

Year Ended December 31, 2007	3.16	3.08	3.12	3.15
Year Ended December 31, 2008	3.45	3.03	3.18	3.45
Year Ended December 31, 2009	3.85	3.49	3.75	3.80
Year Ended December 31, 2010	3.99	3.84	3.92	3.98
Month Ended December 31, 2010	3.98	3.97	3.98	3.98
Month Ended January 31, 2011	4.01	3.97	3.98	4.01
Month Ended February 28, 2011	4.03	4.01	4.02	4.03
Month Ended March 31, 2011	4.05	4.03	4.04	4.05
Month Ended April 30, 2011	4.08	4.05	4.07	4.08
Month Ended May 31, 2011	4.09	4.08	4.08	4.09
June 2011 (through June 27, 2011)	4.10	4.09	4.09	4.10

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

Sources: Banco Nación de la República Argentina

#### Capitalization and Indebtedness

Not applicable.

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

Not applicable.

15

## [Table of Contents](#)

### Risk Factors

*This section is intended to be a summary of more detailed discussions contained elsewhere in this Annual Report. The risks described below are not the only ones we face. Additional risks that we do not presently consider material, or of which we are not currently aware, may also affect us. Our business, results of operations, financial condition and cash flows could be harmed if any of these risks materialize and, as a result, the market price of our shares and our ADSs could decline. You should consider these risks with respect to an investment in Telecom and investments in Argentine corporations that are not normally associated with investments in the securities of issuers in the United States and other jurisdictions.*

#### **Risks Relating to Argentina**

##### Overview

Substantially all of our property, operations and customers are located in Argentina, and a portion of our assets and liabilities are denominated in foreign currencies. Accordingly, our financial condition, results of operations and cash flows depend to a significant extent on economic and political conditions prevailing in Argentina and on the exchange rates between the peso and foreign currencies. In 2001 and 2002 the Argentine economy experienced a severe recession as well as a political crisis. The abandonment of dollar-peso parity in 2002 led to the significant devaluation of the peso against major international currencies and our need to restructure our financial indebtedness. Although Argentina has experienced economic growth and political conditions have shown improvement in recent years, these conditions have affected and may continue to affect our financial condition, results of operations and cash flows.

**Devaluation of the peso may adversely affect our results of operations, our capital expenditure program and the ability to service our liabilities and transfer funds abroad.**

Since we realize a substantial portion of our revenues in Argentina in pesos (our functional currency), any devaluation in the peso may negatively affect the U.S. dollar value of our earnings while increasing, in peso terms, our expenses and capital costs denominated in foreign currency. A depreciation in the Argentine peso against major foreign currencies may also have an adverse impact on our capital expenditure program and increase the peso amount of our trade liabilities denominated in foreign currencies. Telecom seeks to manage the risk of devaluation of the peso by entering from time to time into certain NDF contracts to purchase U.S. dollars at a fixed rate in order to hedge its exposure to foreign currency fluctuations caused by its liabilities denominated in foreign currencies. The Company also has cash and cash equivalents denominated in U.S. dollars that contribute to reduce the exposure to trade payables in foreign currencies. See "Item 11—Quantitative and Qualitative Disclosures About Market Risk."

The Argentine peso has been subject to significant devaluation in the past and may be subject to fluctuations in the future. In the five-month period ended May 31, 2011, the devaluation of the peso against the U.S. dollar was 2.8%. Given the economic and political conditions in Argentina, it is impossible to predict whether, and to what extent, the value of the peso may depreciate or appreciate against the U.S. dollar, the euro or other foreign currencies. We cannot predict how these conditions will affect the consumption of services provided by the Telecom Group or our ability to meet our liabilities denominated in currencies other than the peso. Moreover, we cannot predict whether the Argentine government will further modify its monetary, fiscal, and exchange rate policy and, if so, what impact any of these changes could have on the value of the peso and, accordingly, on our financial condition, results of operations and cash flows, and on our ability to transfer funds abroad.

**Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom's margins.**

In the past, Argentina has experienced periods of high levels of inflation. More recently, levels of inflation have increased since 2005 and have remained relatively high from 2006 to 2010. The recent economic recovery has led to higher inflation, resulting in increased costs, which may continue or even increase in the future.

16

## [Table of Contents](#)

The *Instituto Nacional de Estadística y Censos* (the Argentine National Statistics and Census Institute or "INDEC") estimates that the Argentine consumer price increased by, 7.2% in 2008, 7.7% in 2009 and 10.9% in 2010; and the wholesale price index increased by, 8.8% in 2008, 10.0% in 2009 and 14.6% in 2010. In the five months ending May 31, 2011, the consumer price index in Argentina increased 3.9% and the wholesale price index increased 5.0%. There is a substantial disparity between the inflation indexes published by the INDEC and those estimated by private consulting firms.

The Argentine government has implemented several actions in order to monitor and control prices for the most relevant

goods and services. Despite such actions, the Argentine economy continues to experience levels of annual consumer index of inflation higher than 10%. If the BCRA issues significant amounts of currency to finance public sector spending, to service public debt, to intervene in the foreign exchange market or to assist financial institutions in distress, or if the value of the peso cannot be stabilized through strict fiscal and monetary policies, a significant increase in inflation rates can be expected.

In addition, public sector spending has increased over the past years, as reducing fiscal surplus, a trend that if continued, may cause the government to incur a fiscal deficit and lead to higher inflation or higher government debt. Since the majority of our revenues are denominated in pesos, any further increase in the rate of inflation not accompanied by a parallel increase in our rates would decrease our revenues in real terms and adversely affect our results of operations. As discussed below under "Risks Associated with Telecom and its Operations," Telecom Argentina's ability to increase its regulated rates is subject to approval of regulatory authorities. We cannot guarantee that any possible rate increase will be sufficient to counter the effect of inflation and we cannot assure you that the results of any future rate negotiations will be favorable to us and to our financial condition.

Also, higher inflation leads to a reduction in the purchase power of the population, mainly those unemployed and with low salary levels, thus increasing the risk of lower level of service consumption from our fixed and mobile customers.

#### **Future policies of the Argentine government may affect the economy as well as the operations of the telecommunications industry.**

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

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

The global economic and financial crisis in the recent years has resulted in a significant reduction in global GDP and a loss in consumer confidence in the financial sectors of many countries. In order to improve the countries' financial condition and assist certain troubled industries, certain governments have responded with extraordinary intervention in the private sector. Certain governments of the leading industrialized nations have implemented various financial rescue plans outlining new regulatory frameworks that would be expected to remain in effect at least until market conditions and investor and consumer confidence have stabilized.

In November 2008, Argentina nationalized, through Law No. 26,425, all of its private pension and retirement system, which had been previously administered by the AFJP, and appointed ANSES as its administrator.

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#### [Table of Contents](#)

Argentina's nationalization of its pension and retirement system constitutes a significant change in the government's approach to exercising influence over Argentina's main publicly-traded companies. A significant portion of the public float of these companies was owned by the AFJP and is now held by ANSES.

The government could exercise influence over corporate governance decisions of companies in which it owns shares by combining its ability to exercise its shareholder voting rights to designate board and supervisory committee members with its ability to dictate tax and regulatory matters. Additionally, since the AFJP were significant institutional investors in Argentina, the nationalization of the private retirement system affected the way of access to financing in capital markets for publicly-traded companies. The role that the government will play, acting through ANSES, in making investments in new issuances of equity and debt in capital markets, is unclear due to the absence of clearly established policies. This has reduced the volume of trading and on the liquidity of Argentina's capital markets. Until the government's practices and policies are clearly established, these matters could create uncertainties for investors of public companies in Argentina, including Telecom Argentina.

