TELECOM ARGENTINA SA
Form 6-K
June 08, 2007
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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 June, 2007

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

Telecom Argentina S.A.

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

Unaudited Consolidated Financial Statements as of March 31, 2007 and December 31, 2006 and for the three-month periods ended March 31, 2007 and 2006

$: Argentine peso

US$: US dollar

$3.10 = US$1 as of March 31, 2007

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Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006

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

	As of March 31, 2007 (unaudited)	As of December 31, 2006
ASSETS		
Current Assets		
Cash and banks	$ 33	$ 30
Investments, net	1,000	631
Accounts receivable, net	746	743
Other receivables, net	118	128
Inventories, net	141	176
Other assets, net	15	15
Current assets from discontinued operations, net	34	44
Total current assets	**2,087**	**1,767**
Non-Current Assets		
Other receivables, net	437	412
Investments	1	1
Fixed assets, net	5,589	5,739
Intangible assets, net	774	781
Other assets, net	10	10
Non-Current assets from discontinued operations, net	10	10
Total non-current assets	**6,821**	**6,953**
TOTAL ASSETS	**$ 8,908**	**$ 8,720**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 1,315	$ 1,481
Debt	1,489	1,395
Salaries and social security payable	138	131
Taxes payable	230	221
Other liabilities	41	36
Contingencies	81	85
Current liabilities from discontinued operations	22	24
Total current liabilities	**3,316**	**3,373**
Non-Current Liabilities		
Debt	2,730	2,703
Salaries and social security payable	33	32
Taxes payable	117	68

Other liabilities		120		102
Contingencies		248		234
Non-Current liabilities from discontinued operations		7		7
Total non-current liabilities		**3,255**		**3,146**
TOTAL LIABILITIES	**$**	**6,571**	**$**	**6,519**
Minority interest		**76**		**72**
SHAREHOLDERS EQUITY	**$**	**2,261**	**$**	**2,129**
TOTAL LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY	**$**	**8,908**	**$**	**8,720**

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

Valerio Cavallo	**Carlos Felices**
Chief Financial Officer	**Chairman of the Board of Directors**

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Income

for the three-month periods ended March 31, 2007 and 2006

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

	For the three-month periods ended March 31, 2007	2006
Continuing operations		
Net sales	$ 2,055	$ 1,611
Cost of services	(1,135)	(986)
Gross profit	**920**	**625**
General and administrative expenses	(73)	(63)
Selling expenses	(489)	(365)
Operating income	**358**	**197**
Gain on equity investees		6
Financial results, net	(132)	(183)
Other expenses, net	(32)	(42)
Net income (loss) before income tax and minority interest	**194**	**(22)**
Income tax benefit (expense), net	(52)	31
Minority interest	(5)	(5)
Net income from continuing operations	**137**	**4**
Discontinued operations		
Income (loss) from the operations	1	(1)
Loss from assets disposal	(3)	
Loss from discontinued operations	**(2)**	**(1)**
Net income	**$ 135**	**$ 3**
Net income per share	**$ 0.14**	**$**

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

Valerio Cavallo
Chief Financial Officer

Carlos Felices
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Changes in Shareholders Equity

for the three-month periods ended March 31, 2007 and 2006

(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 deficit	Total	Total Shareholders equity
Balances as of January 1, 2006	**$ 984**	**3,044**	**4,028**	**277**	**31**	**(2,469)**	**(2,161)**	**$ 1,867**
Foreign currency translation adjustments					1		1	1
Net income for the year						3	3	3
Balances as of March 31, 2006	**$ 984**	**3,044**	**4,028**	**277**	**32**	**(2,466)**	**(2,157)**	**1,871**
Balances as of January 1, 2007	**$ 984**	**2,688**	**3,672**		**49**	**(1,592)**	**(1,543)**	**$ 2,129**
Foreign currency translation adjustments					(3)		(3)	(3)
Net income for the year						135	135	135
Balances as of March 31, 2007	**$ 984**	**2,688**	**3,672**		**46**	**(1,457)**	**(1,411)**	**2,261**

