

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 U.S. dollars and euro. 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 these other currencies. 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 the cost, 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 revenues.

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 the three-month period ending on March 31, 2005, the consumer price index increased 4.0% and the wholesale price index increased 2.2%. 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 Central Bank 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

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Associated with Telecom and its Operations”, Telecom Argentina is currently not able to increase its regulated rates, and our ability to increase our regulated rates is subject to tariff negotiations that are taking place with the Argentine government. We cannot guarantee that the results of those 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.

We reported significant losses for the year ended December 31, 2002, which absorbed our reserves and significantly reduced our shareholders equity. Therefore, we qualify for mandatory reduction of capital as prescribed by Argentine law. This situation continues as of the date of this report.

The effectiveness of Article 206 had been suspended by successive decrees through December 10, 2004. From December 10, 2004 until June 1, 2005, Article 206 regained its effectiveness. During this period Telecom Argentina held its annual shareholders’ meeting in which Telecom Argentina’s financial statements as of December 31, 2004 were approved. In addition, Telecom Argentina’s shareholders did not take any of the remedial corporate actions mandated by Article 206. Notwithstanding the above, on June 1, 2005, the Argentine government issued Decree No. 540/05, which suspended the effectiveness of Article 206 until December 10, 2005. At the time of this annual report Telecom Argentina is under no obligation to take any of the remedial measures mandated by Article 206.

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 been aggressive in adopting new interpretations of applicable regulations and imposing fines on telecommunications companies, particularly incumbent operators such as our company. The CNC has initiated administrative proceedings to collect fines against us amounting to approximately P\$10 million for the 2000-2004 period.

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.

In addition, investments in Argentine companies may be further affected by changes in laws and policies of the United States affecting foreign trade, taxation and investment.

Argentina continues to face considerable political and economic 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 and the absence of a clear political consensus in favor of any particular set of economic policies 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.

Additionally, the Argentine government faces 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 are 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. 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 is severely affected in its ability to carry out its payment obligations using foreign-currency.

Argentina's prolonged default on its public debt may impair economic recovery despite the results of the recent restructuring of that debt.

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, at this time it is impossible to determine what effects the results of the offer will have, if any, on investor confidence or on the Argentine economy generally. Moreover, 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.

It is too early to assess what effects, if any, the recent restructuring will have on the Argentine economy or on the government's relationship with the IMF. The adoption of austere fiscal measures may be required to repay the Argentine government's debt and to balance its budget, which measures could adversely affect economic growth. Even if the government succeeds in restructuring its debt, unsatisfied creditors may resort to litigation in various forums against the government. These factors could lead to deeper 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 stability of the Argentine banking system is uncertain.

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 has 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 during 2003 have allowed a gradual accumulation of deposits in Argentine financial institutions and improved the liquidity of the financial system. Nevertheless, during 2003 there was only a small increase in the amount of loans granted by these institutions, which resulted in the decrease of interest rates. A prolonged continuation of this situation could make the Argentine financial system face serious risks due to lack of profitability and possible insolvency. If the relationship between the credit supply and demand remains weak then the financial institutions’ probability of collapse (as a result of operating with negative margins for an extended period of time) would be high. Under these circumstances, the size of the Argentine financial market and the ability of private companies to obtain financing could be reduced.

During 2004 overall bank deposits continued to improve, increasing 22% in the ten months ending in October. While most of these deposits continue to be short-term in nature (mainly in demand deposit accounts and saving accounts), longer term certificates of deposit started to increase in October for the first time since the crisis. This situation led to an increase in loans granted by banks, which grew 22% in the ten months ending in October. Furthermore, financing for businesses increased 48% over that period.

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

The outcome of Telecom Argentina’s debt restructuring is subject to uncertainty

Telecom Argentina is currently in the late stages of a restructuring pursuant to an *Acuerdo Preventivo Extrajudicial* (“APE”), an out-of-court restructuring agreement governed by Law No. 24, 522. Although the APE received the support of holders of more than 94% of the principal amount of Telecom Argentina’s financial indebtedness and has received preliminary approval of an Argentine court, Telecom Argentina cannot assure you that it will be successful in refinancing its outstanding debt through the APE. The proposed APE is subject to a

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number of as-yet unsatisfied conditions including the expiration of a court-ordered period within which non-consenting or absent creditors may elect consideration to be provided to them and the delivery of the consideration to be provided under the APE. In addition, the APE procedure is a new statutory mechanism with few court cases interpreting these proceedings, and judicial treatment of the APE by the reviewing court and the enforcement of the APE by courts outside of Argentina is subject to uncertainty. It is possible that one or more of Telecom Argentina's creditors may seek to attach Telecom Argentina's assets prior to the completion of the proposed restructuring. In addition, if the APE is not completed and a claim is filed requesting Telecom Argentina's bankruptcy, or *quiebra*, by one or more of its creditors, Telecom Argentina may seek the assistance of the Argentine courts by filing for reorganization, or *concurso*. If Telecom Argentina's proposed restructuring is not consummated, there is a significant likelihood that we will have to commence bankruptcy proceedings or face involuntary insolvency proceedings.