On April 13, 2011 the Presidential Decree No. 441/11 was published in the Argentine Official Bulletin which annulled Article 76(f) of Law No. 24,241 that limited ANSES' voting power to 5% of the company's total voting shares, even if ANSES held a greater ownership position. Unless the Presidential Decree and /or its effects are reversed by a competent Authority or Court, ANSES would be able to exercise the total voting power corresponding to its shares in all resolutions to be adopted at those companies' shareholders meetings where it has share participation, including decisions related to the election of directors and Supervisory Committee members. ANSES has not yet defined the criteria for appointment of directors and Supervisory Committee members and its independence status nor the way to solve potential conflicts of interests.

#### **Argentina's economy may not continue to grow at current rates or may contract in the future.**

The effects of the global economic and financial crisis in recent years and the general weakness in the global economy may negatively affect emerging economies like Argentina. Although Argentina has experienced economic growth in recent years, especially for the increase in the prices for products exported, current global financial instability has impacted and may continue to impact the Argentine economy and cause Argentina to return to a period of recession, fiscal deficit, higher inflation, increased unemployment and greater social unrest.

Although the current state of the international financial markets in terms of volatility, liquidity and access to credit has improved as compared to 2008 and 2009, several economic, social and political factors could affect the global financial markets, such as, among other factors, a growing concern regarding government deficits, governments' abilities to honor their respective sovereign debts, social unrest and general uncertainty about the global economic recovery. If international economic conditions for Argentina were to worsen, Argentina could be negatively affected as a result of lower international demand for its products and services, higher international interest rates, lower capital inflows and higher risk aversion. These factors could cause the Argentine economy to contract, and as a result adversely affect our business, results of operations, financial condition and cash flows.

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

Although general economic conditions have shown improvement, and political protests and social disturbances have diminished considerably since the economic crisis of 2001 and 2002, the rapid and radical nature of the changes in the

Argentine social, political, economic and legal environment over the past several years have given rise to uncertainties about the country's economic and political future.

In the event of further economic, social or political crises, companies in Argentina may face the risk of civil and social unrest, strikes, expropriation, nationalization, forced renegotiation or modification of existing contracts, and changes in taxation policies including tax increases and retroactive tax claims. In addition, Argentine courts have issued rulings changing existing jurisprudence on labor matters and requiring companies to assume increasing responsibility for and assumption of costs and risks associated with utilizing sub-contracted labor and how to calculate salaries, severances and social security contributions. Since we operate in a context in which the governing law and applicable regulations change frequently, it is difficult to predict whether our commercial activities will be affected positively, negatively or at all by such changes.

## [Table of Contents](#)

In addition, the Argentine economy, including the financial and securities markets, is sensitive to local political developments. Argentina's national election for President and Vice President will take place in October 2011, and other relevant local and federal elections will also take place in 2011.

Substantially all of our operations, properties and customers are located in Argentina, and, as a result, our business is, to a large extent, dependent upon economic conditions prevailing in Argentina. If economic conditions in Argentina were to deteriorate or the uncertainty created by the upcoming elections in 2011 adversely affects the Argentine economy, they would be expected to have an adverse effect on our financial condition, results of operations and cash flows.

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

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

The Argentine government implemented a debt restructuring effort mainly through two debt exchange offers. The first and largest was closed on February 25, 2005 and the second was realized throughout the months of April and September of 2010. Due to the request of several bondholders that expressed they weren't able to participate in the second offer, and thanks to Decree 563/10, they were able to participate in the offer in similar terms and conditions, giving an end to this process on December 30, 2010.

Once settlements from these debt exchanges are complete, it is expected that Argentina will have restructured 92% of its national public debt. This has helped to reduce the country's risk level and level of debt to GDP to 48% in 2010 from 58% in 2009.

Nonetheless, a number of bondholders who held out from the exchange offers have initiated legal actions against the Argentine government. A judgment against the Argentine government in these pending cases could reduce sources for funding and investment capital and could potentially impact the government's ability to adopt measures that promote economic growth.

After the economic crisis in 2002, the Argentine government has maintained a policy of fiscal surplus. To be able to repay its debt, the Argentine government may be required to continue adopting austere fiscal measures that could adversely affect economic growth.