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

Valerio Cavallo
Chief Financial Officer

Carlos Felices
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Cash Flows

for the three-month periods ended March 31, 2007 and 2006

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

	For the three-month periods ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	$ 135	$ 3
Loss from discontinued operations	2	1
Net income for the year from continuing operations	137	4
Adjustments to reconcile net income to net cash flows provided by continuing operations		
Allowance for doubtful accounts and other allowances	23	28
Depreciation of fixed assets	318	338
Amortization of intangible assets	12	11
Gain on equity investees		(6)
Consumption of materials	17	11
Loss on sale/disposal of fixed assets		1
Provision for lawsuits and contingencies	17	55
Holdings loss on inventories	2	2
Interest and other financial losses on loans	151	215
Income tax	46	(42)
Minority interest	5	5
Net decrease (increase) in assets	12	(90)
Net (increase) decrease in liabilities	(71)	110
Total cash flows provided by operating activities	**669**	**642**
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed asset acquisitions	(256)	(169)
Intangible asset acquisitions	(1)	(1)
Proceeds for the sale of fixed assets	2	
Decrease in investments not considered as cash and cash equivalents		46
Total cash flows used in investing activities	**(255)**	**(124)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt proceeds		30
Payment of debt	(30)	(40)
Payment of interest and debt-related expenses	(12)	(34)
Total cash flows used in financing activities	**(42)**	**(44)**
INCREASE IN CASH AND CASH EQUIVALENTS	**372**	**474**

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**661**	**600**
CASH AND CASH EQUIVALENTS AT PERIOD END	**$ 1,033**	**$ 1,074**

See Note 6 for supplementary cash flow information.

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

Valerio Cavallo	**Carlos Felices**
Chief Financial Officer	**Chairman of the Board of Directors**

TELECOM ARGENTINA S.A.

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

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

Notes to the Unaudited Consolidated Financial Statements

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

1. The Company and its operations

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

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

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

Telecom Argentina s license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina through November 8, 1997, with the possibility of a three-year extension. In March 1998, the Argentine Government extended the exclusivity period to late 1999 and established the basis for a transition period towards deregulation of the telecommunications market.

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

2. Regulatory framework

(a) Regulatory bodies and general legal framework

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

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

The principal features of the regulatory framework 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.

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)
(b) Licenses granted as of March 31, 2007

As of March 31, 2007, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

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

As of March 31, 2007, the Company s subsidiaries have been granted the following licenses:

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

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

the interruption of all or a substantial portion of service;

the serious non-performance of material obligations;

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

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

the reduction of Nortel Inversora S.A. s (Nortel , the parent company of the Company) interest in Telecom Argentina to less than 51%, or the reduction of Nortel s common shareholders interest in Nortel to less than 51%, in either case without prior approval of the regulatory authorities;

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

the Company s bankruptcy.

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

repeated interruptions of the services;

any transfer of the license and/or the related rights and obligations, without the prior approval of the Regulatory Authority;

any encumbrance of the license;

the voluntary insolvency proceedings or bankruptcy of Personal and,

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

Nucleo s licenses are revocable mainly in the case of:

interruption of services;

the bankruptcy of Nucleo and,

non-compliance with certain obligations.

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)
(c) 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. Consumer Price Index (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, 2007.

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

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

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)
(d) New Letter of Understanding with the UNIREN

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

The main terms and conditions of the Letter include:

The CNC and UNIREN determined that Telecom Argentina satisfactorily complied with the majority of the obligations required by the Transfer Agreement and the regulatory framework. Isolated violations were satisfactorily remedied through fines and/or sanctions. Other matters arising in the normal course of business are still pending resolution, which was originally expected by June 30, 2006. The Regulatory Authority is currently analyzing these matters and their resolutions will be gradually known;

