

TELECOM ARGENTINA S.A.

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004

TELECOM ARGENTINA S.A.

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

Consolidated Financial Statements as of December 31,
2004 and December 31, 2003 and for the years ended
December 31, 2004, 2003 and 2002

\$: Argentine peso

US\$: U.S. dollar

\$2.979 = US\$1 as of December 31, 2004

TELECOM ARGENTINA S.A.

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TELECOM ARGENTINA S.A.

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Consolidated Balance Sheets as of December 31, 2004 and 2003

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

	As of December 31, 2004	As of December 31, 2003
ASSETS		
Current Assets		
Cash and banks.....	\$ 32	\$ 26
Investments, net.....	3,630	2,441
Accounts receivable, net.....	612	581
Other receivables, net.....	78	119
Inventories, net.....	79	14
Other assets.....	3	3
Total current assets.....	4,434	3,184
Non-Current Assets		
Other receivables, net.....	228	193
Investments.....	2	47
Fixed assets, net.....	6,895	8,001
Intangible assets, net.....	773	845
Total non-current assets.....	7,898	9,086
TOTAL ASSETS.....	\$ 12,332	\$ 12,270
LIABILITIES		
Current Liabilities		
Accounts payable.....	\$ 548	\$ 451
Debt.....	9,434	9,996
Salaries and social security payable.....	79	77
Taxes payable.....	114	120
Other liabilities.....	22	25
Contingencies.....	30	15
Total current liabilities.....	10,227	10,684
Non-Current Liabilities		
Accounts payable.....	\$ 7	\$ -
Debt.....	1,219	86
Salaries and social security payable.....	33	30
Taxes payable.....	5	-
Other liabilities.....	71	39
Contingencies.....	214	210
Total non-current liabilities.....	1,549	365
TOTAL LIABILITIES.....	\$ 11,776	\$ 11,049
Minority interest.....	30	32
Foreign currency translation adjustments.....	24	21
SHAREHOLDERS' EQUITY.....	\$ 502	\$ 1,168
TOTAL LIABILITIES, MINORITY INTEREST, FOREIGN CURRENCY TRANSLATION ADJUSTMENTS AND SHAREHOLDERS' EQUITY.....	\$ 12,332	\$ 12,270

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

Marcelo Kozak
Chief Administration Officer

Amadeo R. Vázquez
President

TELECOM ARGENTINA S.A.

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Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002

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

	Years ended December 31		
	2004	2003	2002
Net sales.....	\$ 4,494	\$ 3,753	\$ 4,012
Cost of services.....	(2,950)	(2,640)	(2,893)
Gross profit.....	1,544	1,113	1,119
General and administrative expenses.....	(244)	(222)	(281)
Selling expenses.....	(900)	(784)	(1,042)
Operating income (loss).....	400	107	(204)
Equity (loss) gain from related companies.....	(2)	2	(23)
Amortization of goodwill.....	-	-	(10)
Financial results, net.....	(1,172)	48	(5,302)
Other expenses, net.....	(78)	(168)	(176)
Gain on debt restructuring.....	209	376	-
Net (loss) income before income tax and minority interest	(643)	365	(5,715)
Income tax (expense) benefit, net.....	(26)	7	1,304
Minority interest.....	3	(21)	25
Net (loss) income.....	\$ (666)	\$ 351	\$ (4,386)
Net (loss) income per share.....	(0.68)	0.36	(4.46)

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Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2004, 2003 and 2002 (In millions of Argentine pesos - see Note 3.c)

	Shareholders' contributions			Unappropriated results			Total Shareholders' equity
	Common stock	Inflation adjustment of common stock	Total	Legal reserve	Retained earnings/ (Accumulated deficit)	Total	
Balances as of January 1, 2002....	\$ 984	3,044	4,028	274	901	1,175	\$ 5,203
As approved by the Shareholders' Ordinary Meeting held on April 24, 2002:							
- Legal reserve.....	-	-	-	3	(3)	-	-
Net loss.....	-	-	-	-	(4,386)	(4,386)	(4,386)
Balances as of December 31, 2002	984	3,044	4,028	277	(3,488)	(3,211)	\$ 817
Net income.....	-	-	-	-	351	351	351
Balances as of December 31, 2003.	984	3,044	4,028	277	(3,137)	(2,860)	1,168
Net loss.....	-	-	-	-	(666)	(666)	(666)
Balances as of December 31, 2004	\$ 984	3,044	4,028	277	(3,803)	(3,526)	\$ 502

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Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 (In millions of Argentine pesos - see Note 3.c)

	Years ended December 31,		
	2004	2003	2002
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Net (loss) income.....	\$ (666)	\$ 351	\$ (4,386)
Adjustments to reconcile net (loss) income to net cash flows provided by operating activities			
Allowance for doubtful accounts and other allowances.....	63	12	191
Depreciation of fixed assets.....	1,552	1,768	1,980
Amortization of intangible assets.....	94	109	111
Equity (loss) gain from related companies.....	2	(2)	23
Amortization of goodwill.....	-	-	10
Consumption of materials.....	54	39	47
Fixed assets disposal.....	4	9	50
Provision for commissions.....	25	1	-
Provision for contingencies.....	24	90	101
Gain on debt restructuring.....	(209)	(376)	-
Interest and other financial results on debt.....	1,407	32	4,568
Income tax.....	26	(7)	(1,304)
Minority interest.....	(3)	21	(25)
Net (increase) decrease in assets.....	(182)	(350)	998
Net (decrease) increase in liabilities.....	(27)	318	(697)
Total cash flows provided by operating activities.....	2,164	2,015	1,667
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Fixed asset acquisitions.....	(461)	(162)	(390)
Intangible asset acquisitions.....	(12)	(6)	(24)
Proceeds for the sale of fixed assets and equity investments.....	4	3	2
(Increase) decrease in investments not considered as cash and cash equivalents.....	(382)	(180)	100
Total cash flows used in investing activities.....	(851)	(345)	(312)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Debt proceeds.....	-	-	18
Payment of debt.....	(471)	(11)	(42)
Repurchase of debt.....	-	(422)	-
Payment of interest and debt-related expenses.....	(118)	(335)	(446)
Total cash flows used in financing activities.....	(589)	(768)	(470)
INCREASE IN CASH AND CASH EQUIVALENTS.....	724	902	885
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR.....	2,216	1,314	429
CASH AND CASH EQUIVALENTS AT YEAR END.....	\$ 2,940	\$ 2,216	\$ 1,314

See Note 6 for supplementary cash flow information.

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

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Chief Administration Officer

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Notes to the Consolidated Financial Statements

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

1. The Company and its operations

Telecom Argentina STET-France Telecom S.A. ("Telecom Argentina" 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 and the *Comisión Nacional de Valores* ("CNV"), the National Securities Commission in Argentina.

The Company provides fixed-line public telecommunication services and fixed telephone 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").

Upon the Transfer Date, Telecom Argentina entered into a management agreement with Telecom Italia S.p.A. ("Telecom Italia" and together with FCR, the "Operators") pursuant to which the Operators agreed to manage the business and provide services, expertise and know-how. See Note 7 for an update of the management agreement.

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

The provision of telecommunication services is regulated by the Department of Communications 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 Department of Communications 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 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 December 31, 2004

As of December 31, 2004, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

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

As of December 31, 2004, the Company's subsidiaries have been granted the following licenses:

- Telecom Personal has been granted a non-exclusive, non-expiring license to provide mobile telecommunication services in the northern region of Argentina and data transmission and value added services throughout the country. In addition, Telecom 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 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 non-performance of material obligations;
- 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; and
- the Company's bankruptcy.

Telecom 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.
- the liquidation or dissolution of Personal, without previous authorization of the CNC.

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 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 Department of Communications.

However, in January 2002, the Argentine Government enacted Law No. 25,561, 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, including agreements that govern the provision of fixed telephone services. 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.

Resolution No. 38/02 of the Ministry of Economy established that the regulatory bodies were not entitled to modify, directly or indirectly, the prices and tariffs while the renegotiation talks with the parties were in progress. In August 2003, the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services issued Resolutions No. 188/03 and No. 44/03, which nullified Resolution No. 38/02.

Furthermore, in July 2003, Decree No. 311/03 created a "special unit" 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.

In May 2004, the Company signed a letter of understanding 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 had expected to conclude before December 31, 2004. The Company also committed to offer phone services to beneficiaries of Argentine Government welfare programs and to extend internet services in the interior of the country at discounted prices.

As of the date of these financial statements, there can be no assurance as to the final outcome of the renegotiation process, including, but not limited to, the renegotiation of tariffs.

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Notes to the Consolidated Financial Statements

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

3. Preparation of financial statements

(a) Basis of presentation

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

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

In March 2004, the CNV adopted Technical Resolution No. 21 "Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions" ("RT 21"), which codifies and amends Technical Resolutions No. 4 and 5 and introduces certain technical corrections to other standards. RT 21 applies to the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent and to the accounting for investments in subsidiaries in a parent's separate financial statements. It prescribes which entities are required to present consolidated financial statements, which entities should be included in such statements, the consolidation procedures to be followed, as well as additional disclosure requirements. This standard will be effective for the Company in the fiscal year beginning January 1, 2005. The adoption of this standard will not have a material impact on the Company's financial position or results of operations.

(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 15 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 December 31, 2004 (i)
Voice, data and Internet	Telecom Argentina USA.....	100.00%
	Micro Sistemas (ii)	99.99%
Wireless	Telecom Personal.....	99.99%
	Nucleo.....	67.50%
	Cable Insignia (iii)	75.00%
Directories publishing	Publicom S.A. ("Publicom")..	99.99%

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

(ii) Not operating at December 31, 2004.

(iii) In process of liquidation.

(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.

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Notes to the Consolidated Financial Statements

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

3. Preparation of financial statements (continued)

However, as a result of the inflationary environment in Argentina and the conditions created by the Public Emergency Law No. 25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the "Public Emergency Law"), the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de 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.

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.

As recommended by Argentine GAAP, the following table presents a comparison between certain condensed balance sheet and income statement information, 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
Total assets	12,222	12,332	(110)
Total liabilities	11,776	11,776	-
Shareholders' equity	392	502	(110)
Net (loss) income	(644)	(666)	22

(d) Use of estimates

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

The accompanying consolidated financial statements were prepared assuming: i) a favorable outcome to the tariff renegotiation process mentioned in Note 2.c) and ii) the successful outcome of the financial restructuring described in Note 8. Actual results could differ from those estimates. Therefore, the accompanying consolidated financial statements do not include any potential adjustments or classifications to the recorded amounts of assets or liabilities that might result from the adverse outcome of these uncertainties.

(e) Reclassifications

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

(f) Statement of cash flows

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

(g) 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.

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

3. Preparation of financial statements (continued)

The Company's customers include numerous corporations. The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company's account receivables are not subject to significant concentration of credit risk. While receivables for sales to these various customers are generally unsecured, the financial condition and creditworthiness of customers are routinely evaluated. Fixed service lines were 3,790,000 (unaudited) at December 31, 2004, 3,656,000 (unaudited) at December 31, 2003 and 3,590,000 (unaudited) at December 31, 2002 and wireless customer lines (prepaid lines were not included) were 1,004,262 (unaudited) at December 31, 2004, 482,796 (unaudited) at December 31, 2003 and 462,730 (unaudited) at December 31, 2002.

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, historical trends and other information. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all significant events and/or transactions that are subject to reasonable and normal methods of estimation, and the accompanying consolidated financial statements reflect that consideration.

(h) Earnings/Dividends per share

The Company computes net (loss) income per common share and dividends per share by dividing net (loss) income for the year by the 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", as amended by CPCECABA. 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, as amended by CPCECABA, 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 a separate line item between the liability and equity sections of the balance sheet.

(b) Revenue recognition

The Company's principal sources of revenues are:

Voice, data and Internet services segment

- Fixed telephone services:

Domestic services revenues consist of monthly basic fees, measured service, long-distance calls and measured charges for value-added 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. 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.

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Notes to the Consolidated Financial Statements

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

4. Summary of significant accounting policies (continued)

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

Interconnection charges represent amounts received by the Company from other local service providers and long-distance carriers for calls that originate on or transit their networks but 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 consist of fixed monthly fees received from residential and corporate customers for data transmission and Internet connectivity services, including traditional dial-up connections, dedicated lines, private networks, broadcasting signal transport and videoconferencing services. These revenues are recognized as services are rendered.

Wireless telecommunication services segment

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 and additional charges for value-added services, including call waiting, call forwarding, three-way calling and voicemail, and for other miscellaneous cellular and PCS services. These revenues are recognized as services are rendered.

Equipment sales consist principally of revenues from the sale of wireless mobile telephone 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 and accessories are recognized when the products are delivered and accepted by the customer, which is considered to be a separate earnings process from the sale of wireless services.

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.

Directory publishing segment

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. A change in the timing of the publication of a directory could change the period in which the related revenues and expenses will be recognized.

(c) Foreign currency transaction gains/losses

Generally, foreign currency transaction gains and losses are included in the determination of net income or loss. During the years ended December 31, 2004, 2003 and 2002, net foreign currency transaction gains or losses were a loss of \$460, a gain of \$624 and a loss of \$2,922, respectively.

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4. Summary of significant accounting policies (continued)

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 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 29, 2003.

As further discussed in Note 8, as of December 31, 2004 and December 31, 2003, the Company recognized the outstanding foreign-currency denominated liabilities existing as of January 6, 2002, and governed by foreign law, at their respective original foreign currencies, translated at year-end exchange rates.

(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, unless the Company has the intent and ability to dispose of those assets or advance settlement of liabilities.

(f) Other receivables and payables in currency not included in (e) above (except for deferred tax assets and liabilities and retirement benefits)

Other receivables and payables not included in (e) above (except for deferred tax assets and liabilities and retirement benefits), are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at year end, unless the Company has the intent and ability to dispose of those assets or advance settlement of liabilities.

(g) Investments

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

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

The Company has investments in certain government bonds. The Company has classified these securities as held-to-maturity as management has the intent and ability to hold those securities to maturity. Such securities are recorded at amortized cost, subject to impairment evaluation. Due to the current economic situation and the deterioration of the public sector finances, there has been a significant impairment in the value of some of these securities. As such, the Company recognized other-than-temporary losses on these investments to carry them at fair value (see Note 11 for details).

The Company has certain equity interests in unconsolidated companies, representing from 0.15% to 5.75% of the capital stock in such companies as of December 31, 2004. These investments have been accounted for at the lower of cost or realizable value.

Management is not aware of any event or circumstances since the date of such companies' financial statements that would modify or significantly affect their financial position or results of operations.

(h) Inventories, net

Inventories are stated at the lower of replacement cost or net realizable value. Where necessary, provision is made for obsolete, slow moving or defective inventory.

From time to time, the Company decides 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 Company's 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.

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4. Summary of significant accounting policies (continued)

(i) Other assets

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.

(j) Fixed assets, net

Fixed assets received from "ENTel" have been valued at their transfer price. Subsequent additions have been valued at cost. All amounts have been restated for inflation in accordance with applicable regulations (See Note 3.c.). Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, as specified below:

Asset	Estimated useful life (years)
Buildings.....	11-25
Transmission equipment.....	9-10
Switching equipment.....	10
Power equipment	5-10
External wiring	14
Telephony equipment and instrument.....	6-8
Installations	3-11
Computer equipment.....	3-6

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 4.7% of such assets, representing \$189 of net carrying value as of December 31, 2004. 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 statement of income.

The Company capitalizes interest on long-term construction projects. Interest capitalized was \$5, \$6 and \$66 for the years ended December 31, 2004, 2003 and 2002, respectively.

Certain foreign currency transaction gains and losses were capitalized as part of the cost of the assets from January 2002 through July 2003 (See Note 4.c for details). The net carrying value of these capitalized costs were \$443 as of December 31, 2004 and \$566 as of December 31, 2003.

The Company does not have assets under capital leases as of December 31, 2004 and 2003.

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.

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4. Summary of significant accounting policies (continued)

(k) Intangible assets, net

Intangible assets are stated at cost, less accumulated amortization. All amounts have been restated for inflation in accordance with applicable regulations (See Note 3.c.).

Intangible assets comprise the following:

- Software obtained or developed for internal use

The Company capitalizes certain costs associated with the development of computer software for internal use. Costs capitalized during the years ended December 31, 2004 and 2003 were not significant. These costs are being amortized on a straight-line basis over a period of 5 years.

- Debt issuance costs

Expenses incurred in connection with the issuance of debt have been 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", as amended by CPCECABA, 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 spectrum licenses as indefinite life intangibles.

- Band B license

The Company's Band B license is amortized under the straight-line method over 10 years.

- Rights of use

The Company purchases network capacity under agreements which grant the exclusive right to use a specified amount of capacity for a period of time. Amounts paid 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 products. Amounts capitalized are being amortized over the life of the agreements, which range from 2 to 29 years.

- Trademarks

Trademarks are amortized under the straight-line method over 15 years.

