAB) - Buenos Aires

Argentina

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, representing Class B Ordinary Shares Class B Ordinary Shares, nominal value P\$1.00 per share	New York Stock Exchange New York Stock Exchange*

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

Class A Ordinary Shares, nominal value P\$1.00 each	502,034,299
Class B Ordinary Shares, nominal value P\$1.00 each	436,413,941
Class C Ordinary Shares, nominal value P\$1.00 each	45,932,738

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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PRESENTATION OF FINANCIAL INFORMATION

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

The term "Telecom Argentina" refers to Telecom Argentina S.A. excluding its subsidiaries Telecom Personal S.A., Núcleo S.A., Telecom Argentina USA, Inc., Publicom S.A., Cable Insignia S.A. and Micro Sistemas S.A. Unless otherwise stated, references to the financial results of "Telecom" are to the consolidated financial results of Telecom Argentina and its subsidiaries.

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

Consolidated Financial Statements. Our Consolidated Financial Statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003, and the notes thereto (the "Consolidated Financial Statements") are set forth on pages F-1 through F-64 of this Annual Report.

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

Exchange Rates. In this Form 20-F, except as otherwise specified, references to "\$", "US\$" and "dollars" are to U.S. dollars, references to "P", "P\$" and "pesos" are to Argentine pesos and references to "euro" or "euros" are to the single currency of the participants in the European Economic and Monetary Union. The exchange rate between the dollar and the peso as of December 31, 2005 was P\$3.032=US\$1.00. Prior to January 6, 2002, the exchange rate had been fixed at one peso per U.S. dollar in accordance with the Convertibility Law. However, as a result of the elimination of the fixed exchange rate and the devaluation of the peso, the exchange rate between the dollar and the peso has declined substantially. As of June 26, 2006, the exchange rate (ask price) was P\$3.09=US\$1.00. Unless otherwise indicated, our Consolidated Financial Statements use the exchange rate as of each relevant date or year-end quoted by Banco de la Nación Argentina (Banco Nación). Such translation should not be construed as representing that the peso amounts actually represent actual dollar amounts or that any person could convert the peso amounts into dollars at the rate indicated or at any other exchange rate. For more information regarding historical exchange rates and the peso, see: Item 3 - Key Information - Exchange Rates. We have provided as a convenience, translation as of December 31, 2005 for other currencies which are mentioned in this Annual Report, including the Japanese yen (P\$2.575=100), and the euro (P\$3.587=1).

Inflation Accounting. On August 22, 1995, the Argentine Government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995, in accordance with CNV resolutions and Argentine GAAP, we began accounting for our financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, our Consolidated Financial Statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statements information for periods prior to August 31, 1995, was restated to pesos of general purchasing power at the end of August 31, 1995 ("constant pesos"). The August 31, 1995 balances adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

However, as a result of the inflationary environment in Argentina and the conditions created by Law No. 25,561, the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (the Professional Council of Economic Sciences of the City of Buenos Aires - CPCECABA) approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements for fiscal years or interim periods ending on or after March 31, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are deemed to be stated in constant currency as of December 31, 2001 (the Stability Period).

On July 16, 2002, the Argentine Government instructed the CNV to accept financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency, following the criteria of the CPCECABA.

Subsequently, on March 25, 2003, the Argentine Government reinstructed the CNV to preclude companies from presenting price-level-restated financial statements. Therefore, on April 8, 2003, the CNV discontinued inflation accounting as of March 1, 2003. We complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. We restated prior year amounts until February 28, 2003 for comparative purposes only.

In October 2003, the CPCECABA discontinued 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.

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

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

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain information included in this Annual Report contains information that is forward-looking, including, but not limited to:

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

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

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

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

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

- technological changes;

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- the impact of legal or regulatory reform and changes in the legal or regulatory environment in which we operate; and
- the effects of competition.

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

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

GLOSSARY OF TERMS

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

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

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

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

ADSL (Asymmetric Digital Subscriber Line): A compression technology that allows combinations of services including voice, data and one-way full motion video to be delivered over existing copper feeder distribution and subscriber lines.

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

AMBA (Multiple Area Buenos Aires): The area of the Federal District and greater Buenos Aires (Gran Buenos Aires), which extends to the city of La Plata to the South, the city of Campana to the North, the city of General Rodriguez to the West and the city of Monte Grande to the Southwest.

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

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

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

Argentine GAAP: Generally Accepted Accounting Principles in Argentina.

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

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

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

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

CETs: Telecommunication centers where public telephone services are offered.

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

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

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

Concurso: A voluntary reorganization proceeding governed by Argentine law.

Convertibility Law: Law No. 23,928 and its Regulatory Decree No. 529/01. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar. The Convertibility Law was partially repealed on January 6, 2002 by the enactment of the Public Emergency Law.

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

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

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

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

February Agreement: An agreement entered into on February 28, 1992 and subsequently ratified by Decree No. 506/92 between the Argentine Government and the Company. This agreement provides for the reduction of domestic long-distance rates from their then-current level. The reduction became effective on May 1, 1992.

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

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

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

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GSM (Global System for Mobile communications): A standard for digital cellular technology, originated in Europe, to provide pan-European roaming capabilities. The technology has recently been introduced and installed in almost all continents. This standard is based on TDMA standard and is considered second-generation cellular technology.

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

Issuance Date: The date of issuance and delivery of the notes, cash consideration and cash interest payments pursuant to the APE .

Juicios Ejecutivos: Summary attachment proceedings governed by Argentine law.

Ley 25,561: Ley de Emergencia Económica y Reforma del Régimen Cambiario (see Public Emergency Law).

LIBOR: The London Interbank Offered Rate, the rate at which deposits in dollars are offered to prime banks in the London Interbank market.

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

Network: An interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to consumer equipment. The transmission equipment may be based on fiber optic or metallic cable or point-to-point radio connectors.

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

November Agreement: An agreement between the Company and the Argentine Government providing for rates to be dollar-based and, at the election of each of the Company and Telefónica, adjusted semi-annually according to the U.S. consumer price index. The November Agreement was ratified by Decree No. 2585/91 and became effective on December 18, 1991.

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

Penetration: The measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population of the region and multiplying the quotient by 100.

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

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

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

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

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

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

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

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

Regulatory Bodies: Collectively, the SC and the CNC.

