TELECOM ARGENTINA SA
Form 6-K
November 18, 2004
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of November, 2004

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant s name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ____ No __X__

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ____ No __X__

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ____ No __X__

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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

Unaudited Consolidated Financial Statements as of September 30, 2004 and December 31, 2003 and for the nine-month periods ended September 30, 2004 and 2003

$: Argentine peso

US$: U.S. dollar

$2.981 = US$1 as of September 30, 2004

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

Unaudited Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003

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

	As of September 30, 2004 (Unaudited)	As of December 31, 2003
ASSETS		
Current Assets		
Cash and banks	$ 36	$ 26
Investments	3,588	2,441
Accounts receivable, net	599	581
Other receivables, net	94	119
Inventories, net	87	14
Other assets	12	3
Total current assets	**4,416**	**3,184**
Non-Current Assets		
Other receivables, net	244	193
Investments	15	47
Fixed assets, net	7,079	8,001
Intangible assets, net	762	845
Total non-current assets	**8,100**	**9,086**
TOTAL ASSETS	**$ 12,516**	**$ 12,270**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 507	$ 451
Debt	10,726	9,996
Salaries and social security payable	74	77
Taxes payable	109	120
Other liabilities	24	25
Contingencies	25	15
Total current liabilities	**11,465**	**10,684**

Non-Current Liabilities		
Debt	25	86
Salaries and social security payable	31	30
Other liabilities	39	39
Contingencies	226	210
Total non-current liabilities	**321**	**365**
TOTAL LIABILITIES	**$ 11,786**	**$ 11,049**
Minority interest	**30**	32
Foreign currency translation adjustments	**23**	21
SHAREHOLDERS EQUITY	**$ 677**	**$ 1,168**
TOTAL LIABILITIES, MINORITY INTEREST, FOREIGN CURRENCY TRANSLATION ADJUSTMENTS AND SHAREHOLDERS EQUITY	**$ 12,516**	**$ 12,270**

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

Marcelo Kozak	**Carlos Felices**	**Alberto Messano**
Accounting and Administrative Manager	**Chief Executive Officer**	**Director**

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Income

for the nine-month periods ended September 30, 2004 and 2003

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

	For the nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Net sales	$ 3,211	$ 2,711
Cost of services	(2,153)	(1,929)
Gross profit	**1,058**	**782**
General and administrative expenses	(184)	(182)
Selling expenses	(666)	(576)
Operating income	**208**	**24**
Equity gain from related companies	(1)	2
Financial results, net	(622)	529
Other expenses, net	(69)	(138)
Gain on repurchase of debt		375
Net (loss) income before income tax and minority interest	**(484)**	**792**
Income tax (expense) benefit, net	(9)	
Minority interest	2	(13)
Net (loss) income	**$ (491)**	**$ 779**
Net (loss) income per share	**(0.50)**	**0.79**

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

Marcelo Kozak	**Carlos Felices**	**Alberto Messano**
Accounting and Administrative Manager	**Chief Executive Officer**	**Director**

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Changes in Shareholders Equity

for the nine-month periods ended September 30, 2004 and 2003

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

	Shareholders contributions			Unappropriated results			
	Common stock	**Inflation adjustment of common stock**	**Total**	**Legal reserve**	**Retained earnings/ Accumulated deficit**	**Total**	**Total Shareholders equity**
Balances as of January 1, 2003	**$ 984**	**3,044**	**4,028**	**277**	**(3,488)**	**(3,211)**	**$ 817**
Net income					779	779	779
Balances as of September 30, 2003	**984**	**3,044**	**4,028**	**277**	**(2,709)**	**(2,432)**	**$ 1,596**
Balances as of January 1, 2004	**$ 984**	**3,044**	**4,028**	**277**	**(3,137)**	**(2,860)**	**$ 1,168**
Net loss					(491)	(491)	(491)
Balances as of September 30, 2004	**$ 984**	**3,044**	**4,028**	**277**	**(3,628)**	**(3,351)**	**$ 677**

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

Marcelo Kozak	Carlos Felices	Alberto Messano
Accounting and Administrative Manager	Chief Executive Officer	Director

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Cash Flows

for the nine-month periods ended September 30, 2004 and 2003

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

	For the nine-month periods ended	
	September 30, 2004	**September 30, 2003**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (491)	$ 779
Adjustments to reconcile net (loss) income to net cash flows provided by operating activities		
Allowance for doubtful accounts and other receivables	59	21
Depreciation of fixed assets	1,194	1,342
Amortization of intangible assets	80	81
Equity gain from related companies	1	(2)
Consumption of materials	42	29
Fixed assets disposal	5	12
Provision for contingencies	38	83
Gain on repurchase of debt		(375)
Interest and other financial results on debt	685	(541)
Income tax	9	
Minority interest	(2)	13
Net increase in assets	(167)	(297)
Net increase in liabilities	19	233
Total cash flows provided by operating activities	**1,472**	**1,378**
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed asset acquisitions	(300)	(98)
Intangible asset acquisitions	(1)	(5)
Decrease (increase) in investments not considered as cash and cash equivalents	189	(182)
Total cash flows used in investing activities	**(112)**	**(285)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of debt	(6)	(8)
Repurchase of debt		(421)
Payment of interest and debt-related expenses	(12)	(332)
Total cash flows used in financing activities	**(18)**	**(761)**

INCREASE IN CASH AND CASH EQUIVALENTS	**1,342**	**332**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**2,216**	**1,314**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**$ 3,558**	**$ 1,646**

See Note 6 for supplementary cash flow information.

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

Marcelo Kozak	**Carlos Felices**	**Alberto Messano**
Accounting and Administrative Manager	**Chief Executive Officer**	**Director**

TELECOM ARGENTINA S.A.

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

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

Notes to the Unaudited Consolidated Financial Statements

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

1. The Company and its operations

Telecom Argentina STET-France Telecom S.A. (Telecom Argentina and together with its subsidiaries, the Company) was created by a decree of the Argentine government in January 1990 and organized as a *sociedad anónima* under the name Sociedad Licenciataria Norte S.A. on April 23, 1990. In November 1990, this legal name was changed to Telecom Argentina STET-France Telecom. However, as a result of the change in the controlling group and the termination of the Management Agreement relationship with respect to France Cables et Radio S.A. (FCR , a subsidiary of France Telecom S.A.) as joint operator of the Company, the Extraordinary and Ordinary Shareholders Meeting held on February 18, 2004, approved the change of the legal name of the Company to Telecom Argentina S.A. Accordingly, the Company amended its by-laws to effect this change in accordance with the prior approval obtained from the Department of Communications and the *Comisión Nacional de Valores (CNV*), the National Securities Commission in Argentina.

The Company provides fixed-line public telecommunication services and fixed telephone services, international long-distance service, data transmission, Internet services and directories publishing services in Argentina. The Company also provides wireless telecommunication services in Argentina and Paraguay.

Telecom Argentina commenced operations on November 8, 1990 (the Transfer Date), upon the transfer to the Company of the telecommunications network of the northern region of Argentina previously owned and operated by the state-owned company, Empresa Nacional de Telecomunicaciones (ENTel).

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

Telecom Argentina s license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina through November 8, 1997, with the possibility of a three-year extension. In March 1998, the Argentine government extended the exclusivity period to late 1999 and established the basis for a transition period towards deregulation of the telecommunications market.

In this context, the Department of Communications provided for a transition period, which ended on October 10, 1999. As from such date, the Company began providing telephone services in the southern region of Argentina and competing in the previously exclusive northern region.

2. Regulatory framework

(a) Regulatory bodies and general legal framework

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

The provision of telecommunication services is regulated by the Department of Communications and supervised by the *Comisión Nacional de Comunicaciones*, the National Communications Commission (CNC). The CNC is responsible for the general oversight and supervision of telecommunications services. The Department of Communications has the authority to develop, suggest and implement policies; to ensure that these policies are applied; to review the applicable legal regulatory framework; to act as the enforcing authority with respect to the laws governing the relevant activities; to approve the major technical plans and to resolve administrative appeals filed against CNC resolutions.

The principal features of the regulatory framework have been created by:

- The Privatization Regulations, including the List of Conditions;
- The Transfer Agreement;
- The Licenses granted to Telecom Argentina and its subsidiaries;
- The Tariff Agreements; and
- Various governmental decrees, including Decree No. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum management.

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

(b) Licenses granted as of September 30, 2004

As of September 30, 2004, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

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

As of September 30, 2004, the Company s subsidiaries have been granted the following licenses:

- Telecom Personal has been granted a non-exclusive, non-expiring license to provide mobile telecommunication services in the northern region of Argentina and data transmission and value added services throughout the country. In addition, Telecom Personal owns licenses to provide mobile cellular radiocommunication services in the Federal District and Greater Buenos Aires areas, as well as a non-expiring license to provide PCS services throughout the country and it is registered to provide national and international long-distance telephone services; and

- Nucleo S.A. (Nucleo) has been granted a license to provide mobile telecommunication services in Paraguay as well as PCS services in certain areas of that country.

Telecom Argentina s license is revocable in the case of non-compliance with certain obligations, including but not limited to:

- the interruption of all or a substantial portion of service;
- the non-performance of material obligations;
- any sale, encumbrance or transfer of assets which may result in a reduction of level of services provided, without the prior approval of the regulatory authority;
- the reduction of Nortel Inversora S.A. s (Nortel , the parent company of the Company) interest in Telecom Argentina to less than 51%, or the reduction of Nortel s common shareholders interest in Nortel to less than 51%, in either case without prior approval of the regulatory authorities; and
- the Company s bankruptcy.

Telecom Personal s licenses are revocable in the case of non-compliance with certain obligations, including but not limited to:

- repeated interruptions of the services;
- any transfer of the license and/or the related rights and obligations, without the prior approval of the regulatory authority;
- any encumbrance of the license;
- the voluntary insolvency proceedings or bankruptcy of Personal and,
- the liquidation or dissolution of Personal, without the prior approval of the regulatory authority.
- the liquidation or dissolution of Personal, without previous authorization of the CNC.

Nucleo s licenses are revocable mainly in the case of:

- interruption of services;

- the bankruptcy of Nucleo and,

- non-compliance with certain obligations.

TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

(c) Renegotiation of agreements with the Argentine government

Telecom Argentina s tariff scheme and procedures are detailed in the Tariff Agreement entered into by Telecom Argentina and the Argentine government in November 1991, as amended in February 1992. Pursuant to the Tariff Agreement, all tariffs were to be calculated in US dollars and converted into Argentine pesos at the time the customer was billed using the exchange rate prevailing at that time. Under the Convertibility law that was effective until January 2002, the applicable exchange rate was $1 to US$1. Tariffs were to be adjusted twice a year in April and October based on the variation of the U.S. Consumer Price Index (CPI). These adjustments were not applied since 2000 according to a resolution of the Department of Communications.

However, in January 2002, the Argentine government enacted Law No. 25,561, which provided, among other aspects, for the following:

- The pesification of tariffs;
- The elimination of dollar or other foreign-currency adjustments and indexing provisions for tariffs;
- The establishment of an exchange rate for dollar-denominated prices and rates of $1 =US$1; and
- The renegotiation of the conditions of the contractual agreements entered into between privatized companies and the Argentine government.

The Argentine government is entitled to renegotiate these agreements based on the following criteria:

- The impact of the rates on the national economy and its effect on income levels;

- Service quality and investment plans, as contractually agreed;

- The customers interests and access to the services;

- The security of the systems; and

- The profitability of the companies.

Decree No. 293/02, dated February 12, 2002, entrusted the Ministry of Economy with the renegotiation of the agreements, including agreements that govern the provision of fixed telephone services. Initially, the contractual renegotiation proposals were to be submitted to the government within 120 days after the effective date of the Decree, although this term was further extended for an additional 180-day period. Telecom Argentina filed all information as required by the government, which included information on the impact caused by the economic crisis on the Company s financial position and its revenues, the pre-existing mechanisms for tariff adjustments, operating costs, indebtedness, payment commitments with the government and future and on-going investments.