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

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

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

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

Telecom Argentina s commitment and the commitment of its indirect shareholders Telecom Italia S.p.A. and W de Argentina Inversiones S.L., to suspend for a period of 210 working days any and all claims, appeals and proceedings filed or in the process of being filed, in administrative, arbitral or judicial offices, in Argentina or in any other jurisdiction, on the grounds of any act or measure taken after the enactment of the Public Emergency Law with respect to the Transfer Agreement and the License. The suspension will take effect as from the 30th day of the conclusion of the public hearing to be held to debate the Letter. Once the Minute of Agreement of the Renegotiation is ratified, any and all claims, appeals and/or proceedings will be disregarded. At the date of issuance of these financial statements, both Telecom Argentina and its indirect stockholders Telecom Italia S.p.A. and W de Argentina Inversiones S.L. have fulfilled this commitment;

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

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

On May 18, 2006, the Letter was debated in a public hearing aimed at obtaining the necessary consensus for the final signing of the Minute of Agreement of the Renegotiation. The Minute of Agreement of Renegotiation will be effective once all the requirements stipulated in the regulatory framework are complied with, which among other things, requires that a Telecom Argentina Stockholders Meeting be held to approve the Minute.

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

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

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)
(e) Universal Service (SU) Regulation

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

In Telecom

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

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

In Personal

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the SU fund. As of March 31, 2007, this provision amounts to $105.

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

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

As a consequence, the CNC requested that Personal:

a) discontinue billing SU amounts to customers;

b) reimburse all collected SU amounts plus interest (applying the same rate used for overdue invoices from customers);

c) clearly identify the reimbursed amounts in the invoices; and

d) file certain information to the regulatory authority for the verification of the reimbursements.

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

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

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

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

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

(f) Tax Stability: Social Security contribution variations

On March 23, 2007, the SC issued Resolution No. 41/07 relating to the impact of variations in Social Security contributions occurring over the past several years and the planned use of the savings and increases that have resulted.

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

The implementation by Telecom of Resolution No. 41/07 remains subject to tax audits by the Regulatory Authority. Management of the Company estimates that a positive balance in the Company s favor will result from such audits and will be applied to other regulatory obligations, existing or to be determined in the future.

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.

(b) Basis of consolidation

These consolidated financial statements include the accounts of Telecom Argentina and its subsidiaries over which it has effective control. Investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method.

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).

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

Reportable segment	Subsidiaries	Percentage of capital stock owned and voting rights as of March 31, 2007 (i)
Voice, data and Internet	Telecom Argentina USA	100.00%
	Micro Sistemas (ii)	99.99%
Wíreless	Personal	99.99%
	Nucleo	67.50%

(i) Percentage of equity interest owned has been rounded.

(ii) Dormant entity at March 31, 2007.

As of March 31, 2007, the operations from the subsidiary Publicom has been consolidated in a separate caption in the consolidated statement of income (Discontinued operations); so, the former reportable segment Directories publishing has been replaced for this line item in the Segment information. Additional information is given in Note 12.

TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

(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

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, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the 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 statement information of 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 the Public Emergency Law, the 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.

However, 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 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 period ended March 31, 2007, 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 restated through September 30, 2003 (*)	**As reported (**)**	**Effect**
	(I)	**(II)**	**(I) (II)**
Total assets	8,833	8,908	**(75)**

Total liabilities	6,544	6,571	**(27)**
Minority interest	76	76	
Shareholders equity	2,213	2,261	**(48)**
Net income	141	135	**6**

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

(d) Interim financial information

The accompanying March 31, 2007 consolidated financial statements are unaudited. The interim consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes. The unaudited financial statements include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments that are considered necessary for the fair presentation of the information in the financial statements. Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of results that may be expected for any future periods.

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3. Preparation of financial statements (continued)

(e) 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.

(f) Reclassifications

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

(g) 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.

(h) Concentration of credit risk

The Company s cash equivalents include high-quality securities placed with various major financial institutions with high credit ratings. The Company s investment policy limits its credit exposure to any one issuer/obligor.