Reviewing Court: The commercial court of the City of Buenos Aires, with which Telecom Argentina has filed its APE (including, if *applicable*, any appellate court).

RT: Technical Resolutions issued by the Argentine Federation of Professional Boards of Economic Sciences.

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

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

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

SEC: Securities and Exchange Commission of the USA.

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

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

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

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

UMTS (Universal Mobile Telecommunications System): Third generation mobile communications system.

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

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The following tables set forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2005. Our consolidated selected financial data should be read in conjunction with, and are qualified in their entirety by, our Consolidated Financial Statements and: Item 5 - Operating and Financial Review and Prospects .

Our selected consolidated income statement data for the years ended December 31, 2005, 2004 and 2003 and the selected consolidated balance sheet data as of December 31, 2005 and 2004 have been derived from our audited Consolidated Financial Statements included elsewhere in this Annual Report. Our selected consolidated balance sheet data as of December 31, 2003 has been derived from our audited Consolidated Financial Statements as of December 31, 2003 and for the year then ended, which are not included in this Annual Report.

Our selected consolidated income statement data for the years ended December 31, 2002 and 2001 and our selected consolidated balance sheet data as of December 31, 2002 and 2001 have been derived from our audited Consolidated Financial Statements as of December 31, 2002 and 2001 and for the years then ended. The Consolidated Financial Statements as of December 31, 2002 and 2001 and for the years then ended are not included in this Annual Report.

These data are set forth in accordance with Argentine GAAP and US GAAP for all periods presented. See Note 15 to the Consolidated Financial Statements in Item 18 for information regarding certain differences between Argentine GAAP and US GAAP.

As further discussed in Note 3.c to the Consolidated Financial Statements, we discontinued restating our financial statements into constant currency effective March 1, 2003, as required by a CNV resolution. Argentine GAAP required companies to restate financial statements for inflation through September 30, 2003. As stated in footnote 1 to the selected consolidated income statement and balance sheet data, figures for the year ended December 31, 2003 reflect adjustments for inflation until February 28, 2003 and figures for the years ended December 31, 2002 and 2001 were restated in constant pesos as of February 28, 2003 for comparative purposes only. See Presentation of Financial Information - Inflation Accounting .

Recent Accounting Pronouncements

As explained in Item 5 - Operating and Financial Review and Prospects - New Accounting Standards under Argentine GAAP , on December 29, 2005 and January 26, 2006, the CNV approved, with certain amendments, Resolution CD No. 93/05 issued by the CPCECABA, which establishes new accounting and disclosure standards under Argentine GAAP. These standards have been effective for the Company since January 1, 2006. The adoption of these new standards did not have any impact on the Company's financial position or results of operations, except for the classification of foreign currency translation adjustments as a component of equity. As of December 31, 2005, 2004, 2003 and 2002, the foreign currency translation adjustments were P\$31 million, P\$24 million, P\$21 million and P\$28 million, respectively.

We maintain our financial books and records and prepare our financial statements in pesos in conformity with Argentine GAAP, which differ in certain significant aspects from US GAAP. For a summary description of the

principal differences between Argentine GAAP and US GAAP as they relate to us, see Note 15 to our Consolidated Financial Statements.

Supplementary Unconsolidated Financial Information

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

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CONSOLIDATED SELECTED INCOME STATEMENT AND BALANCE SHEET DATA

	As of and for the Year Ended December 31,				
	2005	2004	2003	2002	2001
	(P\$ millions, except per share and per ADS data)				
INCOME STATEMENT DATA(1)					
<i>Argentine GAAP Amounts</i>					
Net Sales	5,718	4,494	3,753	4,012	7,056
Cost of services, general and administrative and selling expenses	(5,214)	(4,094)	(3,646)	(4,216)	(6,183)
Operating income (loss)	504	400	107	(204)	873
Other, net(2)	(472)	(1,249)	(139)	(5,486)	(661)
Gain on debt restructuring, net	1,424	209	376	-	-
Income tax (expense) benefit, net	(122)	(26)	7	1,304	(112)
Net income (loss)	1,334	(666)	351	(4,386)	100
Operating income/(loss) per share(3)	0.51	0.41	0.11	(0.21)	0.89
Operating income/(loss) per ADS(4)	2.56	2.03	0.54	(1.04)	4.43
Net income (loss) per share(3)	1.36	(0.68)	0.36	(4.46)	0.10
Net income (loss) per ADS(4)	6.78	(3.38)	1.78	(22.28)	0.51
<i>US GAAP Amounts(6)</i>					
Operating income/(loss)	444	436	53	(267)	743
Net income (loss)	1,138	(782)	485	(1,653)	(3,501)
Net income (loss) per share(3)	1.16	(0.79)	0.49	(1.68)	(3.56)
Net income (loss) per ADS(4)	5.78	(3.97)	2.46	(8.40)	(17.78)
BALANCE SHEET DATA(1)					
<i>Argentine GAAP Amounts</i>					
Current assets	1,542	4,439	3,184	2,103	2,650
Fixed assets, net	5,959	6,895	8,001	9,689	10,613
Total assets	8,557	12,328	12,270	12,941	14,558
Current liabilities	2,206	10,232	10,684	11,742	4,011
Current debt(5)	905	9,434	9,996	11,135	2,552
Non-current liabilities	4,443	1,540	365	345	5,318
Non-current debt(5)	3,996	1,219	86	145	4,592
Minority Interest	41	30	32	9	26
Foreign currency translation adjustments	31	24	21	28	-
Common stock	984	984	984	984	984
Total shareholders' equity	1,836	502	1,168	817	5,203
Total liabilities, minority interest, foreign currency translation adjustments and shareholders' equity	8,557	12,328	12,270	12,941	14,558
<i>US GAAP Amounts(6)</i>					
Total assets	8,705	12,681	11,630	12,155	15,214
Current liabilities	2,204	10,225	10,684	11,742	12,851
Non-current liabilities	5,645	2,751	455	388	853
Minority interest	37	31	35	35	41
Total shareholders' equity (deficit)	819	(326)	456	(10)	1,469

(1) Figures for the year ended December 31, 2003 reflect adjustments for inflation until February 28, 2003. Figures for year 2002 reflect the adoption of inflation accounting for the entire period. Figures for years 2002 and 2001 have

been restated in constant pesos as of February 28, 2003 for comparative purposes. See Presentation of Financial Information - Inflation Accounting .