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

Furthermore, in July 2003, Decree No. 311/03 created a special unit within the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services, pursuant to which the contractual relationships between the Argentine government and the privatized companies were to be analyzed and further renegotiated. In October 2003, the Argentine government enacted Law No. 25,790 pursuant to which the original term to renegotiate the contracts was extended through December 31, 2004.

In May 2004, the Company signed a letter of understanding with the Argentine government pursuant to which the Company committed not to modify the current tariff structure through December 31, 2004 and to continuing with the tariff renegotiation process. The Company expects to conclude it before December 31, 2004. The Company also committed to offering phone services to beneficiaries of government welfare programs and to extending internet services in the interior of the country at discounted prices.

TELECOM ARGENTINA S.A.

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

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

On April 24, 2003, Telecom Italia filed a notice with the relevant Argentine authorities for the formal commencement of proceedings to resolve the dispute with the Argentine State, pursuant to the Bilateral Agreement between Italy and Argentina Concerning the Promotion and Protection of Investments . The proceedings are aimed at receiving compensatory damages deriving from the enactment, on the part of the Argentine government, of measures considered to be detrimental to the investment made in the Company. The filing of the notice started a six month period in which the parties shall attempt to effect an amicable settlement. If no decision is reached during this period, Telecom Italia will have the right to start specific arbitration proceedings.

Also, FCR filed notices with the relevant Argentine authorities under the terms and conditions of bilateral agreements between Argentina and France concerning the protection of investments. FCR may, in its sole discretion, initiate actions against the Argentine government.

3. Preparation of financial statements

(a) Basis of presentation

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

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

In March 2004, the CNV adopted Technical Resolution No. 21 Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions (RT 21), which codifies and amends Technical Resolutions No. 4 and 5 and introduces certain technical corrections to other standards. RT 21 should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent and also in accounting for investments in subsidiaries in a parent s separate financial statements. It prescribes which entities are required to present consolidated financial statements, which entities should be included in such statements, the consolidation procedures to be followed, as well as disclosure requirements. This standard will be effective for the Company in the fiscal year beginning January 1, 2005. Management believes that the information presented in these consolidated financial statements does not materially differ from that prescribed by RT 21.

(b) Basis of consolidation

These unaudited consolidated financial statements include the accounts of Telecom Argentina and its subsidiaries over which it has effective control. Investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method.

All significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

In accordance with Argentine GAAP, the presentation of the parent company s individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes (see Note 16 for a description of certain condensed unconsolidated information).

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

Notes to the Unaudited Consolidated Financial Statements

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

3. Preparation of financial statements (continued)

A description of the subsidiaries with their respective percentage of capital stock owned is presented as follows:

Reportable segment	Subsidiaries	Percentage of capital stock owned and voting rights as of September 30, 2004 (i)
Voice, data and Internet	Telecom Argentina USA	100.00%
	Micro Sistemas (ii)	99.99%
Wireless	Telecom Personal	99.99%
	Nucleo	67.50%
	Cable Insignia (iii)	75.00%
Directories publishing	Publicom S.A. (Publicom)	99.99%

(i) Percentage of equity interest owned has been rounded.
(ii) Not operating at September 30, 2004.
(iii) In process of liquidation.

(c) Presentation of financial statements in constant Argentine Pesos

On August 22, 1995, the Argentine government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995 in accordance with CNV resolutions and Argentine GAAP, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the financial statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statement information of periods prior to August 31, 1995 was restated to pesos of general purchasing power at the end of August 31, 1995 (constant Pesos). The August 31, 1995 balances, adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

However, as a result of the new inflationary environment in Argentina and the conditions created by the Public Emergency Law No. 25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the Public Emergency Law), the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA), approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements for fiscal years or interim periods ending on or after March 31, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are to be stated in constant currency as of December 31, 2001 (the Stability Period).

On July 16, 2002, the Argentine government issued a decree, instructing the CNV to issue the necessary regulations for the acceptance of financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency, following the criteria of the CPCECABA.

However, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for discontinuing inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date.

In October 2003, the CPCECABA issued Resolution MD No. 41/03 which also provided for discontinuing inflation accounting as of September 30, 2003. Accordingly, since Argentine GAAP requires companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution mentioned in the preceding paragraph represents a departure from Argentine GAAP.

As recommended by Argentine GAAP, the following table presents a comparison between certain condensed balance sheet and income statement information, as restated for the effects of inflation through September 30, 2003, and the corresponding reported amounts which include restatement only through February 28, 2003:

	As restated through September 30, 2003	As reported	Effect
Total assets	**12,399**	**12,516**	(117)
Total liabilities	**11,786**	**11,786**	
Shareholders equity	**560**	**677**	(117)
Net income	**(476)**	**(491)**	15

TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

3. Preparation of financial statements (continued)

(d) Interim financial information

The accompanying September 30, 2004 consolidated financial statements are unaudited. The interim consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes. The unaudited financial statements include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments that are considered necessary for the fair presentation of the information in the financial statements. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of results that may be expected for any future periods.

(e) Use of estimates

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

The accompanying consolidated financial statements were prepared assuming: a) a favorable result of the renegotiation of Telecom Argentina s tariffs mentioned in Note 2.c); and b) the successful outcome of the financial restructuring described in Note 13. The actual results could differ from those estimates. Therefore, the accompanying consolidated financial statements do not include any potential adjustments or classifications to the recorded amounts of assets or liabilities that might result from the adverse outcome of these uncertainties.

(f) Reclassifications

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

(g) Statement of cash flows

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

(h) Concentration of credit risk

The Company s cash equivalents include high-quality securities placed with various major financial institutions with high credit ratings. The Company s investment policy limits its credit exposure to any one issuer/obligor.

The Company s customers include numerous corporations. The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company s account receivables are not subject to significant concentration of credit risk. While receivables for sales to these various customers are generally unsecured, the financial condition and creditworthiness of customers are routinely evaluated. Fixed customer lines (prepaid lines were not included) were 3,453,026 (unaudited) at September 30, 2004 and 3,327,514 (unaudited) at September 30, 2003 and wireless customer lines (prepaid lines were not included) were 806,519 (unaudited) at September 30, 2004 and 428,545 (unaudited) at September 30, 2003.

The Company provides for losses relating to accounts receivable. The allowance for losses is based on management s evaluation of various factors, including the credit risk of customers, historical trends and other information. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all significant events and/or transactions that are subject to reasonable and normal methods of estimation, and the accompanying consolidated financial statements reflect that consideration.

(i) Earnings/Dividends per share

The Company computes net (loss) income per common share and dividends per share by dividing net (loss) income for the period by the number of common shares outstanding.

4. Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Company in the preparation of the financial statements.

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

Notes to the Unaudited Consolidated Financial Statements

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

4. Summary of significant accounting policies (continued)

(a) Foreign currency translation

The financial statements of the Company s foreign subsidiaries are translated in accordance with RT 18, Specific Considerations for the Preparation of Financial Statements , as amended by CPCECABA. RT 18 establishes guidelines to classify foreign investments either as foreign operations or foreign entities . A company is to be regarded as a foreign entity if it is financially, economically and organizationally autonomous. Otherwise, a company is to be regarded as a foreign operation it its operations are integral to those of the Company. The Company s foreign subsidiaries have been classified as foreign entities since they are financially, economically and organizationally autonomous. Accordingly, and pursuant to RT 18, as amended by CPCECABA, financial statements of foreign entities are translated using period-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as a separate line item between the liability and equity sections of the balance sheet.

(b) Revenue recognition

The Company s principal sources of revenues are:

Voice, data and Internet services segment

- Fixed telephone services:

Domestic services revenues consist of monthly basic fees, measured service, long-distance calls and measured charges for value-added services, including call forwarding, call waiting, three-way calling, itemized billing and voicemail.

Revenues are recognized when earned. Unbilled revenues from the billing cycle dating to the end of each month are calculated based on traffic and are accrued at the end of the month.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Revenues derived from other telecommunications services, principally network access, long distance and airtime usage, are recognized monthly as services are provided.

Revenues from the sale of prepaid calling cards are recognized in the month in which the traffic is used or in which the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as deferred revenue in accounts payable.

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

Interconnection charges represent amounts received by the Company from other local service providers and long-distance carriers for calls that originate on or transit their networks but terminate on the Company s network. Revenue is recognized as services are provided.

- International long-distance services:

The Company provides international telecommunications service in Argentina including voice and data services and international point-to-point leased circuits.

Revenues from international long-distance service reflect payments under bilateral agreements between the Company and foreign telecommunications carriers, covering inbound international long-distance calls.

Revenues are recognized as services are provided.

- Data transmission and Internet services:

Data and Internet revenues consist of fixed monthly fees received from residential and corporate customers for data transmission and Internet connectivity services, including traditional dial-up connections, dedicated lines, private networks, broadcasting signal transport and videoconferencing services. These revenues are recognized as services are rendered.

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4. Summary of significant accounting policies (continued)

Wireless telecommunication services segment

The Company provides wireless telephone service throughout Argentina via cellular and PCS networks. Cellular and PCS fees consist of airtime usage charges and additional charges for value-added services, including call waiting, call forwarding, three-way calling and voicemail, and for other miscellaneous cellular and PCS services. These revenues are recognized as services are rendered.

Equipment sales consist principally of revenues from the sale of wireless mobile telephone handsets and accessories to new and existing customers and to agents and other third-party distributors. The revenues and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by the customer, which is considered to be a separate earnings process from the sale of wireless services.

Revenues from the sale of prepaid calling cards are recognized in the month in which the traffic is used or in which the card expires, whatever happens first. Remaining unused traffic for unexpired calling cards is shown as deferred revenue in current liabilities.

Directory publishing segment

Revenues and expenses related to publishing directories are recognized on the issue basis method of accounting, which recognizes the revenues and expenses at the time the related directory is published, fulfilling the Company s contractual obligation to customers. A change in the timing of the publication of a directory could change the period in which the related revenues and expenses will be recognized.

(c) Foreign currency transaction gains/losses

Generally, foreign currency transaction gains and losses are included in the determination of net income or loss. During the nine-month periods ended September 30, 2004 and 2003, net foreign currency transaction gains or losses were a loss of $71 and a gain of $957, respectively.

However, CNV Resolution No. 398 allowed the application of CPCECABA Resolution MD No. 3/02, issued in March 2002, which provides that foreign currency transaction gains or losses on or after January 6, 2002, related to foreign-currency denominated debts as of such date must be allocated to the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements established in such standard are fulfilled. The Company adopted these resolutions and allocated the costs accordingly.

In July 2003, the CPCECABA issued Resolution CD No. 87/03, which suspended such accounting treatment and therefore required foreign currency transaction gains and losses to be included in the determination of net income for the period as from July 29, 2003.

As further discussed in Note 13.f, as of September 30, 2004 and December 31, 2003, the Company recognized the outstanding foreign-currency denominated liabilities existing as of January 6, 2002, and governed by foreign law, at their respective original foreign currencies, translated at period/year-end exchange rates.

(d) Cash and banks

Cash and banks are stated at nominal value.

(e) Trade accounts, other receivables and payables, in currency, arising from the sale or purchase of goods and services and financial transactions

Certain receivables and payables on the sale or purchase of goods and services, respectively, and those arising from financial transactions, are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at the time of initial measurement, unless the Company has the intent and ability to dispose of those assets or advance settlement of liabilities.

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

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

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4. Summary of significant accounting policies (continued)

(g) Investments

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

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

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

The Company has certain equity interests in unconsolidated companies, representing through 0.15% to 5.75% of the capital stock in such companies as of September 30, 2004. These investments have been accounted for at the lower of cost or realizable value.

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

(h) Inventories, net

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

From time to time, the Company decides to sell wireless handsets at prices lower than their respective replacement costs. This strategy is aimed at achieving higher market penetration by reducing customer access costs while maintaining the Company s overall wireless business profitability. As this policy is the result of management s decision, promotional prices are not used to calculate the net realizable value of such inventories.

(i) Other assets

Raw materials have been accounted for at replacement cost, which does not exceed the estimated realizable value of such materials.

Printing costs related to directories are carried at cost adjusted for inflation (See Note 3.c.), and deferred until the related directories are published.