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 3,769,000 (unaudited) at March 31, 2007, and 3,637,000 at March 31, 2006 (unaudited) and wireless customer lines, excluding prepaid lines (Argentina and Paraguay combined) were 3,177,000 (unaudited) at March 31, 2007, and 2,427,000 (unaudited) at March 31, 2006.

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.

(i) Earnings per share

The Company computes net (loss) income per common share by dividing net income (loss) for the period 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 period-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 line item in the equity section.

(b) Revenue recognition

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

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4. Summary of significant accounting policies (continued)

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.

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.

- 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.

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4. Summary of significant accounting policies (continued)

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.

Discontinued operations (former Directory publishing , see Note 12)

Revenues and expenses related to publishing directories are recognized on the issue basis method of accounting, which recognizes the revenues and expenses at the time the related directory is published, fulfilling the Company s contractual obligation to customers.

Revenues related to Internet advertising are recognized at the time the advertisement is available on the Internet network.

(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.

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 for the period as from July 28, 2003.

The net carrying value of these capitalized costs was $184 as of March 31, 2007 and $210 as of December 31, 2006 and will be fully amortized through December 31, 2008.

(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 period-end.

As mentioned in Note 3.h, 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 period 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 period end.

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4. Summary of significant accounting policies (continued)

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 Nucleo 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.

Other assets from discontinued operations are stated as follows:

Raw materials have been accounted for at replacement cost, which does not exceed the estimated realizable value of such materials.

Printing costs related to directories are carried at cost and deferred until the related directories are distributed.

(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.

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 14.6% of the total transferred buildings, representing $13 of net carrying value as of March 31, 2007. 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.

The Company capitalizes interest on long-term construction projects. Interest capitalized was $5 and $3 for the three-month periods ended March 31, 2007 and 2006, respectively.

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the related assets, based on the rates specified below:

Asset	**Estimated useful life (years)**
Buildings received from ENTel	20
Buildings	11-50
Tower and pole	12-20
Transmission equipment	7-9
Wireless network access	7-9
Switching equipment	7-9
Power equipment	10
External wiring	17
Telephony equipment and instruments	6-9
Installations	4-12
Computer equipment	5-6

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4. Summary of significant accounting policies (continued)

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 6.5 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.

- *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*

Nucleo s PCS and Band B licenses are amortized under the straight-line method over 10 years through fiscal year 2007.

- *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 7 to 29 years.

Intangible assets from discontinued operations (trademarks) are amortized under the straight-line method over 15 years.

(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.

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4.   Summary of significant accounting policies (continued)

The devaluation of the Argentine peso 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.c., 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) Severance indemnities

Severance payments made to employees are expensed as incurred.

(o) Taxes payable

- Income taxes

As per Argentinean Tax Law, the provisions for income taxes in the statements of income for all periods presented have been computed on a separate return basis (i.e., assuming that the Company was not included in 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 of existing assets and liabilities 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 periods presented. The statutory income tax rate in Paraguay was 10% for all periods presented.

- 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.

The Company has utilized a portion of its tax loss carryforwards in the computation of income taxes for the year ended December 31, 2006. However, there are remaining tax loss carryforwards as of March 31, 2007. Accordingly, the Company has determined an additional proportional charge for the three-month period ended March 31, 2007 for the tax on minimum presumed income of $13, which, together with the previous year charges, was deferred as   Other non-current receivables . These charges have been estimated as recoverable based on the Company s tax projections and the 10-year legal expiration term for use of the credit.

- 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 three-month periods ended March 31, 2007 and 2006.

(p) Other liabilities

n 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.

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4.   Summary of significant accounting policies (continued)

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 one salary 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 Company does not make plan contributions or maintain separate assets to fund the benefits at retirement. 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 of March 31, 2007 and December 31, 2006 as required by RT 23. As of March 31, 2007, this provision amounts to $15.

n **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.

n **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.

(q) 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 in August 2005. Additional information is given in Note 8.

(r) 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.

(s) Derivatives to compensate future risks or minimized financial costs

Effective January 1, 2002, the Company adopted RT 20 issued by the FACPCE, as amended by CPCECABA,   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 between the Liabilities and the Shareholders   equity of the balance sheet 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. Derivatives not designated or qualifying as a hedging instrument or ineffective derivatives are adjusted to fair value through earnings.

