

Year Ended December 31, 2007	3.16	3.08	3.12	3.15
Month Ended December 31, 2007	3.15	3.13	3.14	3.15
Month Ended January 31, 2008	3.16	3.13	3.15	3.16
Month Ended February 29, 2008	3.17	3.15	3.16	3.16
Month Ended March 31, 2008	3.17	3.15	3.16	3.17
Month Ended April 30, 2008	3.18	3.15	3.17	3.16
Month Ended May 31, 2008	3.16	3.09	3.13	3.10
Month Ended June 30, 2008 (through June 25, 2008)	3.11	3.02	3.05	3.02

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

Sources: *Banco Nación*

On June 25, 2008, the closing exchange rate (ask price) quoted by Banco Nación was P\$3.018=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.*

##### **Risks 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 2001 and 2002 the Argentine economy experienced a severe recession as well as a political crisis. The abandonment of dollar-peso parity in 2002 led to significant devaluation of the peso against major international currencies and our need to restructure our financial indebtedness. Although general economic and political conditions have shown improvement in recent years, these conditions have affected and may continue to affect our financial condition and results of operations.

#### **Devaluation of the peso will adversely affect our results of operations, our capital expenditure program and the ability to service our debt obligations.**

Since we realize a substantial portion 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, 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. It should be noted, however, that the exposure to the risk of devaluation of the peso has significantly decreased as a result of the mandatory and optional prepayments on the notes of Telecom Argentina. See "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Debt Obligations and Debt Service Requirements" and "Item 11—Quantitative and Qualitative Disclosures About Market Risk."

The Argentine peso has been subject to significant devaluation in the past and may be subject to 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 services provided by the Telecom Group 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 the 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 service rate adjustments and the large drop in demand resulting from the recession.

Although levels of inflation were lower in years 2003 and 2004, they began to increase in years 2005 and 2006 and remained relatively high in year 2007. The accumulated Argentine consumer price index for the period 2003-2006 increased approximately 31% and the accumulated wholesale price index increased approximately 28%. In 2007, the Argentine consumer price index increased 8.5% and the wholesale price index increased 13.9%. In the five-month period ending on May 31, 2008, the consumer price index increased 4.0% and the wholesale price index increased 5%. It should be noted, however, that the *Instituto Nacional de Estadística y Censos* (the Argentine National Statistics and Census Institute or "INDEC") has undergone changes both in its management and in the methodology used to calculate the CPI index (Consumer Price Index). As a result, public credibility of the INDEC

as a reference for publishing Argentine inflation indexes has been adversely affected as from year 2007. There is also a substantial disparity between the inflation indexes published by the INDEC and the overall evolution of prices in the economy. Additionally, the target wage increase set by the Government for 2008 amounts to approximately 19.5%.

The Argentine Government has implemented several actions in order to monitor and control prices of the most relevant goods and services, such as price controls and restrictions on exports. Despite such actions, the Argentine economy continues to experience significant inflation. 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, a significant increase in inflation rates can be expected. In addition, public sector spending has increased over the past years, a trend, that if it continues, may cause the Government to incur a fiscal deficit and lead to higher inflation. Since we derive the majority of our revenues from fees payable in pesos, any further increase in the rate of inflation not accompanied by a parallel increase in our rates would decrease our revenues in real terms and adversely affect our results of operations. As discussed below under "Risks Associated with Telecom and its Operations," Telecom Argentina's ability to increase its regulated rates is subject to approval of regulatory authorities. We cannot guarantee that 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.

**Future policies of the Argentine Government are likely to 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 of 2001 and 2002, the Argentine Government promulgated numerous, far-reaching regulations affecting the economy and telecommunications companies in particular. Under the Kirchner administration, the CNC adopted new interpretations of applicable regulations and imposed fines on telecommunications companies, particularly incumbent operators such as our company. See "Item 8-Financial Information-Legal Proceedings" for more information. In addition, local municipalities in the regions where we operate have also introduced regulations and proposed various taxes and fees for the installation of infrastructure, equipment and expansion of fixed line and 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 contesting them. However, we cannot assure you that the laws and regulations currently governing the economy or the telecommunications industry will not change, that the claims will be resolved in our favor, or that any changes to the existing laws and regulations will not adversely affect our business, financial condition or results of operations.