(l) 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 long-lived assets is considered impaired by the Company when the expected cash flows, undiscounted and without interest cost, from such assets, is less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

The devaluation of the Argentine peso 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 business segment. In these estimates, the Company has assumed that it will be able to implement a modification of the current level of Telecom Argentina's tariffs which would enable the Company to continue providing services within a deregulated and competitive market environment, achieve a reasonable profit and meet its debt requirements.

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

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4. Summary of significant accounting policies (continued)

(m) Severance indemnities

Severance payments made to employees are expensed as incurred.

(n) Taxes payable

- Income taxes

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 the subsidiaries 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 30% 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 years ended December 31, 2004 and 2003. However, there are remaining tax loss carryforwards as of December 31, 2004. Accordingly, the Company has determined an additional proportional charge for the year ended December 31, 2004 for the tax on minimum presumed income of \$48, 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 3.7%, 3.6% and 3.3% for the years ended December 31, 2004, 2003 and 2002, respectively.

(o) Other liabilities

✍ Pension benefits

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

Retirement liabilities shown under other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability. Benefits consist of the payment of a single lump sum equal to 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 December 31, 2004 and 2003.

✍ Deferred revenue on sale of capacity

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Up-front payments received are deferred and recognized as services are provided.

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4. Summary of significant accounting policies (continued)

✍ Court fee

Under the out-of-court restructuring agreement ("Acuerdo Preventivo Extrajudicial" or APE), the Company is subject to a court fee of 0.25% levied on the total amount finally approved as restructured by the court. This fee may be paid in up to ten installments, thus the Company classified a portion of the fee as non-current.

(p) Litigation

The Company, in the ordinary course of business, is subject to various legal proceedings. While it is impossible to determine the ultimate outcome of these matters, it is management's and legal counsel's opinion that the resolution of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

(q) Derivatives

In compliance with the controls and procedures associated with financial risk management, during the period where the peso was pegged to the US dollar, the Company used certain derivative financial instruments such as interest rate and currency swaps in order to reduce risks associated with changes in interest rates and foreign exchange rates relating to borrowings in foreign currencies other than dollars. 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.

Effective January 1, 2002, the Company adopted RT 20, 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. Changes in the fair value of effective cash flow hedges are deferred as a separate component 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.

(r) Vacation expense

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

(s) 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.

(t) Gain on debt restructuring

Due to their materiality, the gains on debt restructurings and debt repurchase have been included in a separate line item in the statement of income titled "Gain on debt restructuring".

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of December 31, 2004	As of December 31, 2003
Cash.....	\$ 3	\$ 3
Banks.....	29	23
	<u>\$ 32</u>	<u>\$ 26</u>

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5. Breakdown of the main accounts (continued)

(b) Investments

Investments consist of the following:

	As of December 31, 2004	As of December 31, 2003
Current		
Time deposits (i).....	\$ 3,330	\$ 2,173
Government bonds, equity investments and mutual funds.....	356	268
Subtotal.....	3,686	2,441
Impairment loss on the Argentina 2004 bond....	(56)	-
	\$ 3,630	\$ 2,441
Non current		
2003 Telecommunications Fund.....	\$ 2	\$ 2
Government bonds.....	-	35
Equity investments.....	-	10
	\$ 2	\$ 47

(i) Includes an amount of \$2,228, which has been segregated by the Company for purposes of satisfying debt obligations.

(c) Accounts receivable

Accounts receivable consist of the following:

	As of December 31, 2004	As of December 31, 2003
Current		
Voice, data and Internet.....	\$ 379	\$ 386
Wireless (i).....	303	272
Directories publishing.....	34	35
Subtotal.....	716	693
Allowance for doubtful accounts.....	(104)	(112)
	\$ 612	\$ 581

(i) Includes \$49 as of December 31, 2004 and \$76 as of December 31, 2003 corresponding to international wireless receivables.

(d) Other receivables

Other receivables consist of the following:

	As of December 31, 2004	As of December 31, 2003
Current		
Tax credits.....	\$ 26	\$ 67
Prepaid expenses.....	17	17
Advances to employees.....	2	5
Other.....	33	30
	\$ 78	\$ 119
Non current		
Deferred tax assets, net of valuation allowance (i) \$	-	\$ 20
Credit on minimum presumed income tax (ii).....	200	151
Other tax credits.....	4	3
Prepaid expenses.....	14	7
Other.....	14	15
Subtotal.....	232	196
Allowance for doubtful accounts.....	(4)	(3)
	\$ 228	\$ 193

(i) As of December 31, 2003, net credits correspond to Publicom and Nucleo.

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

(e) Inventories

Inventories consist of the following:

	As of December 31, 2004	As of December 31, 2003
Wireless handsets and equipment.....	\$ 82	\$ 16
Allowance for obsolescence.....	(3)	(2)
	\$ 79	\$ 14

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5. Breakdown of the main accounts (continued)

(f) Other assets

Other assets consist of the following:

	As of December 31,2004	As of December 31,2003
Deferred printing cost.....	\$ 1	\$ 1
Raw materials.....	2	2
	<u>\$ 3</u>	<u>\$ 3</u>

(g) Accounts payable

Accounts payable consist of the following:

	As of December 31,2004	As of December 31,2003
Current		
Suppliers.....	\$ 490	\$ 414
Deferred revenues.....	40	30
Related parties (Note 7).....	18	7
	<u>\$ 548</u>	<u>\$ 451</u>
Non current		
Suppliers.....	\$ 7	\$ -

(h) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of December 31,2004	As of December 31,2003
Current		
Vacation, bonuses and social security payable. \$	58	\$ 55
Special termination benefits.....	16	17
Other.....	5	5
	<u>\$ 79</u>	<u>\$ 77</u>
Non current		
Special termination benefits.....	\$ 29	\$ 22
Other.....	4	8
	<u>\$ 33</u>	<u>\$ 30</u>

(i) Taxes payable

Taxes payable consist of the following:

	As of December 31,2004	As of December 31,2003
Current		
Turnover tax.....	\$ 39	\$ 30
VAT, net.....	32	44
Tax on minimum presumed income, net.....	17	27
Income tax, net (i).....	1	-
Other.....	25	19
	<u>\$ 114</u>	<u>\$ 120</u>
Non current		
Deferred tax liabilities.....	\$ 5	\$ -

(i) Corresponds to Nucleo.

(j) Other liabilities

Other liabilities consist of the following:

	As of December 31,2004	As of December 31,2003
Current		
Contributions to government programs.....	\$ 13	\$ 13
Court fee.....	2	-
Other.....	7	12
	<u>\$ 22</u>	<u>\$ 25</u>
Non current		
Court fee.....	\$ 20	\$ -
Asset retirement obligations.....	13	10
Deferred revenue on sale of capacity and related services.....	31	21
Retirement benefits.....	7	8
	<u>\$ 71</u>	<u>\$ 39</u>

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5. Breakdown of the main accounts (continued)

(k) Net sales

Net sales consist of the following:

	Years ended December 31,		
	2004	2003	2002
Voice.....	\$ 2,302	\$ 2,164	\$ 2,529
Data.....	151	185	230
Internet.....	265	207	195
Subtotal.....	<u>2,718</u>	<u>2,556</u>	<u>2,954</u>
Wireless.....	1,733	1,163	1,035
Directories publishing.....	43	34	23
	<u>\$ 4,494</u>	<u>\$ 3,753</u>	<u>\$ 4,012</u>

(l) Equity (loss) gain from related companies

Equity (loss) gain from related companies consists of the following:

	Years ended December 31,		
	2004	2003	2002
Latin American Nautilus.....	-	-	(15)
Nahuelsat.....	(2)	2	(8)
	<u>\$ (2)</u>	<u>\$ 2</u>	<u>\$ (23)</u>

(m) Financial results, net

Financial results, net consist of the following:

	Years ended December 31,		
	2004	2003	2002
Generated by assets			
Interest income.....	\$ 92	\$ 108	\$ 76
Foreign currency exchange gain/(loss).....	178	(38)	618
Losses on exposure to inflation.....	-	(11)	(2,106)
Impairment loss on the Argentina 2004 bond....	(56)	-	-
Other.....	8	(10)	(140)
Total generated by assets.....	<u>\$ 222</u>	<u>\$ 49</u>	<u>\$ (1,552)</u>
Generated by liabilities			
Interest expense.....	\$ (747)	\$ (664)	\$ (928)
Less capitalized interest on fixed assets.....	5	6	66
Foreign currency exchange gain (loss).....	(638)	662	(3,540)
Gain on exposure to inflation.....	-	4	942
Other.....	(14)	(9)	(290)
Total generated by liabilities.....	<u>\$ (1,394)</u>	<u>\$ (1)</u>	<u>\$ (3,750)</u>
Total financial results.....	<u>\$ (1,172)</u>	<u>\$ 48</u>	<u>\$ (5,302)</u>

(n) Other expenses, net

Other expenses, net consist of the following:

	Years ended December 31,		
	2004	2003	2002
Termination benefits.....	\$ (59)	\$ (75)	\$ (48)
Provision for contingencies.....	(24)	(90)	(101)
Other, net.....	5	(3)	(27)
	<u>\$ (78)</u>	<u>\$ (168)</u>	<u>\$ (176)</u>

(o) Gain on debt restructuring

Gain on debt restructuring consists of the following:

	Years ended December 31,		
	2004	2003	2002
Discount on principal (i).....	\$ 113	\$ 361	\$ -
Discount on accrued and penalty interest.....	142	49	-
Reversal of net capitalized foreign currency exchange differences.....	(4)	(21)	-
Court fee.....	(22)	-	-
Other related expenses.....	(20)	(13)	-
	<u>\$ 209</u>	<u>\$ 376</u>	<u>\$ -</u>

(i) Includes \$41 of gain on discounting of debt.

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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 shown in the statements of cash flows:

	As of December 31,			
	2004	2003	2002	2001
Cash and banks.....	\$ 32	\$ 26	\$ 53	\$ 129
Current investments.....	3,630	2,441	1,362	332
Total as per balance sheet.....	\$ 3,662	\$ 2,467	\$ 1,415	\$ 461
Less:				
Items not considered cash and cash equivalents				
- "Currency-like bonds" (i).....	-	-	(36)	(32)
- Time deposits with maturities of more than three months	(463)	(193)	-	-
- Government bonds (ii).....	(251)	(58)	(65)	-
- Equity investments (Note 17).....	(8)	-	-	-
Total cash and cash equivalents as shown in the statement of cash flows.	\$ 2,940	\$ 2,216	\$ 1,314	\$ 429

(i) Corresponds to national and provincial government bonds restricted as to their use for paying commercial and tax obligations in the respective jurisdictions of issuance.

(ii) Corresponds to the current portion of held-to-maturity investments. In December 2004, includes \$23 corresponding to the Argentina 2004 bond, net of impairment loss.

Changes in assets/liabilities components:

	Years ended December 31,		
	2004	2003	2002
Net (increase) decrease in assets			
Investments not considered as cash or cash equivalents	\$ (90)	\$ (5)	\$ 61
Trade accounts receivable	(32)	(334)	(106)
Other receivables	15	(3)	1,049
Inventories	(75)	(8)	(16)
Other assets	-	-	10
	\$ (182)	\$ (350)	\$ 998
Net (decrease) increase in liabilities			
Accounts payable	\$ 53	\$ 129	\$ (388)
Compensation and social benefits payable	5	17	(127)
Taxes payable	(72)	179	(61)
Other liabilities	5	10	(25)
Contingencies	(18)	(17)	(96)
	\$ (27)	\$ 318	\$ (697)

The Company has not paid income taxes in any of the years presented. Interest paid during the years ended December 31, 2004, 2003 and 2002, amounted to \$118, \$335 and \$446, respectively.

? Non-cash investing and financing activities:

	Years ended December 31,		
	2004	2003	2002
Acquisition of fixed and intangible assets through incurrence of accounts payable	\$ 255	\$ 198	\$ 12
Capitalized interest on fixed assets	5	6	66
Wireless handsets lent to customers at no cost (i)	8	3	10
Provision for minimum presumed income tax.....	46	68	-
Capacity-related services.....	9	-	-
Payment of claims through the use of provision for contingencies	7	-	-
Government bonds and tax credits exchanged for tax certificates	3	(90)	-
Collection of receivables with government bonds	-	352	853
Payment of taxes with government bonds	-	(223)	(451)
Payment of accounts payable with government bonds.....	-	(123)	(224)

(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.

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

	Years ended December 31,		
	2004	2003	2002
Government bonds with maturities of more than three months.....	\$ (147)	\$ 15	\$ 100
Time deposits with maturities of more than three months	(235)	(193)	-
Contribution to the "2003 Telecommunications Fund"	-	(2)	-
Total cash flows from investments not considered as cash equivalents.....	\$ (382)	\$ (180)	\$ 100

Financing activities components:

	Years ended December 31,		
	2004	2003	2002
Proceeds from bank loans	\$ -	\$ -	\$ 18
Payment of Notes.....	-	(277)	-
Payment of bank loans	(471)	(156)	(42)
Payment of interest on Notes	-	(231)	(191)
Payment of interest on bank loans.....	(118)	(52)	(87)
Payment of interest on fixed assets and inventory financing.....	-	(52)	(101)
Payment of collateral on derivative instruments	-	-	(67)
Total financing activities components.....	\$ (589)	\$ (768)	\$ (470)

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6. Supplementary cash flow information (continued)

The following table includes the cash from operating, investing and financing activities after disclosing the effects of inflation accounting and exchange rate changes on cash and cash equivalents:

	Years ended December 31,		
	2004	2003	2002
Total cash flows provided by operating activities.....	\$ 2,037	\$ 2,028	\$ 1,701
Total cash flows used in investing activities.....	(851)	(345)	(312)
Total cash flows used in financing activities.....	(589)	(768)	(470)
Effect of exchange rate changes on cash and cash equivalents.....	127	(13)	2
Effect of inflation accounting.....	-	-	(36)
Increases (decreases) in cash and cash equivalents.....	\$ 724	\$ 902	\$ 885

7 - Related party transactions

(a) Controlling group

As of December 31, 2004, 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. 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 Company was informed that 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 December 31, 2004, 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.

(b) Balances and transactions with related parties

The Company has transactions in the normal course of business with certain related parties. The following is a summary of the balances and transactions with related parties:

	As of December 31, 2004	As of December 31, 2003		
Accounts receivable				
Telecom Italia Mobile S.p.A. (a).....	2	1		
Entel PCS Telecomunicaciones S.A. (a).....	2	2		
TIM Celular S.A. (a).....	-	1		
	<u><u>\$ 4</u></u>	<u><u>\$ 4</u></u>		
Accounts payable:				
Telecom Italia Sparkle S.p.A. (a)	12	1		
Pirelli Energía Cables y Sistemas de Argentina S.A.(a).....	2	1		
Entel Chile S.A. (a).....	1	2		
Telecom Italia S.p.A. Argentine branch (a)	1	-		
Etec S.A. (a).....	1	-		
Tel3 S.A. (a).....	1	-		
Entel S.A. (Bolivia) (a).....	-	1		
Teco Soft Argentina S.A. (a).....	-	2		
	<u><u>\$ 18</u></u>	<u><u>\$ 7</u></u>		
	Years ended December 31,			
Transaction description	2004	2003	2002	
Services rendered:				
Telecom Italia Sparkle S.p.A. (a)	International inbound calls	\$ 4	\$ 4	\$ 9
Golden Lines (a).....	International inbound calls	1	1	1
Latin American Nautilus (a) (e).....	International inbound calls	2	1	2
Entel S.A. (Bolivia) (a).....	International inbound calls	1	1	1
Entel Chile S.A. (a).....	International inbound calls	10	13	19
Entel PCS Telecomunicaciones S.A. (a).....	Roaming	5	4	-
Telecom Italia Mobile S.p.A. (a).....	Roaming	4	2	-
TIM Celular S.A. (a).....	Roaming	2	-	-
Retevisión Móvil S.A. (a).....	Roaming	1	-	-
Total net sales.....		<u><u>\$ 30</u></u>	<u><u>\$ 26</u></u>	<u><u>\$ 32</u></u>

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7 - Related party transactions (continued)

Transaction description	Years ended December 31,		
	2004	2003	2002
Services received:			
Nahuelsat (d)..... Rental expenses	\$ 8	\$ 7	\$ 7
Intelsat Ltd. (d)..... Rental expenses	3	5	8
Telecom Italia Argentine branch (a).... Fees for services	3	3	13
Teco Soft Argentina S.A. (a)..... Fees for services	3	12	10
Tel3 S.A. (a)..... Fees for services	14	3	1
Pirelli Energía Cables y Sistemas (a).. Fees for services	10	-	-
Pirelli Telecomunicaciones Cables y Sistemas (a)..... Fees for services	4	-	-
Entel Chile S.A. (a)..... International outbound calls	13	11	14
Entel S.A. (Bolivia) (a)..... International outbound calls	4	3	5
Etec S.A. (a)..... International outbound calls	3	4	2
Golden Lines (a)..... International outbound calls	1	1	1
Telecom Italia Sparkle S.p.A. (a) International outbound calls	3	3	5
Telecom Italia Mobile S.p.A. (a)..... Roaming	1	1	-
Telesoft S.p.A. Argentine branch (a)... Fees for services	-	-	14
Olivetti Argentina S.A. (a) Fees for services	-	-	2
La Caja ART S.A. (b)..... Insurance	2	-	-
Caja de Seguros S.A. (b)..... Insurance	2	-	-
FCR Argentine branch (c)..... Fees for services	-	3	14
Sofrecom Argentina S.A. (c)..... Fees for services	-	9	9
Latin American Nautilus (a) (e)..... Lease of circuits	1	-	15
Multibrand (e)..... Advertising	-	1	3
Total operating costs.....	\$ 75	\$ 66	\$ 123
Purchases of fixed assets/intangible assets:			
Telecom Italia Sparkle S.p.A. (a) \$ 24	\$ -	\$ -	-
Tel3 S.A. (a)..... 4	-	-	5
Teco Soft Argentina S.A. (a)..... -	1	-	4
Pirelli Energía Cables y Sistemas de Argentina S.A.(a)..... -	-	-	1
Telesoft S.p.A. Argentine branch (a)..... -	-	-	6
Sofrecom Argentina S.A. (c)..... -	8	-	14
Total fixed assets and intangible assets.....	\$ 28	\$ 9	\$ 30

(a) Such companies form part of Telecom Italia Group, a shareholder of the Company.