As of December 31, 2010, the outstanding principal amount of Argentina's public debt was equivalent to US\$175.5 billion (of which approximately 61% was denominated in foreign currency) of which US\$11.2 billion were not presented to the exchange offers and are still pending for restructuring.

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

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

The Argentine banking system collapsed in 2001 and 2002 when the Argentine government restricted bank withdrawals and required mandatory conversion of dollar deposits to pesos. From 2005 to 2007, a period of economic growth coupled with relative stability of the country's exchange rate and inflation resulted in the restoration of public confidence, a gradual accumulation of deposits in Argentine financial institutions, and

## [Table of Contents](#)

improved liquidity of the financial system. However, in 2008 and 2009 certain events such as conflicts between the Argentine government and certain sectors of the economy, together with the international financial crisis, decreased depositors' confidence, led to a slowdown in the growth of deposits, increased the dollarization of certain deposits and increased interest rates on loans granted to the non-financial sector.

Despite improvements in stability since 2002, the Argentine economic recovery experienced in 2010, together with a high level of reserves held by the BCRA, we cannot be certain that another collapse will not occur in the future. The Argentine banking system's collapse or the collapse of one or more of the larger banks –public or private– in the system would have a material adverse effect on the prospects for economic growth and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives for consumers. These conditions would have a material adverse effect on us by resulting in lower usage of our services and the possibility of a higher level of uncollectible accounts or increase the credit risk of the counterparties regarding the Company investments in local financial institutions.

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

Under Argentine law, a shareholder's liability for losses of a company is limited to the value of his or her shareholdings

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

#### **Delays in the attribution and allocation of radio spectrum can adversely affect Argentina's mobile industry.**

The SECOM is the authority responsible for administering the use of radio electric spectrum and, consequently, for the attribution of new segments of frequencies for the mobile service. Possible delays in the allocation of new frequencies and their subsequent auction could affect the future development of the sector and the implementation and commercialization of new advanced services, among others, mobile broadband and its applications.

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

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

In accordance with the Public Emergency Law, in January 2002, rates for Basic telephone services and long distance services were converted to pesos and fixed at an exchange rate of P\$1.00=US\$1.00. The rates Telecom Argentina may charge in the future will be determined by negotiations between Telecom Argentina and the Argentine government. According to the Public Emergency Law, while undertaking these negotiations, the Argentine government must consider the effect of these rates on the competitiveness of the general economy, the quality of service and investment plans of service providers, as contractually agreed. The Argentine government must also consider consumer protection, accessibility of the services and the profitability of public services providers such as Telecom Argentina. The Public Emergency Law has been subsequently extended through December 31, 2011. See "Item 4—Information on the Company—Regulatory Framework—Regulatory Environment—Rates."

On March 6, 2006, Telecom Argentina executed a Letter of Understanding (the "Letter of Understanding 2006") with the Argentine government pursuant to which Telecom Argentina will be permitted to raise certain rates and incorporate certain modifications to the current regulatory framework. Under the Letter of Understanding 2006, the only agreed upon adjustments to the rate structure were the rate increases to the termination charge for international incoming calls and the extension of the time bands for peak-hour rates applied to local and domestic long distance calls. See "Item 4—Information on the Company—Regulatory Framework—Regulatory Environment—Rates."

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#### [Table of Contents](#)

The Letter of Understanding 2006 contemplated the signing and effectiveness of the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary steps. As of the date of this Annual Report, such fulfillment has yet to occur. Although we expect such fulfillment to occur, we cannot guarantee if or when this will happen. We are unable to predict the outcome of the negotiations that are continuing with regard to further rate increases and the rate scheme which will be applied in the future. Moreover, we are unable to predict whether the Argentine government, as a result of the current rate renegotiations, will impose additional conditions or requirements, and if these conditions or requirements are imposed, whether we will be able to meet them.

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

#### **We must comply with conditions in our license, and regulations and laws related thereto, and such compliance may at times be outside of our control.**

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

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

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

Compliance with conditions in our license and related regulations and laws may be affected by events or circumstances outside of our control and therefore we cannot predict whether such events or circumstances will occur and, if any, do occur, this could result in an adverse effect on our financial condition, our operations and cash flows.