**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. Despite recent economic growth, it is currently unclear whether the economic and political instability experienced over the past several years could recur and Argentina may return to a period of recession, higher inflation, unemployment and greater social unrest. In addition, financial crises such as the outbreak of the subprime mortgage in the U.S. may negatively affect emerging economies like Argentina. Moreover, the decision of the Government of Cristina Fernández de Kirchner to raise export taxes on certain agricultural products has resulted in conflicts between the Government and the agricultural sector during 2008. If economic instability returns, there could be a material adverse effect on our results of operations and financial condition.

In the event of further social or political crises, 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 tax increases and retroactive tax claims.

7

---

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.

As we operate in a context in which the governing law and applicable regulations change frequently, it is difficult to predict whether our commercial activities will be affected positively, negatively or at all by such changes.

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

The Argentine Government's history of fiscal deficit was aggravated by the devaluation of the Argentine peso in early 2002. Since almost all of the financial obligations of the Argentine Government were denominated in foreign currencies at the time the dollar-peso parity was eliminated, 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. Since the Government's fiscal revenues were denominated in large part in Argentine pesos, the Government was severely affected in its ability to carry out its payment obligations using foreign currency.

The Argentine Government defaulted on a significant part of its public debt in 2002. 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. 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. However, there can be no assurance that the Argentine Government will not default on its obligations under the 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 2005 exchange offer (approximately 24% of them). The Argentine Government is still in negotiations on its defaulted debt with certain international multilateral institutions such as the Paris Club.

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 negatively affect the ability of private companies, including Telecom, to obtain access to capital markets or other forms of financing.

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

In recent years, the Argentine financial system has been characterized by extreme volatility. At the end of 2001 and during 2002, the Argentine Government 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.

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, 38% in 2005, 40% in 2006 and

43% in 2007. However, during 2008 certain events such as conflicts between the Argentine Government and certain sectors of the economy have deteriorated depositors' confidence, which led to the decrease in deposits, the dollarization of certain deposits and an increase in interest rates.

Despite this recovery and the high level of reserves held by the BCRA, we cannot be sure that another collapse will not occur in the future. The Argentine banking system's collapse or the collapse of one or more of the larger banks in the system would have a material adverse effect on the prospects for economic growth and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives for consumers. These conditions would have a material adverse effect on us by resulting in lower usage of our services and the possibility of a higher level of delinquent and 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 Argentina frequently obtains and intends to obtain in the future, opinions of counsel concerning the compliance of the actions with Argentine law and Telecom Argentina's bylaws (or regulations if any). Although the issue is not free from doubt, based on advice of counsel, Telecom Argentina believes that a court in Argentina in which a case has been properly presented would hold that a 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 we will not be able to fully 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 could 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 all of the interest and principal payments due under our indebtedness. Investment in our securities, therefore, involves a certain degree of risk. However, compliance with the prepayment provisions included in the terms and conditions of the Telecom Argentina notes issued pursuant to the APE and optional prepayments made on the notes have resulted, as of the date of this Annual Report, in the cancellation of the principal mandatory amortizations scheduled through April 2011 and 45.0% of the scheduled principal amortization payable in October 2011, and have thus reduced the possible impact of this risk. As of May 31, 2008, the outstanding principal amount of Telecom Argentina's indebtedness was approximately equivalent to US\$521 million (which represents approximately 45.1% of Series A notes and 4.1% of Series B notes original principal amount), while its cash and cash equivalents amount approximately to US\$156 million.