(b) Such companies form part of W de Argentina - Inversiones S.L., a shareholder of the Company.

(c) Such companies form part of France Telecom Group and were related parties up to December 19, 2003.

(d) The Company has between 0.15% and 5.75% of the capital stock in such companies.

(e) The Company had between 10% and 25% of the capital stock in such companies.

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

As of December 31, 2004, Telecom Argentina had loans outstanding to two officers of Telecom Argentina, totaling \$0.4. The annual interest fixed rate for these loans is 6%.

(c) Management agreement

On October 10, 2004 the management agreement between Telecom Argentina and the Operators expired.

8 - Debt

8.1. The Company's short-term and long-term debt

Short-term and long-term debt comprises the following:

	As of December 31, 2004	As of December 31, 2003
Short-term debt:		
- Principal:		
Notes.....	\$ 5,353	\$ 4,912
Bank loans.....	1,177	1,638
Fixed assets financing.....	1,475	2,169
Inventory financing.....	-	426
Subtotal	8,005	9,145
- Accrued interest.....	1,259	747
- Penalty interest.....	170	104
Total short-term debt.....	\$ 9,434	\$ 9,996
Long-term debt:		
- Principal:		
Bank loans.....	\$ 1,260	\$ 86
Gain on discounting of debt.....	(41)	-
Total long-term debt.....	1,219	86
Total debt.....	\$ 10,653	\$ 10,082

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8 - Debt (continued)

As of December 31, 2004, Personal and Nucleo's debt had been restructured while the approval of Telecom Argentina's debt restructuring proposal by the reviewing court is pending and expected to be approved in 2005. As of December 31, 2004, the total restructured debt and in-process restructuring debt is as follows:

	Telecom Argentina	Personal	Nucleo	Eliminations	Consolidated as of December 31, 2004
<u>Restructured debt</u>					
? Principal.....	-	1,230	120	(83)	1,267
? Accrued interest.....	-	9	-	-	9
Subtotal	-	1,239	120	(83)	1,276
? Gain on discounting of debt	-	(57)	-	16	(41)
Total (8.2)	-	1,182	120	(67)	1,235
Current.....	-	14	5	(3)	16
Non current.....	-	1,168	115	(64)	1,219
<u>In-process restructuring debt</u>					
? Principal.....	7,998	-	-	-	7,998
? Accrued interest.....	1,250	-	-	-	1,250
? Penalty interest.....	170	-	-	-	170
Total (8.3)	9,418	-	-	-	9,418
Total debt	9,418	1,182	120	(67)	10,653
Current	9,418	14	5	(3)	9,434
Non current	-	1,168	115	(64)	1,219

Due to materiality, the gains on debt restructurings and debt repurchase have been included in a separate line item in the consolidated statement of income titled "Gain on debt restructuring". The table below shows (i) the gain on repurchase of debt recognized in the year ended December 31, 2003 and (ii) the gain on debt restructuring recognized in the year ended December 31, 2004; both classified by entity and component, as follows:

	Telecom Argentina	Personal	Nucleo	Publicom	Eliminations	Consolidated
<u>Repurchase of debt</u>						
? Discount on principal	270	86	-	5	-	361
? Discount on accrued and penalty interest	37	11	-	1	-	49
? Reversal of capitalized foreign currency exchange differences	(14)	(7)	-	-	-	(21)
? Other related expenses	(13)	-	-	-	-	(13)
Total as of December 31, 2003	280	90	-	6	-	376
<u>In-process restructuring debt</u>						
? Discount on principal	-	72	-	-	-	72
? Discount on accrued and penalty interest	-	145	11	-	(14)	142
? Court fees	(22)	-	-	-	-	(22)
? Other related expenses	1	(17)	(4)	-	-	(20)
Subtotal	(21)	200	7	-	(14)	172
? Gain on discounting of debt	-	57	-	-	(16)	41
? Reversal of capitalized foreign currency exchange differences	-	(4)	-	-	-	(4)
Total as of December 31, 2004	(21)	253	7	-	(30)	209

The Company had segregated certain amounts into time deposits with foreign financial institutions in order to have sufficient funds to satisfy the payments of principal and interest under its debt restructuring proposals. The Company previously obtained all necessary approvals from the regulatory authorities to remit and maintain these funds abroad. As of December 31, 2004, the Company has an aggregate remaining amount of \$2,228 on deposit.

8.2. Restructured debt

As further described below, Personal and Nucleo restructured their outstanding debt representing 12% of the total Company's indebtedness as of December 31, 2004, as follows:

(a) Personal

In July 2004, Personal announced a proposal for the restructuring of its debt under an APE (see below for a description of an APE). Generally an APE requires court approval to be considered legal and binding between the parties. Telecom Personal's APE Solicitation did not require court approval provided the level of creditor consent to the proposal was higher than 95%. Since such level reached 100% of the total Telecom Personal unsecured indebtedness, court review and approval was not required. Accordingly Telecom Personal completed the restructuring of its debt in November 2004 which comprised of a reduction in principal and interest of approximately US\$ 71 million, a cash payout of approximately US\$ 165 million and the extension of maturity of the remaining indebtedness, as follows:

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8 - Debt (continued)

	US\$	Equivalent in Argentine pesos	Interest rate (i)	Maturity date
Series A	46	137	5.53% - 8%	October 2014
Series B	367	1,093	9%, 10% and 11%	October 2011
Total principal	413	1,230		

(i) Escalated interest rates for US dollar denominated notes - see table below for escalated interest rates for other currencies denominated notes.

The new debt provides for mandatory prepayment with excess cash as explained in 8.4 below.

The new debt was initially recorded at fair value. Fair value was determined by the present value of the future cash flows to be paid under the terms of the new debt instruments discounted at a rate commensurate with the risks of the debt instrument and time value of money. Based on the opinion of an external financial expert, the restructured debt has been discounted to its present value using a discount rate of 11%. The discount amounted to \$57 recorded in a separate line item titled "Gain on discounting of debt". This gain includes an amount of \$16 corresponding to the discount of a restructured intercompany loan from Telecom Argentina (which originally amounted to \$83). After intercompany eliminations, the gain on discounting of debt amounted to \$41.

(b) Nucleo

In April 2003, Nucleo restructured its outstanding indebtedness amounting to US\$ 14 million with local financial creditors which allowed certain concessions. Concessions resulted from the extension of maturity and forgiveness of accrued penalty interest rather than a reduction in principal amount. Furthermore, in November 2004, Nucleo completed the restructuring of its outstanding indebtedness of US\$ 59 million with foreign creditors. Foreign creditors also agreed to an extension of maturity to December 2008 and the forgiveness of accrued penalty interest.

The restructured debt with local creditors accrues interest at an annual fixed interest rate of 7.125% while the restructured debt with foreign creditors accrues interest at a variable interest rate of three-month LIBO plus 4.5%.

Since contractual rates are commensurate with the risks of the debt instrument and time value of money the new debt has not been discounted.

8.3. In-process restructuring debt

(a) Background

As a result of the devaluation of the Argentine peso and subsequent "pesification" of Telecom Argentina's tariffs, the uncertainties of the economic situation and the regulatory environment in which the Telecom Group operates, on March 27, 2002 and June 24, 2002, the Board of Directors of Telecom Argentina and its subsidiaries in Argentina defaulted on their principal and interest payment obligations under their debt agreements. Notwithstanding the defaults, the Telecom Group continued to conduct business as usual.

Following the debt restructuring of Personal and Nucleo as described above, the only in-process debt restructuring indebtedness of the Telecom Group is the one pertaining to Telecom Argentina. As of December 31, 2004, the in-process restructuring debt aggregated \$9,418. Of the total amount of the outstanding debt, \$6,505 is due (including principal amounts for US\$ 816 million, Euro 792 million, Japanese yen 6,862 million and \$71; and interest amounts for US\$ 31 million, Euro 113 million, Japanese yen 554 million and \$13) and \$2,913 is payable on demand.

The outstanding debt of Telecom Argentina is comprised of the following:

✍ Short-term and Medium-term Notes Programs

Telecom Argentina issued various series of notes under short-term and medium-term global note programs (the "Notes"). These programs were approved by shareholders' general meetings which authorized the Board of Directors to determine the respective terms and conditions of the Notes, including amount, price, interest rate and currency. These global programs and the Notes issued thereunder were ranked by Argentine rating agencies.

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8 - Debt (continued)

The terms and conditions of the various series of Notes contain customary affirmative and negative covenants, including, but not limited to, limitations on creation of liens on assets and/or revenues of Telecom Argentina, mergers and others.

The terms and conditions of the Notes and loan agreements issued by Telecom Argentina contain certain clauses, which provided for events of default, such as the following:

- Failure to pay principal or interest at maturity;
- Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of Telecom Argentina or its material subsidiaries, which equals or exceeds an aggregate amount of US\$20 million;
- Telecom Argentina's written notice of its inability to pay its debts as they mature;
- Any final judgment providing for the payment of an aggregate amount exceeding US\$20 million; and
- Telecom Argentina's or its material subsidiaries' voluntary petition for bankruptcy, special bankruptcy proceedings ("Concurso Preventivo") or similar judicial or extrajudicial reorganization arrangements.

As a result of the defaults, the bondholders and lenders were entitled, at their option, to request the acceleration of all principal and accrued interest outstanding as of the date of the defaults. As of the date of these financial statements, Telecom Argentina has received notices of acceleration from certain lenders representing loan amounts exceeding US\$ 20 million. In addition, the indentures and loan agreements provide for a penalty interest rate in the event that payments are not made when due. Such penalty interest ranged from an average 2% to 5% per year.

The following table shows the outstanding series of Notes under the programs as of December 31, 2004:

Global program	Date of issue	Nominal value (in millions)	Term, in years	Maturity date	Annual interest rate (i)	Book value at December 31, 2004	Market value at December 31, 2004
Program B:							
Series C	11.15.95	US\$ 200	7	11.15.02	12.00	347	312
Series E (a)	5.5.97	US\$ 100	8	5.5.05	5.48	298	278
Series F (c)	5.30.97	Euro 207	10	5.30.07	8.87	770	755
Series H (b) (c)	3.18.98	Euro 207	10	3.18.08	3.71	763	618
Series I	4.8.99	Euro 200	5	4.8.04	8.37	757	742
Series K	7.1.99	Euro 250	3	7.1.02	7.25	834	751
Program D:							
Series 1	4.7.00	Euro 250	3	4.7.03	7.62	912	894
Series 2	7.2.01	Euro 190	3	7.2.04	9.50	672	659
(i) Percentages have been rounded.						Principal	5,353
(a) Accrue interest at LIBOR plus 3.125%. (*)						Accrued interest	977
(b) Accrue interest at 6-month LIBOR plus 1.5%. (*)						Penalty interest	91
(c) Originally issued in Italian Lira.							6,421
(*) As of December 31, 2004, LIBOR was 2.78%.							

- Global Program B

Telecom Argentina has six series of Notes outstanding under Global Program B, with several maturity dates as shown in the table above. As of December 31, 2004, an amount of \$4,492 is outstanding under the program. The net proceeds of the Notes were used to refinance debt and meet working capital needs.

- Global Programs C and D

Telecom Argentina was authorized to create a short-term note program and a medium-term note program, C and D, respectively, for the issuance and re-issuance of unsecured non-convertible notes for up to US\$ 200 million and US\$ 1,500 million, respectively. As of December 31, 2004, two series (1 and 2) are outstanding under Global Program D for an aggregate amount of \$1,929. The net proceeds of the Notes were used to refinance debt and meet working capital needs.

✍ Bank loans

These include term loans payable to various banks, bearing an annual weighted average rate of 4.68%.

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8 - Debt (continued)

✎ Fixed assets financing

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 5.05%. The most significant are:

Mediocredito Centrale:

Prior to the privatization of ENTEL, the Argentine Government was granted a credit line from the *Instituto Centrale Per il Credito a Medio Termine* (the "Mediocredito Centrale") for an aggregate amount of Euro 103 million, the proceeds of which were used to finance the digitalization of the telephone network in Argentina. Under this credit line, the Argentine Government ceded to Telecom Argentina the rights to an Euro 50-million loan payable semi-annually in 30 equal consecutive installments and bearing interest at a rate of 1.75% per year.

The Argentine Government remains the debtor to the Mediocredito Centrale; however, Telecom Argentina assumes the obligation to service the debt. In the event Telecom Argentina fails to pay the loan installments, and the Argentine Government has to settle the obligations, Telecom Argentina's debt towards the Argentine Government may be offset against receivables for services rendered to certain governmental agencies. As of December 31, 2004, an amount of approximately \$167 (principal plus accrued and penalty interests) or Euro 41 million is outstanding under the agreement.

Japan Bank for International Cooperation:

On June 29, 1998, Telecom Argentina entered into a credit line agreement with the Japan Bank for International Cooperation ("JBIC") for a loan of up to Japanese yen 12,000 million due June 15, 2010 of which Japanese yen 11,652 million were used. As of December 31, 2004, an amount of approximately \$363 (principal plus accrued and penalty interest) is outstanding under the agreement.

(b) Filing of the APE with the Argentine courts

On June 22, 2004, Telecom Argentina filed a Registration Statement with the SEC in connection with the solicitation to grant powers of attorney or commitments to approve and execute an APE. Like documents were also filed with the CNV and the *Commissione Nazionale per le Società e la Borsa* (CONSOB) (the "Italian Securities Commission"). The registration statements were partially amended on July 9, 2004.

Given that Telecom Argentina failed to obtain the consent of more than 95% of unsecured financial creditors, it was compelled, under the terms of the solicitation, to request court approval of the agreement.

An "APE" is a private restructuring agreement between a debtor and a certain percentage of its unsecured creditors affected by the restructuring that is submitted to the reviewing court for approval pursuant to the Argentine Bankruptcy Law. The Argentine Bankruptcy Law requires the debtor to have the support of the requisite holders in order to obtain court approval. Upon approval by the reviewing court, an APE becomes binding on all the debtor's unsecured creditors affected by the restructuring proposal contained in the APE, whether or not those creditors have participated in the negotiation and execution of the APE.

The in-process restructuring debt comprises the unsecured creditors of Telecom Argentina as of August 31, 2004 which totaled \$8,868 million as of that date (equivalent to US\$ 2,959 million translated at the applicable exchange rate as of August 31, 2004). An amount of US\$ 2,880 million out of the total US\$ 2,959 million represents unsecured financial indebtedness while the remaining US\$ 79 million represents unsecured commercial indebtedness.

On October 21, 2004, after reaching a level of consent of 82.35% of the total creditors representing 94.47% of the total financial indebtedness of Telecom Argentina as of August 31, 2004, the executed APE was filed with the reviewing court for approval.

Pursuant to the terms of the APE, Telecom Argentina proposed to restructure all of its outstanding unsecured financial indebtedness through different options including the issuance of new unsecured non-convertible notes (the "New Notes") and/or cash payments. The unsecured commercial indebtedness will be paid in accordance with its original terms and conditions.

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8 - Debt (continued)

On November 2, 2004, the Shareholders' Meeting of Telecom Argentina approved the issuance of the New Notes for up to a maximum amount of US\$ 1,872 million or its equivalent in other currencies for the purpose of the refinancing of its unsecured financial indebtedness as further explained below.

The equivalent dollar amounts were determined based on (1) the applicable exchange rate in force as of the reference date (August 4, 2004) and (2) the corresponding adjustment based on the CER Index.

Provided the conditions are met and approvals obtained, 47% of the New Notes will be Series A Notes and 53% will be Series B Notes, according to the options selected by consenting noteholders. For each US\$ 1,058 of outstanding debt (which includes a capitalized interest coefficient factor as defined in the APE) consenting noteholders will receive the payment options as described in the table below:

	Participating holder selecting Option A (in US\$, Euro, Peso or Yen)	Participating holder selecting Option B (in equivalent US\$)	Participating holder selecting Option C (in equivalent US\$)
Series A Notes	1,058	-	-
Series B Notes (i)	-	625	-
Cash	-	319	850
Total	1,058	944	850

(i) Noteholders who selected Option B will have 37.5% of their outstanding debt allocated to Option C.