(j) Fixed assets, net

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

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

As of the date of these financial statements, the Company has received the transfer of title pertaining to substantially all of the fixed assets received from ENTel, other than 4.73% of such assets. Nevertheless, the Company is in complete possession of these fixed assets and operates them normally.

For fixed assets whose operating condition warrants replacement earlier than the end of the useful life assigned by the Company to its fixed asset category, the Company calculates the depreciation charge based on the adjusted remaining useful life assigned in accordance with the related asset replacement.

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4. Summary of significant accounting policies (continued)

The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statement of income.

The Company capitalizes interest on long-term construction projects. Interest capitalized was $3 and $6 for the nine-month periods ended September 30, 2004 and 2003, respectively.

Certain foreign currency transaction gains and losses were capitalized as part of the cost of the assets from January 2002 through July 2003 (See Note 4.c for details). The net capitalized costs were $477 as of September 30, 2004 and $566 as of December 31, 2003.

Leases classified as capital leases are recognized as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between imputed finance charge and the reduction of the outstanding liability. The Company has no capital leases as of September 30, 2004.

The Company is subject to asset retirement obligations associated with its cell and switch sites operating leases. Accordingly, the Company records a liability for an asset retirement obligation. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the estimated useful life of the related asset.

(k) Intangible assets, net

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

Intangible assets comprise the following:

- Software obtained or developed for internal use

The Company capitalizes certain costs associated with the development of computer software for internal use. Costs capitalized during the nine-month periods ended September 30, 2004 and 2003 were not significant. These costs are being amortized on a straight-line basis over a period of 5 years.

- Debt issuance costs

Expenses incurred in connection with the issuance of debt have been deferred and are being amortized under the interest method over the life of the related issuances.

- PCS license

The Company adopted RT 17, Overall considerations for the preparation of financial statements , as amended by CPCECABA, on January 1, 2002. This standard prescribes the accounting treatment for both identifiable intangibles and goodwill after initial recognition. Upon adoption of this standard, amortization of indefinite life intangibles ceased. Periodic impairment testing of these assets is now required. The Company identified spectrum licenses as indefinite life intangibles. Concurrent with adoption of RT 17, and again in December 2002, the Company evaluated for impairment its indefinite life intangibles in accordance with the standard s guidance and determined that these assets were not impaired.

- Band B license

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

- Rights of use

The Company purchases network capacity under agreements which grant the exclusive right to use a specified amount of capacity for a period of time. Amounts paid are capitalized and amortized over the terms of the respective capacity agreements, generally 15 years.

- Exclusivity agreements

Exclusivity agreements were entered into with certain retailers and third parties relating to the promotion of the Company s products. Amounts capitalized are being amortized over the life of the agreements, which range from 2 to 29 years.

- Trademarks

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

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4. Summary of significant accounting policies (continued)

(l) Impairment of long-lived assets

The Company periodically evaluates the carrying value of its long-lived assets and certain intangible assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying value of long-lived assets is considered impaired by the Company when the expected cash flows, undiscounted and without interest cost, from such assets, is less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

The devaluation of the Argentine peso and the pesification of Telecom Argentina s tariffs materially affected the Company s financial position and results of operations, and changed the rules under which the Company operated. However, as indicated in Note 2.c., Law No. 25,561 authorized the Argentine government to renegotiate the conditions of the contracts with the privatized companies, taking into account their profitability, among other criteria.

In this regard, the Company has made certain assumptions in the determination of its estimated cash flows to evaluate a potential impairment of its long-lived assets in relation to each business segment. In these estimates, the Company has assumed that it will be able to implement a modification of the current level of Telecom Argentina s tariffs which would enable the Company to continue providing services within a deregulated and competitive market environment, achieve a reasonable profit and meet its debt requirements.

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

(m) Severance indemnities

Severance payments made to employees are expensed as incurred.

(n) Taxes payable

- Income taxes

The Company did not either calculate or pay income taxes on a consolidated basis for any of the periods presented. The Company records income taxes using the method required by RT 17.

Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. RT 17 also requires companies to record a valuation allowance for that component of net deferred tax assets which are not recoverable. The statutory income tax rate in Argentina was 35% for all the periods presented.

- Tax on minimum presumed income

The Company is subject to a tax on minimum presumed income. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on certain production assets valued according to the tax regulations in effect as of the end of each year. The Company s tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the tax on minimum presumed income exceeds income tax during any fiscal year, such excess may be computed as a prepayment of any income tax excess over the tax on minimum presumed income that may arise in the next ten fiscal years.

The Company has estimated the existence of income tax losses for the year ended December 31, 2003. The Company has determined an additional proportional charge for the nine-month period ended September 30, 2004 for the tax on minimum presumed income of $30, which, together with the previous years charges, was deferred as Other non-current receivables . These charges have been estimated as recoverable based on the Company s tax projections and the 10-year legal expiration term for use of the credit.

- Turnover tax

Under Argentine tax law, the Company is subject to a tax levied on gross revenues. Rates differ depending on the jurisdiction where revenues are earned for tax purposes. Average rates were 3.64% and 3.69% for the nine-month periods ended September 30, 2004 and 2003, respectively.

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4. Summary of significant accounting policies (continued)

(o) Pension benefits

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

Retirement liabilities shown under other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability. Benefits consist of the payment of a single lump sum equal to one salary for each five years of service. There is no vested benefit obligation until the occurrence of those conditions. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement. The net periodic pension costs are recognized as employees render the services necessary to earn pension benefits. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as of September 30, 2004 and 2003.

(p) Litigation

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

(q) Derivatives

In compliance with the controls and procedures associated with financial risk management, during the period where the peso was pegged to the US dollar, the Company used certain derivative financial instruments such as interest rate and currency swaps in order to reduce risks associated with changes in interest rates and foreign exchange rates relating to borrowings in foreign currencies other than dollars. These instruments were negotiated with institutions and corporations with significant financial capacity; therefore, the Company considered that the risk of non-compliance with the obligations agreed to by such counterparties to be minimal.

Effective January 1, 2002, the Company adopted RT 20, as amended by CPCECABA, Accounting for Derivative Instruments and Hedging Activities , which requires the recognition of all derivative financial instruments as assets and/or liabilities at their estimated fair value. Changes in the fair value of effective cash flow hedges are deferred as a separate component of the balance sheet and subsequently reclassified to earnings when the hedged items affect earnings. Gains and losses from fair value hedges are recognized in earnings in the period of any changes in the fair value of the related recognized asset or liability.

(r) Vacation expense

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

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of September 30, 2004	As of December 31, 2003
Cash	$ 2	$ 3
Banks	34	23
	$ 36	**$ 26**

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5. Breakdown of the main accounts (continued)

(b) Investments

Investments consist of the following:

	As of September 30, 2004	As of December 31, 2003
Current		
Time deposits (i)	$ 3,580	$ 2,173
Mutual funds		192
Government bonds	8	76
	$ 3,588	**$ 2,441**
Non current		
Government bonds		35
Equity investments	$ 13	$ 10
Financial trust	2	2
	$ 15	**$ 47**

(i) Includes an amount of $2,490, which has been segregated by the Company for purposes of satisfying debt obligations and an amount of $31 from an escrow account, which has been segregated by the subsidiary Nucleo for purposes of satisfying debt obligations.

(c) Accounts receivable

Accounts receivable consist of the following:

	As of September 30, 2004	As of December 31, 2003
Current		
Voice, data and Internet	$ 393	$ 386
Wireless (i)	299	272
Directories publishing	14	35
Subtotal	**706**	**693**
Allowance for doubtful accounts	(107)	(112)
	$ 599	**$ 581**

(i) Includes $238 as of September 30, 2004 and $196 as of December 31, 2003 corresponding to domestic wireless receivables and $61 as of September 30, 2004 and $76 as of December 31, 2003 corresponding to international wireless receivables.

(d) Other receivables

Other receivables consist of the following:

	As of September 30, 2004	As of December 31, 2003
Current		
Tax credits	$ 40	$ 67
Prepaid expenses	21	17
Advances to employees	4	5
Other	29	30
	$ 94	**$ 119**
Non current		
Net deferred tax assets	$ 640	$ 467
Less:		
Valuation allowance	(625)	(447)
Deferred tax assets, net of allowance (i)	15	20
Credit on minimum presumed income tax (ii)	187	151
Other tax credits (Note 11)	83	7
Prepaid expenses	11	7
Other	9	11
Subtotal	**305**	**196**
Impairment loss (Note 11)	(57)	
Allowance for doubtful accounts	(4)	(3)
	$ 244	**$ 193**

(i) Net credits correspond to Publicom and Nucleo.

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

(e) Inventories

Inventories consist of the following:

	As of September 30, 2004	As of December 31, 2003
Wireless handsets and equipment	$ 90	$ 16
Allowance for obsolescence	(3)	(2)
	$ 87	**$ 14**

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5. Breakdown of the main accounts (continued)

(f) Other assets

Other assets consist of the following:

	As of September 30, 2004	As of December 31, 2003
Deferred printing cost	$ 3	$ 1
Raw materials	9	2
	$ 12	**$ 3**

(g) Accounts payable

Accounts payable consist of the following:

	As of September 30, 2004	As of December 31, 2003
Current		
Suppliers	$ 456	$ 419
Deferred revenues	47	30
Related parties (Note 7)	4	2
	$ 507	**$ 451**

(h) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of September 30, 2004	As of December 31, 2003
Current		
Vacation, bonuses and social security payable	$ 56	$ 55
Special termination benefits	13	17
Other	5	5
	$ 74	**$ 77**
Non current		
Special termination benefits	$ 27	$ 22
Other	4	8
	$ 31	**$ 30**

(i) Taxes payable

Taxes payable consist of the following:

	As of September 30, 2004	As of December 31, 2003
Tax on minimum presumed income, net	$ 19	$ 27
Income tax, net (i)	4	
VAT, net	31	44
Turnover tax	33	30
Other	22	19
	$ 109	**$ 120**

(i) Corresponds to Nucleo.

(j) Other liabilities

Other liabilities consist of the following:

	As of September 30, 2004		As of December 31, 2003	
Current				
Contributions to government programs	$	13	$	13
Other		11		12
	$	**24**	**$**	**25**
Non current				
Retirement benefits	$	8	$	8
Lease of international capacity		12		11
Asset retirement obligations		9		10
Other		10		10
	$	**39**	**$**	**39**

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5. Breakdown of the main accounts (continued)

(k) Net sales

Net sales consist of the following:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Voice	$ 1,690	$ 1,599
Data and Internet	308	291
Subtotal	**1,998**	**1,890**
Wireless	1,205	817
Directories publishing	8	4
	$ 3,211	**$ 2,711**

(l) Equity gain from related companies

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

Nine-month periods ended

	September 30, 2004	September 30, 2003
Nahuelsat	(1)	2
	$ (1)	**$ 2**

(m) Financial results, net

Financial results, net consist of the following:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Generated by assets		
Interest income	$ 67	$ 87
Foreign currency exchange gain/(loss)	40	(105)
Losses on exposure to inflation		(11)
Impairment loss on the Argentina 2004 bond	(57)	
Other	7	(10)
Total generated by assets	**$ 57**	**$ (39)**
Generated by liabilities		
Interest expense	$ (551)	$ (504)
Capitalized interest	3	6
Foreign currency exchange gain (loss)	(111)	1,062
Gain on exposure to inflation		4
Other	(20)	
Total generated by liabilities	**$ (679)**	**$ 568**
Total financial results	**$ (622)**	**$ 529**

(n) Other expenses, net

Other expenses, net consist of the following:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**

Termination benefits	$ (44)	$ (46)
Provision for contingencies	(28)	(83)
Other, net	3	(9)
	$ (69)	**$ (138)**

(o) Gain on repurchase of debt

Gain on repurchase of debt consists of the following:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Discount on principal (Note 13.b)	$	$ 361
Discount on accrued and penalty interest (Note 13.b)		49
Reversal of capitalized foreign currency exchange differences		(21)
Other, related expenses		(14)
	$	**$ 375**

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6. Supplementary cash flow information

The cash flow statement has been prepared using the indirect method.