Under Argentine law, noteholders are entitled to the benefits of the exemption from withholding tax on interest payments provided they comply with the requirements established by the Argentine Negotiable Obligations Law. In addition, the terms and conditions of Telecom Argentina's listed notes call for payments to be made without withholding or tax reductions or any other current or future government charge. Although Telecom Argentina has fully complied with the applicable regulation, we cannot assure you that notes will be entitled in the future to the benefits of the exemption from withholding tax provided in the Argentine Negotiable Obligations Law. In the event our notes do not qualify for the exemption, we could be obliged to pay Argentine taxes on the listed notes and such obligation, if imposed, would generate additional unanticipated payments which could adversely affect our ability to satisfy our obligations under the notes and/or invest in our business.

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, 2007, our subsidiaries' indebtedness was approximately equivalent to US\$277 million, while our subsidiaries' cash and cash equivalents as of December 31, 2007 amounted to approximately US\$75 million. 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 contains certain standard 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, except in certain permitted situations, our ability to:

- incur liens;
- incur indebtedness;
- sell certain types of assets;
- enter into sale and leaseback transactions;
- engage in transactions with our shareholders and affiliates;
- make capital expenditures not expressly permitted;
- 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.

Our failure to comply with the covenants and restrictions in our indenture could accelerate the repayment of the notes which could have an adverse effect on our liquidity and our business.

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.

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 amortization payments on the notes scheduled to be made through April 2011 and 45.0% of the principal amortization payments scheduled to be made in October 2011 have been paid and the outstanding principal amount of Telecom Argentina indebtedness as of May 31, 2008 is approximately equivalent to US\$521 million (which represents approximately 45.1% of Series A notes and 4.1% of Series B notes original principal amount). All principal amortization payments were made on a pari passu basis, as required by the notes. 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

10

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 or redemption of the notes.

#### **We are leveraged in foreign currency.**

As of December 31, 2007, our total nominal consolidated bank and financial indebtedness, denominated in dollars, euro, yen and guaraníes amounted to the equivalent of approximately US\$1,015 million, including accrued but unpaid interest and related derivatives. Our total consolidated peso-denominated debt amounted to P\$63 million, equivalent to US\$20 million. As of December 31, 2007, our total consolidated cash and banks and financial investments denominated in dollars, euro, yen and guaraníes amounted to the equivalent of approximately US\$266 million and our total consolidated peso-denominated cash and banks and financial investments amounted to P\$155 million, the equivalent of US\$49 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 leveraged in foreign currency. As of December 31, 2007, Telecom Personal's stand-alone outstanding debt was the equivalent of approximately US\$265 million, of which a significant portion is denominated in U.S. dollars. As of December 31, 2007, Telecom Personal's total cash and banks and financial investments denominated in dollars amounted to approximately US\$36 million and Telecom Personal's total peso-denominated cash and banks and financial investments amounted to P\$107 million, the equivalent of US\$34 million.

It should be noted, however, that the exposure to the risk of devaluation of the peso has significantly decreased as a result of the mandatory and optional prepayments on the notes of Telecom Argentina and the strong financial performance of Personal which has reduced its indebtedness. See "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Debt Obligations and Debt Service Requirements" and "Item 11—Quantitative and Qualitative Disclosures About Market Risk."

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

In accordance with the Public Emergency Law, in January 2002, rates for Basic telephone services and long-distance services were converted to pesos and fixed at an exchange rate of P\$1.00=US\$1.00. The rates Telecom Argentina may charge in the future will be determined by 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 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 its 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. The effectiveness of the Public Emergency Law was subsequently extended by Laws No. 26,077, 26,204 and 26,339 through December 31, 2008.

On March 6, 2006, Telecom Argentina executed a new Letter of Understanding (the "Letter of Understanding 2006") with the Argentine Government pursuant to which Telecom Argentina will be permitted to raise certain rates and incorporate certain modifications to the current regulatory framework. Under the Letter of Understanding 2006, rate increases will be restricted to the termination charge for international incoming calls and the extension of the

11

time bands for peak-hour tariffs applied to local and domestic long-distance calls. Please see "Item 4—Information on the Company—Regulatory Framework."

