

the market price of the Company's American Depositary Shares (the "Series B ADSs") in the United States.

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

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

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

Risk Factors Relating to Argentina

Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Argentine banking system is still recovering from a collapse.

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

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

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

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

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

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

Risks Associated with Telecom and its Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are highly leveraged in foreign currency.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

in whole or in part, at substantial cost, to remain competitive. Responding to these changes may require us to devote substantial capital to the development, procurement or implementation of new technologies.

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

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

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

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

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

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

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

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

We have been informed that pursuant to the shareholders' agreement entered into between the Telecom Italia Group and the 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 of Nortel's and have given W de Argentina - Inversiones veto power with respect to certain matters relating to us.

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

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

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

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

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

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

The Argentine Government has in the past and may in the future promulgate laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees. In the aftermath of the Argentine economic crisis, both the Government and private sector companies have experienced significant pressure from

employees and labor organizations relating to wage levels and employee benefits. In early 2005 the Argentine Government stated that it would not order salary increases by decree. During 2006 additional wage adjustments beyond those already negotiated with the labor organizations are not expected, nor are salary increases anticipated for the personnel outside such labor agreements. Furthermore, there is currently no indication that adjustments will be ordered by the Argentine Government in then near future. However, there has been no abatement of pressure to mandate salary increases, and it is possible the government will adopt measures that will increase salaries or require us to provide additional benefits, which would increase our costs and, in the absence of an adjustment of regulated tariffs, reduce our profitability.

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

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

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

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

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

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

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

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

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

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

There is no assurance that the market for our securities will provide proper levels of liquidity.

Some of our debt securities, including Telecom Argentina's Series A and Series B notes, are newly issued and therefore their liquidity in the future is uncertain. The liquidity of our debt securities will depend on numerous factors, many of which are outside of our control. The liquidity of our securities could be adversely affected by changes in market conditions and interest rates, both in Argentina and the global economy, as well as by any change in our financial condition and results of operations.

In particular, the liquidity of Telecom Argentina's Series A and Series B notes could be reduced by prepayments and repurchases carried out in accordance with the terms of the notes.

Our consolidated financial statement under Argentine GAAP may not give you the same information as financial statements prepared under US GAAP.

There is a lower level of regulation of the Argentine securities markets and of the activities of investors in these markets as compared with the securities markets in the United States and certain other developed countries. We maintain our financial books and records and prepares our financial statements in conformity with Argentine GAAP, which differs in certain significant aspects from US GAAP. See Note 15 to the Consolidated Financial Statements for a description of the significant differences between Argentine GAAP and US GAAP as they relate to us.

ITEM 4. INFORMATION ON THE COMPANY

INTRODUCTION

The Company