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

We compete with licensed provider groups, comprised of, among others, independent fixed line service providers, mobile and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina. As of December 31, 2010, more than 500 licenses for local and/or long distance services, payphones and Value Added Services had been granted since the end of the exclusivity period.

Internet and mobile services, which we expect will continue to account for an increasing percentage of our revenues in the future, are characterized by rapidly changing technology, evolving industry standards, changes in customer preferences and



the frequent introduction of new services and products. To remain competitive in the fixed telecommunications market, we must invest in our fixed-line network and information technology. Specifically, in the Internet services market, we must constantly upgrade our access technology and software, embrace emerging

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[Table of Contents](#)

transmission technologies and improve the responsiveness, functionality, coverage and features of our services. Also, to remain competitive in the mobile telecommunications market, we must enhance our mobile networks by expanding our network infrastructure and extending 3G technology and bandwidth for mobile data transmission. Future technological developments may result in decreased customer demand for certain of our services or even render them obsolete. In addition, as new technologies develop, equipment may need to be replaced or upgraded or network facilities (in particular, mobile and Internet network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. These enhancements and the implementation of new technologies will continue requiring increased capital expenditures.

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

An increase in competition between service providers could be expected as a result of the implementation of the Number Portability Regulation at the end of 2011, which could also result in higher customer retention costs. Although Personal is adapting its technological infrastructure to comply with the portability regulations and to take advantage of the opportunities afforded by the new regulations, our market share may be affected positively, negatively or not at all by the number portability.

Telecom Personal will participate in the spectrum auction and hopes to acquire spectrum to complete its "Spectrum cap" along throughout Argentina. We cannot ensure that Personal will be awarded the tender. If awarded to other existing or new competitors it could adversely affect its competitive position or ability to offer mobile services to its customers on a competitive basis, and may require higher capital expenditures regarding the construction of additional cell sites.

Also, the macroeconomic situation in Argentina may adversely affect our ability to successfully invest in, and implement, new technologies, coverage and services in a timely fashion. Accordingly, we cannot assure you that we will have the ability to make needed capital expenditures and operating expenses. If we are unable to make these capital expenditures, or if our competitors are able to invest in their businesses to a greater degree and/or faster than we are, our competitive position will be adversely impacted.

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

We also expect that the level of competition in our markets will continue to increase in the future. Competition is and will continue to be affected by our competitors' business strategies and alliances. Accordingly, we may face additional pressure on the rates we charge for our services or experience a loss of market share particularly in the Internet and mobile services. In addition, the general business and economic climate in Argentina, may affect us and our competitors differently, thus our ability to compete in the market could be adversely affected.

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

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

In May 2011, the SECOM through Resolution No. 57/11 launched an auction to reassign the 850 MHz and 1900 MHz frequency bands returned by Telefónica Móviles Argentina S.A. because they exceeded their 50 MHz spectrum cap.

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[Table of Contents](#)

Telecom Personal will participate in the spectrum auction and expects to acquire additional spectrum to complete its "Spectrum cap" along throughout Argentina.

If Telecom Personal is not one of the tender's awarded, it could adversely affect its competitive position and may require higher tangible capital expenditures to offer mobile services to its customers on a competitive basis in comparison with other operators that would obtain additional spectrum resulting from the auction. See "Item 4-Information on the Company-Regulatory Framework-Other Regulatory Regulations-Regulations Applicable to PCS Services" for a detailed description of Telecom Personal's license.

**Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage**

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from mobile handsets will not be identified as a health risk in the future.