(2) Other, net includes equity gain (loss) from related companies, amortization of goodwill, financial results, net, other expenses, net and minority interest.

(3) Calculated based on 984,380,978 shares outstanding during each year.

(4) Calculated based on 196,876,196 ADSs outstanding during each year.

(5) The amount of Telecom Argentina's restructured debt recorded on the Company's consolidated balance sheet as of December 31, 2005 has been discounted to its present value as required under Argentine GAAP. See Item 5 - Operating and Financial Review and Prospects - Critical Accounting Policies - Debt Restructuring Results . As of December 31, 2005, such discount amounted to P\$277 million. As of December 31, 2005, the outstanding nominal amount of total consolidated debt was P\$5,178 million, including derivatives.

(6) The following tables show the principal reconciling items between our consolidated selected Argentine GAAP and US GAAP amounts shown for all years presented. For a description of these differences please refer to Note 15 to the Consolidated Financial Statements.

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	As of December 31,				
	2005	2004	2003	2002	2001
Total assets under Argentine GAAP	8,557	12,328	12,270	12,941	14,558
<u>Valuation differences:</u>					
Translation of foreign-currency transactions as of 12/31/2001	-	-	-	-	585
Foreign-currency translation	(10)	5	8	79	-
Capitalization of foreign currency exchange differences	(314)	(443)	(566)	(762)	-
Other adjustments	6	6	7	1	6
Tax effects on US GAAP adjustments	112	166	198	269	(204)
Valuation allowance	-	(296)	(357)	(373)	203
<u>Balance sheet classification differences:</u>					
Deferred income taxes	361	935	70	-	66
Other classifications(i)	(7)	(20)	-	-	-
Total assets under US GAAP	8,705	12,681	11,630	12,155	15,214

	As of December 31,				
	2005	2004	2003	2002	2001
Total current liabilities under Argentine GAAP	2,206	10,232	10,684	11,742	4,011
<u>Valuation differences:</u>					
Translation of foreign-currency transactions as of 12/31/2001	-	-	-	-	1,631
Accounting for derivative instruments and hedging activities(ii)	-	-	-	-	209
Other adjustments	-	5	-	-	-
Tax effects on US GAAP adjustments	-	3	-	-	(644)
Valuation allowance	-	(3)	-	-	571
<u>Balance sheet classification differences:</u>					
Financial indebtedness(iii)	-	-	-	-	7,073
Other classifications(i)	(2)	(12)	-	-	-
Total current liabilities under US GAAP	2,204	10,225	10,684	11,742	12,851

	As of December 31,				
	2005	2004	2003	2002	2001
Total non-current liabilities under Argentine GAAP	4,443	1,540	365	345	5,318
<u>Valuation differences:</u>					
Translation of foreign-currency transactions as of 12/31/2001	-	-	-	-	2,491
Foreign-currency translation	(4)	(6)	-	-	-
Debt Restructurings	1,300	235	-	-	-
Personal Pre - APE Debt Restructurings	-	-	20	43	-
Other adjustments	3	-	-	-	-
Tax effects on US GAAP adjustments	(453)	(76)	(7)	(15)	(872)
Valuation allowance	-	131	7	15	923
<u>Balance sheet classification differences:</u>					
Deferred income taxes	361	935	70	-	66
Financial indebtedness(iii)	-	-	-	-	(7,073)
Other classifications(i)	(5)	(8)	-	-	-
Total non-current liabilities under US GAAP	5,645	2,751	455	388	853

	As of December 31,				
	2005	2004	2003	2002	2001
Total minority interest under Argentine GAAP	41	30	32	9	26
<u>Valuation differences:</u>					

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Translation of foreign-currency transactions as of 12/31/2001	-	-	-	-	-	15	
Foreign-currency translation	(4)	1	3	26	-	
Tax effects on US GAAP adjustments	-	-	-	-	-	(5)
Valuation allowance	-	-	-	-	-	5	
Total minority interest under US GAAP	37		31	35	35	41	

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	As of December 31,					
	2005	2004	2003	2002	2001	
Total shareholders equity under Argentine GAAP	1,836	502	1,168	817	5,203	
Valuation differences:						
Translation of foreign-currency transactions as of 12/31/2001	-	-	-	-	(3,552))
Foreign-currency translation	39	47	38	115	-	
Capitalization of foreign currency exchange differences	(314)	(443)	(566)	(762)	-	
Debt Restructurings	(1,300)	(235)	-	-	-	
Personal Pre-APE Debt Restructurings	-	-	(20)	(43)	-	
Accounting for derivative instruments and hedging activities(ii)	-	-	-	-	(209))
Other adjustments	3	1	7	1	6	
Tax effects on US GAAP adjustments	565	239	205	284	1,317	
Valuation allowance	-	(424)	(364)	(388)	(1,296))
Minority interest	(10)	(13)	(12)	(34)	-	
Total shareholders equity (deficit) under US GAAP	819	(326)	456	(10)	1,469	

	Years ended December 31,					
	2005	2004	2003	2002	2001	
Operating income (loss) under Argentine GAAP	504	400	107	(204)	873	
Valuation differences:						
Foreign-currency translation	2	1	(5)	(12)	-	
Capitalization of foreign currency exchange differences	117	119	121	135	-	
Goodwill	-	-	-	(10)	-	
Other adjustments	(14)	(6)	(2)	-	-	
Income statement classification differences:						
Other expenses, net as operating loss under US GAAP	(165)	(78)	(168)	(176)	(130))
Operating income (loss) under US GAAP	444	436	53	(267)	743	

	Years ended December 31,					
	2005	2004	2003	2002	2001	
Total net income (loss) under Argentine GAAP	1,334	(666)	351	(4,386)	100	
Valuation differences:						
Translation of foreign-currency transactions as of 12/31/2001	-	-	-	3,552	(3,552))
Foreign-currency translation	(10)	9	(53)	64	-	
Capitalization of foreign currency exchange differences	129	123	196	(762)	-	
Debt Restructurings	(1,230)	(235)	-	-	-	
Extinguishment of Personal s restructured debt	165	-	-	-	-	
Personal Pre - APE Debt Restructurings	-	20	23	(43)	-	
Other adjustments	(5)	(6)	6	(5)	3	
Tax effects on US GAAP adjustments	328	34	(79)	(960)	1,244	
Valuation allowance	424	(60)	24	908	(1,296))
Minority interest	3	(1)	17	(21)	-	
Total net income (loss) under US GAAP	1,138	(782)	485	(1,653)	(3,501)	

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

(ii) Argentine GAAP and US GAAP provide for a similar accounting treatment applicable to derivative financial instruments. The US GAAP reconciling item for fiscal year 2001 corresponds to the difference in the effective date of each standard.