The following table reconciles the balances included as cash and banks and current investments in the balance sheet to the total amounts of cash and cash equivalents at the beginning and end of the period shown in the statements of cash flows:

	As of September 30,		As of December 31,	
	2004	2003	2003	2002
Cash and banks	$ 36	$ 77	$ 26	$ 53
Current investments	3,588	1,825	2,441	1,362
Total as per balance sheet	**$ 3,624**	**$ 1,902**	**$ 2,467**	**$ 1,415**
Less:				
Items not considered cash and cash equivalents				
- Currency-like bonds (i)		(11)		(36)
- Time deposits with maturities of more than three months (ii)	(58)	(222)	(193)	
- Government bonds	(iii) (8)	(iii) (23)	(58)	(iii) (65)
Total cash and cash equivalents as shown in the statement of cash flows	**$ 3,558**	**$ 1,646**	**$ 2,216**	**$ 1,314**

(i) Corresponds to national and provincial government bonds restricted as to their use for paying commercial and tax obligations in the respective jurisdictions of issuance.
(ii) Includes $31 related to Nucleo s escrow account. See Note 5.b for details.
(iii) Corresponds to the current portion of held-to-maturity investments.

Changes in assets/liabilities components (including the effects of inflation on monetary accounts):

	Nine-month periods ended September 30,	
	2004	2003
Decrease (increase) in assets		
Investments not considered as cash or cash equivalents	$ (3)	$ 6
Trade accounts receivable	(20)	(293)
Other receivables	(60)	(9)
Inventories	(75)	5
Other assets	(9)	(6)
	$ (167)	**$ (297)**
Increase (decrease) in liabilities		
Accounts payable	$ 70	$ 71
Compensation and social benefits payable	(2)	3
Taxes payable	(36)	179
Other liabilities	(1)	(5)
Contingencies	(12)	(15)
	$ 19	**$ 233**

Income tax paid during the nine-month periods ended September 30, 2004 and 2003, amounted to $nil. Interest paid during the nine-month periods ended September 30, 2004 and 2003, amounted to $12 and $332, respectively.

Non-cash investing and financing activities:

	Nine-month periods ended September 30,	
	2004	2003
Acquisition of fixed assets through incurrence of accounts payable	$ 71	$ 1
Capitalized interest on fixed assets	3	6
Wireless handsets lent to customers at no cost (i)	2	2
Government bonds exchanged for tax certificates	(35)	(25)
Collection of receivables with government bonds		348
Payment of taxes with government bonds		(220)
Payment of accounts payable with government bonds		(119)

(i) Under certain circumstances, the Company lends handsets to customers at no cost pursuant to term agreements. Handsets remain the property of the Company and customers are generally obligated to return them at the end of the respective agreements.

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

	Nine-month periods ended September 30,	
	2004	2003

Government bonds	$	52	$	40
Time deposits with maturities of more than three months		137		(222)
Total cash flows from investments not considered as cash equivalents	**$**	**189**	**$**	**(182)**

Financing activities components:

	Nine-month periods ended September 30,			
	2004		2003	
Payment of Notes	$		$	(277)
Payment of bank loans		(6)		(152)
Payment of interest on Notes an				(231)
Payment of interest on bank loans an		(12)		(49)
Payment of interest on fixed assets and inventory financing an				(52)
Total financing activities components	**$**	**(18)**	**$**	**(761)**

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7. Related party transactions

(a) Controlling group

As of September 30, 2004, Nortel is the controlling shareholder of Telecom Argentina. Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares of Telecom Argentina. Nortel s ordinary shares were owned equally by the Telecom Italia Group and the France Telecom Group.

On September 9, 2003, Nortel was notified of the agreement entered into by the France Telecom Group and W de Argentina Inversiones S.L., pursuant to which the France Telecom Group sold its stake in Nortel to W de Argentina Inversiones S.L.

On December 19, 2003, the Telecom Italia Group and the France Telecom Group contributed their respective interests in Nortel to a newly created company, Sofora Telecomunicaciones S.A. (Sofora) in exchange for shares of Sofora. At that time, the Telecom Italia Group and the France Telecom Group had the same shareholding interests in Sofora. Following the approval obtained from the regulatory authorities, the Company was informed that the France Telecom Group sold its 48% interest in Sofora plus a put option for the remaining 2% to W de Argentina Inversiones S.L. for a total purchase price of US$125 million. The put option will be exercisable from January 31, 2008 through December 31, 2013. As of September 30, 2004, the shareholders of Sofora are the Telecom Italia Group representing 50%, W de Argentina Inversiones S.L. representing 48% and the France Telecom Group representing 2% of Sofora s capital stock. W de Argentina - Inversiones S.L. has granted two call options to the Telecom Italia Group to purchase its equity interest in Sofora for an aggregate purchase price of US$ 60 million. The first call option to acquire 48% of the equity interest of Sofora can be exercised within 15 days after December 31, 2008. The second call option to acquire the remaining 2% of the equity interest of Sofora can be exercised at any time between December 31, 2008 and December 31, 2013.

(b) Balances and transactions with related parties

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

	As of September 30, 2004	As of December 31, 2003
Accounts payable:		
Nahuelsat (d)	1	
Tel3 S.A. (a)	2	
Pirelli Energía Cables y Sistemas de Argentina S.A. (a)	1	1
Teco Soft Argentina S.A. (a)		1
	$ 4	**$ 2**

	Transaction description	Nine-month periods ended September 30, 2004	Nine-month periods ended September 30, 2003
Services received:			
Nahuelsat (d)	Rental expenses	$ 6	$ 5
Intelsat Ltd. (d)	Rental expenses	2	4
Latin American Nautilus (e)	Lease of circuits	1	3
Telecom Italia S.p.A. Argentine branch (a)	Fees for services	3	3
Teco Soft Argentina S.A. (a)	Fees for services	3	9
Tel3 S.A. (a)	Fees for services	8	1
La Caja ART S.A. (b)	Insurance	2	
Caja de Seguros S.A. (b)	Insurance	1	
Multibrand (e)	Advertising		1
FCR Argentine branch (c)	Fees for services		2
Sofrecom Argentina S.A. (c)	Fees for services		7
Total operating costs		**$ 26**	**$ 35**

	Nine-month periods ended September 30, 2004	Nine-month periods ended September 30, 2003
Purchases of fixed assets/intangible assets:		
Pirelli Energía Cables y Sistemas de Argentina S.A. (a)	$ 4	$
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A. (a)	$ 4	$
Tel3 S.A. (a)	2	
Sofrecom Argentina S.A. (c)		1
Total fixed assets and intangible assets	**$ 10**	**$ 1**

(a) Such companies form part of Telecom Italia Group.
(b) Such companies form part of W de Argentina - Inversiones S.L.
(c) Such companies form part of France Telecom Group and were related parties up to December 19, 2003.
(d) The Company has between 0.15% and 5.75% of the capital stock in such companies.
(e) The Company had between 10% and 25% of the capital stock in such companies.

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7. Related party transactions (continued)

The Company believes that the transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties.

As of September 30, 2004, Telecom Argentina had loans outstanding to two officers of Telecom Argentina, totaling $0.4 that corresponded to loans granted pursuant to retention plans. The annual interest rate for these loans is 6%.

(c) Management agreement

On the Transfer Date, Telecom Argentina and the Operators entered into a management agreement (the Management Agreement) under which the Operators undertook the management and operation of the Company and facilitated their expertise and technical assistance. The Management Agreement initially expired in October 1999, but was renewable automatically while the Company continued rendering services on an exclusive basis.

In August 1999, the parties entered into an amended agreement (the Amended Agreement), with substantially similar terms and conditions, pursuant to which the Management Agreement was extended through October 9, 2004. The Amended Agreement is renewable for an additional 5-year period upon written agreement of the parties.

The management fee payable by Telecom Argentina is based on 3% of net sales. In October 2001, due to the economic situation prevailing in Argentina, the Operators, as requested by the Company, agreed to reduce the fee to 1.25%. Telecom Argentina paid this reduced fee from October 1, 2001 through March 31, 2002. In 2002, and due to the impact of the crisis on the Company s financial position and results of operations, the Operators, as requested by the Company s Board of Directors, agreed to suspend temporarily the provisions of Article II of the Management Agreement (which includes the provisions relating to the payment of the management fee) from April 1, 2002 through December 31, 2002, except for the provision of qualified management personnel, as necessary. Furthermore, the Operators notified the Company that they would continue rendering management services as required by the Company on an as-needed basis. Subsequently, Telecom Argentina and the Operators agreed to suspend the Article II provisions until its expiration date in October 2004, except for the provision of qualified management personnel.

As a result of the sell of the France Telecom Group s interest in Nortel, on December 19, 2003, the Company and FCR terminated their relationship under the Management Agreement. However, the Management Agreement continues to be effective and binding without modifications between Telecom Argentina and Telecom Italia, as the exclusive operator of Telecom Argentina, authorized by Resolution No. 111/03 of the Department of Communications.

8. Debt

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

	As of September 30, 2004	As of December 31, 2003
Short-term debt:		
- Principal:		
Notes	$ 4,943	$ 4,912
Bank loans	1,737	1,638
Fixed assets financing	2,198	2,169
Inventory financing	444	426
Subtotal	9,322	9,145
- Accrued interest	1,194	747
- Penalty interest	210	104
Total short-term debt	**$ 10,726**	**$ 9,996**
Long-term debt:		
- Principal:		
Bank loans	$ 25	$ 86
Total long-term debt	**25**	**86**
Total debt	**$ 10,751**	**$ 10,082**

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8 Debt (continued)

(a) Short-term and Medium-term Notes Programs:

The Company has issued various series of notes under its short-term and medium-term global programs. The Programs were approved by shareholders general meetings which in turn authorized the Board of Directors to determine the terms and conditions, including amount, price, interest rate and currency. The Global Programs and the notes issued thereunder were ranked by Argentine ratings agencies.

The terms and conditions of the various series of notes contained customary affirmative and negative covenants, including, but not limited to, creation of liens on assets and/or revenues of the Company, mergers and others.

The detail of the outstanding series under the programs as of September 30, 2004 is as follows:

Global program	Date of issue	Nominal value (in millions)		Term, in years	Maturity date	Annual interest rate (i)	Book value at September 30, 2004	Market value at September 30, 2004
Program B:								
Series C	11.15.95	US$	200	7	11.15.02	12.00	347	319
Series E (a)	5.5.97	US$	100	8	5.5.05	4.51	298	254
Series F (c)	5.30.97	Euro	207	10	5.30.07	8.87	703	590
Series H (b)(c)	3.18.98	Euro	207	10	3.18.08	3.71	696	564
Series I	4.8.99	Euro	200	5	4.8.04	8.37	691	577
Series K	7.1.99	Euro	250	3	7.1.02	7.25	761	685
Program D:								
Series 1	4.7.00	Euro	250	3	4.7.03	7.62	833	674
Series 2	7.2.01	Euro	190	3	7.2.04	9.50	614	520
Principal							**4,943**	**4,183**

Accrued interest	807
Penalty interest	69
	5,819

(i) Percentages have been rounded.
(a) Accrue interest at 6-month LIBOR plus 3.125%. At September 30, 2004, LIBOR was 2,20%.
(b) Accrue interest at 6-month LIBOR plus 1.5%.
(c) Originally issued in Italian Lira.

- Global Program B:

The Company has six series of bonds outstanding under the Global Program B, which expired on August 10, 1999. As of September 30, 2004, an amount of $4,093 is outstanding under the program. The net proceeds of the notes were used to refinance debt and meet working capital needs.

- Global Programs C and D

The Company was authorized to create a short-term note program and a medium-term note program, C and D, respectively, for the issuance and re-issuance of unsecured non-convertible notes for up to US$ 200 million and US$ 1,500 million, respectively. As of September 30, 2004, two series (1 and 2) are outstanding under the Global Program D for an aggregate amount of $1,726. The net proceeds of the notes were used to refinance debt and meet working capital needs.