The APE provides that non-consenting creditors will receive consideration in the form of Series A Notes, or such other consideration as is ordered by the reviewing court.

Although Telecom Argentina expects that the restructuring process will be successfully completed by June 2005, there can be no assurance that the APE will be approved by the reviewing courts in the timeframe Telecom anticipated in the APE.

Series A Notes will be due in 2014 and Series B Notes will be due in 2011. Series A Notes and Series B Notes will be further split into listed and unlisted notes. Series A-1 and B-1 listed notes (collectively the "New Listed Notes") will be issued in exchange for outstanding Notes. Series A-2 and B-2 unlisted notes (collectively the "New Unlisted Notes") will be issued in exchange for outstanding loans and loan commissions.

Series A-1 Notes may be dollar- or euro-denominated listed notes. Series A-2 may be dollar-, euro-, yen- or peso-denominated unlisted notes. Peso-denominated Series A-2 unlisted notes are to be adjusted by CER index. Series B-1 Notes and Series B-2 Notes will be dollar-denominated notes only.

Series A-1 Notes and Series A-2 Notes accrue escalated interest based on denomination as follows:

	From issue date until October 15, 2008	From October 16, 2008 to maturity
US dollar denominated	5.53%	8.00%
Euro denominated	4.83%	6.89%
Yen denominated	1.93%	3.69%
Peso denominated	3.23%	3.42%

Series B-1 Notes and Series B-2 Notes accrue escalated interest as follows:

	From issue date until October 15, 2005	From October 16, 2005 to October 15, 2008	From October 16, 2008 to maturity
US dollar denominated	9.00%	10.00%	11.00%

Penalty interest, if applicable, will accrued at an additional annual rate of 2% on overdue principal and interest.

On November 26, 2004 the Shareholders' Meeting of Telecom Argentina ratified the filing of the APE for court approval and further resolved that the proceedings will continue. Such Shareholders' Meeting further authorized to file the proposal with foreign courts to the extent applicable or advisable to Telecom Argentina.

From the date the APE was filed, the reviewing court has been requesting Telecom Argentina to produce additional documentation which Telecom Argentina submitted in due course.

On February 4, 2005, the reviewing court called for a meeting of consenting noteholders. All of the creditors who attended the meeting voted in favor of the restructuring proposal described in the APE and ratified the form of consideration to be paid, assuming the APE is approved by the reviewing court.

On February 25, 2005, under the applicable laws and regulations, the reviewing court ordered the opening of the APE process and the publication of notices in order for the creditor opposition period to start. As an additional security to the creditors, certain property of Telecom Argentina was restricted as to disposal. The net carrying value of these assets amounted to \$899 as of December 31, 2004.

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8 - Debt (continued)

Under the court reviewing process, Telecom Argentina is subject to a court fee of 0.25% levied on the total amount of restructured debt. In the opinion of legal counsel, the court fee accrues as from the commencement of the reviewing process. It is expected that the fee will be payable in up to ten installments, accordingly, Telecom Argentina accrued a total amount of \$22, of which \$20 was classified as non-current other liabilities. The charge to the statement of income has been included in the line item gain on debt restructuring.

Although Telecom Argentina expects that the restructuring process will be successfully completed by June 2005, there can be no assurance that the APE will be approved by the reviewing courts in the timeframe Telecom Argentina anticipated in the APE.

The debt restructuring process will have a significant positive impact in the statement of income which would allow Telecom Argentina to absorb a substantial portion of accumulated losses.

(c) Legal actions brought against Telecom Argentina

Telecom Argentina has been served notice of claims brought by certain noteholders seeking enforcement of their rights under the respective indentures. The claims amounted to US\$0.8 million as of the date of these financial statements, representing less than 1% of the total consolidated indebtedness of the Company. Due to certain judicial regulations, an amount equivalent to US\$1.2 million held in bank accounts has been restricted for use as of the date of these financial statements.

Telecom Argentina was also served notice of three involuntary bankruptcy petitions.

As a result of the APE reviewing process, all of the proceedings mentioned above against Telecom Argentina have been stayed. Once court approval has been granted, the decision of the court shall apply to the claims mentioned.

8.4. Covenants of the New Notes (to be issued by Telecom Argentina as described above) and the restructured debt of Telecom Personal and Nucleo

Mandatory prepayments

If the relevant company has generated "Excess Cash" (calculated pursuant to the relevant debt instrument), then such company shall apply the Excess Cash, on a semi-annual basis, to make payments on the relevant debt instrument. Telecom Argentina and Telecom Personal may make payments on the remaining scheduled installments of their debt instruments in direct order of maturity, or, at the company's option, retire the debt instruments through open market purchases or pro-rata prepayments. Prior to making any such payment with Excess Cash, each of Telecom Argentina and Telecom Personal is permitted to retain a specified portion of the Excess Cash to supplant the company's existing cash balance and to retain a specified portion of the Excess Cash for specified uses relating to the operation of its business. Excess cash payments under Nucleo's loans are to be applied in direct order of maturity as specified therein.

Excess cash shall be measured semi-annually based on the financial statements as of June 30 and as of December 31 of each year, and any excess cash must be applied no later than the due date of the amortizations immediately subsequent to each June 30 or December 31, respectively.

However, if at any time during the excess cash period, Telecom Argentina makes any distribution payment (as defined in the APE, including but not limited to the payment of dividends) the aggregate amount of the excess cash applied to pay the New Notes will have to be at least two and a half times such distribution payment.

Reinvestment of Telecom Personal and Nucleo distribution payments

If Telecom Personal and/or Nucleo makes any distribution payment (as defined in the indenture governing of the Notes, including but not limited to the payment of dividends) the aggregate amount of payments is required to be reinvested in the paying entity.

Negative covenants

The terms and conditions of the Telecom Argentina's New Notes as well as the terms of the restructured debt of Telecom Personal and Nucleo require that the companies comply with various negative covenants, including limitations on:

- a) Incurrence and/or assumption of, and/or permitting to exist in Telecom Argentina or its restricted subsidiaries (as defined in the relevant debt instruments), any liens on the respective properties, assets or income for the purpose of securing any indebtedness of any person, except for certain permitted liens;

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8 - Debt (continued)

- b) Incurrence of and/or permitting any restricted subsidiaries to incur any indebtedness (other than certain permitted indebtedness) unless the relevant company meets a specified indebtedness/EBITDA ratio: (i) with respect to Telecom Argentina and its restricted subsidiaries (other than Telecom Personal and its subsidiaries), 2.75 to 1 or, if any specified adjustment event has occurred, 2.25 to 1, (ii) with respect to Telecom Personal and its restricted subsidiaries (other than Nucleo and its subsidiaries), 2.25 to 1 and (iii) with respect to Nucleo and its subsidiaries, 2.00 to 1, in addition to certain other conditions;
- c) Making specified restricted payments, including making any investments (other than permitted investments); under this covenant, the company cannot make any investment in securities or indebtedness of, or extend loans to, other persons, unless such transactions are specifically permitted. Under the Telecom Argentina notes and the Telecom Personal loans, specific limits are imposed on the amount and conditions of loans that may be made by Telecom Argentina to Telecom Personal and by Telecom Personal to Nucleo. These restricted payments covenants also restrict the ability of Telecom Personal and Nucleo to make loans to their respective parent companies (Telecom Argentina and Telecom Personal);
- d) The sale of certain assets with some exceptions, i.e. a minimum 75% of consideration received should be in cash or cash equivalents and the proceeds of certain asset sales shall be used to pay the relevant debt instrument;
- e) Sale and leaseback transactions;
- f) Capital expenditures except for those expressly permitted;
- g) With respect to Nucleo, maintenance of certain financial ratios.

In the case of Telecom Argentina and its restricted subsidiaries, the negative covenants mentioned above will come into effect as soon as the New Notes are issued. However, in accordance with the terms of the APE agreement, until the date of issuance of the New Notes, the Company has agreed to meet the negative covenants as if the New Notes had been issued, except for certain cases as expressly defined in the APE.

8.5. Events of default for Telecom Argentina, Telecom Personal and Nucleo

The terms and conditions of the Telecom Argentina's New Notes as well as the terms of the restructured debt of Telecom Personal and Nucleo provide for certain events of default as follows:

- (i) Failure to pay principal or interest;
- (ii) Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of the Company's subsidiaries, which equals or exceeds an aggregate amount of US\$ 20 million in the case of Telecom Argentina and Telecom Personal and US\$2 million (if any payment default exists) or US\$ 3 million (if any other default that results in acceleration exists) in the case of Nucleo;
- (iii) Any final judgment against Telecom Argentina and/or Telecom Personal providing for the payment of an aggregate amount exceeding US\$ 20 million;
- (iv) Any final judgment against Nucleo providing for the payment of an aggregate amount exceeding US\$ 4 million;
- (v) Telecom Argentina, Telecom Personal or Nucleo voluntary petition for bankruptcy, special bankruptcy proceedings or out-of-court reorganization agreements and,
- (vi) Any event or condition which results in the revocation or loss of the licenses held by either Telecom Argentina, Telecom Personal and/or Nucleo and/or any of their restricted subsidiaries which would materially affect the entities' business operations, their financial condition and results of operations

Should any of the events of default above described occur, with respect to Telecom Argentina, Telecom Personal or Nucleo, or, if applicable, any of their restricted subsidiaries, then Telecom Argentina, Telecom Personal or Nucleo shall be in default under the New Notes and the new loan agreements, as applicable. Telecom Argentina's default does not trigger an event of default under Telecom Personal or Nucleo's loans. Telecom Personal's default does not trigger an event of default under Nucleo's loans.

Provided any of the events of default occurs the creditors (and or their agents or trustees) are entitled, at their option, to declare the principal amount of the relevant debt instrument to be due and payable.

8.6. Measurement and classification of liabilities

Penalty and post-default interest increases

The debt of Telecom Argentina under restructuring contemplated the payment of penalty interest in the event of default. Accordingly, the Company recorded penalties and post-default interest increases for approximately \$170 as of December 31, 2004. This amount is included in the line item debt in the balance sheet.

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8 - Debt (continued)

However, the Company's legal counsel believes that based on the facts that (i) the APE does not prescribe the payment of penalty interest and (ii) the forgiveness of the penalty interest of Telecom Personal and Nucleo aggregating \$37 as of December 31, 2004, it is more likely than not that Telecom Argentina will not have to pay the penalties and post default interest increases contemplated by the indentures and loan agreements governing its outstanding debt if the APE restructuring is completed successfully.

Denomination of Telecom Argentina's debt

As discussed above, as of December 31, 2004 and December 31, 2003, a substantial portion of Telecom Argentina's outstanding debt is foreign-currency denominated and governed by foreign law. Notwithstanding the economic crisis in Argentina and subsequent devaluation and pesification, Telecom Argentina recorded its outstanding debt at their respective original foreign currencies since Telecom Argentina expects to complete the debt restructuring successfully.

If the APE restructuring plan is not completed on terms favorable to Telecom Argentina or not completed at all, management would have to analyze different courses of action which may include the "pesification" of foreign-currency denominated debts governed by foreign law.

Notwithstanding the foregoing, and taking into account the restructuring proposals made to Telecom Argentina's creditors and the APE, management has decided to honor the original currencies of its foreign-currency denominated liabilities.

Classification of Telecom Argentina's debt

Since the noteholders, at their option, may request payment of principal and accrued interest in the event of default and that Telecom Argentina received notices of acceleration as described above, the total outstanding debt has been classified as current liabilities in these consolidated financial statements.

9 - Shareholders' equity

(a) Common stock

At December 31, 2004, the Company has 502,034,299 authorized, issued and outstanding shares of \$1 par value Class A Common Stock, 436,323,992 shares of \$1 par value Class B Common Stock and 46,022,687 shares of \$1 par value Class C Common Stock. Common stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

The Company's shares are authorized by the CNV, the Buenos Aires Stock Exchange ("BCBA") and the New York Stock Exchange ("NYSE") for public trading. Only Class B shares are traded. Nortel owns all of the outstanding Class A shares and Class C shares are dedicated to the employee stock ownership program, as described below.

Class B shares began trading on the BCBA on March 30, 1992. On December 9, 1994, these shares began trading on the NYSE under the ticker symbol TEO upon approval of the Exchange Offer by the SEC. Pursuant to the Exchange Offer, holders of ADRs or ADS which were restricted under Rule 144-A and holders of GDR issued under Regulation S exchanged their securities for unrestricted ADS, each ADS representing 5 Class B shares. Class B also began trading on the Mexican Stock Exchange on July 15, 1997.

(b) Restrictions on distribution of profits

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Commercial Law, the by-laws of the Company and rules and regulations of the CNV, a minimum of 5% of net income for the year calculated in accordance with Argentine GAAP must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock accounts). This legal reserve may be used only to absorb deficits.

(c) Share ownership program

In 1992, a decree from the Argentine Government, which provided for the creation of the Company upon the privatization of ENTel, established that 10% of the capital stock then represented by 98,438,098 Class C shares was to be included in the "Programa de Propiedad Participada or PPP" (an employee share ownership program sponsored by the Argentine Government). Pursuant to the PPP, the Class C shares were held by a trustee for the benefit of former employees of the state-owned company who remained employed by the Company and who elected to participate in the plan.

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9 - Shareholders' equity (continued)

In 1999, a decree of the Argentine Government eliminated the restrictions on some of the Class C shares held by the Trust, although it excluded 45,932,738 Class C shares subject to an injunction against their use. On March 14, 2000, a shareholders' meeting of the Company approved the conversion of up to unrestricted 52,505,360 Class C shares into Class B shares, of which 52,415,411 were converted. In May 2000, the employees sold 50,663,377 shares through an international and national bid.

In September 2002, the Trustor requested the Company to take all necessary actions in order to effect the conversion to Class B shares of up to 15,000,000 Class C shares out of the 45,932,738 shares held in the Trust, which had been released from the injunction. Subsequently, the Trustor informed the Company that unrestricted Class C shares amounted to 10,334,176, of which 8,361,012 are still held in the Trust.

The Company requested the Trustor to obtain judicial approval to permit the shareholders' meeting to effect the conversion of the total amount of Class C shares to Class B shares in order to avoid calling for successive shareholders' meetings every time restrictions on the shares are released for conversion. The Trustor informed the Company that a judicial resolution in favor of the total conversion had not been granted. The Company has also indicated that it is necessary to reach an agreement with the PPP for a timely and orderly sale of the converted Class B shares, because the sale of an inappropriate number of Class B shares could affect the price of the Class B shares. In November 2003, the PPP lacked a legal representative. In March 2004, a judicial resolution nullified the intervention of the PPP and notified the Ministry of Labor and Social Security to call for elections in order to establish the Executive Committee of the PPP. As of the date of these financial statements, these elections have not yet been called.

(d) "Rueda Reducida" trading

As a result of the default situation described in Note 8, the BCBA decided to transfer the trading of the Company's notes to the so-called "Rueda Reducida" status, a special trading status of the BCBA for companies experiencing certain adverse financial conditions. In addition, since the Company's accumulated losses have absorbed its reserves and at least 50% of the Company's share capital, the BCBA has also decided to transfer the trading of the Company's common stock to the Rueda Reducida status.

(e) Mandatory reduction of capital

Under section 206 of the Argentine Companies Law, if at the annual shareholders' meeting, a company's losses have absorbed its reserves and at least 50% of the share capital, a company is required to reduce its capital stock. Further, under paragraph 5 of section 94, if a company shareholders' equity is negative, a company is required to commence dissolution proceedings unless its shareholders take action (either by making a capital contribution or authorizing the issuance of additional shares of the company) resulting in positive shareholders' equity within 90 days of such annual shareholders' meeting. 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 qualifies for mandatory reduction of capital. This situation is maintained as of December 31, 2004.

The requirements of section 206 and paragraph 5 of section 94 had been temporarily suspended by a governmental decree until December 10, 2004.

Although the suspension period expired on December 10, 2004, the government has not formally issued an extension. Thus, the Board of Directors will inform the shareholders to take actions as appropriate to remediate the situation described above.