(iii) Under Argentine GAAP, the Company disclosed its outstanding debt as of December 31, 2001, considering the original maturities because no creditor had exercised his right of acceleration of maturities. However, SFAS 78 privileges the enforceability of liabilities by creditors, therefore, the total financial debt affected by the events of default was disclosed as current liabilities as of such date. Since during the fiscal year 2002 the Company received notices of acceleration and classified its outstanding debt as current under Argentine GAAP, no disclosure differences exist between Argentine GAAP and US GAAP in this regard.

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Exchange Rates

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

	High	Low	Average(1)	End of Period
Year Ended December 31, 2001	1.00	1.00	1.00	1.00
Year Ended December 31, 2002	1.00	1.00	1.00	1.00
Year Ended December 31, 2003	3.90	1.55	3.24	3.37
Year Ended December 31, 2004	3.35	2.76	2.95	2.93
Year Ended December 31, 2005	3.04	2.86	2.92	3.03
Month Ended December 31, 2005	3.04	2.98	3.02	3.03
Month Ended January 31, 2006	3.07	3.03	3.05	3.07
Month Ended February 28, 2006	3.08	3.07	3.07	3.07
Month Ended March 31, 2006	3.08	3.07	3.08	3.08
Month Ended April 30, 2006	3.09	3.04	3.07	3.05
Month Ended May 31, 2006	3.09	3.03	3.06	3.09
Month Ended June 30, 2006 (through June 26, 2006)	3.09	3.08	3.08	3.09

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

Sources: BCRA; Banco de la Nación Argentina

Fluctuations in the exchange rate between the peso and the U.S. dollar may affect the dollar equivalent of the peso prices of the Company's Series B Preferred Shares on the Buenos Aires Stock Exchange and, as a result, are likely to affect the market price of the Company's American Depositary Shares (the Series B ADSs) in the United States.

On June 26, 2006, the closing exchange rate (ask price) quoted by Banco Nación was P\$3.09=US\$1.00.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

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

Risk Factors Relating to Argentina

Overview

Substantially all of our property, operations and customers are located in Argentina, and most of our indebtedness is denominated in or swapped to U.S. dollars. Accordingly, our financial condition and results of operations depend to a significant extent on economic and political conditions prevailing in Argentina and on the rates of exchange between the peso and the U.S. dollar. In the past several years the Argentine economy has experienced a severe recession as well as a political crisis. The abandonment of dollar-peso parity has led to significant devaluation of the peso against major international currencies and our need to restructure our financial indebtedness. These conditions have affected and will continue to affect our financial condition and results of operations, and may impair our ability to make payments of principal and/or interest on our financial indebtedness.

Devaluation of the peso will adversely affect our results of operations and its ability to service our debt obligations.

Since we realize substantially all of our revenues in Argentina in pesos, any devaluation in the peso will negatively affect the U.S. dollar value of our earnings while increasing, in peso terms of our expenses and capital costs denominated in foreign currency (including costs of servicing our indebtedness denominated in foreign currencies). A significant depreciation in the Argentine peso against major foreign currencies also may have a material adverse impact on our capital expenditure program.

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

Substantial inflation may return, which would negatively impact Telecom Argentina's margins.

Argentina experienced high levels of inflation during 2002, when the Argentine consumer price index increased 41% and the wholesale price index increased 118%. The level of inflation reflected both the effect of the peso devaluation on production costs and a substantial change in relative prices, partially offset by the elimination of public utility rate adjustments and the large drop in demand resulting from the recession.

Inflation slowed in 2003, with the Argentine consumer price index increasing by 3.7% and the wholesale price index increasing by approximately 1.9%. In 2004, the Argentine consumer price index increased by 6.1% and the wholesale price index increased by 7.9%. In 2005, the Argentine consumer price index increased by 12.3% and the wholesale price index increased by 10.7%. In the three-month period ending on March 31, 2006, the consumer price index increased 2.9% and the wholesale price index increased 2.4%. The Argentine Government has implemented several actions in order to monitor and control prices of the most relevant goods and services. Despite the relatively moderate levels of inflation in recent years, it is possible that the Argentine economy will experience significant inflation in the future. If the BCRA issues significant amounts of currency to finance public sector spending, to intervene in the foreign exchange market or to assist financial institutions in distress, or if the value of the peso cannot be stabilized by positive expectations for Argentina's economic future and/or strict fiscal and monetary policies, an increase in inflation rates can be expected. Since we derive the majority of our revenues from fees payable in pesos, unless our tariffs increase at a rate at least equal to the rate of inflation, any further increase in the

rate of inflation would decrease our revenues in real terms and adversely affect our results of operations. As discussed below under **Risks Associated with Telecom and its Operations**, Telecom Argentina's ability to increase its regulated rates is subject to approval of regulatory authorities. We cannot guarantee that the permitted increases will be sufficient to counter inflationary pressures and cannot assure you that the results of any future rate negotiations will be favorable to us and to our financial condition.

The deterioration of the Argentine economy and the effects of pesification may require us to undertake a mandatory capital stock reduction or commence dissolution proceedings.

Under Article 206 of the Argentine Companies Law No. 19,550, as amended, if at the annual shareholders' meeting a corporation presents financial statements that report that the corporation's losses exceed its reserves and at least 50% of its capital stock, the corporation is required to reduce its capital stock. Furthermore, under paragraph 5 of Article 94, if the corporation presents annual financial statements that report negative net worth, the corporation is required to commence dissolution proceedings unless its shareholders take action (either by making an additional capital contribution or authorizing the issuance of additional shares of the corporation) to increase the company's capital stock.

The requirements of Article 206 and paragraph 5 of Article 94 were temporarily suspended by governmental decrees until December 10, 2005.