During August and September 2005, following Telecom Argentina s successful completion of its debt restructuring process, the Company entered into two foreign exchange currency swap contracts to hedge its exposure to the Euro and Japanese yen-denominated Notes fluctuations with respect to the US dollar. The principal terms and conditions of these contracts are disclosed in Note 8.2.

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 (due to the existence of the prepaid terms described in Note 8.2), these hedges were regarded as ineffective. Therefore, the changes in the fair value of these hedges were recognized in the financial results as Loss on derivatives .

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4. Summary of significant accounting policies (continued)

Additionally, 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.

(t) Vacation expenses

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

(u) Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the three-month periods ended March 31, 2007 and 2006 are shown in Note 16.h. under the line item Advertising .

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of March 31, 2007	As of December 31, 2006
Cash	$ 13	$ 12
Banks	20	18
	$ 33	**$ 30**

(b) Investments

Investments consist of the following:

	As of March 31, 2007	As of December 31, 2006
Current		
Time deposits	$ 965	$ 558
Mutual funds	35	73

	$	**1,000**	**$**	**631**
Non current				
2003 Telecommunications Fund	$	1	$	1
	$	**1**	**$**	**1**

(c) Accounts receivable

Accounts receivable consist of the following:

	As of March 31, 2007		As of December 31, 2006	
Current				
Voice, data and Internet	$	417	$	433
Wireless (i)		441		411
Wireless related parties (Note 7)		1		4
Subtotal		**859**		**848**
Allowance for doubtful accounts		(113)		(105)
	$	**746**	**$**	**743**

(i) Includes $25 as of March 31, 2007 and $28 as of December 31, 2006 corresponding to Nucleo s receivables.

(d) Other receivables

Other receivables consist of the following:

	As of March 31, 2007		As of December 31, 2006	
Current				
Prepaid expenses	$	51	$	34
Tax credits		23		36
Restricted funds		12		29
Other		43		40
Subtotal		**129**		**139**
Allowance for doubtful accounts		(11)		(11)
	$	**118**	**$**	**128**
Non current				
Credit on minimum presumed income tax (i)	$	309	$	296
Derivatives		96		85
Restricted funds		15		15
Prepaid expenses		14		14
Other tax credits		10		9
Other		3		2
Subtotal		**447**		**421**
Allowance for doubtful accounts		(10)		(9)
	$	**437**	**$**	**412**

(i) Considering the current expiration period (10 years), the Company considers the ultimate realization of the credit to be more likely than not based on current projections.

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5. Breakdown of the main accounts (continued)
(e) Inventories

Inventories consist of the following:

	As of March 31, 2007	As of December 31, 2006
Wireless handsets and equipment	$ 156	$ 188
Allowance for obsolescence	(15)	(12)
	$ 141	**$ 176**

(f) Other assets

Other assets consist of the following:

	As of March 31, 2007	As of December 31, 2006
Current		
Fixed assets held for sale	$ 20	$ 20
Allowance for other assets	(5)	(5)
	$ 15	**$ 15**
Non current		
Fixed assets held for sale	$ 19	$ 19
Allowance for other assets	(9)	(9)
	$ 10	**$ 10**

(g) Fixed assets

Fixed assets consist of the following:

	As of March 31, 2007	As of December 31, 2006
Non current		
Net carrying value (Note 16.a)	$ 5,610	$ 5,761

Write-off of materials	(21)	(22)
	$ 5,589	**$ 5,739**

(h) Accounts payable

Accounts payable consist of the following:

	As of March 31, 2007	As of December 31, 2006
Current		
Fixed assets suppliers	$ 380	$ 460
Inventories suppliers	138	253
Other assets and services suppliers	572	571
Subtotal	**1,090**	**1,284**
Deferred revenues	85	81
Agent commissions	90	70
SU reimbursement	6	6
Related parties (Note 7)	44	40
	$ 1,315	**$ 1,481**