10. Income tax

Income tax (expense) benefit for the years ended December 31, 2004, 2003 and 2002 consists of the following:

	Years ended December 31,		
	2004	2003	2002
Current tax expense.....	\$ (1)	\$ -	\$ -
Deferred tax (expense) benefit.....	(25)	7	1,304
Income tax (expense) benefit.....	\$ (26)	\$ 7	\$ 1,304

The Company accounts for income taxes in accordance with the guidelines of RT 17. RT 17 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities are presented below:

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10. Income tax (continued)

	As of December 31, 2004	As of December 31, 2003
Tax loss carryforwards.....	\$ 1,573	\$ 1,665
Foreign exchange gains and losses.....	161	241
Other deferred tax assets.....	401	348
Deferred tax liabilities.....	(1,445)	(1,787)
Subtotal deferred tax assets.....	\$ 690	\$ 467
- Valuation allowance.....	(695)	(447)
Net deferred tax (liabilities) assets.....	\$ (5)	\$ 20

Income tax (expense) benefit for the years ended December 31, 2004, 2003 and 2002 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income (loss) as a result of the following:

	Years ended December 31,		
	2004	2003	2002
Income tax (expense) benefit at statutory income tax rate on pretax income (loss)	\$ 225	\$ (128)	\$ 2,000
Permanent differences:			
Non taxable items.....	(3)	16	(131)
Change in valuation allowance.....	(248)	119	(565)
Income tax (expense) benefit.....	\$ (26)	\$ 7	\$ 1,304

As of December 31, 2004, the Company has accumulated operating tax loss carryforwards of approximately \$1,573. The following table details the operating tax loss carryforwards segregated by company and expiration date:

Expiration year	Telecom Argentina		Telecom Personal		Total consolidated
	Publicom				
2007	1,416	-	155		1,571
2008	-	2	-		2
Total.....	1,416	2	155		1,573

Decree No. 2,568/02 of the Argentine Government prescribed that foreign currency exchange losses arising from holding foreign-currency denominated assets and liabilities existing as of January 6, 2002, had to be determined using an exchange rate of \$1.40 to US\$1. The resulting net foreign currency exchange loss from this calculation procedure was to be considered deductible for income tax purposes at a rate of 20% per year commencing in fiscal year 2002. As of December 31, 2002, the exchange rate was \$3.37 to US\$1. Therefore, pursuant to the terms of the Decree, the difference between \$1.4 and \$3.37 was to be deducted entirely for income tax purposes in fiscal year 2002. On the contrary, the Company and its tax advisors had interpreted the Decree to require the entire amount (\$3.37 minus \$1) to be deducted for income tax purposes at a rate of 20% per year commencing in fiscal year 2002 through fiscal year 2006.

The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Based on a number of factors, including the Argentine Government's interpretation of the Decree as described above, the current expiration period of tax loss carryforwards (5 years) and the fact that the Company anticipates insufficient future taxable income over the periods in which tax assets can be applied, management believes that there is sufficient uncertainty regarding the realization of a significant portion of its net deferred tax assets that, as of December 31, 2004, a valuation allowance has been provided for Telecom Argentina's related net deferred tax assets. The Company will continue to monitor the need for a change in the valuation allowance that has been provided.

11. Modification of the terms of issuance of "Argentina 2004" Bonds

In May 2001, the Argentine Government enacted Decree No. 424/01 obligating companies to purchase certain treasury bonds (Argentina 2004 Bonds or Patriotic Bonds). Accordingly, Telecom Argentina purchased approximately US\$ 30 million of such bonds. Telecom Argentina intended to hold the securities to maturity in May 2004. Pursuant to the terms of issuance, these securities could be exchanged for tax certificates ("CEOI") to settle federal tax obligations. A subsequent decree suspended this possibility and introduced certain significant changes to the regime. These changes included but were not limited to the establishment of monthly limits to the settlement of tax liabilities through the use of CEOI. In April 2004, the Argentine Government terminated the regime and conditioned its continuance upon the restructuring of the country sovereign debt.

Telecom Argentina filed administrative claims seeking nullification of the decrees, which claims were rejected by the government.

As of December 31, 2004, Telecom Argentina has Argentina 2004 bonds outstanding for an aggregate amount of \$79 (US\$ 27 million) which could have been exchanged for CEOI. Based on the facts and circumstances described above, management recognized an other-than-temporary impairment loss of \$56 to carry the securities at fair value.

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11. Modification of the terms of issuance of "Argentina 2004" Bonds (continued)

Management together with legal counsel evaluated alternative courses of action and finally resolved to participate in the sovereign debt exchange proposed by the Argentine Government. In 2005, Telecom Argentina exchanged Argentina 2004 bonds for new peso and dollar denominated Discount Bonds.

12. Commitments and contingencies

(a) Purchase commitments

The Company has entered into various purchase commitments aggregating approximately \$164 as of December 31, 2004, primarily related to the supply of switching equipment, maintenance and repair of public phones, infrastructure agreements and other service agreements.

(b) Investment commitments

In August 2003, Telecom Argentina was notified by the Department of Communications of a proposal for the creation of a \$70-million fund (the "*Complejo Industrial de las Telecomunicaciones 2003*" or "2003 Telecommunications Fund") to be funded by the major telecommunication companies aimed at developing the telecommunications sector in Argentina. Banco de Inversion y Comercio Exterior ("BICE") was designated as Trustee of the Fund. The Fund is aimed at, among others:

- Creating alternative mechanisms for financing;
- Completing projects if they prove to be long-standing, profitable and relate to the telecommunications system;
- Developing and consolidating the 2003 Telecommunications Fund; and
- Being the nexus between the major telecommunication companies and small and medium-sized companies and individual entrepreneurs within the sector, and harmonizing their interests with those of the State.

In November 2003, the Company contributed \$1.5 at the inception of the Fund. The Company also committed further contributions of up to \$3.5, payable on the first anniversary of the Fund, provided that the Company completed its financial restructuring successfully. In addition, management announced that it is the Company's intention to promote agreements with local suppliers - for an estimated amount of \$10 - which would facilitate their access to financing.

(c) Contingencies

The Company is a party to several civil, tax, commercial and labor proceedings and claims that have arisen in the ordinary course of its business. The Company has established reserves for an aggregate amount of \$244 to cover potential losses under these claims.

In addition, the Company is subject to other claims and legal actions that have arisen in the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company's management based upon the information available at this time and consultation with external legal counsel, that the expected outcome of these other claims and legal actions, individually or in the aggregate, will not have a material effect on the Company's financial position or results of operations. Accordingly, no reserves have been established for the outcome of these litigations.

Below is a summary of the most significant other claims and legal actions for which reserves have not been established:

Labor proceedings

Based on a legal theory of successor company liability, Telecom Argentina has been named as a co-defendant with ENTel in several labor lawsuits brought by former employees of ENTel against the state-owned company. The Transfer Agreement provided that ENTel and the Argentine Government, and not the Company, are liable for all amounts owed in connection with claims brought by former ENTel employees, whether or not such claims were made prior to the Transfer Date, if the events giving rise to such claims occurred prior to the Transfer Date.

ENTel and the Argentine Government have agreed to indemnify and hold the Company harmless in respect of such claims. Under current Argentine legislation, the Argentine Government may settle any amounts payable to the Company for these claims through the issuance of treasury bonds. As of December 31, 2004, labor lawsuits in this connection amounted to \$17.

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12. Commitments and contingencies (continued)

Tax matters

In December 2000, the Argentine Tax Authority (the "AFIP") assessed Telecom Argentina approximately \$50.6 in additional income tax for fiscal years 1993 through 1999 resulting from an income tax audit for that period. The AFIP has asserted that Telecom Argentina improperly calculated its tax depreciation for its fiber optic network. In December 2001, the AFIP assessed an additional \$2.2 in income tax for the same periods. The AFIP asserted a tax deficiency related to Telecom Argentina's valuation of its equity interest in former equity investee Telintar. Telecom Argentina disagrees with these assessments and is vigorously contesting them. Management believes the ultimate outcome of these tax audits will not have a material adverse impact on the Company's financial position or results of operations.

Other claims

Consumer Trade Union Proceedings

In November 1995, Telecom Argentina, together with Telefonica de Argentina, Telintar and the Argentine Government were named as defendants in a lawsuit filed in Argentine federal courts by a consumer activist group. The complaints in this lawsuit contend that consumers have been injured because of the application of unjustified tariffs for the provision of fixed line services. Plaintiffs are seeking damages, an injunction against the reduction of tariffs, disgorgement of all monies that the defendants have earned through the charge of the alleged abusive tariffs and a cap of 16% on the Company's annual rate of return on its fixed assets. The court has rejected some of the claims but agreed to a stay of the others pending the outcome of the appeal. In October 2001, the court awarded the plaintiffs an injunction enjoining the indexing of tariffs by the U.S. C.P.I. as permitted by the Transfer Agreement pending a final resolution in the case. Telecom Argentina vigorously appealed this decision. Hearings on the case are currently in process. Telecom Argentina believes the claims have no merit. Telecom Argentina cannot predict the outcome of this case, or reasonably estimate a range of possible loss given the current status of the litigation.

Upon the extension of the exclusivity period for the provision of telecommunication services, the same consumer group filed a new lawsuit in Argentine federal courts against the service providers and the Argentine Government. Plaintiffs are seeking damages, an injunction against the revocation of licenses granted to telecommunication service providers and finalization of the exclusivity period. This case is at a preliminary stage, but Telecom Argentina does not believe it has merit and intends to contest it vigorously. Telecom Argentina is unable, however, to predict the outcome of this case, or reasonably estimate a range of possible loss given the current status of the litigation.

Users and Consumer Trade Union Proceedings

In August 2003, another consumer group filed suit against Telecom Argentina in Argentine federal courts alleging the unconstitutionality of certain resolutions issued by the Department of Communications. These resolutions had amended a prior resolution which prescribed the way service providers had to refund customers for additional charges included in monthly fixed-line service fees. The amendment was intended to establish another method of refunding customers due to practical reasons. Telecom Argentina complied with the amended resolution and provided refunds to customers. The case is at a preliminary stage, but Telecom Argentina does not believe it has merit and will contest it vigorously. Telecom Argentina is unable, however, to predict the outcome of the case, or reasonably estimate a range of possible loss given the current status of the litigation.

Management of the Company believes that none of the matters discussed above will have a material adverse effect on the Company's results of operations, liquidity or financial condition.

Certain amounts deposited in the Company's bank accounts have been restricted as to their use due to some judicial proceedings. As of December 31, 2004, these restricted funds totaled \$8. The Company has reclassified these balances to other receivables on the Company's balance sheet.

13. Segment information

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for management. Under this definition, the Company conducts its business through seven legal entities which represent seven operating segments. These operating segments have been aggregated into reportable segments following the nature of the products and services provided. The Company manages its segments to the net income (loss) level of reporting.

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13. Segment information (continued)

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

Reportable segment	Consolidated company/ Operating segment
Voice, data and Internet	Telecom Argentina..... Telecom Argentina USA..... Micro Sistemas (ii)
Wireless	Telecom Personal..... Nucleo..... Cable Insignia.. ..
Directories publishing	Publicom.....

The accounting policies of the operating segments are the same as those described in Note 4. Intercompany sales have been eliminated.

For the years ended December 31, 2004, 2003 and 2002, more than 90 percent of the Company's revenues were from services provided within Argentina. More than 95% of the Company's fixed assets are in Argentina. Segment financial information was as follows:

For the year ended December 31, 2004

Income statement information

	Voice, data and Internet	Wireless	Directories publishing	Total
Net sales	2,718	1,733	43	4,494
Salaries and social security	(491)	(90)	(12)	(593)
Turnover tax	(88)	(78)	-	(166)
Maintenance, materials and supplies	(184)	(34)	(15)	(233)
Bad debt expense	8	(12)	(1)	(5)
Interconnection costs	(135)	-	-	(135)
Cost of international outbound calls	(82)	-	-	(82)
Lease of circuits	(34)	(4)	-	(38)
Fees for services	(81)	(20)	(1)	(102)
Advertising	(27)	(64)	(2)	(93)
Cost of cellular handsets	-	(237)	-	(237)
Commissions	(54)	(184)	-	(238)
Others	(169)	(355)	(2)	(526)
Operating income before depreciation and amortization	1,381	655	10	2,046
Depreciation of fixed assets	(1,233)	(316)	(3)	(1,552)
Amortization of intangible assets	(48)	(45)	(1)	(94)
Operating income	100	294	6	400
Equity loss from related companies	-	-	(2)	(2)
Financial results, net	(989)	(184)	1	(1,172)
Other expenses, net	(68)	(10)	-	(78)
Gain on debt restructuring	(21)	230	-	209
Net (loss) income before income tax and minority interest	(978)	330	5	(643)
Income tax	-	(24)	(2)	(26)
Minority interest	-	3	-	3
Net (loss) income	(978)	309	3	(666)

Balance sheet information

Fixed assets, net	5,387	1,507	1	6,895
Intangible assets, net	84	686	3	773
Capital expenditures excluding materials	160	268	-	428
Acquisition of intangible assets	24	-	-	24
Depreciation of fixed assets	(1,233)	(324)	(3)	(1,560)
Amortization of intangible assets	(50)	(53)	(1)	(104)
Net financial debt	(5,842)	(1,150)	1	(6,991)

Cash flow information

Cash flows provided by (used in) operating activities	1,737	428	(1)	2,164
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(208)	(265)	-	(473)
(Decrease) increase in investments not considered as cash and cash equivalents	(465)	87	-	(378)
Total cash flows used in investing activities	(673)	(178)	-	(851)
Cash flows from financing activities:				
Payment of debt	-	(471)	-	(471)
Payment of interest and debt-related expenses	-	(118)	-	(118)
Total cash flows used in financing activities	-	(589)	-	(589)
Increase (decrease) in cash and cash equivalents	1,064	(339)	(1)	724
Cash and cash equivalents at the beginning of year	1,786	428	2	2,216
Cash and cash equivalents at year end	2,850	89	1	2,940

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13. Segment information (continued)

For the year ended December 31, 2003

Income statement information

	Voice, data and Internet	Wireless	Directories publishing	Total
Net sales	2,556	1,163	34	3,753
Salaries and social security	(424)	(74)	(8)	(506)
Turnover tax	(86)	(51)	-	(137)
Maintenance, materials and supplies	(117)	(33)	(14)	(164)
Bad debt expense	3	(10)	(4)	(11)
Interconnection costs	(136)	-	-	(136)
Cost of international outbound calls	(76)	-	-	(76)
Lease of circuits	(29)	(9)	-	(38)
Fees for services	(83)	(13)	(2)	(98)
Advertising	(23)	(20)	(1)	(44)
Cost of cellular handsets	-	(22)	-	(22)
Commissions	(57)	(103)	-	(160)
Others	(164)	(211)	(2)	(377)
Operating income (loss) before depreciation and amortization	1,364	617	3	1,984
Depreciation of fixed assets	(1,436)	(327)	(5)	(1,768)
Amortization of intangible assets	(63)	(46)	-	(109)
Operating (loss) income	(135)	244	(2)	107
Equity gain from related companies	-	-	2	2
Financial results, net	(132)	168	12	48
Other expenses, net	(121)	(37)	(10)	(168)
Gain on debt restructuring	280	90	6	376
Net (loss) income before income tax and minority interest	(108)	465	8	365
Income tax	-	11	(4)	7
Minority interest	-	(21)	-	(21)
Net (loss) income	(108)	455	4	351

Balance sheet information

Fixed assets, net	6,443	1,554	4	8,001
Intangible assets, net	110	731	4	845
Capital expenditures excluding materials	57	73	-	130
Acquisition of intangible assets	-	4	-	4
Depreciation of fixed assets	(1,436)	(343)	(5)	(1,784)
Amortization of intangible assets	(67)	(58)	-	(125)
Net financial debt	(6,220)	(1,361)	1	(7,580)

Cash flow information

Cash flows provided by operating activities	1,509	499	7	2,015
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(91)	(77)	-	(168)
Decrease in investments not considered as cash and cash equivalents	(85)	(92)	-	(177)
Total cash flows used in investing activities	(176)	(169)	-	(345)
Cash flows from financing activities:				
Decrease in debt	-	(11)	-	(11)
Repurchase of debt	(328)	(87)	(7)	(422)
Payment of interest and debt-related expenses	(283)	(52)	-	(335)
Inter-segment transfers of cash	5	(5)	-	-
Total cash flows used in financing activities	(606)	(155)	(7)	(768)
Increase in cash and cash equivalents	727	175	-	902
Cash and cash equivalents at the beginning of year	1,059	253	2	1,314
Cash and cash equivalents at year end	1,786	428	2	2,216

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13. Segment information (continued)

For the year ended December 31, 2002

Income statement information

	Voice, data and Internet	Wireless	Directories publishing	Total
Net sales	2,954	1,035	23	4,012
Salaries and social security	(472)	(92)	(23)	(587)
Turnover tax	(91)	(40)	(1)	(132)
Maintenance, materials and supplies	(144)	(33)	(11)	(188)
Bad debt expense	(129)	(54)	(6)	(189)
Interconnection costs	(141)	-	-	(141)
Cost of international outbound calls	(103)	-	-	(103)
Lease of circuits	(24)	(17)	-	(41)
Fees for services and management fees	(123)	(13)	(3)	(139)
Advertising	(14)	(14)	-	(28)
Cost of cellular handsets	-	(12)	-	(12)
Commissions	(70)	(62)	-	(132)
Others	(254)	(175)	(4)	(433)
Operating income (loss) before depreciation and amortization	1,389	523	(25)	1,887
Depreciation of fixed assets	(1,558)	(416)	(6)	(1,980)
Amortization of intangible assets	(66)	(45)	-	(111)
Operating (loss) income	(235)	62	(31)	(204)
Equity gain from related companies	(15)	-	(8)	(23)
Amortization of goodwill	(10)	-	-	(10)
Financial results, net	(4,275)	(1,000)	(27)	(5,302)
Other expenses, net	(101)	(58)	(17)	(176)
Net (loss) income before income tax and minority interest	(4,636)	(996)	(83)	(5,715)
Income tax	1,104	186	14	1,304
Minority interest	-	25	-	25
Net (loss)	(3,532)	(785)	(69)	(4,386)