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

If the restructuring is successful, we foresee being able to make payments of principal and interest on the notes to be issued by Telecom Argentina. Nonetheless, this expectation is based on certain assumptions regarding macroeconomic factors which will affect significant components of our business including:

- an exchange rate between the Argentine peso and the US dollar that will remain in the range of P\$3.00 to P\$5.00 for US\$1.00, for the period of duration of the notes.
- lower rates of inflation for the period of the duration of the notes than those experienced in 2002.
- a moderate increase in the internal Argentinean gross national product.

If any of these assumptions is 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 the notes. Investment in the notes, therefore, involves a high degree of risk.

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 significant debt service obligations, the terms of Telecom Personal's loan agreements and the terms of the notes that Telecom Argentina proposes to issue pursuant to the APE, Telecom Personal's cash flow is not available to Telecom Argentina. Accordingly, our ability to satisfy the debt service obligations under the notes will depend on the results of Telecom Argentina's operations (excluding the operations of Telecom Personal and its subsidiaries). Because the terms of the notes that Telecom Argentina proposes to issue pursuant to the APE and the terms of the loans entered into by its principal subsidiaries also restrict the transfer of cash and assets among companies in the Telecom Group, each of Telecom Personal's and Nucleo's ability to satisfy their respective debt service obligations will depend on each company's stand-alone results of operations.

Given that the notes will not be guaranteed by any of Telecom Argentina's subsidiaries, the notes will be subordinated structurally to indebtedness incurred by its 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, 2004, our subsidiaries (among them, Telecom Personal and Nucleo) had liabilities reaching a total of US\$ 547 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 notes.

There is no established market for the notes and the value of the market for the notes is uncertain

The notes will be newly issued securities without any established trading market. It is not possible to assure that such a market will develop. If such a market does not develop, the notes could be transferred at prices that could be

higher or lower than those of the outstanding notes. This will depend on numerous factors, many of which are outside our control. The liquidity of the notes could be adversely affected by changes in interest rates and the decline in volatility of the market for similar instruments and by the global economy, as well as by any change in our financial condition and results of operations. In addition, if we conclude that continuing a listing on a particular exchange is too onerous we may decide to delist from that particular stock exchange.

If the restructuring is not consummated, there is a significant likelihood that we will pursue the pesification of our foreign-currency denominated debt, and will have to commence reorganization proceedings or face bankruptcy proceedings.

Except for partial payments of accrued but unpaid interest of the equivalent of US\$96 million (excluding withholding tax) made by Telecom Argentina in June 2003, Telecom Argentina has not made principal or interest payments to its financial creditors since the first half of 2002. As of December 31, 2004, the aggregate principal face amount of Telecom Argentina's outstanding debt, excluding accrued but unpaid interest, penalties and post-default interest rate increases, was the equivalent of US\$2,685 million. Including accrued but unpaid interest, penalties and post-default interest rate increases, as of December 31, 2004, the aggregate amount of Telecom Argentina's total outstanding debt (on a stand-alone basis) amounted to approximately the equivalent of US\$3,161 million. As of December 2004 our subsidiaries Telecom Personal and Nucleo successfully restructured their respective financial debt.

A substantial portion of our outstanding debt is denominated in foreign currencies and is governed by foreign law. Notwithstanding the economic crisis in Argentina and subsequent devaluation and pesification, Telecom Argentina has recorded its outstanding debt at their respective original foreign currencies in the expectation that the debt restructuring would be completed successfully. If a restructuring plan pursuant to the APE is not completed substantially as proposed, or at all, management will have to consider different courses of action, which may include the "pesification" of foreign currency-denominated debt governed by foreign law.

Telecom Argentina's cash flow is currently insufficient to service its existing debt. Although we expect to successfully complete the Telecom Argentina restructuring pursuant to the APE, there remains a possibility that Telecom Argentina will have to commence reorganization, or *concurso*, proceedings under Argentine Bankruptcy Law or one of its creditors may force us into bankruptcy proceedings, or *quiebra*.