The Letter of Understanding 2006 contemplated the signing and effectiveness of the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary steps. As of the date hereof, such fulfillment has yet to occur. Although we expect such fulfillment and effectiveness in the near future, we cannot guarantee if or when this will happen. We

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

Rate restrictions may continue for a number of years and may affect revenues from fixed line and other services. While we intend to continue to strive to control operating costs and capital expenditures and improve productivity, 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, since the end of the year 2005, the Argentine Government has implemented various measures to control inflation such as price controls of certain goods and services. In addition to price pressure from the competition, 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.

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

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

Certain license conditions are not within our control. For example, any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina without prior approval of the regulatory authorities may result in the revocation of Telecom Argentina's license. Pursuant to the provisions of Telecom Argentina's List of Conditions as amended by Resolutions 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 Argentina's telecommunications license.

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

**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. As of December 31, 2007, more than 500 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 Voice, Data and Internet services 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, 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 at that time. 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 Voice, Data and Internet services 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. Specifically, 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. To remain competitive in the wireless telecommunications market, we must enhance our wireless networks principally by expanding our GSM network coverage, provide 3G services, provide high service quality and attractive plans and facilitate the synergy between fixed and mobile communications. In the Wireless segment, we expect to continue to need to devote resources to customer retention and loyalty and to the replacement of handsets due to technological updates. These enhancements and the introduction of new services will demand increased capital expenditures and higher subscriber retention costs. 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 infrastructure in order to comply with regulatory obligations regarding fixed line services and to remain competitive in the quality of our services. 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 may adversely affect our ability to successfully invest in, and implement, new technologies, coverage and services in a timely fashion. Accordingly, we cannot assure you that we will have the ability to make needed capital expenditures and operating expenses. If we are unable to make these capital expenditures, or if our competitors are able to invest in their businesses to a greater degree 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 competitors' 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 changes in levels of 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

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.

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

The SC is responsible for the allocation of bands in the wireless spectrum within promulgated regulations. Telecom Personal cannot guarantee that its requests to participate in the reallocation process related to the bands to be released by Telefónica Móviles will be granted, or that the frequency bands will not be reallocated to existing or future competitors of Telecom Personal, negatively affecting Telecom Personal's competitive position and ability to offer cellular services to its customers on a competitive basis. See "Item 4-Information on the Company-Regulatory Framework-Regulations Applicable to PCS Services" for a detailed description of Telecom Personal's license.

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

Nortel is our direct controlling shareholder. Sofora owns 100% of the common stock of Nortel, which represents 67.79% of the total capital stock of Nortel. As of December 31, 2007 Sofora was 50% owned by Telecom Italia Group, 48% owned by W de Argentina-Inversiones and 2% owned by France Telecom Group.

Telecom Argentina has been informed by W de Argentina-Inversiones that its option to purchase France Telecom Group's 2% interest in Sofora was exercised on February 1, 2008. Additionally, Sofora has notified Telecom Argentina that: (i) on February 12, 2008, Sofora received from France Câbles et Radio and from Atlas Services Belgium a letter notifying Sofora of such companies' transfer of the 2% interest in Sofora, and requesting that such transfer be registered in favor of W de Argentina-Inversiones; (ii) Sofora replied to the letter sent by France Câbles et Radio and Atlas Services Belgium by requesting a copy of the prior authorization from the SC to said transfer of shares, arguing that a prior authorization of the SC was necessary in accordance to rules and regulations in effect; to this date, Sofora has not received any answer, and neither the buyers nor the sellers have submitted any proof of such authorization; (iii) with the goal of protecting the interests of Sofora, its controlled companies and their respective shareholders, a petition was submitted to the SC requesting it to determine if, in accordance to rules and regulations in effect, the parties participating in said transaction had to request the prior authorization of the relevant authorities; (iv) this request to the SC was submitted as well to enable Sofora to determine what to do with respect to the registration of the transfer requested by the interested parties; (v) as soon as the SC decides upon this matter, Sofora will take the steps necessary to comply with such decision. Likewise, W de Argentina-Inversiones has submitted a note to Sofora stating that it is its position that prior authorization by the SC was not necessary and requesting Sofora to immediately register the interest transfer. Additionally W de Argentina-Inversiones has informed Sofora that they have brought legal actions accordingly. As of the date of this Annual Report, Telecom Argentina cannot predict how the SC will decide on the petition submitted by Sofora nor the outcome of the legal action brought by W de Argentina-Inversiones.