Balance sheet information

Fixed assets, net	7,881	1,800	8	9,689
Intangible assets, net	177	765	4	946
Capital expenditures excluding materials	158	63	1	222
Acquisition of intangible assets	1	28	-	29
Depreciation of fixed assets	(1,558)	(419)	(6)	(1,983)
Amortization of intangible assets	(73)	(50)	-	(123)
Net financial debt	(7,653)	(2,079)	(12)	(9,744)

Cash flow information

Cash flows provided by operating activities	1,297	370	-	1,667
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(260)	(154)	-	(414)
Increase (decrease) in investments not considered as cash and cash equivalents	112	(10)	-	102
Total cash flows used in investing activities	(148)	(164)	-	(312)
Cash flows from financing activities:				
Payment of debt	(4)	(20)	-	(24)
Payment of interest and debt-related expenses	(357)	(89)	-	(446)
Inter-segment transfers of cash	(85)	85	-	-
Total cash flows used in financing activities	(446)	(24)	-	(470)
Increase in cash and cash equivalents	703	182	-	885
Cash and cash equivalents at the beginning of year	356	71	2	429
Cash and cash equivalents at year end	1,059	253	2	1,314

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14. Selected consolidated quarterly information (unaudited)

Quarter ended	Net sales	Operating income before depreciation and amortization	Operating income (loss)	Financial results, net	Net (loss) income
Year 2004:					
March 31,	1,017	494	65	95	124
June 30,	1,053	489	67	(393)	(354)
September 30,	1,141	499	76	(324)	(261)
December 31,	1,283	564	192	(550)	(175)
	4,494	2,046	400	(1,172)	(666)
Year 2003:					
March 31,	851	453	(24)	961	907
June 30,	899	490	17	58	381
September 30,	961	504	31	(490)	(509)
December 31,	1,042	537	83	(481)	(428)
	3,753	1,984	107	48	351
Year 2002:					
March 31,	1,373	611	69	(5,474)	(3,734)
June 30,	921	411	(90)	(1,447)	(897)
September 30,	857	397	(122)	1,059	494
December 31,	861	468	(61)	560	(249)
	4,012	1,887	(204)	(5,302)	(4,386)

15. Unconsolidated information

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 information supplementary 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. The tables below present unconsolidated financial statement information, as follows:

Balance sheets:

	As of December 31, 2004	As of December 31, 2003
ASSETS		
Current Assets		
Cash and banks.....	\$ 24	\$ 17
Investments.....	3,554	2,011
Accounts receivable, net.....	327	317
Other receivables, net.....	59	119
Total current assets.....	3,964	2,464
Non-Current Assets		
Other receivables, net.....	143	106
Investments.....	1,068	874
Fixed assets, net.....	5,385	6,442
Intangible assets, net.....	84	110
Total non-current assets.....	6,680	7,532
TOTAL ASSETS.....	\$ 10,644	\$ 9,996
LIABILITIES		
Current Liabilities		
Accounts payable.....	\$ 315	\$ 243
Debt.....	9,418	8,206
Salaries and social security payable.....	69	70
Taxes payable.....	61	72
Other liabilities.....	21	24
Contingencies.....	11	10
Total current liabilities.....	9,895	8,625
Non-Current Liabilities		
Accounts payable.....	7	-
Salaries and social security payable.....	33	30
Other liabilities.....	64	34
Contingencies.....	143	139
Total non-current liabilities.....	247	203
TOTAL LIABILITIES.....	\$ 10,142	\$ 8,828
SHAREHOLDERS' EQUITY.....	\$ 502	\$ 1,168
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$ 10,644	\$ 9,996

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Notes to the Consolidated Financial Statements

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

15. Unconsolidated information (continued)

Statements of income:

	Years ended December 31,		
	2004	2003	2002
Net sales.....	\$ 2,876	\$ 2,672	\$ 3,071
Cost of services.....	(1,911)	(1,973)	(2,302)
Gross profit.....	965	699	769
General and administrative expenses.....	(148)	(136)	(153)
Selling expenses.....	(556)	(583)	(746)
Operating income (loss).....	261	(20)	(130)
Equity gain (loss) from related companies.....	173	334	(1,016)
Amortization of goodwill.....	-	-	(10)
Financial results, net.....	(1,016)	(125)	(4,234)
Other expenses, net.....	(63)	(118)	(100)
Gain on debt restructuring.....	(21)	280	-
Net (loss) income before income tax.....	(666)	351	(5,490)
Income tax benefit, net.....	-	-	1,104
Net (loss) income.....	\$ (666)	\$ 351	\$ (4,386)

Condensed statements of cash flows:

	Years ended December 31,		
	2004	2003	2002
Cash flows provided by operating activities.....	\$ 1,739	\$ 1,515	\$ 1,293
Cash flows from investing activities			
Acquisition of fixed assets.....	(206)	(91)	(259)
Decrease (increase) in investments not considered as cash and cash equivalents.....	(465)	(85)	27
Total cash flows used for investing activities.....	(671)	(176)	(232)
Cash flows from financing activities			
Decrease in debt.....	-	-	(4)
Repurchase of debt.....	-	(328)	-
Payment of interest and debt-related expenses.....	-	(283)	(355)
Total cash flows used for financing activities.....	-	(611)	(359)
Increase in cash and cash equivalents	1,068	728	702
Cash and cash equivalents at the beginning of year	1,785	1,057	355
Cash and cash equivalents at year end	\$ 2,853	\$ 1,785	\$ 1,057

16. Other financial statement information

The following tables present additional consolidated financial statement disclosures required under Argentine GAAP:

- a. Fixed assets, net
- b. Intangible assets, net
- c. Securities and equity investments
- d. Current investments
- e. Allowances and provisions
- f. Cost of services
- g. Foreign currency assets and liabilities
- h. Expenses
- i. Aging of assets and liabilities

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Notes to the Consolidated Financial Statements

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

16. Other financial statement information (continued)

(a) Fixed assets, net

Principal account	Original value					
	As of the beginning of year	Additions	Foreign currency translation adjustments	Transfers	Decreases	As of the end of the year
Land.....	118	-	-	-	-	118
Building.....	1,648	2	-	14	(10)	1,654
Transmission equipment.....	5,112 (*)	20	4	115	(10)	5,241
Switching equipment.....	3,847	2	2	73	(2)	3,922
Power equipment.....	536	1	1	(3)	(1)	534
External wiring.....	5,943	-	-	9	(1)	5,951
Telephony equipment and instruments....	864	1	3	15	-	883
Cellular handsets given to customers at no cost.....	332	8	2	-	-	342
Vehicles.....	109	15	-	(1)	(9)	114
Furniture.....	107	2	-	(1)	-	108
Installations.....	437	1	-	8	-	446
Improvements in third parties buildings.	101	1	1	(1)	-	102
Computer equipment.....	2,511	17	3	58	(7)	2,582
Work in progress.....	63 (**)	358	-	(274)	-	147
Fixed assets excluding materials	21,728	428	16	12	(40)	22,144
Materials.....	90 (***)	72	-	(12)	(54)	96
Total as of December 31, 2004	21,818	500	16	- (a)	(94)	22,240
Total as of December 31, 2003	21,734	182	38	- (a)	(136)	21,818

(*) Includes \$2 transferred from materials.

(**) Includes \$158 transferred from materials.

(***) Net of \$160 transferred to fixed assets.

Principal account	Depreciation					Net carrying value as of December 31, 2004	Net carrying value as of December 31, 2003
	Accumulated as of the beginning of the year	Annual rate (%)	Amount	Decreases and transfers	Accumulated as of the end of the year		
Land.....	-	-	-	-	-	118	118
Building.....	(679)	4 - 9	(75)	9	(745)	909	969
Transmission equipment.....	(3,164)	10 - 11	(442)	6	(3,600)	1,641	1,948
Switching equipment.....	(2,686)	10	(307)	(1)	(2,994)	928	1,161
Power equipment.....	(320)	10 - 20	(46)	1	(365)	169	216
External wiring.....	(3,573)	7	(308)	1	(3,880)	2,071	2,370
Telephony equipment and instruments....	(683)	13 - 18	(60)	(1)	(744)	139	181
Cellular handsets given to customers at no cost.....	(328)	50	(9)	-	(337)	5	4
Vehicles.....	(99)	20 - 40	(9)	10	(98)	16	10
Furniture.....	(76)	10 - 20	(8)	-	(84)	24	31
Installations.....	(298)	9 - 33	(31)	(1)	(330)	116	139
Improvements in third parties buildings.	(65)	4 - 25	(8)	(1)	(74)	28	36
Computer equipment.....	(1,846)	18 - 33	(257)	9	(2,094)	488	665
Work in progress.....	-	-	-	-	-	147	63
Fixed assets excluding materials	(13,817)		(1,560)	32	(15,345)	6,799	7,911
Materials.....	-	-	-	-	-	96	90
Total as of December 31, 2004	(13,817)		(b) (1,560)	(e) 32	(15,345)	(c) 6,895	(c) 8,001
Total as of December 31, 2003	(12,045)		(d) (1,784)	12	(13,817)	8,001	

(a) Includes (6) in 2004 and (76) in 2003 corresponding to the reversal of foreign currency exchange differences, which forms part of the gain on debt restructuring.

(b) Includes (119) corresponding to the depreciation of capitalized foreign currency exchange differences and (8) corresponding to foreign currency translation adjustments.

(c) Includes 6 in 2004 and 4 in 2003 corresponding to the net carrying value of the capitalized cost of asset retirement obligations.

(d) Includes (121) corresponding to the depreciation of capitalized foreign currency exchange differences and (16) corresponding to foreign currency translation adjustments.

(e) Includes 2 corresponding to depreciation related to the reversal of foreign currency exchange differences, which forms part of the gain on debt restructuring.

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16. Other financial statement information (continued)

(b) Intangible assets, net

Principal account	Original value			
	As of the beginning of the year	Additions	Foreign currency translation adjustments	As of the end of the year
Software obtained or developed for internal use.....	430	-	1	431
Debt issue costs.....	80	-	1	81
PCS license.....	662	-	-	662
Band B license (Paraguay).....	117	-	6	123
Rights of use.....	45	24	-	69
Exclusivity agreements.....	98	-	-	98
Trademarks.....	8	-	-	8
Total as of December 31, 2004	1,440	24	8	1,472
Total as of December 31, 2003	1,416	4	20	1,440

Principal account	Amortization			Net carrying value as of December 31, 2004	Net carrying value as of December 31, 2003
	Accumulated as of the beginning of the year	Amount	Accumulated as of the end of the year		
Software obtained or developed for internal use.....	(301)	(72)	(373)	58	129
Debt issue costs.....	(72)	(6)	(78)	3	8
PCS license.....	(71)	-	(71)	591	591
Band B license (Paraguay).....	(71)	(18)	(89)	34	46
Rights of use.....	(20)	(3)	(23)	46	25
Exclusivity agreements.....	(56)	(4)	(60)	38	42
Trademarks.....	(4)	(1)	(5)	3	4
Total as of December 31, 2004	(595)	(a)	(699)	773	845
Total as of December 31, 2003	(470)	(b)	(595)	845	

- a) An amount of \$40 is included in cost of services, \$7 in general and administrative expenses, \$47 in selling expenses and \$5 in financial results, net. Also includes \$5 corresponding to foreign currency translation adjustments.
- b) An amount of \$42 is included in cost of services; \$5 in general and administrative expenses; \$62 in selling expenses, \$6 in financial results, net. Also includes \$10 corresponding to foreign currency translation adjustments.

(c) Securities and equity investments

Issuer and characteristic of the securities	Type	Nominal value/Market value	Number of securities/shares	Net realizable value	Cost value as of December 31, 2004	Book value as of December 31, 2004	Book value as of December 31, 2003
CURRENT INVESTMENTS							
Government bonds							
Secured 2018 Bond		\$ 1	8,399,999	10	9	10	7
"Soberano" Bond		Euro 1	54,000,000	218	199	218	69
Argentina 2004 Bond (Note 11)		US\$ 1	26,507,106	23	56	79	-
Mutual funds							
SUPAH\$ Class B		\$0.23	120,992,698	27	27	27	-
OPTIMUM\$ Class B		\$1.52	9,181,338	14	14	14	-
Other				-	-	-	192
Equity investments							
Intelsat Ltd. (Note 17)	Ordinary	US\$ 3	260,432	14	8	8	-
Total current investments				306	313	356	268
NON- CURRENT INVESTMENTS							
Government bonds							
Argentina 2004 Bond		US\$ 1	-	-	-	-	35
Total government bonds				-	-	-	35
Equity investments							
Nahuelat	Ordinary	\$ 1,000	5,750	-	13	-	2
Intelsat Ltd. (Note 17)				-	-	-	8
Total equity investments				-	13	-	10
Total non-current investments				-	13	-	45

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16. Other financial statement information (continued)

(d) Current investments

	Cost as of December 31, 2004	Book value as of	
		December 31, 2004	December 31, 2003
CURRENT INVESTMENTS			
Time deposits			
In foreign currency	\$ 3,026	\$ 3,026	\$ 1,665
In Argentine pesos	304	304	508
Total current investments	\$ 3,330	\$ 3,330	\$ 2,173

(e) Allowances and provisions

Items	Opening balances	Additions	Reclassifications	Deductions	As of December 31, 2004
Deducted from current assets					
Allowance for doubtful accounts receivables	112	(a) 5	-	(13)	104
Allowance for obsolescence	2	(b) 1	-	-	3
Impairment loss on the Argentina 2004 bond (Note 11)	-	(c) 56	-	-	56
Deducted from non-current assets					
Valuation allowance of net deferred tax assets	447	(d) 248	-	-	695
Allowance for doubtful accounts	3	(b) 1	-	-	4
Total deducted from assets	564	311	-	(13)	862
Total deducted from assets as of December 31, 2003	877	(e) 25	-	(f) (338)	564
Included under current liabilities					
Provision for commissions	1	(a) 25	-	(12)	14
Provision for contingencies	14	-	20	(18)	16
Included under non-current liabilities					
Provision for contingencies	210	(b) 24	(20)	-	214
Total included under liabilities	225	49	-	(30)	244
Total included under liabilities as of December 31, 2003	151	(g) 91	-	(h) (17)	225

(a) Included in selling expenses.

(b) Included in other expenses, net.

(c) Included in financial results, net.

(d) Included in income tax (expense).

(e) Includes \$11 in selling expenses, \$1 in other expenses, net and \$13 in income tax (expense).

(f) Includes \$7 corresponding to results on exposure to inflation.

(g) Includes \$1 in selling expenses and \$90 in other expenses, net.

(h) Includes \$1 corresponding to results on exposure to inflation.

(f) Cost of services

	Years ended December 31,		
	2004	2003	2002
Inventory balance at the beginning of the year.....	\$ 16	\$ 18	\$ 52
Plus:			
Purchases.....	326	38	3
Financial results, net.....	(6)	(6)	(3)
Cellular handsets given to customers at no cost (a)...	(8)	(3)	(10)
Replacements.....	(9)	(9)	(12)
Cost of services (Note 16.h).....	2,713	2,618	2,881
Less:			
Inventory balance at the end of the year.....	(82)	(16)	(18)
COST OF SERVICES.....	\$ 2,950	\$ 2,640	\$ 2,893

(a) 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.