We have been advised by our Argentine counsel that in order to reorganize Telecom Argentina's outstanding debt under a *concurso*, we would need to obtain the approval of the majority of its unsecured creditors representing two-thirds of its liabilities filed in the *concurso* proceedings and admitted by the Argentine court. During the period of the *concurso*, the holders of such outstanding debt should expect the following:

- We will continue managing our business, subject to control and supervision by a bankruptcy trustee (*síndico*) and a committee of creditors. In addition, certain transactions will be subject to court approval (which approval would be subject to input from, but would not be bound by, the opinion of the committee of creditors).
- All of Telecom Argentina's obligations will become due and payable as provided for by applicable laws.
- Existing judicial claims from creditors, including trade creditors, will be considered by the court and any proceedings relating to these claims will be stayed. Holders of outstanding debt therefore may be unable to control the process and their interests may be given less weight by the reviewing court when considered in relation to the interests of all of the affected creditors, including commercial creditors. In the APE, by contrast, commercial creditors will not have their claims accelerated and will continue to be paid on customary terms.
- The claims of holders of Telecom Argentina's outstanding debt will be restructured on terms that cannot be predicted at this time, but they could be more or less favorable than the terms being offered pursuant to the APE.

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- For purposes of calculating the requisite majorities and the relative positions of the creditors, restructured claims denominated in a currency other than pesos will be converted into pesos at the exchange rate as of the date of the bankruptcy trustee's filing of its report discussing each proof of claim.
- Reorganization (*concurso*) proceedings are likely to take a longer period of time than proceedings involving APE agreements and holders may therefore have to wait for an extended period of time before the *concurso* proceedings are completed. During this period, Telecom could lose significant value.
- Accrual of interest on the affected unsecured debt will be suspended in the reorganization (*concurso*).
- Telecom Argentina's assets would be protected against claims by our creditors, and the protection would include, but would not be limited to, a prohibition against attempts to attach or liquidate these assets.
- No payments of principal or interest may be made by Telecom Argentina to its creditors.
- Holders of Telecom Argentina indebtedness will lose any rights of set-off against us that they had prior to the reorganization (*concurso*) unless the debt owed to holders was already due and payable prior to the date of filing of the reorganization (*concurso*).
- If the reorganization (*concurso*) fails, holders of Telecom Argentina indebtedness will be left with a claim in a bankruptcy (*quiebra*) and may force us into *quiebra*.

We have been advised by our Argentine counsel that if Telecom Argentina is forced into bankruptcy proceedings (*quiebra*) holders of its outstanding debt should expect the following:

- A court-appointed trustee will manage Telecom Argentina's business under the supervision of the Argentine court which will be subject to input from, but will not be bound by, the opinion of a committee of affected creditors. In this respect, if the court considers that the interruption of the provision of an essential public service may cause severe damage to our customers, the court may authorize us to continue providing this public service.
- All of Telecom Argentina's obligations will become due and payable immediately.
- Existing judicial claims from creditors, including commercial creditors, will be considered by the reviewing court and any proceedings relating to these claims at the time of the bankruptcy (*quiebra*) will be stayed. Holders of outstanding Telecom Argentina debt therefore may not be able to control the process, and their interests shall be treated in accordance with Argentine Bankruptcy Law, taking into account the interests of all creditors as a whole. In the APE, by contrast, commercial creditors will not have their claims accelerated and will continue to be paid on customary terms.
- Holders of our outstanding debt may not exercise any set-off rights with respect to debt owed to them prior to the bankruptcy (*quiebra*) unless the debt owed to holders was already due and payable prior to the date of filing the bankruptcy (*quiebra*).
- The bankruptcy (*quiebra*) proceedings may continue for a continued period of time and during this period we could lose significant value.
- Under the Argentine court's supervision, the trustee will identify all of the assets and liabilities of Telecom Argentina, liquidate the assets (for which a specific procedure may apply under Argentine law according to the terms of our license to provide telecommunications services) and distribute the proceeds from this liquidation among all its creditors in the preferential order set forth under Argentine Bankruptcy Law.