Although Argentine mobile services comply with the international security standards established by the World Health Organization and Argentine regulations which are similar, our mobile business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, these concerns may cause regulators and municipalities to impose restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

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

Nortel is our direct controlling shareholder. Sofora owns 100% of the common stock of Nortel, which currently represents 69.94% of the total capital stock of Nortel. Sofora is 68% owned by Telecom Italia Group and 32% owned by W de Argentina-

Through their ownership of Sofora and the Shareholders' Agreement between them, the Telecom Italia Group and W de Argentina-Inversiones have, as a general matter, the ability to determine the outcome of any action requiring our shareholders' approval, including the ability to elect a majority of directors and members of the Supervisory Committee. In addition, we have been informed that pursuant to the shareholders' agreement entered into between the Telecom Italia Group and the Wertheim Group, the Telecom Italia Group and W de Argentina-Inversiones have agreed amongst themselves certain matters relating to the election of our directors and those of Nortel and Sofora and have given W de Argentina-Inversiones veto power with respect to certain matters relating to us. See "Item 7-Major Shareholders and Related Party Transactions-Shareholders' Agreement."

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

Nevertheless, all related parties' transactions were made on arm's-length basis and those which exceeds 1% of Telecom Argentina's shareholders' equity are subjected to a prior approval process established by Decree No. 677/01 and requiring involvement of the Audit Committee and/or an opinion of two independent valuation firms as well as subsequent approval by the Board of Directors in order to verify that the agreement could reasonably be considered to be in accordance with normal and habitual market practice. See "Item 7-Major Shareholders and Related Party Transactions-Related Party Transactions."

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[Table of Contents](#)

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

In Argentina, labor organizations have substantial support and have considerable political influence. In recent years, the demands of our labor organizations have increased mainly as a result of the increase in cost of living (which was affected by the increased level of inflation) and a decline in the population purchasing power.

In addition, in January 2010, FOETRA Buenos Aires Unions obtained a resolution from the Ministry of Labor, Employment and Social Security (the "MTEySS") amending its status to include mobile telephony employees within the scope of its representation (the status determines the capacity of the union to represent employees and to negotiate collectively on behalf of them). This resolution will also have a similar impact on the other unions in the telecommunications industry. Currently, Telecom Personal's employees covered by union agreements continue to be represented by the Argentine Federation of Commercial and Service Employees (the "FAECyS") and therefore, salary agreements entered into by this union continue to apply. During 2010, agreements were reached at guild-company level to keep the discussion of the form and timing of the employees' representation with the spirit to involve the rest of Telecom Personal's peer mobile operators in any collective bargaining process in order to avoid any regulatory asymmetry that could erode Telecom Personal's competitive position.

Moreover, certain labor organizations have advocated that some of our non-unionized employees should be represented by trade unions. Unions have also requested that we delegate currently outsourced tasks to Company employees.

If the number of employees covered by trade unions increase or Telecom Personal's employees is represented by unions in the telecommunications industry, we may incur increased costs for the higher compensation that we may need to pay to unionized employees and less labor flexibility.

See "Item 6-Directors, Senior Management and Employees-Employees and Labor Relations."

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

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

In recent times, the MTEySS has shown an active policy promoting the suppression of certain levels of outsourcing of tasks.

Moreover, there are certain bills pending in the Argentine Congress regarding modifications to labor regulations such as considering amounts paid to employees that are currently not subject to social security contributions as part of the normal and usual employees' salaries, increasing liability of the companies for the sub-contractor's employees in outsourced tasks and the implementation of a regime that would entitle employees to participate in the profits of companies that employ them.

If such bills are approved, the modifications in current labor regulations and conditions could materially impact our relationship with our employees by increasing the labor cost and in some cases decreasing the flexibility to provide services to our clients.

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[Table of Contents](#)

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

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

In addition, in recent years, certain changes in the treatment of employment matters under Argentine law have created new incentives for individuals to pursue employment-related litigation in Argentine courts. These changes include holdings that an employee of a subcontractor may file a direct action against the firm contracting the work, that any cap on severance pay in cases of dismissal without cause is unconstitutional, that an employee may bring a civil action in the event of an occupational accident, and that an employee can bring a lawsuit against the employer because of changes in form and working conditions. Additionally, the Company is exposed to claims of employees of subcontractors and commercial agents claiming direct or indirect responsibility of Telecom based on a broad interpretation of the rules of labor law.