(i) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of March 31, 2007	As of December 31, 2006
Current		
Vacation, bonuses and social security payable	$ 121	$ 114
Special termination benefits	17	17
	$ 138	**$ 131**
Non current		
Special termination benefits	**$ 33**	**$ 32**

(j) Taxes payable

Taxes payable consist of the following:

	As of March 31, 2007	As of December 31, 2006
Current		
Tax on Universal Service	$ 105	$ 95
Turnover tax	45	46
VAT, net	16	8
Income tax, net (i)	5	3
Tax on minimum presumed income, net	18	18
Regulatory fees	11	12
Internal taxes	15	13

Other		15		26
	$	**230**	**$**	**221**
Non current				
Deferred tax liabilities	**$**	**117**	**$**	**68**

(i) Corresponds to Nucleo.

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5. Breakdown of the main accounts (continued)
(k) Other liabilities

Other liabilities consist of the following:

	As of March 31, 2007	As of December 31, 2006
Current		
Contributions to government programs	$ 13	$ 13
Deferred revenue on sale of capacity and related services	9	6
Court fee	3	3
Guarantees received	6	5
Other	10	9
	$ 41	**$ 36**
Non current		
Deferred revenue on sale of capacity and related services	$ 63	$ 49
Asset retirement obligations	25	24
Court fee	14	14
Retirement benefits	15	14
Other	3	1
	$ 120	**$ 102**

(l) Net sales

Net sales consist of the following:

	Three-month periods ended March 31, 2007	2006
Voice	$ 619	$ 597
Data	41	35
Internet	123	100
Subtotal	**783**	**732**
Wireless in Argentina	1,180	811
Wireless in Paraguay	92	68

	$	**2,055**	**$**	**1,611**

(m) Gain on equity investees

Gain on equity investees consists of the following:

	Three-month periods ended March 31,			
	2007		2006	
Gain on capital reimbursement of Nucleo	**$**		**$**	**6**

(n) Financial results, net

Financial results, net consist of the following:

	Three-month periods ended March 31,			
	2007		2006	
Generated by assets				
Interest income	$	23	$	19
Foreign currency exchange gain		8		9
Holding losses on inventories		(2)		(2)
Other		2		9
Total generated by assets	**$**	**31**	**$**	**35**
Generated by liabilities				
Interest expense	$	(84)	$	(101)
Less capitalized interest on fixed assets		5		3
Loss on discounting of debt		(14)		(29)
Foreign currency exchange loss		(85)		(118)
Gain on derivatives		15		27
Total generated by liabilities	**$**	**(163)**	**$**	**(218)**
	$	**(132)**	**$**	**(183)**

(o) Other expenses, net

Other expenses, net consist of the following:

	Three-month periods ended March 31,			
	2007		2006	
Provision for contingencies	$	(17)	$	(28)
Severance indemnities and special termination benefits		(14)		(7)
Allowance for obsolescence of inventories		(3)		(1)

Allowance for doubtful accounts and other assets		(1)		(3)
Allowance for obsolescence of materials				(6)
Other, net		3		3
	$	**(32)**	**$**	**(42)**

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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/periods shown in the statements of cash flows:

	As of March 31,		As of December 31,	
	2007	2006	2006	2005
Cash and banks	$ 33	$ 58	$ 30	$ 44
Current investments	1,000	1,016	631	596
Total as per balance sheet	**$ 1,033**	**$ 1,074**	**$ 661**	**$ 640**
Less:				
Items not considered cash and cash equivalents				
Government bonds (i)				(40)
Total cash and cash equivalents as shown in the statement of cash flows	**$ 1,033**	**$ 1,074**	**$ 661**	**$ 600**

(i) Corresponds to the current portion of held-to-maturity investments.