Since the Company reported significant losses for the year ended December 31, 2002, which absorbed the Company's reserves and significantly reduced its shareholders' equity, the Company qualified for mandatory reduction of its capital stock. This situation remained unchanged as of December 31, 2005. Accordingly, the Ordinary Shareholders Meeting held on April 27, 2006 approved the use of the Company's legal reserve and a portion of its capital adjustment account to absorb accumulated losses and remediate this situation. See **Item 9 - The Offer and Listing**.

We did not report losses for the fiscal year ended December 31, 2005. However, we cannot guarantee that we will not report significant losses in the future and again qualify for capital stock reduction under Article 206 or under paragraph 5 of Article 94.

In past periods of macroeconomic distress, such as those in 1989 and 2002, Articles 206 and paragraph 5 of Article 94 have been temporarily suspended. However, we cannot guarantee that in any future periods of macroeconomic distress such suspension would occur.

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

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

In the event of further social or political crisis, companies in Argentina may also face the risk of further civil and social unrest, strikes, expropriation, nationalization, forced renegotiation or modification of existing contracts, and changes in taxation policies, including royalty and tax increases and retroactive tax claims.

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

Although general economic conditions have shown improvement and political protests and social disturbances have diminished considerably since the economic crisis of 2001 and 2002, the rapid and radical nature of the changes in the Argentine social, political, economic and legal environment over the past several years have given rise to significant uncertainties about the country's economic and political future. It is currently unclear whether the economic and political instability experienced over the past several years will continue and it is possible that, despite recent economic growth, Argentina may return to a deeper recession, higher inflation and unemployment and greater social unrest. If instability persists, there could be a material adverse effect on our results of operations and financial condition.

In addition, Argentine Courts have issued rulings changing existing jurisprudence on labor matters and indicating an increase in the assumption by companies of the responsibility for, and the costs and risks associated with, utilizing sub-contracted labor.

In a context in which the governing law and applicable regulations change frequently, it is difficult to guarantee that our commercial activities are not going to be affected in any way.

Argentina's fiscal problems and sovereign debt default have negatively affected the macroeconomic environment.

The Argentine Government faced severe fiscal problems as a result of the devaluation of the Argentine peso. Due to the fact that almost all of the financial obligations of the Argentine Government were denominated in foreign currencies, there was an increase in the cost of financial services (in terms of Argentine pesos) of the debt of the Argentine Government as a result of the devaluation in 2001 and 2002. The Government's fiscal revenues are also denominated, in large part, in Argentine pesos and although these revenues have increased in Argentine pesos, due to inflation and to the establishment of new sources of tax collection, the revenues decreased in US dollar-terms. For this reason, the Government was severely affected in its ability to carry out its payment obligations using foreign currency.

The Argentine Government has defaulted on a significant part of its public debt in recent years. Due to a sustained lack of investor confidence in Argentina's ability to make payments due on its sovereign debt and in the Argentine economy generally, Argentina's opportunities to effectively raise capital in the international markets have been severely limited.

On September 17, 2004, the IMF approved the Argentine Government's request to defer repayment of about US\$1.1 billion. On January 10, 2005, Argentina launched a formal offer to restructure more than US\$100 billion of defaulted debt. On March 3, 2005, the Argentine Government announced that 76% of its creditors had accepted the offer. On June 2, 2005, new securities totaling approximately US\$35.3 billion were issued by the government and corresponding debt service payments were made. However, there can be no assurance that the Argentine Government will not default on its obligations under these new bonds in the event that it experiences another economic crisis. In addition, Argentina will have to withstand any legal actions that may be filed by bondholders who did not accept the Argentine Government's exchange offer. Finally, in January 2006, the Argentine Government completed an early repayment of all of its outstanding indebtedness with the IMF, an amount of approximately US\$10.0 billion

It is too early to assess what effects, if any, the recent sovereign debt restructuring will have on investor confidence, the Argentine economy or on the government's relationship with the holdouts. After the economic crisis in 2001, the Argentine Government has maintained a policy of fiscal surplus. To be able to repay its debt, the Argentine Government may be required to continue adopting austere fiscal measures that could adversely affect economic growth. A new default by the Government could lead to a new recession, higher inflation and unemployment and social unrest, which would negatively affect our financial condition and results of operations. In addition, the Government's default and its consequences may continue to affect the ability of private companies, including Telecom, in obtaining access to capital markets or other forms of financing.

The Argentine banking system is still recovering from a collapse.

In recent years, the Argentine financial system has been characterized by extreme volatility. In the past, the Argentine Government has restricted bank withdrawals and required the conversion of dollar deposits to pesos. This led to a significant decrease in commercial and financial activities, diminished spending and greatly increased social unrest, resulting in widespread public protests against financial institutions.

Since 2002, a large number of cases brought in Argentine courts have challenged the constitutionality of pesification pursuant to the Public Emergency Law and have demanded the return of deposits in dollars or in pesos at the prevailing exchange rate at the time of payment. In at least one case, the Argentine Supreme Court has struck down the mandatory conversion to pesos of U.S. dollar deposits. This decision creates uncertainty for the Argentine banking system as a whole and raises the possibility that a large number of depositors may seek to withdraw all of their deposits and convert their pesos into dollars in the future. If this happens, the Argentine Government may be required to provide additional financial assistance to banks. If the Argentine Government is not able to provide this assistance and these withdrawals are significant, this could lead to the collapse of one or more large banks or even the Argentine financial system.

Argentina's economic growth and the relative stability of the country's exchange rate and inflation evidenced since 2003 have allowed a gradual accumulation of deposits in Argentine financial institutions and improved the liquidity of the financial system. Since 2003, overall bank deposits continued to improve. The recovery in deposits was originally restricted to those of a short-term nature (mainly in demand deposit accounts and saving accounts), but longer term certificates of deposit started to increase in the second half of 2004, allowing a recovery of overall bank financing to the private sector accompanied by growth rates of 26% in 2004 and 38% in 2005.

The Argentine banking system's collapse or the collapse of one or more of the larger banks in the system would have a material adverse effect on the prospects for economic recovery and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives for consumers. These conditions would have a material adverse effect on us by resulting in lower usage of our services and the possibility of a higher level of delinquent or uncollectible accounts.