(b) Debt restructuring

In December 2002, as part of its debt restructuring program, Telecom Personal issued the BofA Promissory Notes and the Holders Promissory Note for an aggregate amount of US$54 million. Under Argentine GAAP, the restructured debt was classified as non-current liabilities and discounted to its present value.

As part of the Company s cash tender offer, Telecom Personal redeemed 100% of the BofA Promissory Notes and 8% of the Holders Promissory Note for an aggregate amount of approximately US$ 30 million. Telecom Personal did not paid the interest on the Holders Promissory Note due March 2004. Accordingly, Telecom Personal received notices of acceleration for the full amount of the restructured debt. Telecom Personal recorded a loss of $20 to carry the debt at fair value. As of September 30, 2004, the total outstanding debt amounts to $82 including principal plus accrued interest. Due to the notice of acceleration, such debt has been reclassified to current liabilities.

(c) Bank loans

These include term loans payable to various banks, bearing an annual weighted average rate of 4.86%, due at various dates through April 2009.

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8. Debt (continued)

(d) Fixed assets financing

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 4.70%, due at various dates through May 2016. The most significant are:

Mediocredito Centrale:

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

The Argentine government remains the debtor to the Mediocredito Centrale; however, the Company assumed the obligation to service the debt according to the terms and conditions of the agreement. In the event the Company fails to pay the corresponding installments, and the Argentine government settles the obligations, the Company s debt towards the government may be offset by the corresponding receivables for services rendered to certain governmental agencies. As of September 30, 2004, an amount of approximately $151 (principal plus accrued and penalty interests) or Euro 41 million is outstanding under the agreement.

Japan Bank for International Cooperation:

On June 29, 1998, the Company entered into a credit line agreement with the Japan Bank for International Cooperation (JBIC) for up to Japanese yen 12,000 million loan due June 15, 2010. The Company used Japanese yen 11,652 million under this credit line. As of September 30, 2004, an amount of approximately $336 (principal plus accrued and penalty interests) is outstanding under the agreement.

(e) Inventory financing

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 4.24%.

9. Shareholders equity

(a) Common stock

At September 30, 2004, the Company has 502,034,299 authorized, issued and outstanding shares of $1 par value Class A Common Stock, 436,323,992 shares of $1 par value Class B Common Stock and 46,022,687 shares of $1 par value Class C Common Stock. Common stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

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

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

(b) Restrictions on distribution of profits

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

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9. Shareholders equity (continued)

(c) Share ownership program

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

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

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

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

(d) *Rueda Reducida* trading

As a result of the default situation described in Note 13, the BCBA decided to transfer the trading of the Company s notes to the so-called *Rueda Reducida* status, a special trading status of the BCBA for companies experiencing certain adverse financial conditions. In addition, since the Company s accumulated losses have absorbed its reserves and at least 50% of the Company s share capital, the BCBA has also decided to transfer the trading of the Company s common stock to the Rueda Reducida status.

(e) Mandatory reduction of capital

Under section 206 of the Argentine Companies Law, if at the annual shareholders meeting, a company s losses have absorbed its reserves and at least 50% of the share capital, a company is required to reduce its capital stock. Further, under paragraph 5 of section 94, if a company shareholders equity is negative, a company is required to commence dissolution proceedings unless its shareholders take action (either by making a capital contribution or authorizing the issuance of additional shares of the company) resulting in positive shareholders equity within 90 days of such annual shareholders meeting. Since the Company reported a loss for the year ended December 31, 2002, which absorbed the Company s reserves and significantly reduced its shareholders equity, the Company qualifies for mandatory reduction of capital. This situation is maintained as of September 30, 2004.

However, the requirements of section 206 and paragraph 5 of section 94 were suspended temporarily by a decree of the Argentine government until December 10, 2004. The Company s Board of Directors monitors this situation very closely at each meeting where the financial statements of the Company are approved. The Shareholders meetings are also notified appropriately. The Board will take appropriate actions as needed.

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10. Income tax

No income tax provision has been recorded for any period presented as the Company has experienced net operating losses for income tax purposes.

Income tax (expense) benefit for the nine-month periods ended September 30, 2004 and 2003 consists of the following:

	Nine-month periods ended September 30,	
	2004	**2003**
Current tax expense	$ (4)	$
Deferred tax (expense) benefit	(5)	
Income tax (expense) benefit	**$ (9)**	**$**

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

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

	As of September 30, 2004	**As of December 31, 2003**
Deferred tax assets:		
- Tax loss carryforwards	$ 1,503	$ 1,778
- Allowance for doubtful accounts	85	90

- Provision for contingencies	88	81
- Foreign exchange gains and losses	181	241
- Other	278	64
Total deferred tax assets	**$ 2,135**	**$ 2,254**
Deferred tax liabilities:		
- Fixed assets	42	80
- Inflation adjustment (i)	1,210	1,428
- Foreign currency gains/losses (ii)	237	279
- Other	6	
Total deferred tax liabilities	**$ 1,495**	**$ 1,787**
- Valuation allowance	625	447
Net deferred income tax assets	**$ 15**	**$ 20**

(i) Mainly relate to inflation adjustment on fixed assets, intangibles and other assets for financial reporting purposes
(ii) Mainly relate to capitalized interest and foreign currency exchange gains and losses in fixed assets

Income tax (expense) benefit for the nine-month periods ended September 30, 2004 and 2003 differed from the amounts computed by applying the Company s statutory income tax rate to pre-tax income (loss) as a result of the following:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Income tax (expense) benefit at statutory income tax rate on pretax income (loss)	$ 169	$ (277)
Permanent differences:		
Non taxable items		3
Inflation adjustment of permanent differences		(2)
Change in valuation allowance	(178)	275
Equity gain from related companies		1
Income tax (expense) benefit	**$ (9)**	**$**

As of September 30, 2004, the Company had accumulated operating tax loss carryforwards of approximately $1,503. The following table details the operating tax loss carryforwards segregated by company and expiration date:

Expiration year	**Telecom Argentina**	**Publicom**	**Telecom Personal**	**Total consolidated**
2007	1,288	2	208	1,498
2008		3		3
2009		2		2

Total	**1,288**	**7**	**208**	**1,503**

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10. Income tax (continued)

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

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

(a) Impact of Resolution MD No. 11/03 of the CPCECABA

Under Argentine GAAP, there are currently two approaches to the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements.

In one approach, the FACPCE, in line with IAS and US GAAP, reached a consensus that when preparing financial statements restated for general price-level changes, temporary differences under RT 17 are determined based on the difference between the price-level restated amount of assets and liabilities reported in the financial statements and the related tax basis amounts. Accordingly, following the guidelines of RT 17 and related interpretations, the Company has treated the differences between the tax basis and indexed book basis of non-monetary items as temporary from year 2002.

However, in April 2003, the CPCECABA issued Resolution MD No. 11/2003, which was intended to clarify certain concepts in connection with the accounting treatment of deferred tax assets and liabilities when companies prepare price-level restated financial statements. The CPCECABA reached a consensus that differences between the tax basis and the related indexed amounts of fixed assets would be permanent differences rather than being considered temporary.

In the opinion of management, this alternative approach departs from the liability method prescribed by RT 17. In order to comply with applicable rules and regulations, in May 2003, the Company consulted with the CNV and requested the regulatory authority to issue a statement on the subject, so as to permit the Company to give proper accounting effect in these financial statements. As of the date of these financial statements, the CNV has not yet addressed the issue.

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10. Income tax (continued)

Based on the foregoing, the Company has decided to continue treating the differences between the tax basis and price-level restated amounts of non-monetary assets and liabilities as temporary. Further, and considering that the Company has provided for a substantial portion of its net deferred tax assets, the CPCECABA resolution, if applied to the Company s financial statements as of September 30, 2004, would not have a significant impact on the Company s financial position and results of operations. Rather, the application of the resolution would have an effect on the disclosed amounts of net deferred tax assets and the components of the income tax expense for the nine-month period ended September 30, 2004, as follows:

Effect on net deferred tax assets:

	Net deferred tax assets	Valuation allowance	Net of valuation allowance
Balances as per books	$ 640	$ (625)	$ 15
Plus (less):			
Tax effect of inflation adjustment on fixed assets, intangible assets and other assets	1,210		1,210
Increase in valuation allowance		(1,210)	(1,210)
Balances as adjusted	**$ 1,850**	**$ (1,835)**	**$ 15**

Effect on income tax:

(Loss)/ Gain	Balances as per books	Adjustments	Balances as adjusted
Current tax (expense)	$ (4)	$	$ (4)
Deferred tax (expense)	(45)		(45)
Tax effect of inflation adjustment on fixed assets, intangible assets and other assets	218	(218)	

Subtotal	169	(218)	(49)
Decrease in valuation allowance	(178)	218	40
Income tax	**$ (9)**	$	**$ (9)**

In the event the Company decreases the level of the valuation allowance provided, the application of the resolution would have a material effect on the Company s financial position and results of operations.

11. Modification of the terms of issuance of certain Argentine Treasury Bonds Argentina 2004 Bonds

In May 2001, pursuant to Decree No. 424/01, Telecom Argentina purchased an aggregate amount of US$ 30 million of Argentine treasury bonds (Argentina 2004 bonds or Patriotic bonds). Telecom Argentina s intention was to hold the investment to its maturity in May 2004.

According to the conditions of issuance, companies were allowed to convert the bonds into tax certificates which could then be used to pay tax obligations at the federal level. Following the country s default, Telecom Argentina exercised the option and converted a portion of the outstanding amount of the investment into tax certificates or CEOI its acronym in Spanish.

However, pursuant to Decree No. 1657/02, the Argentine government temporarily suspended the provisions of Decree No. 424/01, thus precluding companies from settling tax obligations through the use of the tax certificates. In addition, the government introduced certain modifications to the regime.

A subsequent decree extended the suspension period and established limits to the use of the tax certificates. The government established a bidding process regime pursuant to which participating companies were allowed to use up to a monthly amount of $80 million of tax certificates to cancel tax liabilities. Telecom Argentina participated in this process which ended in October 2003.

After successive interruptions to the bidding process, the Argentine government issued Decree No. 493/04 in April 2004, which further precluded companies to make use of the option to pay federal tax obligations with tax certificates until the government completes the renegotiation of the Argentine sovereign debt.

As of September 30, 2004, Telecom Argentina has Argentina 2004 bonds outstanding for an aggregate amount of $79 (US$ 27 million) which could have been converted into a like amount of tax certificates.

Based on the foregoing, management has recorded an impairment loss of $57 to carry these investments at fair value. Management estimated the fair value based on similar treasury bonds issued by the Argentine government and being renegotiated under the sovereign debt renegotiation process. However, Telecom Argentina has not waived its rights to collect the full amount of the investment.

On September 24, 2004, the Company filed an administrative claim with the Dirección General de Asuntos Jurídicos del Ministerio de Economía (Legal Affairs Department of the Ministry of Economy) seeking Decree No. 493/04 be declared null and void. The claim was rejected and the Company notified on October 21, 2004. Accordingly, the Company may initiate judicial proceedings against the National Government in this regard.

As of the date of the financial statements, management of the Company is currently analyzing possible courses of action.

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12. Commitments and contingencies

(a) Purchase commitments

The Company has entered into various purchase commitments aggregating approximately $201 as of September 30, 2004, primarily related to the supply of switching equipment, maintenance and repair of public phones, infrastructure agreements and other service agreements.

(b) Investment commitments

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

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

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

(c) Contingencies

The Company is a party to several civil, tax, commercial and labor proceedings and claims that have arisen in the ordinary course of its business. The Company has established reserves for an aggregate amount of $251 to cover potential losses under these claims.

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

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

Labor proceedings

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

ENTel and the Argentine government have agreed to indemnify and hold the Company harmless in respect of such claims. Under current Argentine legislation, the government may settle any amounts payable to the Company for these claims through the issuance of treasury bonds. As of September 30, 2004, labor lawsuits in this connection amounted to $16.