The financial and holding results included in the total cash flows provided by operating activities are as follows:

	Three-month periods ended March 31,	
	2007	2006
Foreign currency exchange gain on cash and cash equivalents	$ 4	$ 7
Interest income generated by current investments	13	10
Interest income generated by accounts receivable	10	9
Subtotal	**27**	**26**
Other cash flows provided by operating activities	642	616
Total cash flows provided by operating activities	**$ 669**	**$ 642**

Income taxes eliminated from operating activities components:

	Three-month periods ended March 31,	
	2007	2006
Reversal of income tax included in the statement of income	$ 52	$ (31)

Income taxes paid	(6)	(11)
Total income taxes eliminated from operating activities	**$ 46**	**$ (42)**

Changes in assets/liabilities components:

	Three-month periods ended March 31, 2007	2006
Net (increase) decrease in assets		
Investments not considered as cash or cash equivalents	$	$ (6)
Trade accounts receivable	(25)	(14)
Other receivables	8	(20)
Inventories	29	(50)
	$ 12	**$ (90)**
Net (decrease) increase in liabilities		
Accounts payable	$ (94)	$ 148
Salaries and social benefits payable	8	6
Taxes payable	(1)	(46)
Other liabilities	23	4
Contingencies	(7)	(2)
	$ (71)	**$ 110**

Interest paid during the three-month periods ended March 31, 2007 and 2006 (including debt restructuring related expenses), amounted to $12 and $34, respectively.

Main non-cash operating transactions:

	Three-month periods ended March 31, 2007	2006
Provision for minimum presumed income tax	$ 13	$ 12
Derivatives	11	
Foreign currency translation adjustments in assets	5	21
Foreign currency translation adjustments in liabilities	1	11

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6. Supplementary cash flow information (continued)

Most significant investing activities:

Fixed assets acquisitions include:

	Three-month periods ended March 31, 2007	2006
Acquisition of fixed assets (Note 16.a)	$ (190)	$ (185)
Plus:		
Cancellation of accounts payable used in prior years acquisitions	(187)	(109)
Less:		
Acquisition of fixed assets through incurrence of accounts payable	115	121
Capitalized interest on fixed assets	5	3
Wireless handsets lent to customers at no cost (i)	1	1
	$ (256)	**$ (169)**

(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:

	Three-month periods ended March 31, 2007	2006
Acquisition of intangible assets (Note 16.b)	$ (8)	$ (20)
Plus:		
Cancellation of accounts payable used in prior years acquisitions	(1)	(1)
Less:		
Acquisition of intangible assets through incurrence of accounts payable	8	20
	$ (1)	**$ (1)**

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:

	Three-month periods ended March 31, 2007	2006
Government bonds with maturities of more than three months	$	$ 46

Total cash flows from investments not considered as cash equivalents	**$**		**$**	**46**

Financing activities components:

	Three-month periods ended March 31, 2007		2006	
Debt proceeds	$		$	30
Payment of bank loans		(30)		(40)
Payment of interest on Notes		(3)		
Payment of interest on bank loans		(9)		(12)
Payment of debt restructuring related expenses				(22)
Total financing activities components	**$**	**(42)**	**$**	**(44)**

7 Related party transactions

(a) Controlling group

As of March 31, 2007, 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 were owned equally by the Telecom Italia Group and the France Telecom Group prior to December 2003.

On December 19, 2003, the Telecom Italia Group and the France Telecom Group contributed their respective interests in Nortel to a newly created company, Sofora Telecomunicaciones S.A. (Sofora) in exchange for shares of Sofora. At that time, the Telecom Italia Group and the France Telecom Group had the same shareholding interests in Sofora. Following the approval obtained from the regulatory authorities, the France Telecom Group sold its 48% interest in Sofora plus a put option for the remaining 2% to W de Argentina Inversiones S.L. for a total purchase price of US$125 million. The put option will be exercisable from January 31, 2008 through December 31, 2013.