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

Under Argentine law, a shareholder's liability for losses of a company is limited to the value of his or her shareholdings in the company. Under Argentine law, however, shareholders who vote in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or a company's bylaws (or regulations, if any) may be held jointly and severally liable for damages to such company, to other shareholders or to third parties resulting from such resolution. In connection with recommending any action for approval by shareholders, the Board of Directors of Telecom frequently obtains and intends to obtain in the future, opinions of counsel concerning the compliance of the actions with Argentine law and Telecom's bylaws (or regulations if any). Although the issue is not free from doubt, based on advice of counsel, Telecom believes that a court in Argentina in which a case has been properly presented would hold that a non-controlling shareholder voting in good faith and without a conflict of interest in favor of such a resolution based on the advice of counsel that such resolution is not contrary to Argentine law or the Company's bylaws or regulations, would not be liable under this provision.

Risks Associated with Telecom and its Operations

It is possible that our company will not be able to pay the interest or the principal of our indebtedness.

Having successfully completed the restructuring of our financial indebtedness in August 2005, we foresee being able to make payments of principal and interest on the notes issued pursuant to our APE. Nonetheless, this expectation is based on certain assumptions regarding macroeconomic factors which will affect significant components of our business.

If our assumptions are incorrect, or if there are unforeseen events which significantly and adversely affect our operations or if restrictions are imposed on our ability to transfer funds abroad, it is possible that we might not be in a position to make the interest and principal payments due under our indebtedness. Investment in our securities,

therefore, involves a high degree of risk. However, compliance with the prepayment obligations included in the terms and conditions of the Telecom Argentina notes issued pursuant to the APE has resulted in the cancellation of the principal mandatory amortizations scheduled through April 2009.

Although Telecom Argentina has fully complied with the applicable regulation, we cannot assure you that the publicly traded notes will be entitled to the benefits of the exemption from withholding tax provided in the Argentine negotiable obligations law. As a consequence, we could be obliged to pay Argentine taxes on the publicly traded notes and such obligation, if imposed, could adversely affect our ability to satisfy our obligations under the notes and/or invest in our business.

Due to Telecom Personal's debt service obligations and other funding needs related to the expansion of its business, Telecom Personal's cash flow is being fully applied to meet its own requirements for the near future and is not generally available to Telecom Argentina. Accordingly, our ability to satisfy the debt service obligations under the notes will depend principally on the free cash flow generation of Telecom Argentina (excluding the operations of Telecom Personal and its subsidiaries).

Given that the debt instruments of Telecom Argentina are not guaranteed by any of Telecom Argentina's subsidiaries, such instruments will be subordinated structurally to indebtedness incurred by its subsidiaries with respect to any assets of those subsidiaries. Accordingly, upon the liquidation or reorganization of our subsidiaries, our right to participate in any distribution of their assets is subject to the prior claims of creditors of the relevant subsidiary, including trade creditors. As of December 31, 2005, our subsidiaries (among them, Telecom Personal and Núcleo) had liabilities reaching a total equivalent amount of US\$648 million (including trade creditors and excluding inter-company obligations). Subject to certain restrictions, our subsidiaries can incur additional debt and all of that debt will be structurally senior to the debt instruments of Telecom Argentina.

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

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

- incur liens;
- incur indebtedness;
- sell assets;
- enter into sale and leaseback transactions;
- engage in transactions with our shareholders and affiliates;
- make capital expenditures;
- make restricted payments (including loans and investments);
- impose payment restrictions affecting restricted subsidiaries;
- issue equity interests of Telecom Personal resulting in a loss of control of Telecom Personal;
- engage in other lines of business; or
- engage in certain mergers.

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In addition, the notes issued pursuant to Telecom Argentina's APE contain cash sweep provisions which will require Telecom Argentina to use any excess cash as defined in the notes, to prepay Telecom Argentina's notes, which will further limit our ability to finance our future operations or capital needs. Due to significant accumulated losses and these debt service obligations we do not expect to be able to pay dividends in the near future.

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In March 2006, Telecom Argentina implemented certain modifications to the Indenture governing the notes issued pursuant to the APE, after obtaining the approval of noteholders represented at an Extraordinary Bondholders Meeting. The approved modifications removed restrictions on capital expenditures for Telecom Personal and eliminated Telecom Argentina's obligation to reinvest in Telecom Personal any distribution payments received from Telecom Personal.

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

The terms of the Series A and Series B notes that Telecom Argentina issued pursuant to the APE include mandatory prepayment terms that may require Telecom Argentina to prepay the principal amortization of the notes before their scheduled payment date. As of the date of this Annual Report, all principal payments on the notes scheduled to be made through April 15, 2009 have been paid. In addition to making note payments (which are applied to prepay the remaining installments of the notes in direct order of maturity) or optional redemptions (which are applied pro rata at par value), Telecom Argentina may retire the notes through purchases of the notes in the secondary market if the notes are available for purchase at a price below their par value. Telecom Argentina provides no assurance regarding the amount, timing or mechanism for any prepayment of the notes.

We are highly leveraged in foreign currency.

As of December 31, 2005, our total nominal consolidated bank and financial indebtedness, denominated in dollars, euro and yen amounted to the equivalent of approximately US\$1,618 million, including accrued but unpaid interest and related derivatives. Our total consolidated peso-denominated debt amounted to P\$273 million, equivalent to US\$90 million. Our leverage may impair our ability to service our indebtedness or obtain additional financing in the future, to withstand competitive pressure and adverse economic conditions or to take advantage of significant business opportunities that may arise.

In addition, our subsidiary Telecom Personal is and will continue to be highly leveraged. As of December 31, 2005, Telecom Personal's stand-alone outstanding debt was the equivalent of approximately US\$409 million, of which a significant portion is denominated in US dollars.

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

In accordance with the Public Emergency Law, in January 2002, rates for basic telephony services and long distance services were converted to pesos and fixed at an exchange rate of P\$1.00=US\$1.00. The rates Telecom Argentina may charge in the future will be determined by negotiation between Telecom Argentina and the Argentine Government. According to the Public Emergency Law, while undertaking these negotiations, the Argentine Government must consider the effect of these rates on the competitiveness of the general economy, the quality of the services, the investment plans, consumer protection and accessibility of the services and the profitability of public services companies such as Telecom Argentina. In connection with these negotiations, on May 20, 2004, Telecom Argentina and Telefónica de Argentina S.A. signed a Letter of Understanding with the Argentine Government whereby Telecom Argentina agreed, without waiving its right to continue negotiations, to maintain the current tariff structure charged to our customers for fixed line services until December 31, 2004 (the Letter of Understanding 2004).