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12. Commitments and contingencies (continued)

Other claims

In November 1995, Telecom Argentina, Telefonica de Argentina (Telefonica), Telintar and the Argentine government were served notice of a legal action brought by a consumer group called *Consumidores Libres Cooperativa Limitada de Provision de Servicios Comunitarios* (Consumidores). The purpose of the action sought to declare null and void all regulations and rate agreements in force since the Transfer Agreement, the effect being to have the fixed telephone rates charged by licensees reduced, the amounts supposedly collected in excess refunded to customers and the licensees rate of return on the Company s fixed assets, as determined by Decree No. 2,585/91, limited to an annual 16%. The Court of Appeals has rejected some claims but deferred decisions on others until final judgement is made.

In December 2000, the Argentine Tax Authority (the AFIP) assessed Telecom Argentina approximately $38.2 in additional income tax for the fiscal years 1993 through 1999 resulting from an income tax audit for that period. The AFIP has asserted that Telecom Argentina improperly calculated its tax depreciation for its optic fiber network. In addition, in December 2001, the AFIP assessed an additional $2.1 in income tax for the fiscal years 1993 through 1999. The AFIP asserted a tax deficiency related to Telecom Argentina s equity interest in Telintar. Telecom Argentina disagrees with these assessments and is vigorously contesting them. Management believes the ultimate outcome of the AFIP audits will not have a material adverse impact on the Company s financial position or results of operations.

In October 2001, the Court of Appeals awarded the plaintiffs an injunction ordering the Argentine government, Telefonica and Telecom Argentina to refrain from applying any indexing provisions to the tariffs pending final resolution in the case. Accordingly, Telecom Argentina was not able to adjust tariffs by the application of the United States Consumer Price Index (USCPI), as permitted by the Transfer Agreement, when calculating the price cap formula therein established. The Company appealed the decision before the Argentine Supreme Court rejecting the arguments stated therein. Furthermore, Law No. 25,561 also prohibited the application of any indexing provisions in the contracts entered into with the Argentine government, including the contracts related to telecommunication services.

In August 2003, Telecom Argentina, Telefonica and the Department of Communications were served notice of another legal action brought by Consumidores alleging that certain amounts in connection with the provision of certain special equipment were included in monthly fees and that the amounts paid be reimbursed to customers. The Company contested the allegations on the grounds that the fees collected are permitted under the current applicable rules and regulations.

Certain amounts deposited in the Company s bank accounts have been restricted as to their use due to some judicial proceedings. As of September 30, 2004, these restricted funds totaled $11. The Company has reclassified these balances to other receivables on the Company s balance sheet.

13. Financial restructuring

(a) Background

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

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13. Financial restructuring (continued)

The terms and conditions of the Notes and loan agreements issued by the Company contain certain clauses, which provided for events of default, as follows:

- Failure to pay principal or interest at maturity;
- Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of the Company or its material subsidiaries, which equals or exceeds an aggregate amount of US$20 million;
- The Company s written notice of default on its debt;
- Any final judgment providing for the payment of an aggregate amount equal to or exceeding US$20 million; and
- The Company s or its material subsidiaries voluntary petition for bankruptcy, special bankruptcy proceedings (*Concurso Preventivo*) or out-of-court reorganization agreements.

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

The Company s board of directors is currently taking all necessary actions aimed at preserving the Company s value and maximizing the Company s cash flows. The Company reached an agreement with certain financial creditors on the repurchasing of a portion of its debt (see Note 13 b) and has developed a comprehensive plan to restructure the remaining indebtedness of Telecom Argentina, Telecom Personal and Nucleo (see Note 13 d).

While the Company is optimistic that these transactions will be completed successfully, the Company cannot give assurance that these transactions will be completed on terms that are acceptable to it or its operating subsidiaries or at all.

(b) Cash tender offer

In April 2003, the Company announced that Telecom Argentina, Telecom Personal and Publicom were commencing a Modified Dutch Auction tender offer for a portion of the consolidated debt. The Company offered to buy back debt using cash up to US$310 million relating to Telecom Argentina, US$55 million relating to Telecom Personal and US$2 million relating to Publicom.

As a result of the tender offer, the Company purchased debt with a face value of approximately US$ 292 million, for a total purchase price of approximately US$ 161 million. This repurchase generated a net gain of US$ 131 million on discount on principal, which in addition to the gain of US$ 17 million obtained by the reversal of accrued interests, totaled a gain of US$ 148 million on repurchase of debt.

The following table summarizes that portion of the gain on repurchase of debt corresponding to the reduction of principal and interest amounts:

	Principal amount purchased (book value)				Purchase price paid				Gain on repurchase of debt		
Name of company	**US$**	**Euro**	**Peso**	**I US$ (a)**	**US$**	**Euro**	**Peso**	**II US$ (a)**	**III=I-II Discount on principal**	**IV Discount on interest**	**V=III+IV Cash tender offer**
Telecom Argentina	44	142		208	24	78		115	93	13	106
Telecom Personal	69		30	80	37		17	44	36	4	40
Publicom	4			4	2			2	2		2
Total	**117**	**142**	**30**	**292**	**63**	**78**	**17**	**161**	**131**	**17**	**148**

(a) Represent equivalent amounts in US$

The Company also paid 100% of accrued interest through June 24, 2002, on all indebtedness, regardless of creditor participation in the tender offer and 30% of accrued interest from June 25, 2002 through December 31, 2002. Interest payments were made at contractual rates and did not consider penalty interest or other default interest provisions.

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13. Financial restructuring (continued)

The following table presents the interest amounts paid by the Company as part of the tender offer:

Name of company	US$	Euro	Yen	Peso	US$ Equivalent
Telecom Argentina	22	63	85	2	98
Telecom Personal	11		17	9	14
Publicom (ii)					
Total interest paid (i)	**33**	**63**	**102**	**11**	**112**

(i) Includes US$ 2 million and US$ 1 million of withholding taxes paid for Telecom Argentina and Telecom Personal, respectively.
(ii) Publicom paid US$48,000.

As discussed further in c) below, Telecom Argentina and Telecom Personal satisfied the payments of principal and interest under the cash tender offer with the funds previously segregated into time deposits with foreign financial institutions.

On October 27, 2003, Publicom satisfactorily completed the restructuring of its remaining indebtedness. As a result, Publicom purchased debt with a face value of approximately $1.5, for a total purchase price of approximately $0.8. The net gain on the repurchase, including transaction costs, foreign currency gains and unamortized debt issuance costs, was approximately $0.7 and was included in gain on repurchase of debt in the consolidated statement of income.

As a result of the Company s restructuring decisions and the repurchase, the Company has an aggregate amount of indebtedness of $10,751 as of September 30, 2004. Of the total amount of the outstanding debt, $7,763 is due (including principal amounts for US$ 1,253 million, Euro 790 million, Japanese yen 9,949 million and $162; and interest amounts for US$ 66 million, Euro 113 million, Japanese yen 599 million and $29), $2,960 is payable on demand and $28 is not due (corresponding to Nucleo).

(c) Segregated funds

Prior to the commencement of the tender offer, in March 2003, the Company had segregated certain amounts into time deposits with foreign financial institutions in order to have sufficient funds to satisfy the payments of principal and interest under the cash tender offer. The Company previously obtained all necessary approvals from the regulatory authorities to remit and maintain these funds abroad. As of September 30, 2004, the Company has an aggregate remaining amount of $2,490 on deposit.

	Telecom Argentina		Telecom Personal	Total Consolidated	
	US$	Euro	US$	US$	Euro
Amounts in foreign currency	298	325	133	431	325
Amounts in Argentine pesos (i)	889	1,203	398	1,287	1,203

(i) Equivalent amount in Argentine Pesos at 2.981 per US$ and 3.7051 per Euro. This amount is included in current investments as of September 30, 2004.

(d) Restructuring plan

The cash tender offer described above was the first stage of the comprehensive restructuring plan designed by the Company to strengthen the Company s financial position.

On June 22, 2004, the Company filed a Registration Statement with the SEC in connection with the solicitation to grant powers of attorney or commitments to approve and execute an *Acuerdo Preventivo Extrajudicial* , an out-of-court restructuring agreement governed by Argentine law (the APE). Like documents were also filed with the CNV and the *Commissione Nazionale per le Societá e la Borsa* (CONSOB) (the Italian Securities Commission). The registration statements were partially amended on July 9, 2004.

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

Pursuant to the APE solicitation process, Telecom Argentina proposed to restructure all of its outstanding indebtedness through different options including the issuance of new unsecured notes and the payment of cash consideration. The new notes will mature at various dates and will not be convertible into common shares of Telecom Argentina.

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13. Financial restructuring (continued)

d.1) Telecom: filing of the APE with the Argentine courts

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

The debt to be restructured pursuant to the terms of the APE comprises the unsecured creditors of the Company as of August 31, 2004. The total unsecured indebtedness of the Company as of August 31, 2004 amounted to $8,868 million (equivalent to US$ 2,959 million translated at the applicable exchange rate as of August 31, 2004). An amount of US$ 2,880 million out of the total US$ 2,959 million represents unsecured financial indebtedness while the remaining US$ 79 million represents unsecured commercial indebtedness. Under the terms of the executed APE consented by the requisite majorities, the unsecured financial indebtedness of the Company will be restructured through the issuance of new unsecured non-convertible notes and/or through cash payment options as described in the Solicitation Statement. Otherwise, the unsecured commercial indebtedness of the Company will be restructured pursuant to the terms of the respective debts without modification of the original contractual obligations.

The consenting noteholders to the APE Solicitation Statement will receive, for each 1,058 US dollars amount of outstanding debt (including a capitalized interest coefficient factor), the following option restructuring payments included in the table below. Noteholders who selected Option B below will have up to 37.5% of their outstanding debt allocated to Option C.

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

The terms and conditions of the new Series A and B Notes are described in the Solicitation Statement. The equivalent dollar amounts were determined based on (1) the applicable exchange rate in force as of the reference date (August 4, 2004) and (2) the corresponding adjustment based on the CER Index, as more fully explained in the Solicitation Statement.

There can be no assurance that the APE will be approved by the reviewing court on the schedule the Company anticipated in the Solicitation Statement. However, the Company expects that the process will be finalized during the first six months of 2005.

The following table summarizes the total outstanding debt which will be allocated to each consenting noteholder and the option selected pursuant to the terms of the Solicitation Statement:

in millions of US$	Option A	Option B	Option C	Total
Principal amount of Notes selecting option	568.3	904.3	48.8	1,521.4
Principal amount of loans selecting option	119.3	687.0	16.5	822.8
Total debt amount selecting option	**687.6**	**1,591.3**	**65.3**	**2,344.2**
Principal face amount adjustment factor	1.058	1.058	1.058	1.058
Total debt amount selecting option plus adjustment factor	**727.5**	**1,683.5**	**69.1**	**2,480.1**
Factor to allocate loans from Option B to Option C		37.5%		
Allocation of loans from Option B to Option C		(631.3)	631.3	
Total debt amount plus adjustment factor allocated to participating holders under option	**727.5**	**1,052.2**	**700.4**	**2,480.1**
Cash to purchase loans in Option C			562,7	562,7
Principal face amount of new loans to be issued to participating holders	**727,5**	**994,5**		**1.722,0**

On November 2, 2004, the Shareholders Meeting of the Company approved the issuance of the new unsecured non-convertible notes for up to a maximum amount of US$ 1,872 million or its equivalent in other currencies subject to the fulfillment of the conditions stipulated in the APE Solicitation Statement and the approval of the regulatory authorities. These notes will be issued under the terms of Law No. 23,576, as amended. The Company will use these notes to restructure its outstanding debt as further explained above. The Company also called for a new shareholder meeting to be held on November 26, 2004, which will ratify the filing of the APE with the reviewing court for approval.

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13. Financial restructuring (continued)

d.2) Personal: an out-of-court restructuring

Under the terms of the Telecom Personal APE Solicitation Statement, if the level of creditor consent were higher than 95%, Telecom Personal would not have to file the APE with a reviewing court for approval. Since the level of creditor consent reached was 100% of the Telecom Personal unsecured financial indebtedness, Telecom Personal intends to pursue a private debt restructuring (without court approval).