As of March 31, 2007, the shareholders of Sofora are the Telecom Italia Group representing 50%, W de Argentina Inversiones S.L. representing 48% and the France Telecom Group representing 2% of Sofora s capital stock. W de Argentina Inversiones S.L. has granted two call options to the Telecom Italia Group to purchase its equity interest in Sofora for an aggregate purchase price of US$60 million. The first call option to acquire 48% of the equity interest of Sofora may be exercised within 15 days after December 31, 2008. The second call option to acquire the remaining 2% of the equity interest of Sofora may be exercised at any time between December 31, 2008 and December 31, 2013.

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7 Related party transactions (continued)

(b) Related parties

Related parties are those legal entities or individuals which are related to the indirect shareholders of the Company.

(c) Balances and transactions with related parties

The Company has transactions in the normal course of business with certain related parties. For the periods presented, the Company has not conducted any transactions with executive officers and/or persons related to them. In addition, the Company has conducted non significant transactions with its direct shareholder, Nortel, for the periods presented. 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 March 31, 2007 and as of December 31, 2006 and for the three-month periods ended March 31, 2007 and 2006:

	As of March 31, 2007	As of December 31, 2006
Accounts receivable		
Telecom Italia S.p.A. (a) (c)	$ 1	$ 2
TIM Celular S.A. (a)		2
	$ 1	**$ 4**
Accounts payable:		
Telecom Italia Sparkle S.p.A. (a)	$ 25	$ 15
Telecom Italia S.p.A. (a) (c)	9	7
Italtel Argentina S.A. (a)	5	6
Entel S.A. (Bolivia) (a)	2	1
Etec S.A. (a)	1	1
Italtel S.p.A. (a)		1
TIM Celular S.A. (a)		6
Latin American Nautilus Argentina S.A.(a)		2
Latin American Nautilus USA Inc (a)		1
Caja de Ahorro y Seguro S.A. (b)	1	
La Caja Aseguradora de Riesgos del Trabajo ART S.A.(b)	1	
	$ 44	**$ 40**

Three-month periods ended March 31,

	Transaction description	2007	2006
Services rendered:			
<u>Related parties as of March 31, 2007</u>			
Telecom Italia Sparkle S.p.A. (a)	International inbound calls	$ 1	$ 1
Latin American Nautilus Argentina S.A. (a)	International inbound calls	1	
Telecom Italia S.p.A. (a) (c)	Roaming	2	1
TIM Celular S.A. (a)	Roaming	3	2
Total net sales		**$ 7**	**$ 4**
Services received:			
<u>Related parties as of March 31, 2007</u>			
Telecom Italia S.p.A. (a) (c)	Fees for services and roaming	(3)	(1)
Entel S.A. (Bolivia) (a)	International outbound calls	(1)	(1)
Etec S.A. (a)	International outbound calls	(1)	(1)
Telecom Italia Sparkle S.p.A. (a)	International outbound calls	(3)	(2)
TIM Celular S.A. (a)	Roaming and Maintenance, materials and supplies	(2)	(1)
Italtel Argentina S.A. (a)	Maintenance, materials and supplies	(1)	(2)
La Caja Aseguradora de Riesgos del Trabajo ART S.A (b)	Insurance (*)	(1)	(1)
Caja de Seguros S.A. (b)	Insurance	(1)	(1)
Total operating costs		**$ (13)**	**$ (10)**

(*) Shown in Note 16.h. under the line item Salaries and social security .

	Three-month periods ended March 31, 2007	2006
Purchases of fixed assets/intangible assets:		
<u>Related parties as of March 31, 2007</u>		
Telecom Italia Sparkle S.p.A. (a)	$ 7	$
Italtel Argentina S.A. (a)	4	9
Latin American Nautilus Argentina S.A.(a)	1	
Total fixed assets and intangible assets	**$ 12**	**$ 9**

(a) Such companies relate to Telecom Italia Group.
(b) Such companies relate to W de Argentina Inversiones S.L.
(c) Transactions with Telecom Italia Mobile S.p.A. are disclosed together with the transactions with Telecom Italia S.p.A., as a consequence of the merger of these companies.

The transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties. The Board of Directors approved transactions representing more than 1% of the total shareholders equity of the Company, after being approved by the Audit Committee in compliance with Decree No. 677/01.