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16. Other financial statement information (continued)

(g) Foreign currency assets and liabilities

Items	As of December 31, 2004			As of December 31, 2003	
	Amount of foreign currency	Current exchange rate	Amount in local currency	Amount in local currency	
Current assets					
Cash and banks					
Bank accounts	US\$ 4	2.97900	\$ 12	\$ 4	
	G 2,558	0.00048	1	2	
Investments					
Time deposits	US\$ 506	2.97900	1,507	885	
	EURO 372	4.05920	1,515	776	
	G 7,273	0.00048	4	4	
Government bonds	EURO 54	4.05920	218	69	
	US\$ 27	2.97900	79	-	
Impairment loss on the Argentina 2004 bond	US\$ (19)	2.97900	(56)	-	
Accounts receivable					
	US\$ 16	2.97900	48	59	
	SDR -	-	-	2	
	G 86,284	0.00048	41	66	
Other receivables					
Tax credits	US\$ -	-	-	38	
	G 3,723	0.00048	3	1	
Prepaid expenses	US\$ 1	2.97900	2	-	
	G -	-	-	1	
Others	G 3,473	0.00048	1	2	
	US\$ 4	2.97900	11	-	
Non-current assets					
Other receivables					
Tax credits	US\$ -	-	-	4	
Others	US\$ 3	2.97900	9	-	
Investments					
Government bonds	US\$ -	-	-	35	
Total assets			\$ 3,395	\$ 1,948	
Current liabilities					
Accounts payable					
Suppliers	US\$ 57	2.97900	\$ 170	\$ 40	
	G 11,257	0.00048	6	17	
	SDR 1	4.62642	5	9	
	EURO 1	4.05920	5	9	
Advances from customers	G 4,425	0.00048	2	3	
Related parties	US\$ 5	2.97900	14	4	
Debt					
Notes - Principal	US\$ 216	2.97900	644	634	
	EURO 1,160	4.05920	4,709	4,278	
Banks loans and others - Principal .	US\$ 344	2.97900	1,026	1,305	
	¥ 2,750	0.02914	80	178	
Fixed assets financing - Principal	US\$ 328	2.97900	978	1,707	
	EURO 39	4.05920	157	143	
	¥ 11,652	0.02914	340	319	
Inventory financing - Principal	US\$ -	-	-	417	
Accrued interest	US\$ 124	2.97900	369	271	
	EURO 210	4.05920	851	448	
	¥ 888	0.02914	26	16	
Penalty interest	US\$ 31	2.97900	92	76	
	EURO 17	4.05920	71	24	
	¥ 261	0.02914	7	4	
Salaries and social security payable					
Vacation, bonuses and social security payable	G -	-	-	1	
Taxes payable					
Income tax	G 2,589	0.00048	1	-	
VAT	G -	-	-	1	
Other liabilities					
Other	G 1,075	0.00048	1	-	
Non-current liabilities					
Accounts payable					
Suppliers	US\$ 2	2.97900	\$ 7	\$ -	
Debt					
Banks loans and others - Principal .	US\$ 423	2.97900	1,260	86	
Gain on discounting of debt	US\$ (14)	2.97900	(41)	-	
Taxes payable					
Deferred tax liabilities	G 12,694	0.00048	6	-	
Other liabilities					
Deferred revenue on sale of capacity	US\$ 11	2.97900	31	21	
Total liabilities			\$ 10,817	\$ 10,011	

(1) US\$ = United States dollars; SDR = Special drawing rights; GF = Golden franc; G = Guaranies; ¥ = Yen.

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

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

16. Other financial statement information (continued)

(h) Expenses

	Expenses			Year ended December 31, 2004
	Cost of services	General and administrative	Selling	
Salaries and social security.....	\$ 291	\$ 102	\$ 200	\$ 593
Depreciation of fixed assets.....	1,335	42	175	1,552
Amortization of intangible assets...	40	7	47	94
Taxes.....	103	5	27	135
Turnover tax.....	166	-	-	166
Maintenance, materials and supplies.	184	6	43	233
Transportation and freight.....	9	3	23	35
Insurance.....	16	4	5	25
Energy, water and others.....	33	7	10	50
Bad debt expense.....	-	-	5	5
Interconnection costs.....	135	-	-	135
Cost of international outbound calls	82	-	-	82
Lease of circuits.....	38	-	-	38
Rental expense.....	39	4	12	55
Fees for services.....	26	48	28	102
Advertising.....	-	-	93	93
Commissions.....	-	13	225	238
Others.....	216	3	7	226
Total.....	\$ 2,713	\$ 244	\$ 900	\$ 3,857

	Expenses			Year ended December 31, 2003
	Cost of services	General and administrative	Selling	
Salaries and social security.....	\$ 262	\$ 90	\$ 154	\$ 506
Depreciation of fixed assets.....	1,501	49	218	1,768
Amortization of intangible assets...	42	5	62	109
Taxes.....	92	2	25	119
Turnover tax.....	137	-	-	137
Maintenance, materials and supplies.	116	8	40	164
Transportation and freight.....	6	3	19	28
Insurance.....	18	4	5	27
Energy, water and others.....	26	5	7	38
Bad debt expense.....	-	-	11	11
Interconnection costs.....	136	-	-	136
Cost of international outbound calls	76	-	-	76
Lease of circuits.....	38	-	-	38
Rental expense.....	32	5	9	46
Fees for services.....	22	35	41	98
Advertising.....	-	-	44	44
Commissions.....	-	13	147	160
Others.....	114	3	2	119
Total.....	\$ 2,618	\$ 222	\$ 784	\$ 3,624

	Expenses			Year ended December 31, 2002
	Cost of services	General and administrative	Selling	
Salaries and social security.....	\$ 278	\$ 101	\$ 208	\$ 587
Depreciation of fixed assets.....	1,614	70	296	1,980
Amortization of intangible assets...	39	9	63	111
Taxes.....	130	2	12	144
Turnover tax.....	132	-	-	132
Maintenance, materials and supplies.	156	5	27	188
Transportation and freight.....	19	6	14	39
Insurance.....	18	4	6	28
Energy, water and others.....	29	6	9	44
Bad debt expense.....	-	-	189	189
Interconnection costs.....	141	-	-	141
Cost of international outbound calls	103	-	-	103
Lease of circuits.....	41	-	-	41
Rental expense.....	44	12	26	82
Fees for services.....	53	44	42	139
Advertising.....	-	-	28	28
Commissions.....	21	6	105	132
Others.....	63	16	17	96
Total.....	\$ 2,881	\$ 281	\$ 1,042	\$ 4,204

TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

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

16. Other financial statement information (continued)

(i) Aging of assets and liabilities

Date due	Investments	Accounts receivable	Other receivables	Accounts payable	Debt	Salaries and social security payable	Taxes payable	Other liabilities
Total due	-	123	-	-	(b) 6,505	-	-	-
Not due	-	-	-	-	(b) 2,913	-	-	-
Payable on demand	-	-	-	-	-	-	-	-
First quarter 2005	3,630	463	53	548	-	51	95	20
Second quarter 2005	-	23	3	-	9	12	17	2
Third quarter 2005	-	3	3	-	-	8	2	-
Fourth quarter 2005	-	-	19	-	7	8	-	-
Jan. 2006 thru Dec. 2006	-	-	11	1	53	13	1	3
Jan. 2007 thru Dec. 2007	-	-	4	1	78	6	4	5
Jan. 2008 thru Dec. 2008	-	-	2	1	296	5	-	5
Jan. 2009 thru Dec. 2009	-	-	76	1	350	3	-	5
Jan. 2010 thru Dec. 2010	-	-	2	1	337	2	-	4
Jan. 2011 and thereafter	2	-	133	2	146	4	-	49
Not date due established	-	-	-	-	(41)	-	-	-
Total not due	3,632	489	306	555	4,148	112	119	93
Total as of December 31, 2004	3,632	612	306	(a) 555	10,653	112	119	93
Balances with indexation clauses	-	20	-	5	-	-	-	-
Balances bearing interest	3,599	128	-	-	10,483	-	-	-
Balances not bearing interest	33	464	306	550	170	112	119	93
Total	3,632	612	306	555	10,653	112	119	93
Average annual interest rate (%)	2.28	(c)	-	-	(b)	-	-	-

(a) There are payables in kind that amounted to \$1.

(b) See note 8.

(c) 96 bear 50% over the Banco Nación Argentina notes payable discount rate and \$32 bear 9.44%.

Date due	Investments	Accounts receivable	Other receivables	Accounts payable	Debt	Salaries and social security payable	Taxes payable	Other liabilities
Total due	-	157	-	-	(d) 5,676	-	-	-
Not due	-	-	-	-	4,315	-	-	-
Payable on demand	-	-	-	-	-	-	-	-
First quarter 2004	2,441	410	46	451	-	50	60	23
Second quarter 2004	-	9	15	-	2	11	58	2
Third quarter 2004	-	4	14	-	-	7	2	-
Fourth quarter 2004	-	1	44	-	3	9	-	-
Jan. 2005 thru Dec. 2005	36	-	30	-	3	12	-	1
Jan. 2006 thru Dec. 2006	-	-	6	-	4	9	-	2
Jan. 2007 thru Dec. 2007	-	-	2	-	3	4	-	2
Jan. 2008 thru Dec. 2008	-	-	2	-	64	2	-	2
Jan. 2009 thru Dec. 2009	-	-	60	-	12	1	-	2
Jan. 2010 and thereafter	1	-	93	-	-	2	-	30
Total not due	2,478	424	312	451	4,406	107	120	64
Total as of December 31, 2003	2,478	581	312	(a) 451	10,082	107	120	64
Balances with indexation clauses	-	-	-	5	-	-	-	-
Balances bearing interest	2,476	152	6	3	9,978	-	-	-
Balances not bearing interest	2	429	306	443	104	107	120	64
Total	2,478	581	312	451	10,082	107	120	64
Average annual interest rate (%)	2.18	(e)	-	41.22	-	-	-	-

(d) Includes \$119 corresponding to Nucleo.

(e) \$100 bear 50% over the Banco Nación Argentina notes payable discount rate, and \$52 bear 20.82%.

17. Subsequent events

As of December 31, 2004, Telecom Argentina has a 0.15% equity interest in Intelsat Ltd. representing 260,432 shares of common stock. As of December 31, 2004, 60,000 shares were pledged as guarantee for the payment of satellite services provided by Intelsat to Telecom Argentina.

In December 2004, the Board of Directors of Telecom Argentina authorized the sale of 100% of the common shares in Intelsat (including the 60,000 shares for which the pledge was previously released as discussed in the following paragraph) to Zeus Holdings Limited for US\$ 5 million. The sale transaction was completed in the first quarter of 2005 generating a gain on the sale of approximately \$6.

Prior to the completion of the sale, Intelsat agreed to release the pledge on the shares in exchange for a cash deposit of US\$ 0.3 million to guarantee the payment of satellite services. This guarantee will be reviewed every six months and may be modified as appropriate.

The amount of the investment has been reclassified to current assets as of December 31, 2004.

Marcelo Kozak
Chief Administration Officer

Amadeo R. Vázquez
President

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Telecom Argentina S.A.

1. We have audited the accompanying consolidated balance sheets of Telecom Argentina S.A. ("the Company" or "Telecom") and its consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements and those mentioned in paragraph 3. of this report are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with standards established by the Argentine Federation of Professional Councils in Economic Sciences. An audit requires that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a selective test basis, the evidence supporting the information contained in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as assessing the presentation of the financial statement taken as a whole. We believe that our audits provide a reasonable basis for our opinion.
3. In connection with the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2002, presented for comparative purposes, we report that Henry Martin, Lisdero y Asociados (one of the predecessor firms of Pistrelli, Henry Martin y Asociados S.R.L.), in its capacity as member firm of Ernst & Young ("HML"), issued an audit report on March 10, 2003 on the consolidated financial statements of the Company as of December 31, 2002, with qualifications due to uncertainties related to: 1) the effects of the economic crisis on the evaluations and estimates made by the Company's and its subsidiaries' management, 2) the effects of the elimination of indexation clauses based on foreign countries price indexes, in the agreements executed by the Federal Administration under public law regulations, including public works and services, 3) the suspension of the payments of certain financial debt, 4) the continuity of the normal course of business of the Company and its subsidiaries and 5) the outcome of the matters included in our reports dated March 7, 2003 on the financial statements of Telecom Personal S.A. ("Personal") and Publicom S.A. as of December 31, 2002.
4. As further described in Note 3.c) to the accompanying consolidated financial statements and as required by a resolution issued by the *Comisión Nacional de Valores (CNV)*, the Company has discontinued the restatement of the consolidated financial statements in constant currency as from March 1, 2003. Notwithstanding the provisions of the CNV, the Professional Council of Economics Sciences of the City of Buenos Aires ("CPCECABA") required restatement for inflation through September 30, 2003. The estimated effect of not having performed the restatement into constant pesos from April 1, 2003 to September 30, 2003 has been quantified by the Company and included in such note.
5. As indicated in Note 2.c), to the accompanying consolidated financial statements, the Public Emergency and Exchange System Reform Law provided that in agreements executed by the Federal Government under public law regulations, including those related to public works and services, indexation clauses based on foreign currency price indexes or any other indexation mechanism are annulled. In this regard, the Company's tariffs were set in pesos at the exchange rate of \$1 per US\$1 while part of the Company's costs and indebtedness is denominated in foreign currency. Consequently, the Company's operating condition have been altered, negatively affecting its economic and financial equation. Furthermore, as indicated in Note 8 to the accompanying consolidated financial statements, during the first half of year 2002, the Board of Directors of Telecom decided to suspend payments of principal and interest on its outstanding financial indebtedness. As mentioned in such Note, on October 21, 2004, after reaching a level of consent of 82.35% of the total creditors representing 94.47% of the total financial indebtedness of the Company, the executed APE (*Acuerdo Preventivo Extrajudicial*, an out-of-court restructuring agreement governed by Argentine Law) was filed with the reviewing court for approval. At the date of issuance of the accompanying consolidated financial statements, the APE was not approved by the reviewing court. The accompanying consolidated financial statements of Telecom as of December 31, 2004 and 2003 were prepared considering the continuity of the normal course of business of the Company, applying assets and liabilities valuation and classification criteria corresponding to a going concern and, therefore, not including any adjustments and classifications that might result from the outcome of the uncertainty previously described.

6. Our audit report (jointly issued with HML) on the financial statements of Personal as of December 31, 2003, dated March 9, 2004, included qualifications due to uncertainties related to: a) the effects of the suspension of principal and interest payments decided by the Board of Directors of Personal, the exercise by certain creditors of Personal and its subsidiary Núcleo S.A. of their right to request accelerated repayment of loans, and the outcome of the restructuring of the total financial indebtedness and b) the preparation of financial statements considering the continuity of the normal course of business of Personal, applying assets and liabilities valuation and classification criteria corresponding to a going concern and, therefore, not including any adjustments and classifications that might result from the outcome of the uncertainties described in this paragraph. As mentioned in Note 8, these situations have been resolved due to the end of the restructuring process of Personal, which occurred during 2004. Accordingly, our opinion on the financial statements as of December 31, 2003, differs from the opinion originally issued.
7. In our opinion, except for the situation mentioned in paragraph 4 of this report and subject to the effect of the adjustments and classifications, if any, that might arise of the outcome of the uncertainty described in paragraph 5. of this report, the consolidated financial statements mentioned in paragraph 1, present fairly, in all material respects, the consolidated financial position of Telecom and its subsidiaries as of December 31, 2004 and 2003 and the consolidated results of operations, changes in shareholders' equity and cash flows for the years then ended, in conformity with accounting principles generally accepted in Argentina.
8. In compliance with current regulations, we report that:
 - a. the financial statements of Telecom have been transcribed to the Inventory and Balance Sheet book and comply, as regards to those matters that are within our competence, with relevant rules and regulations of the Commercial Corporation Law and CNV;
 - b. the consolidated financial statements of Telecom at December 31, 2004 arise from accounting records carried in all formal respects in accordance with current legal regulations;
 - c. we have read the Summary of Activity on the financial statements for the years ended December 31, 2004, 2003, and for the twelve month period ended December 31, 2000, on which, as regards to those matters that are within our competence, we have no observations to make other than those indicated in paragraphs 4 to 6;

The financial information included in the Summary of Activity for the years ended December 31, 2002 and 2001, was covered by HML that issued on March 10, 2003, qualified opinion related to the financial statements as of such dates.
 - d. as of December 31, 2004, the debt corresponding to withholdings and contributions to the Integrated Retirement and Survivors' Benefit System according to the Company's accounting records amounts to \$11,329,966, none of which was claimable at that date.
 - e. during the fiscal year ended December 31, 2004, we have billed audit and audit related service fees rendered to the Company, which represent 100% of the total fees for all services billed to the Company, 71% of total audit and audit related services billed to the Company, its parent company, its subsidiaries and its affiliates, and 71% of the total fees invoiced to the Company, its parent company, its subsidiaries and its affiliates.

City of Buenos Aires, March 8, 2005

PRICE WATERHOUSE & CO. S.R.L.

by _____ (Partner)
Dr. Juan C. Grassi

TELECOM ARGENTINA S.A.

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

SUMMARY OF ACTIVITY ON THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004

(In millions of Argentine pesos or as expressly indicated)

1. General considerations

Telecom Argentina recorded a consolidated net loss of \$666 million for the fiscal year ended December 31, 2004 ("FY04") mainly due to the loss resulting from financial and holding results. Comparatively, consolidated net income for fiscal year 2003 ("FY03") was \$351 million.

Earnings/loss per share and ADR for FY04 amounted to \$(0.68) and \$(3.38), respectively. Earnings per share/loss and ADR for FY03, were \$0.36 and \$1.78, respectively.

Operating profit before depreciation and amortization, operating profit/(loss) and net income/(loss) for FY04 represented 46%, 9% and (15%) of net sales, respectively; compared with 53%, 3% and 9%, respectively, for FY03.

	Years ended December 31,	
	2004	2003
Net sales	4,494	3,753
Cost of services	(2,950)	(2,640)
Gross profit	1,544	1,113
General and administrative expenses	(244)	(222)
Selling expenses	(900)	(784)
Operating income (loss)	400	107
Equity gain from related companies	(2)	2
Financial results, net	(1,172)	48
Other expenses, net	(78)	(168)
Gain on debt restructuring	209	376
Net income (loss) before income tax and minority interest	(643)	365
Income tax benefit, net	(26)	7
Minority interest	3	(21)
Net income	(666)	351
Net income per share (in pesos)	(0.68)	0.36

2. Company activities

? Consolidated net revenues

Consolidated net revenues for FY04 totaled \$4,494 million, an increase of \$741 million, or 20%, compared with \$3,753 million for FY03. The increase can be largely attributed to the increase in demand, particularly in the cellular business in Argentina.