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- Foreign currency-denominated claims will be mandatorily converted into pesos at the exchange rate in effect on the date on which the bankruptcy is declared or upon the maturity of the claims, if maturity occurred before the bankruptcy was declared.
- Interest on Telecom Argentina debt will cease to accrue.
- Telecom Argentina's assets would be protected against claims by its creditors, and the protection would include, but would not be limited to, a prohibition against attempts to attach or liquidate these assets.
- Holders of Telecom Argentina indebtedness will lose any rights of set-off against Telecom Argentina that they had prior to the bankruptcy (*quiebra*) unless the debt owed to holders was already due and payable prior to the date of filing of the bankruptcy (*quiebra*).
- If Telecom Argentina become subject to bankruptcy proceedings, the Argentine government has the power to revoke Telecom Argentina's licenses to provide telecommunications services, including fixed-line telephony.
- If Telecom Argentina's license to provide fixed-line telephony services is revoked, our controlling shareholder may be forced to transfer its shares and capital contributions in trust to the relevant regulatory entity, who will sell these shares and capital contributions in an auction. If this occurs, the proceeds of the sale minus fees, expenses, taxes and/or penalties will be delivered to our controlling shareholder. Once the shares and the capital contributions have been awarded to a new entity in the auction, a new license will be issued. During this period of time the regulatory entity may appoint one or more operators to temporarily provide the services formerly provided by us. Any of these operators will be paid out of the proceeds of the sale of the shares.

In addition, the processes of reorganization (*concurso*) and bankruptcy (*quiebra*) proceedings are subject to considerable uncertainty because they will be governed by a statute that was amended in 2002, and substantial aspects of the amended statute have not yet been applied or interpreted by the courts. Consequently, the actual outcome might be less favorable or more favorable for creditors than the consequences described in this document in ways we cannot foresee.

Uncertainties resulting from the current economic situation in Argentina and currently existing regulations affecting us and uncertainties relating to the restructuring of our outstanding debt currently raise substantial doubt about our ability to continue as a going concern and may continue to negatively impact our financial position and results of operations.

Our Consolidated Financial Statements have been prepared assuming that we will continue as a going concern.

Our accountants' report includes a paragraph describing the existence of substantial doubt about our ability to continue as a "going concern." Although we expect that completion of the APE, if successful, will reduce the risks associated with our ability to continue as a going concern, 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.

Our ability to operate our business will be constrained by restrictions and limitations imposed during the interim period for the APE and by the indenture governing the notes that we propose to issue in connection with the APE.

The indenture governing the notes that will be issued pursuant to Telecom Argentina's APE will contain certain operating and financial restrictions and covenants that may adversely affect our ability to finance our future operations or capital needs or to engage in certain business activities. We will agree to observe these restrictions during the interim period for the APE. These agreements will limit, and in some cases prohibit, our ability to:

- incur liens;

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- 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 will, and Telecom Personal's loans do, contain cash sweep provisions which will require Telecom Argentina and Telecom Personal to use any "excess cash" as defined in the notes to prepay Telecom Argentina, and Telecom Personal's notes, respectively, which will further limit our ability to finance our future operations or capital needs. Due to these debt service obligations and the terms of these debt instruments, we do not expect to pay dividends in the near future.

We are and will continue to be highly leveraged.

As of December 31, 2004, our total consolidated bank and financial indebtedness, denominated in dollars, euro and yen amounted to the equivalent of approximately US\$3,548 million, including accrued but unpaid interest, penalties and post-default interest rate increases. Our total consolidated peso-denominated debt amounted to P\$84 million, including accrued but unpaid interest, and CER adjustment. 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, 2004, Telecom Personal's stand-alone nominal amount outstanding debt was US\$416 million (including the US\$28 million nominal amount in intercompany obligations).

Nortel, as our principal shareholder, and its controlling shareholder, 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 8.5% of our Class B shares. Sofora owns 100% of the common stock and 67.78% 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.

Telecom Argentina's APE does not provide for the issuance or modification of any equity securities. As a result, Nortel will retain all of its current equity and, as a result of Sofora's direct ownership of Nortel, Sofora's shareholders will continue to exercise their current level of control after the APE. We have engaged in and will continue to engage in transactions with these shareholders 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.

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 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 we charges our customers for basic telephony services until December 31, 2004.

On October 17, 2004, Law No. 25,972 was published in the Argentine government's Official Bulletin. The law provides for the extension (until December 31, 2005) of the term for the renegotiation of public works and services contracts specified in Article 9 of the Public Emergency Law. Law No. 25,972 also stipulates that the Argentine government will 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 confirms that the effectiveness of the Public Emergency Law will continue until December 2005.

We are unable to predict the outcome of these negotiations 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 basic services and other services. While we intend to continue to strive to control operating costs 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.

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, since December 2003, 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 8.5% of our Class B Ordinary Shares (3.74% of our total capital stock) which, in the aggregate, represented 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 List of Conditions as amended by Resolutions S.C. N° 111/03 and N° 29/4: (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.