The following table summarizes the total outstanding debt which will be allocated to each consenting noteholder and the option selected pursuant to the terms of the Solicitation Statement:

in millions of US$	**Option A**	**Option B**	**Option C**	**Total**
Principal amount of loans selecting option	**43.1**	**505.5**	**13.3**	**561.9**
Principal face amount adjustment factor	1.063	1.063	1.063	1.063
Total debt amount selecting option plus adjustment factor	**45.8**	**537.4**	**14.1**	**597.3**
Factor to allocate loans from Option B to Option C		27.5%		
Allocation of loans from Option B to Option C		(147.8)	147.8	
Principal amount of loans plus adjustment factor allocated to participating holders under option	**45.8**	**389.6**	**161.9**	**597.3**
Cash to purchase loans in Option C			129.4	129.4
Principal face amount of new loans to be issued to participating holders	**45.8**	**366.5**		**412.3**

The equivalent dollar amounts were determined based on (1) the applicable exchange rate in force as of the reference date (August 18, 2004) and (2) the corresponding adjustment based on the CER Index, as more fully explained in the Telecom Personal APE Solicitation Statement.

Provided the restructuring of the outstanding debt of Nucleo is completed (as described in item d.3. below), Telecom Personal expects to finalize the formalities related to the agreements with its noteholders and therefore to complete the restructuring of its outstanding debt without court approval before December 2004.

d.3) Núcleo: restructuring plan

In April 2003, Nucleo refinanced its outstanding debt with local financial institutions amounting to US$ 14 million of principal amount. The terms of the restructuring included only the extension of maturity dates but not a reduction of the face amount of the debt or the payment of penalty interest. Pursuant to certain clauses included in the agreements between Nucleo and the local financial institutions, Nucleo was obligated to offer more favorable restructuring conditions to them since the same conditions were granted to other creditors.

On November 10, 2004, Nucleo refinanced its outstanding indebtedness with foreign creditors amounting to US$ 59 million of principal amount. The terms of the restructuring included the extension of maturity date (December 27, 2008). The restructured debt will accrue either variable interest at three-month Libor plus 4.5% or fixed interest at an annual rate of 7.125%, at the election of the noteholder at the time the respective contract is executed.

Under the terms of the restructurings, Nucleo will have to repay a portion of the principal amount of the debt and the total accrued interest at the time certain formalities are fulfilled. Any penalty interest accrued was forgiven under the restructuring. As of September 30, 2004, penalty interest amounts to $10 and is included in the line Debt on the balance sheet.

The terms of the restructured agreements include certain customary negative covenants, including but not limited to, restrictions to the incurrence of new indebtedness, the sale of assets and/or the incurrence of liens and encumbrances, and change of control provisions. The new agreements also contain certain event-of-default provisions such as mandatory prepayment clauses and the establishment of a guarantee trust, whereby a portion of the net cash flows of Nucleo has to be transferred to this trust and used to repay the debt upon the occurrence of an event of default.

The agreements with the local and foreign financial institutions are subject to the fulfillment of certain conditions such as the completion of initial payments, guarantees granted, and others. Management expects these conditions are to be fulfilled before December 31, 2004.

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13. Financial restructuring (continued)

(e) Legal actions brought against the Company

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

Telecom Argentina was served notice of three involuntary bankruptcy petitions.

In the opinion of the Company s management and its legal counsel, the Company has meritorious defenses to each of these proceedings and does not expect that such proceedings will result in the Company being declared bankrupt. The Company s legal counsel estimates that the Company will be able to take all necessary measures to protect its normal course of business before other claims are brought against it.

Three out of the eight summary attachment proceedings have been settled through the use of the restricted funds described in Note 12(c) under other claims. The outcome of these proceedings did not have a material adverse effect on the Company s financial position or results of operations.

Once the APE approval process begins, the reviewing court would rule the suspension of the abovementioned claims.

(f) Measurement and classification of liabilities

As of September 30, 2004, the Company has estimated an amount of $210 corresponding to penalties and post default interest increases for the default situation described in a) above. This balance is included in consolidated debt in these financial statements. As discussed in d) above, the manner and time of payment of the Company s outstanding principal and interest payment obligations are addressed in its proposed APE restructuring plan. The Company s legal counsel believes that based on the facts and circumstances which caused the Company to default on its principal and interest payment obligations, it is more likely than not that the Company will not have to pay the penalties and post default interest increases contemplated by the indentures and loan agreements governing its outstanding debt if the APE restructuring is completed successfully.

As discussed above, as of September 30, 2004 and December 31, 2003, a substantial portion of the Company s outstanding debt is foreign-currency denominated and governed by foreign law. Notwithstanding the economic crisis in Argentina and subsequent devaluation and pesification, the Company recorded its outstanding debt at their respective original foreign currencies since the Company expects to complete the debt restructuring successfully.

If the APE restructuring plan is not completed on terms favorable to the Company or not completed at all, management would have to analyze different courses of action which may include the pesification of foreign-currency denominated debts governed by foreign law. In this event, management would legally argue the unconstitutionality and/or inapplicability of Decree No. 410/02 as further described below, and accordingly, would sustain the pesification of its foreign-currency denominated debt at a rate of $1 to US$1 or its equivalent in other foreign currencies. As pesified, this indebtedness would be adjusted based on a reference index (Coeficiente de Estabilización de Referencia or CER) as from February 3, 2002. The Company would take these actions among others in order to preserve the continuity of the services and operations of Telecom Argentina and Telecom Personal under Argentine law and regulations.

On January 6, 2002, the National Congress passed the Law No. 25,561 of Public Emergency and Reform of the Exchange Rate Regime (Law No. 25,561). Under Article 11 of Law No. 25,561, foreign-currency denominated debt arising from agreements between consenting parties governed by rules and regulations of private law were converted into pesos at 1 peso per dollar. Further, Article 11 states that creditors would receive these amounts on account of the total debt and that both parties would have to negotiate the restructuring of the obligations to equally share the cost of the peso devaluation .

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13. Financial restructuring (continued)

Subsequently, Decree No. 214/02 forced the conversion into pesos of all foreign-currency denominated liabilities existing as of January 6, 2002, and established the indexing of the pesified amounts by the application of the CER index. Law No. 25,713 ratified, with few exceptions, the constitutionality of the application of the CER index to pesified debts. Management believes that those exceptions are not applicable to the Company s situation.

However, Decree No. 410/02 which codified Law No. 25,561 and extended Decree No. 214/02, provided that foreign-currency denominated debt governed by foreign law fell outside the scope of the provisions of Decree No. 214/02 which required the pesification of liabilities. By introducing this language into the decree provisions, the government tried to narrow the meaning of rules and regulations of private law as mentioned in Article 11 of Law No. 25,561. Further, on December 4, 2003, Law No. 25,820 amended Article 11 of Law No. 25,561 as follows:

The main differences introduced to the text of Article 11 by Law No. 25,820 are:

(a) The language referring to debt obligations existing as of the enactment date was replaced by debt obligations existing as of January 6, 2002

(b) The language referring to rules and regulations of private law was eliminated as a preexisting condition to the pesification of foreign-currency denominated liabilities, and it may thus be argued that it would not be relevant whether or not these liabilities are governed by foreign law

(c) The pesification is not temporary, meaning that creditors will not receive the pesified amounts on account of the total debt as previously stated; however

(d) Any party may request an adjustment within the context of the law, thus permitting renegotiation between willing parties to share the cost of the devaluation of the peso as previously stated in Decree No. 214/02 and,

(e) The pesified liabilities are adjusted based on a reference index, i.e. CER, as appropriate.

Notwithstanding the foregoing, and taking into account the restructuring proposals made to the Company s creditors in June 2004 and the APE solicitation statement discussed in d) above, management has decided to honor the original currencies of its foreign-currency denominated liabilities.

14. Segment information

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for management. Under this definition, the Company is divided into three main lines of business: Voice, data and Internet services, wireless telecommunication services and directory publishing services. The Company manages its segments to the net income (loss) level of reporting.

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

For the nine-month periods ended September 30, 2004 and 2003, more than 90 percent of the Company s revenues were from services provided within Argentina.

More than 95% of the Company s fixed assets are in Argentina.

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14. Segment information (continued)

Segment financial information was as follows:

For the nine-month period ended September 30, 2004

q ***Income statement information***

	Voice, data and Internet	Wireless	Directories publishing	Total
Net sales	**1,998**	**1,205**	**8**	**3,211**
Salaries and social security	(363)	(64)	(7)	**(434)**
Turnover tax	(63)	(54)		**(117)**
Materials and supplies	(131)	(23)	(2)	**(156)**
Bad debt expense	8	(9)		**(1)**
Interconnection costs	(101)			**(101)**
Cost of international outbound calls	(60)			**(60)**
Lease of circuits	(25)	(2)		**(27)**
Fees for debt restructuring	(26)	(5)		**(31)**
Fees for services	(41)	(13)	(1)	**(55)**
Advertising	(19)	(43)	(2)	**(64)**
Cost of cellular handsets		(150)		**(150)**
Commissions	(40)	(125)	(1)	**(166)**
Others	(121)	(246)		**(367)**
Operating income (loss) before depreciation and amortization	**1,016**	**471**	**(5)**	**1,482**
Depreciation of fixed assets	(958)	(234)	(2)	**(1,194)**
Amortization of intangible assets	(46)	(33)	(1)	**(80)**
Operating income (loss)	**12**	**204**	**(8)**	**208**
Equity gain from related companies			(1)	**(1)**

Financial results, net	(485)	(138)	1	**(622)**
Other expenses, net	(57)	(11)	(1)	**(69)**
Net income (loss) before income tax and minority interest	**(530)**	**55**	**(9)**	**(484)**
Income tax		(12)	3	**(9)**
Minority interest		2		**2**
Net (loss) income	**(530)**	**45**	**(6)**	**(491)**

q ***Balance sheet information***

Fixed assets, net	5,563	1,514	2	**7,079**
Intangible assets, net	62	697	3	**762**
Capital expenditures without materials	73	177		**250**
Investment in intangible assets				
Depreciation of fixed assets	(958)	(239)	(2)	**(1,199)**
Amortization of intangible assets	(48)	(39)	(1)	**(88)**

q ***Cash flow information***

Cash flows provided by operating activities	**1,185**	**288**	**(1)**	**1,472**
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(111)	(190)		**(301)**
Decrease in investments not considered as cash and cash equivalents	133	56		**189**
Total cash flows provided by (used in) investing activities	**22**	**(134)**		**(112)**
Cash flows from financing activities:				
Payment of debt		(6)		**(6)**
Payment of interest and debt-related expenses		(12)		**(12)**
Total cash flows used in financing activities		**(18)**		**(18)**
Increase (decrease) in cash and cash equivalents	1,207	136	(1)	**1,342**
Cash and cash equivalents at the beginning of period	1,786	428	2	**2,216**
Cash and cash equivalents at period end	**2,993**	**564**	**1**	**3,558**

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14. Segment information (continued)

For the nine-month period ended September 30, 2003

q ***Income statement information***

	Voice, data and Internet	Wireless	Directories publishing	Total
Net sales	**1,890**	**817**	**4**	**2,711**
Salaries and social security	(304)	(54)	(5)	**(363)**
Turnover tax	(64)	(36)		**(100)**
Materials and supplies	(83)	(23)	(2)	**(108)**
Bad debt expense	(4)	(11)	(4)	**(19)**
Interconnection costs	(100)			**(100)**
Cost of international outbound calls	(57)			**(57)**
Lease of circuits	(22)	(6)		**(28)**
Fees for debt restructuring	(11)	(3)		**(14)**
Fees for services	(54)	(6)	(1)	**(61)**
Advertising	(9)	(7)		**(16)**
Cost of cellular handsets		(5)		**(5)**
Commissions	(39)	(64)		**(103)**
Others	(129)	(160)	(1)	**(290)**
Operating income (loss) before depreciation and amortization	**1,014**	**442**	**(9)**	**1,447**
Depreciation of fixed assets	(1,094)	(245)	(3)	**(1,342)**
Amortization of intangible assets	(47)	(34)		**(81)**
Operating (loss) income	**(127)**	**163**	**(12)**	**24**
Equity gain from related companies			2	**2**
Financial results, net	323	194	12	**529**
Other expenses, net	(88)	(40)	(10)	**(138)**
Gain on repurchase of debt	280	90	5	**375**