Additionally, in 2003 the Telecom Italia Group acquired for an aggregate purchase price of US\$60 million two call options on W de Argentina-Inversiones' entire interest in Sofora, one for the purchase of 48% of Sofora's share capital, which can be exercised within 15 business days after December 31, 2008, and an additional call option on 2% of Sofora's share capital, which can be exercised between December 31, 2008 and December 31, 2013. At the time these call options were granted, the Argentine Antitrust Commission resolved and notified Telecom Italia International NV and W de Argentina-Inversiones that "in the event the options granted under the Call Option Agreement executed on September 9, 2003 were to be exercised, such exercise will need to be notified in accordance with Sections 6 and 8 of Law No. 25,156." As of the date of this Annual Report, Telecom Argentina cannot predict whether Telecom Italia will exercise these options. See "Item 7-Major Shareholders and Related Party Transactions" for additional information on the exercise of this option.

Through their ownership of Sofora, the Telecom Italia Group and W de Argentina-Inversiones currently 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 Werthein 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 Telecom Argentina's capital stock and as parties with interests in these related party contracts.

Nevertheless, any transactions with related parties for an amount of over 1% of the shareholders' equity of Telecom Argentina are put through a prior approval process established by Decree No. 677/01 and requiring involvement of the Audit Committee and/or an opinion of two independent valuation firms as well as subsequent approval by the Board of Directors in order to verify that the agreement could reasonably be considered to be in accordance with normal and habitual market practice. See "Item 7-Major Shareholders and Related Party Transactions-Related Party Transactions."

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

In Argentina, labor organizations have substantial support and have considerable political influence. The demands of our labor organizations have increased as a result of the general labor dissatisfaction resulting from the disparity between the cost of living (which was significantly affected by the increased level of inflation over the last three years) 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 by increasing the minimum legal wage, imposing salary amounts which will initially be treated as non remunerative and setting target annual wage increases). Certain claims initiated in 2005 by labor organizations with respect to fixed line services led to negotiations that resulted in the improvement of salary levels and a reduction of working hours. See "Item 8-Financial Information-Legal Proceedings-Other Labor Claims." 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, we concluded several agreements with various labor organizations representing in particular our fixed-line telephony employees. 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 or changes in labor regulations, which would increase our cost of doing business.**

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

Moreover, the Argentine Congress has discussed certain modifications to labor regulations that, if approved, could materially impact our relationship with our employees by increasing the labor cost and decreasing the flexibility to provide services to our clients.

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

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

In addition, in recent years, certain changes in the treatment of employment matters under Argentine law have created new incentives for individuals to pursue employment-related litigation in Argentine courts. These changes include holdings that an employee of a subcontractor may file a direct action against the firm contracting the work,

that any cap on severance pay in cases of dismissal without cause is unconstitutional, that an employee may bring a civil action in the event of an occupational accident, and the passage of an amendment to the Employment Contract Act 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. Some of these claims have been settled and others are still pending.

The tax authorities have reviewed certain interpretations that could affect the tax treatment of our bad debt expense and Fiber Optic improvements. Several claims for additional taxes have been brought against Telecom by the tax authorities and final resolution of such claims could result in our payment of additional taxes, accrued interest and fines. 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, which was subsequently vetoed by the executive branch and sent 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 "Item 4-Information on the Company-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 effect 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 such as, among others, those relating to Universal Service regulation (See "Item 4-Information on the Company-Regulatory Framework-Decree No. 764/00"), those relating to the provision of new customer services and those resulting from the 2000 and 2001 Price Cap SC reviews still pending. Any such changes could have a material impact on our operations. However, these potential obligations may be offset by measures in Telecom Argentina's favor, such as those contemplated in Resolution 41/07 (See "Item 4-Information on the Company-Regulatory Framework-Tax Stability: Social Security Contribution Variations").