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 basic telephony service providers, mobile (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 to the extent those services may be substitutes for fixed wireline telephony. As of December 31, 2004, 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 experience loss of market share for basic telephony service in the Northern Region as a result of this competition. In addition, the market for cellular services is quite competitive as certain of our competitors are better capitalized than us in their networks and have substantial telecommunications experience. In 2004, Telefónica Móviles, S.A. ("Telefónica Móviles"), the wireless affiliate of Telefónica, S.A., acquired the Argentine cellular business of Movicom which resulted in Telefónica Móviles becoming Argentina's largest cellular operator. The Internet services and wireless telecommunications markets, which we expect will 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 basic telephony market, we must invest in our fixed-line network in order to maintain and improve service quality. To remain competitive in the wireless telecommunications market, we must enhance our wireless networks by transitioning from TDMA to GSM technology, expand our 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. 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 make significant expenditures for the repair or replacement of our equipment lost due to theft or vandalism.

The operating and financial restrictions under the terms of the notes (including limits on capital expenditures by Telecom Argentina and by Telecom Personal) 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. 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

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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 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.

We could be delisted from the New York Stock Exchange and/or the Buenos Aires Stock Exchange which would result in a loss of liquidity for our securities.

Our Class B Shares are currently listed on the Buenos Aires Stock Exchange and our ADSs are currently listed on the New York Stock Exchange. See Item 9: "The Offer and Listing." Under its regulations, the Buenos Aires Stock Exchange will delist shares of a company under certain circumstances which include the company reporting a deficit under Argentine GAAP, a bankruptcy judgment against the company, liquidation, revocation of the company's public offering authorization by the CNV and delisting by a foreign stock market.

A company may be delisted from the New York Stock Exchange if its average global market capitalization falls below certain specified levels, its average daily closing price falls below certain specified levels for a specified period or if the listed company has a reduction in operating assets, undergoes bankruptcy or liquidation, violates public policy or its agreements with the New York Stock Exchange or the listed company's securities are authoritatively determined to have no value. During 2002, we were notified by the New York Stock Exchange that it did not meet the minimum share price criteria for continued listing on the exchange. However, our share price subsequently increased so that our ADSs met the New York Stock Exchange's standards on minimum price per ADS. Although our Board of Directors has been authorized to change the ratio of ADSs to common shares if necessary in the future, it is possible that the current economic and political conditions in which we are operating may result in circumstances that require the delisting of our securities from the New York and/or Buenos Aires Stock Exchange. The delisting of our securities from either of these exchanges will result in a loss of liquidity for our shares.

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 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 will be in force for twelve months, such that we expect to enter into new discussions at the end of this year. Such new discussions may include new claims by labor organizations. Please see "Item 6 - Directors, Senior Management and Employees - Employee and Labor Relations."

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

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have experienced significant pressure from employees and labor organizations relating to wage levels and employee benefits. In early 2005 the Argentine government promised not to order salary increases by decree. 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.

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

In addition to the court proceedings related to the APE, 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."

We may be subject to measures by the Argentine government that may 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 which, as of the date of this annual report, is not yet in effect. 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".

As part of our negotiations under Decree No. 293/02 on the tariff structure, on May 20, 2004, Telecom Argentina and Telefónica de Argentina S.A. signed a letter of understanding with the Argentine government whereby we, together with Telefónica de Argentina S.A. agreed, among other things, to grant free prepaid calling cards to pensioners and to certain beneficiaries of Argentine government-sponsored social programs that currently have no wire telephone lines until December 31, 2004, and to establish special tariffs for the provision of Internet services within the Argentine provinces. Telecom has fulfilled its obligations included in the letter of understanding.

In addition, in April 2005, the SC instructed Telecom and Telefónica to incorporate the beneficiaries of the Chief of Household Plan to the current lists for access to the discounts granted for low consumption. The Ministry of Employment has begun to give us information regarding qualifying beneficiaries so that we can proceed to offer these services to those beneficiaries who are eligible.

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

Publicly available information about public companies in Argentina is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States and certain other countries. In addition, although we are subject to the periodic reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, the periodic disclosure required of foreign issuers under the Exchange Act is more limited than the periodic disclosure required of domestic U.S. issuers. Furthermore, 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 its financial statements in conformity with Argentine GAAP, which differs in certain significant respects from US GAAP. See Note 16 to the Consolidated Financial Statements for a description of the significant differences between Argentine GAAP and US GAAP as they relate to us.