On December 17, 2004, Law No. 25,972 was published in the Argentine Government's Official Bulletin. The law extended the term for the renegotiation of public works and services contracts specified in Article 9 of the Public Emergency Law until December 31, 2005. Law No. 25,972 also stipulated that the Argentine Government would not be bound in its renegotiation of these contracts by any regulations with respect to public works and services currently in effect. The law also confirmed that the effectiveness of the Public Emergency Law would continue until December 2005. In January 2006, Law No. 26,077 was passed further extending the effectiveness through December 31, 2006.

On March 6, 2006, Telecom Argentina executed a new Letter of Understanding with the Argentine Government pursuant to which Telecom Argentina will be permitted to raise certain rates and incorporate certain modifications to the current regulatory framework. Under the Letter of Understanding, rate increases will be restricted to the

termination charge for international incoming calls and the extension of the time bands for peak-hour tariffs applied to local and domestic long distance calls (the Letter of Understanding 2006). Please see Item 4 - Information on the Company - Recent Developments .

We are unable to predict the outcome of the negotiations that are continuing with regard to further rate increases and the rate scheme which will be applied in the future. Moreover, we are unable to predict whether the Argentine Government, as a result of the current rate renegotiations, will impose additional conditions or requirements, and if these conditions or requirements are imposed, whether we will be able to meet them.

Rate restrictions and reductions of some scope and magnitude may continue for a number of years and may reduce revenues from fixed line and other services. While we intend to continue to strive to control operating costs and capital expenditures and improve productivity, those efforts may not offset, in whole or in part, the decline in operating margins that may result from mandatory rate freezing or reductions measured in dollar terms.

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

Uncertainties resulting from the current economic situation in Argentina and currently existing regulations affecting us and may continue to negatively impact our financial position and results of operations.

We believe that the successful completion of the APE has substantially reduced the risks associated with our financial position; however factors such as the strength of the Argentine economy and the devaluation of the peso, as further described in this Risk Factors section, may continue to negatively impact the financial position and results of our consolidated operations.

We must comply with conditions in our license, some of which are outside of our control.

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

Certain license conditions are not within our control. For example, any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina without prior approval of the regulatory authorities may result in the revocation of Telecom Argentina's license.

In addition, the Telecom Italia Group and W de Argentina - Inversiones S.L are each required to maintain direct ownership of at least 15% of the common stock of Sofora.

Nortel owns all of our Class A Ordinary Shares (51% of our total capital stock) and approximately 8.44% of our Class B Ordinary Shares (3.74% of our total capital stock) which, in the aggregate, represents approximately 54.74% of our total capital stock. We are directly controlled by Nortel by virtue of Nortel's ownership of a majority of our capital stock; however, Nortel's controlling interest is subject to certain agreements among Sofora's shareholders.

Pursuant to the provisions of Telecom Argentina's List of Conditions as amended by Resolutions S.C. No 111/03 and No 29/04: (i) any reduction of ownership of Nortel in our capital stock to less than 51% without prior approval of the Regulatory Bodies; or (ii) any reduction of ownership of currently common shareholders in the capital stock with voting power of Nortel to less than 51% without prior approval of the Regulatory Bodies, may result in the revocation of Telecom's telecommunications license.

Pursuant to the provisions of the Telecom Personal List of Conditions for STM, SRMC and PCS, the license holders of these services may not assign, transfer, encumber or dispose of the licenses or of the rights arising therefrom unless there is an authorization from the CNC.

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

We compete with licensed provider groups, comprised of, among others, independent fixed line service providers, wireless (cellular) and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina. Groups with data transmission networks and other companies providing wireless services may be indirect competitors of Telecom Argentina and its subsidiaries to the extent those services may be substitutes for fixed wireline telephony. As of December 31, 2005, more than 150 licenses for local and/or long distance services had been granted since the end of the exclusivity period.

We expect that we will face pressure on the rates we charge for services and we could experience loss of market share for fixed-line service as a result of this competition particularly in the long distance service and internet businesses. In addition, the market for wireless services is very competitive as certain of our competitors have substantial telecommunications experience. In 2004, Telefónica Móviles, S.A. (Telefónica Móviles), the wireless affiliate of Telefónica de España, S.A., acquired the Argentine wireless business of Compañía de Radiocomunicaciones Moviles S.A. Movicom which resulted in Telefónica Móviles becoming Argentina's largest wireless operator in terms of numbers of subscribers. The Internet services and wireless telecommunications markets, which we expect will continue to account for an increasing percentage of our revenues in the future, are characterized by rapidly changing technology, evolving industry standards, changes in customer preferences and the frequent introduction of new services and products. To remain competitive in the fixed line market, we must invest in our fixed-line network and information technology in order to maintain and improve service quality and to prepare the network for the development and provision of new services that require enhanced capacity. To remain competitive in the wireless telecommunications market, we must enhance our wireless networks principally by completing the transition from TDMA to GSM technology, expand our GSM network coverage, provide high service quality and attractive plans. To remain competitive in the Internet services market, we must constantly upgrade our access technology and software, embrace emerging transmission technologies and improve the responsiveness, functionality, coverage and features of our services. We must also adapt to changing market conditions. Future technological developments may result in decreased customer demand for certain of our services or even render them obsolete. In addition, as new technologies develop, equipment may need to be replaced or upgraded or network facilities (in particular, wireless network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. Responding to these changes may require us to devote substantial capital to the development, procurement or implementation of new technologies.

We also anticipate that we will have to devote significant resources to the refurbishment and maintenance of our existing network infrastructures. In addition, we may have to repair or replace our equipment lost due to theft or vandalism.

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

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

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

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

Nortel Inversora S.A. (Nortel), as our principal shareholder, and its controlling shareholder, Sofora Telecomunicaciones S.A. (Sofora), exercise significant control over matters affecting us.