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

The Consumer Protection Act No. 24,240, as amended and/or supplemented (the "Consumer Protection Act") establishes a series of principles and rules for the protection of consumers and users. The Consumer Protection Act applies to the telecommunications industry and to any other industry in which consumers and users are involved.

On March 12, 2008, the Argentine Congress passed the legislative bill to reform the Consumer Protection Act, which was promulgated by the Executive Branch in Decree No. 565/2008 dated April 3, 2008, and published in the Official Bulletin on April 7, 2008.

This reform substantially amends various aspects of the Consumer Protection Act, the most important of which are: (i) the extension of the definition of a consumer; (ii) an increase in the fines that could be imposed to providers and the possibility that relevant administrative authorities may order providers to pay direct damages up to a maximum amount; (iii) the courts may order providers to pay punitive damages to consumers up to a maximum amount of P\$5 million, depending on the seriousness of the breach, among other circumstances; and (iv) provisions governing the possibility that consumer associations commence class actions in representation of the rights of an indeterminate group of consumers.

goods and services to individual users or consumers or to various groups or associations of consumers. This possibility might entail risks for Telecom Argentina and Personal concerning, among others, the collection of prices charged for its services, or the obligation to return amounts charged for its services. If such were the case, any of such consequences could have an adverse effect on our financial situation and on the results of 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 and trade liabilities.**

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 or limitations on the access to foreign exchange markets and transfer of funds abroad, including for purposes of paying principal and interest on debt and trade liabilities to foreign suppliers. Although these restrictions or limitations have generally been eliminated, restrictions on the access to foreign exchange markets and transfer of funds have in the past limited and may in the future limit our ability to make payments on our debt to creditors and trade liabilities outside of Argentina. There can be no assurance that the BCRA will not impose again similar restrictions for principal, interest and/or trade liabilities payments by us to our foreign creditors, or require its prior authorization for such purposes, which would limit our ability to service our debt and/or comply with payments related to trade contracts with foreign suppliers. 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.**

The future liquidity position of our securities, including Telecom Argentina's Series A and Series B notes, is uncertain. The liquidity of our 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.

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

While the value of Telecom Argentina's shares has increased over the past five fiscal years, their value has declined during 2008. See "Item 9-The Offer and Listing."

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

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

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

**If we experience significant losses, we may be required to undertake a mandatory capital stock reduction or commence dissolution procedures.**

Under Article 206 and paragraph 5 of Article 94 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 certain thresholds or reports negative shareholders' equity, the corporation is required to reduce its capital

stock; or to commence dissolution proceedings unless its shareholders take action 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, but have been in effect since that time.

Since Telecom Argentina reported significant accumulated losses for the year ended December 31, 2005, it qualified for mandatory reduction of its capital stock. Accordingly, the Ordinary Shareholders Meeting held on April 27, 2006 approved the use of Telecom Argentina's legal reserve and a portion of its inflation adjusted capital account to absorb accumulated losses and remediate this situation. See "Item 9-The Offer and Listing."

We reported net income for the fiscal year ended December 31, 2007, but we still had accumulated losses amounting to P\$708 million as of December 31, 2007. Although we currently do not qualify for mandatory reduction of capital stock, 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.

**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 prepare our financial statements in conformity with Argentine GAAP, which differs in certain significant aspects from US GAAP. In this regard, we have included a description of the principal differences between Argentine GAAP and US GAAP as they relate to us in Note 16 to the Consolidated Financial Statements.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **INTRODUCTION**

##### **The Company**

Telecom is one of the largest private-sector corporations in Argentina in terms of revenues. Telecom Argentina has a non-expiring license (the "License") to provide fixed-line telecommunications services in Argentina. We also provide other