Fixed telephony (Voice, data and Internet)

✍ Voice

In fixed telephony operations, local measured service revenues increased by \$28 million, or 6%, to \$518 million during FY04. Domestic long distance revenues increased by \$14 million, or 3%, reaching \$441 million. Revenues from both local and domestic long distance telephony increased due to higher traffic.

Total traffic volume (Local and DLD), measured in minutes, increased by 4%.

Monthly charges increased by \$33 million, or 5%, to \$635 million for FY04, mainly due to the increase in customer lines. Customer lines as of December 31, 2004 increased to approximately 3,484,000, due to the recovery in demand, compared to approximately 3,361,000 as of December 31, 2003. However, the current level of lines in service is still lower than before the economic crisis (December 2001). Moreover, fixed telephony tariffs remained stable after the "pesification" and freeze enforced by the Argentine Government in January 6, 2002.

Revenues generated by interconnection services increased by \$46 million, or 28%, to \$210 million, mainly due to the increase of traffic transported by the fixed and cellular networks.

Regarding international telephony activities, during FY04 revenues reached \$215 million increasing by \$2 million or 1%, mainly due to higher traffic.

✍ Data transmission and Internet

Revenues generated by the data transmission and Internet business totaled \$416 million, representing an increase of \$24 million, or 6%, mainly due to an increase in the number of ADSL clients partially offset by lower prices for data transmission services.

As of December 31, 2004, total lines in service with ADSL connections amounted to 124,700, an increase of 55,000, or 79%. The number of Arnet's ADSL subscribers reached approximately 81,200, increasing by 80% while Internet dial-up customers reached approximately 152,000, decreasing 2%. Internet minutes represented 30% of total traffic measured in minutes transported over the fixed-line network. However, internet minutes have fallen due to the steady migration of clients to ADSL services.

TELECOM ARGENTINA S.A.

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

Cellular Telephony

The revenues generated by the cellular business during FY04 increased by \$ 570 million, or 49%, to \$1,733 million.

Revenues of Telecom Personal in Argentina increased by \$564 million, or 56%, to \$1,567 million, mainly due to the higher number of subscribers, to the increase in total traffic, and to the increase in sales of handsets as a consequence of the increase in the demand for cellular services and the development of the GSM network.

Furthermore, the average revenue per user increased by 11% (to \$35 per customer, including revenues for TLRD or termination of calls coming from other cellular operators). Likewise, total cellular traffic increased by 40%.

Total cellular subscribers of Telecom Personal in Argentina reached approximately 3,835,000 at December 31, 2004, representing an increase of approximately 1,232,000 customers, or 47%. This increase in the client's base was fueled by the impressive growth in the number of GSM subscribers.

The level of competition in the cellular market continues to be significantly high after the launch of GSM services. In this environment, Telecom Personal continues to increase the coverage and capacity of its GSM network and has continued its marketing campaigns and promotions aimed to reposition its brand and strengthen its market position.

The customer base as of December 31, 2004 amounted to approximately 2,831,000 prepaid subscribers, representing 74% of the total customer base, and approximately 1,004,000 post-paid subscribers, representing the remaining 26%. These percentages were 81% and 19%, respectively, as of December 31, 2003.

Nucleo, Telecom Personal's subsidiary that provides cellular services in Paraguay, generated \$166 million in revenues during FY04, which are consolidated into the mobile telephony business together with the revenues of Telecom Personal. Nucleo's FY04 revenues represented an increase of \$6 million, or 4%.

As of December 31, 2004, Nucleo had approximately 502,000 customers, a decrease of approximately 5% due to the loss of dormant prepaid customers whose elimination from Nucleo's customer base was ordered by the Paraguayan regulatory authority. However, Nucleo's postpaid subscribers increased by 44% reaching 114,000 clients, representing 23% of the customer's base. Additionally, Nucleo launched its GSM services in Paraguay becoming the operator with the larger GSM/GPRS coverage in the country.

Directories publishing

In the telephone directories' publishing business, revenues from the subsidiary Publicom increased by \$9 million to \$43 million during FY04 due to higher sales of advertising space in Paginas Amarillas directories and the launch of several new special directories.

	<u>Years ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
National fixed telephone service	2,087	1,951
International telephone service	215	213
Data transmission	151	185
Internet	265	207
Fixed telephony	2,718	2,556
Wireless	1,733	1,163
Directories publishing	43	34
Total net sales	4,494	3,753

? Operating costs

The cost of services provided, general and administrative expenses and selling expenses for FY04 increased by \$448 million, or 12%, to \$4,094 million, mainly due to the increase in commissions for handset sales, cost of handsets, TLRD costs (termination charges in third parties cellular networks) and advertising expenses. The evolution of costs is mainly related to the increase in sales and increasing competition in the mobile telephony business.

Salaries and social security contributions increased by \$87 million, or 17%, to \$593 million primarily due to the increase in salaries granted during the year. Additionally, labor costs rose as a consequence of the increase in headcount. As of December 31, 2004, the headcount totaled 14,053, compared to 13,949 as of December 31, 2003.

The allowance for doubtful accounts decreased by \$6 million, or 55%, to \$5 million. This positive evolution was related to the improvement in the levels of collection and the recovery of past due accounts mainly in the fixed telephony business.

Sales commissions increased by \$81 million, or 84%, to \$177 million for FY04, as a consequence of higher commissions paid for new customers and higher sales of cellular prepaid cards.

TELECOM ARGENTINA S.A.

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Costs related to advertising increased by \$49 million, or 111%, to \$93 million for FY04. This increase was mainly due to higher media advertising expenses for the cellular and Internet businesses.

In the cellular telephony business, TLRD costs, which have been accounted since mid-2003, reached \$137 million. Additionally, in FY04 the cost of cellular handsets increased by \$215 million to \$237 million mainly due to the increase in handsets sales as a consequence of the cellular business growth after the launch of GSM service.

Depreciation of fixed and intangible assets decreased by \$231 million, or 12%, to \$1,646 million during FY04 as a consequence of the end of the amortization period of certain assets.

	Years ended December 31,	
	2004	2003
Salaries and social security	(593)	(506)
Taxes	(135)	(119)
Turnover tax	(166)	(137)
Maintenance, materials and supplies	(233)	(164)
Transportation and freight	(35)	(28)
Bad debt expense	(5)	(11)
Interconnection costs	(135)	(136)
Cost of international outbound calls	(82)	(76)
Lease of circuits	(38)	(38)
Fees for services (*)	(102)	(98)
Advertising	(93)	(44)
Cost of cellular handsets	(237)	(22)
Commissions	(238)	(160)
Roaming	(65)	(39)
Charges for termination of calls coming from other cellular operators	(137)	(62)
Others	(154)	(129)
Subtotal	(2,448)	(1,769)
Depreciation of fixed assets	(1,552)	(1,768)
Amortization of intangibles assets	(94)	(109)
Operating costs	(4,094)	(3,646)

(*) Includes (26) in December'04 and (16) in December'03 corresponding to fees for debt restructuring.

? Financial results, net

The loss resulting from financial and holding results reached \$1,172 million for FY04 as compared to a gain of \$48 million in FY03. The difference can be largely attributed to a decrease of \$1,084 million related to net currency exchange differences. The gap was a consequence of the effect that the fluctuation of the Argentine Peso against the Dollar and the Euro had on the financial debt of the Company.

? Other expenses, net

Other expenses (net) decreased by \$90 million, or 54%, to \$78 million for FY04 mainly as a result of lower severance payments and lower provisions for lawsuits.

? Gain on debt restructuring

The debt restructuring processes of Telecom Personal and Nucleo generated positive results for \$209 million, as a result of the agreements that Telecom Personal and Nucleo reached with their creditors. The positive results were generated by the reduction in principal associated with the restructuring process (\$72 million), the forgiveness of compensatory interest (\$142 million) and the valuation of the debt at net present value (\$41 million), partially offset by other expenses (\$46 million).

After their restructurings, Telecom Personal and Nucleo had debts as of December 31, 2004, of US\$416 million and US\$44 million, respectively.

Additionally, once Telecom Argentina finalizes its APE and the debt restructuring is completed, Telecom Argentina will account for the corresponding gains as a result of the restructuring of its debt. Such gains will arise from the reduction in principal and the forgiveness of compensatory interests.

? Net financial debt

Net Debt (Loans minus Cash and Banks plus Investments) decreased by \$548 million, or 8%, to \$7,032 million for FY04 compared with FY03 (\$7,580 million), mainly as a consequence of the successful restructuring of Telecom Personal and Nucleo's debts and the cash flow generated by the Company, partially offset by the fluctuation of the Argentine Peso against the Euro and the Dollar.

TELECOM ARGENTINA S.A.

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? Investments

Of the total amount of \$428 million invested during FY04, \$160 million, or 37%, corresponds to fixed-line telephony, data transmission and Internet, and \$268 million, or 63%, to the cellular business, as Telecom Personal continues with the deployment of its GSM network.

We note that the investments made during FY04 were lower than those allowed under the debt restructuring covenants that are applicable to Telecom Argentina and its subsidiaries. The amounts not used during the present fiscal year can be carried forward to the next fiscal year.

? Other matters

New organizational structure

On January 5, 2005, the Telecom Group decided to implement a new organizational model, creating a new unit dedicated to the fixed telephony business. A separate unit is dedicated to the cellular business (represented by Telecom Personal S.A.). Both units (fixed telephony and cellular) will report to the Chief Executive Officer, Mr. Carlos Felices.

Mr. Edmundo Poggio was designated as General Director of the Fixed Telephony Unit, while Mr. Carlos Felices will be General Director of Telecom Personal (the Cellular Unit), in an interim manner.

The Telecom Group has designed this new organizational model in response to the changing needs of its business and to continue with the most effective and responsive offer for its clients.

Bondholders meeting

On February 4, 2005, a Bondholders' Meeting was held ordered by the National Commercial Court N° 19, where the APE was filed for its approval.

Creditors representing 94,51% of outstanding bonds voted unanimously in favor of the proposal contemplated in the APE.

3. Summary comparative consolidated balance sheets

	As of December 31,				
	2004	2003	2002	2001	2000
Current assets	4,434	3,184	2,103	2,650	3,126
Non current assets	7,898	9,086	10,838	11,908	12,604
Total assets	12,332	12,270	12,941	14,558	15,730
Current liabilities	10,227	10,684	11,742	4,011	3,820
Non current liabilities	1,549	365	345	5,318	6,313
Total liabilities	11,776	11,049	12,087	9,329	10,133
Minority interest	30	32	9	26	26
Foreign currency translation adjustments	24	21	28	-	-
Shareholders' equity	502	1,168	817	5,203	5,571
Total liabilities, minority interest, foreign currency translation adjustments and Shareholders' equity	12,332	12,270	12,941	14,558	15,730

4. Summary comparative consolidated statements of operations

	Years ended December 31,				
	2004	2003	2002	2001	2000 (*)
Net sales	4,494	3,753	4,012	7,056	7,403
Operating costs	(4,094)	(3,646)	(4,216)	(6,183)	(6,196)
Operating income (loss)	400	107	(204)	873	1,207
Equity gain (loss) from related companies	(2)	2	(23)	(6)	(2)
Amortization of goodwill	-	-	(10)	(18)	(15)
Financial results, net	(1,172)	48	(5,302)	(507)	(482)
Other expenses, net	(78)	(168)	(176)	(130)	(106)
Gain on debt restructuring	209	376	-	-	-
Net income (loss) before income tax and minority interest	(643)	365	(5,715)	212	602
Income tax benefit (expense), net	(26)	7	1,304	(112)	(242)
Minority interest	3	(21)	25	-	2
Net income (loss)	(666)	351	(4,386)	100	362
Net income (loss) per share (in pesos)	(0.68)	0.36	(4.46)	0.10	0.37

(*) The comparative figures for the twelve month period ended December 31, 2000 are the result of the addition of the figures corresponding to the fiscal year ended September 30, 2000 to the irregular fiscal year ended December 31, 2000 and the deduction of the amounts corresponding to the three month period ended December 31, 1999.

TELECOM ARGENTINA S.A.

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

5. Fixed telephone service statistical data (in physical units)

December 31,	2004		2003		2002		2001		2000	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Installed lines	3,803,006	2,334	3,800,085	(519)	3,802,464	64	3,800,058	3,598	3,723,936	43,447
Lines replaced (a)	1,851,232	-	1,851,232	-	1,851,232	-	1,851,232	-	1,836,144	19,060
Lines in service (b)	3,790,298	40,334	3,655,859	33,110	3,590,284	(19,846)	3,891,800	(429)	3,839,831	95,211
Customers lines	3,484,394	31,368	3,361,341	33,827	3,293,952	(16,390)	3,583,622	(3,057)	3,575,389	99,871
Public phones installed	83,847	561	80,127	681	79,812	-	82,176	(398)	80,036	1,298
Percentage of lines connected to digital exchanges	100.0	-	100.0	-	100.0	-	100.0	-	100.0	-
Lines in service per 100 inhabitants (c)	20.1	0.3	19.6	0.2	19.4	(0.2)	21.2	(0.1)	21.1	0.4
Lines in service per employee	336	8	320	22	323	-	360	(19)	364	(18)

(a) As from November 8, 1990.

(b) Includes direct inward dialing numbers that do not occupy lines installed capacity.

(c) Corresponding to the northern region of Argentina.

6. Consolidated ratios

December 31,	2004	2003	2002	2001	2000
Liquidity (1)	0.43	0.30	0.18	0.66	0.82
Solvency (2)	0.05	0.11	0.07	0.56	0.55
Locked up capital (3)	0.64	0.74	0.84	0.82	0.80
Pretax return on capital (4)	(0.80)	0.35	(1.46)	0.02	0.07

(1) Current assets/Current liabilities.

(2) Shareholders' equity plus minority interest and temporary differences from translation/Total liabilities.

(3) Non current assets/Total assets.

(4) Net income(loss)/Shareholders' equity average.

7. Outlook

In FY04 the macroeconomic environment continued its positive trend as measured by its main variables. Levels of activity also continued with the positive trend shown in previous periods although its growth decelerated. Likewise, inflation rates remained stable. The level of fiscal collection continues to show strong growth and the fiscal results continue to be positive. The Company expects that this context will develop during this fiscal year.

Telecom Argentina's operations have improved as a consequence of the better levels of lines in service and better traffic in the fixed telephony. In the cellular business there is a higher number of new subscribers and a better level of traffic, offset in part by higher selling expenses and a consequent fall in the operating margin. Likewise, as the Telecom Group's consolidated debt is nominated in foreign currency, their operations are still being influenced by the fluctuation of the exchange rate of the Peso against the Dollar and the Euro. It should be noted that the negative trend in FY04 in the exchange rate generated losses arising from currency exchange differences that were the main cause of the consolidated net loss for the year.

In the context of the debt restructuring, on August 23, 2004 Telecom Argentina announced that it had achieved 94.4% participation in its *Acuerdo Preventivo Extrajudicial*, ("APE") solicitation process launched on June 22, 2004. The APE was filed with the courts in Argentina on October 21st, 2004. On February 25, 2005, the reviewing court ordered the opening of the APE process and the publication of applicable notices in order for the creditor opposition period to start.

Additionally, on November 30, 2004 after having achieved 100% participation in its APE solicitation process, Telecom Personal ended its restructuring process by paying cash amounts and issuing new debt. Likewise, Nucleo also ended its restructuring process.

Considering this situation, the Company believes that it is in the last stage of its debt restructuring process and expects to finish the process during the first half of fiscal year 2005.

The Telecom Group is still working hard to maintain the quality of its service and to reduce its cost structure and adapt it to a new environment. Likewise, Telecom Argentina is undertaking several investment projects in services, mainly those that have potential to generate a substantial increase in cash inflows. Examples include the expansion of GSM network in Telecom Personal and ADSL, which resulted in the increase of investments in fixed assets.

Amadeo R. Vázquez
President

TELECOM ARGENTINA S.A.

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

CORPORATE INFORMATION

✂ INDEPENDENT AUDITORS Price Waterhouse & Co S.R.L. (member of PricewaterhouseCoopers)

✂ STOCK MARKET INFORMATION (Source: Bloomberg)

BCBA

Quarter	Market quotation (\$/share)		Volume of shares traded (in million)
	High	Low	
December'03	5.15	3.80	37.7
March'04	6.56	5.14	51.3
June'04	6.27	4.19	35.9
September'04	6.48	5.16	25.6
December'04	6.60	5.78	28.3

NYSE

Quarter	Market quotation (US\$/ADR*)		Volume of ADRs traded (in million)
	High	Low	
December'03	8.83	6.54	20.0
March'04	11.06	8.88	27.3
June'04	11.09	7.30	16.3
September'04	10.92	8.49	12.1
December'04	11.11	9.60	15.7

* Calculated at 1 ADR = 5 shares

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