Nortel is our principal shareholder, owning approximately 54.74% of our capital stock as of the date of this Annual Report. Nortel owns all of our Class A Shares and approximately 8.44% of our Class B Shares. Sofora owns 100% of the common stock and 67.79% of the capital stock of Nortel. Sofora is currently 50% owned by Telecom Italia Group, 48% owned by W de Argentina - Inversiones S.L., or W de Argentina - Inversiones (a company that is party of the Werthein Group de Argentina) and 2% owned by France Telecom Group.

Through their ownership of Sofora, the Telecom Italia Group and W de Argentina - Inversiones will have the ability to determine the outcome of any action requiring our shareholders approval, including the ability to elect a majority of directors.

We have been informed that pursuant to the shareholders agreement entered into between the Telecom Italia Group and the Werthein Group, the Telecom Italia Group and W de Argentina - Inversiones have agreed amongst themselves certain matters relating to the election of our directors and of Nortel s and have given W de Argentina - Inversiones veto power with respect to certain matters relating to us.

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

Nevertheless, any transactions with related parties that hold 1% or more of our equity are put through a prior approval process established by Decree 677/01 and requiring involvement of the Audit Committee and/or an opinion of two independent valuation firms as well as subsequent approval by the Board of Directors in order to verify that the agreement could reasonably be considered to be in accordance with normal and habitual market practice. See Item 7 - Major Shareholders and Related Party Transactions - Related Party Transactions .

Our operations and financial condition could be affected by union activity and general labor unrest.

In Argentina, labor organizations have substantial support and have considerable political influence. The demands of our labor organizations have increased recently as a result of the general labor unrest and dissatisfaction resulting from the disparity between the cost of living and salaries in Argentina as a result of the end of the Convertibility Law (although the Argentine Government has attempted to alleviate this economic disparity through in-kind social welfare distributions). Moreover, labor organizations have advocated that certain of our non-unionized employees should be represented by trade unions. If the number of employees covered by trade unions increases, we may incur an increase in costs for the higher compensation that we and our contractors may need to pay to unionized employees.

In this context, and given the fact that we are limited in our ability to resolve these issues since Telecom Argentina has not yet received authorization for tariff increases, we concluded several agreements with various labor organizations representing our fixed-line telephony employees. These agreements entered into effectiveness in January 2005 and remained in force for all of fiscal year 2005. We entered into additional salary agreements in January 2006 and April 2006. Please see Item 6 - Directors, Senior Management and Employees - Employees and Labor Relations and Item 8 - Financial Information - Legal Proceedings .

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

The Argentine Government has in the past and may in the future promulgate laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees. In the aftermath of the Argentine economic crisis, both the Government and private sector companies have experienced significant pressure from employees and labor organizations relating to wage levels and employee benefits. In early 2005 the Argentine Government stated that it would not order salary increases by decree. During 2006 additional wage adjustments beyond those already negotiated with the labor organizations are not expected, nor are salary increases anticipated for the personnel outside such labor agreements. Furthermore, there is currently no indication that adjustments will be ordered by the Argentine Government in the near future. However, there has been no abatement of pressure to mandate salary increases, and it is possible the government will adopt measures that will increase salaries or require us to provide additional benefits, which would increase our costs and, in the absence of an adjustment of regulated tariffs, reduce our profitability.

Moreover, the Argentine congress is discussing certain modifications to labor regulations that, if approved, could materially impact our relationship with our employees.

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

We are party to a number of legal proceedings, some of which have been pending for several years. We cannot be certain that these claims will be resolved in our favor, and responding to the demands of litigation may divert management time, attention and financial resources. Please see: Item 8 - Financial Information - Legal Proceedings .

In addition, in the last two years, certain changes in the treatment of employment matters under Argentine law have created new incentives for individuals to pursue employment-related litigation in Argentine courts. These changes include holdings that an employee of a subcontractor may file a direct action against the firm contracting the work, that any cap on severance pay in cases of dismissal without cause is unconstitutional, that an employee may bring a civil action in the event of an occupational accident, and the passage of an amendment to the Employment Contract Law to restrict an employer's ability to change the form and conditions of work expected of an employee. As a result of these changes, there may be a heightened risk of employment-related litigation. For example, former sales representatives of Telecom Personal have brought legal actions for what they consider to be the untimely termination of their contracts and have submitted claims for the payment of different items such as commission differences, seniority bonuses and lost profit. Decisions on these claims are pending.

The tax authorities have reviewed certain interpretations that could affect the tax treatment of our bad debt expense and fiber optic improvements. See Item 10 - Additional Information - Taxation and Item 8 - Financial Information - Legal Proceedings .

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

On June 12, 2002, the Argentine Congress passed Law No. 25,609. As of the date of this Annual Report, the executive branch had vetoed Law 25,609 and sent it back to the Congress where it is still being considered. Law No. 25,609 provides that Argentine telephone operators such as Telecom Argentina must provide indispensable telephony services to certain public entities even if these beneficiaries do not pay for these services. The implementation of Law No. 25,609 and subsequent regulations may impact Telecom Argentina's ability to set-off any amounts owed by these public entities against any amounts Telecom Argentina owes to the Argentine Government. In addition, the fulfillment of these obligations may result in losses for us. Please see Regulatory Framework - Law No. 25,609 .

Certain regulatory measures that are still pending implementation, including regulations governing the unbundling of the local access (commonly known as local loop) and number portability, could have the effect of increasing competition for the services we offer. Moreover, the government could modify some of the current regulations, without granting the company corresponding compensation for changes in service requirements, could change its interpretation of existing regulations or introduce new obligations, among others, obligations relating to provision of customer services, universal service regulation, etc., which could have a material impact on our operations.

The BCRA has imposed restrictions on the transfer of funds outside of Argentina in the past and may do so in the future, which could prevent us from making payments on our debt.

In 2001 and 2002, the Argentine Government imposed a number of monetary and currency exchange control measures that included restrictions on the free disposition of funds deposited with banks and tightened restrictions on transferring funds abroad, including for purposes of paying principal and interest on debt. Although these restrictions have generally been eliminated, restrictions on transfer of funds have in the past limited and may in the future limit our ability to make payments on our debt to creditors outside of Argentina. There can be no assurance that the BCRA will not again restrict the transfer of funds abroad for principal and/or interest payments by us to our foreign creditors, or require its prior authorization for such purposes, which would limit our ability to service our debt. See Item 10 - Additional Information - Foreign Investment and Exchange Controls in Argentina .