In the past, Telecom was subject and may be subject in the future to claims by commercial agents who end their business relationship by making claims for reasons that are not always justified by contract terms.

Also, the Company is subject to various lawsuits initiated by some employees and former employees who claim wage differences caused by the impact of the concepts "non-remunerative sums (amounts not subject to social security contributions)" and "food vouchers" over the settlement of items such as overtime, productivity, vacation, supplementary annual salary and other additional benefits provided by the Collective Bargaining Agreement and, in certain cases, have obtained favorable rulings for this claims.

Additionally, certain organizations such as trade unions, OSTEL (Health Association of Telephone Workers and Employees of Argentina) and the Compensation Fund have filed complaints against Telecom Argentina objecting to the level of social contributions and have obtained, in some cases, favorable rulings for these claims.

As a result of these changes, Telecom Argentina may face increased risk of individual and collective employment litigation. If this occurs, we cannot guarantee that this litigation will not have an adverse effect on our results of operations, financial condition and cash flows, despite the provisions that the Company has recorded to cover from these matters, as it is described in Item 8.

The CNC is the authority to control telecommunications services in Argentina and in its capacity is empowered to apply economic sanctions against licensees for breaches of the current regulatory framework. Recently, there has been a growing trend of imposing sanctions to Telecom Argentina for technical reasons, mainly related with the delay in repairing the lines with faults and / or installing new lines. Although penalties are appealed in the administrative stage, if the appeals are not solved in our favor or the penalties imposed by the CNC increased, it could have an adverse effect on our financial situation, results of our operations and cash flows.

Moreover, in 2009, the environmental agency required Telecom Argentina to be registered in the National Registry of Generators and Operators of Hazardous Waste (as it had been previously required to do in 1999). This registration would require Telecom Argentina to pay an annual fee calculated in accordance with a formula that takes into consideration the extent of the hazard and the quantity of the waste. Telecom Argentina filed a request for administrative review seeking to obtain rejection of the environmental agency's ordinance. We cannot guarantee that the rejection will be obtained. If such rejection is not obtained, Telecom Argentina would face increased costs which may include retroactive fees.

See "Item 8—Financial Information—Legal Proceedings— Civil, commercial, labor regulatory, tax and other matters proceedings."

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

The Consumer Protection Act No. 24,240, as amended in 2008 (the "Consumer Protection Act") establishes a series of principles and rules for the protection of consumers and users such as: (i) the extension of the definition of a consumer; (ii) an increase in the fines that could be imposed on providers and the possibility that relevant administrative authorities may order providers to pay direct damages up to a maximum amount; (iii) the courts may order providers to pay punitive damages to consumers up to a maximum amount of P\$5 million, depending on the seriousness of the breach, among other considerations; and (iv) provisions governing the possibility that consumer associations may commence class actions on behalf of an indeterminate group of consumers.

The Consumer Protection Act applies to the telecommunications industry and to any other industry in which consumers and users are involved.

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## [Table of Contents](#)

In connection with the provisions of the law 24,240, the Company has received several customer complaints that were filed with different law enforcement bodies (national, provincial or municipal). Some of them have resulted in economic sanctions for the Company.

The provisions of the Consumer Protection Act may provide an incentive for individuals and/or consumer associations to pursue legal actions against various companies that provide goods and services. This possibility would entail risks for Telecom Argentina and Personal concerning, among others, the prices charged for its services, or the obligation to return amounts charged for its services. If such were the case, any of such consequences could have an adverse effect on our financial situation, results of our operations and cash flows.

**The BCRA has imposed restrictions on the transfer of funds outside of Argentina in the past; some restrictions currently exist and may increase in the future, which could prevent us from making payments on dividends and liabilities.**

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

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

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

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

Finally, currency fluctuations could impact the value of an investment in Telecom Argentina. Although Telecom Argentina's ADSs listed on the New York Stock Exchange are U.S. dollar denominated securities, they do not eliminate the currency risk associated with an investment in an Argentine company.