Net income (loss) before income tax and minority interest	**388**	**407**	**(3)**	**792**
Minority interest		(13)		**(13)**
Net income (loss)	**388**	**394**	**(3)**	**779**

q ***Balance sheet information***

Fixed assets, net	6,751	1,544	5	**8,300**
Intangible assets, net	127	738	4	**869**
Capital expenditures without materials	30	24		**54**
Investment in intangible assets		5		**5**
Depreciation of fixed assets	(1,094)	(251)	(3)	**(1,348)**
Amortization of intangible assets	(50)	(39)		**(89)**

q ***Cash flow information***

Cash flows provided by operating activities	**1,018**	**354**	**6**	**1,378**
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(45)	(58)		**(103)**
Increase in investments not considered as cash and cash equivalents	(115)	(67)		**(182)**
Total cash flows used in investing activities	**(160)**	**(125)**		**(285)**
Cash flows from financing activities:				
Decrease in debt		(8)		**(8)**
Repurchase of debt	(328)	(87)	(6)	**(421)**
Payment of interest and debt-related expenses	(283)	(49)		**(332)**
Inter-segment transfers of cash	5	(5)		
Total cash flows used in financing activities	**(606)**	**(149)**	**(6)**	**(761)**
Increase in cash and cash equivalents	252	80		**332**
Cash and cash equivalents at the beginning of period	1,059	253	2	**1,314**
Cash and cash equivalents at period end	**1,311**	**333**	**2**	**1,646**

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

15. Selected consolidated quarterly information (unaudited)

Quarter ended	Net sales	Operating income before depreciation and amortization	Operating income (loss)	Financial results, net	Net income (loss)
Year 2004:					
March 31,	1,017	494	65	95	124
June 30,	1,053	489	67	(393)	(354)
September 30,	1,141	499	76	(324)	(261)
	3,211	**1,482**	**208**	**(622)**	**(491)**
Year 2003:					
March 31,	851	453	(24)	961	907
June 30,	899	490	17	58	381
September 30,	961	504	31	(490)	(509)
December 31,	1.042	537	83	(481)	(428)
	3,753	**1,984**	**107**	**48**	**351**

16. Unconsolidated information

In accordance with Argentine GAAP, the presentation of the parent company s individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes. The tables below present unconsolidated financial statement information, as follows:

Balance sheets:

	As of September 30, 2004	As of December 31, 2003
ASSETS		
Current Assets		
Cash and banks	$ 21	$ 17
Investments	3,105	2,011
Accounts receivable, net	337	317
Other receivables, net	48	119
Total current assets	**3,511**	**2,464**
Non-Current Assets		
Other receivables, net	148	106
Investments	769	874
Fixed assets, net	5,562	6,442
Intangible assets, net	62	110
Total non-current assets	**6,541**	**7,532**
TOTAL ASSETS	**$ 10,052**	**$ 9,996**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 263	$ 243
Debt	8,730	8,206
Salaries and social security payable	65	70
Taxes payable	69	72
Other liabilities	23	24
Contingencies	10	10
Total current liabilities	**9,160**	**8,625**
Non-Current Liabilities		
Salaries and social security payable	31	30
Other liabilities	34	34
Contingencies	150	139
Total non-current liabilities	**215**	**203**
TOTAL LIABILITIES	**$ 9,375**	**$ 8,828**
SHAREHOLDERS EQUITY	**$ 677**	**$ 1,168**
TOTAL LIABILITIES, FOREIGN CURRENCY TRANSLATION ADJUSTMENTS AND SHAREHOLDERS EQUITY	**$ 10,052**	**$ 9,996**

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16. Unconsolidated information (continued)

Statements of income:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Net sales	$ 2,105	$ 1,975
Cost of services	(1,445)	(1,486)
Gross profit	**660**	**489**
General and administrative expenses	(111)	(101)
Selling expenses	(429)	(431)
Operating income (loss)	**120**	**(43)**
Equity gain from related companies	(74)	298
Financial results, net	(483)	329
Other expenses, net	(54)	(85)
Gain on repurchase of debt		280
Net (loss) income before income tax	**(491)**	**779**
Income tax benefit, net		
Net (loss) income	**$ (491)**	**$ 779**

Condensed statements of cash flows:

Nine-month periods ended

	September 30, 2004	September 30, 2003
Cash flows provided by operating activities	$ 1,185	$ 1,019
Cash flows from investing activities		
Acquisition of fixed assets	(111)	(45)
Decrease (increase) in investments not considered as cash and cash equivalents	133	(110)
Total cash flows provided by (used for) investing activities	**22**	**(155)**
Cash flows from financing activities		
Repurchase of debt		(328)
Payment of interest and debt-related expenses		(283)
Total cash flows used for financing activities		**(611)**
Increase in cash and cash equivalents	1,207	253
Cash and cash equivalents at the beginning of period	1,785	1,057
Cash and cash equivalents at period end	**$ 2,992**	**$ 1,310**

17. Differences between Argentine GAAP and US GAAP

The Company s unaudited consolidated financial statements are prepared in accordance with Argentine GAAP, which differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the SEC. Under the reporting requirements of the SEC and under Argentine GAAP, the Company is not required to prepare a US GAAP reconciliation on a quarterly basis. However, the Company has elected to present cumulative US GAAP information as it is considered useful for prospective investors. These unaudited consolidated financial statements include solely a reconciliation of shareholders equity and net loss to US GAAP. This reconciliation does not include disclosure of all information that would be required by US GAAP.

I. Differences in measurement methods

Inflation accounting

As indicated in Note 3.c., in March 2003, the Argentine government issued a decree prohibiting companies from restating financial statements for the effects of inflation and instructing the CNV to issue applicable regulations to ensure that no price-level restated financial statements are accepted. In April 2003, the CNV issued a resolution discontinuing inflation accounting as of March 1, 2003. As a result, the Company s consolidated financial statements include the effects of inflation until February 28, 2003. Comparative figures were also restated until that date. Since Argentine GAAP required companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution represents a departure from Argentine GAAP.

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17. Differences between Argentine GAAP and US GAAP (continued)

Under US GAAP, financial statements are prepared on a historical cost basis. However, the following reconciliation does not include the reversal of the adjustments to the consolidated financial statements for the effects of inflation required by the CNV, because, as permitted by the SEC, the application of this resolution represents a comprehensive measure of the effects of price-level changes in the Argentine economy, and as such, is considered a more meaningful presentation than is historical cost-based financial reporting for both Argentine and US accounting purposes.

The principal differences, other than inflation accounting, between Argentine GAAP and US GAAP are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

	Nine-month periods ended September 30,	
	2004	**2003**
Reconciliation of net income (loss):		
Total net (loss) income under Argentine GAAP	**$ (491)**	**$ 779**
US GAAP adjustments:		
Foreign currency translation (a)	(3)	(40)
Capitalization of foreign currency exchange differences (b)	89	166
Restructuring and repurchase of debt (c)	20	23
Other adjustments (d)	(2)	(9)
Tax effects on US GAAP adjustments (e)	(38)	(63)
Valuation allowance of tax credits (f)	5	15
Minority interest (g)	1	13
Net (loss) income under US GAAP	**$ (419)**	**$ 884**

	As of September 30, 2004	**As of December 31, 2003**

Reconciliation of shareholders equity:		
Total shareholders equity under Argentine GAAP	**$ 677**	**$ 1,168**
US GAAP adjustments:		
Foreign currency translation (a)	35	38
Capitalization of foreign currency exchange differences (b)	(477)	(566)
Restructuring and repurchase of debt (c)		(20)
Other adjustments (d)	5	7
Tax effects on US GAAP adjustments (e)	167	205
Valuation allowance of tax credits (f)	(359)	(364)
Minority interest (g)	(11)	(12)
Shareholders equity under US GAAP	**$ 37**	**$ 456**

	As of September 30, 2004	As of September 30, 2003
Description of changes in shareholders equity under US GAAP:		
Shareholders equity (deficit) as of the beginning of the year	**$ 456**	**$ (10)**
Other comprehensive loss		(12)
Net (loss) income under US GAAP	(419)	884
Shareholders equity as of the end of the period	**$ 37**	**$ 862**

a) Foreign currency translation

As indicated in Note 4.a., under Argentine GAAP, the financial statements of the Company s subsidiaries are translated using period-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as a separate line item between the liability and equity sections of the balance sheet.

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17. Differences between Argentine GAAP and US GAAP (continued)

Under US GAAP, financial statements of foreign subsidiaries have been translated into Argentine pesos following the guidelines established in SFAS No. 52, Foreign Currency Translation (SFAS 52). Under SFAS 52, in the case of foreign subsidiaries whose local currency is not the functional currency, the monetary/non-monetary method of translation has been used to remeasure assets and liabilities to the functional currency prior to translation. This method involves the translation of monetary assets and liabilities at the exchange rate in effect at the end of each period, and the non-monetary assets and liabilities and equity at historical exchange rates (i.e., the exchange rates in effect when the transactions occur). Average exchange rates have been applied for the translation of the accounts that make up the results of the periods, except for those charges related to non-monetary assets and liabilities, which have been translated using historical exchange rates. Translation adjustments are included in the statement of income. Once the assets and liabilities have been remeasured to the functional currency, the current rate method of translation has been used to translate them to the reporting currency, the Argentine Peso for the Company. This method involves the translation of assets and liabilities at the exchange rate in effect at the end of each period. Average exchange rates have been applied for the translation of the accounts that make up the results of the periods. In this case, translation adjustments are recorded as a separate component of shareholders equity.

b) Capitalization of foreign currency exchange differences

As indicated in Note 4.c., under Argentine GAAP, foreign currency exchange differences (gains or losses) on or after January 6, 2002 through July 29, 2003, related to foreign-currency denominated debts as of such dates were allocated to the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements established were fulfilled. Under US GAAP, foreign currency exchange differences cannot be capitalized, and are expensed as incurred.

c) Restructuring and repurchase of debt

As explained in Note 8.b., in December 2002, Telecom Personal entered into an amended agreement pursuant to which the outstanding debt under the Promissory Notes (the old debt) was restructured. Accordingly, Telecom Personal issued the BofA Promissory Notes and the Holders Promissory Note (the new debt). For the year ended December 31, 2002, a gain of $43 was recognized in non-operating income. Under Argentine GAAP, the new debt was discounted to its present value using a discount rate of 12%.

For US GAAP purposes, the restructuring of the old debt was accounted for in accordance with SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS 15) and EITF 02-04 Determining whether a debtor s modification or exchange of debt instruments is within the scope of SFAS 15 , as the creditors made certain concessions due to the financial difficulties of the Company. SFAS No. 15 requires that a comparison be made between the maximum future cash outflows associated with the new debt (including principal, stated interest and related costs), and the recorded assets and liabilities relating to the outstanding old debt as of the date of the exchange.

In the exchange of the old debt, the maximum future cash outflows associated with the new debt exceeded the carrying value of the assets and liabilities of the old debt tendered for exchange. Accordingly, for US GAAP purposes, no gain was recorded in December 2002 and the value of the new debt was initially recorded at the carrying value of the old debt. Based on the foregoing, the basis of the liability is different under US GAAP as compared to Argentine GAAP.

However, as further indicated in Note 8.b., in June 2003, Telecom Personal purchased 100% of the BofA Promissory Notes and 8% of the Holders Promissory Note. Under Argentine GAAP, the Company recognized a net gain on repurchase of debt of approximately $24, which form part of the $376 included in the statement of income for the year ended December 31, 2003. The different basis in the liability under US GAAP gave rise to a difference in the calculation of the gain on repurchase. The reconciling item for 2003 represents the net effect of (1) the adjustment to the gain on repurchase and (2) loss on accretion.

As of September 30, 2004, there is no difference between Argentine GAAP and US GAAP related to the new debt value because the liability are recognized at their nominal value plus accrued interest under Argentine GAAP as a consequence of the notice of acceleration described in Note 8.b.

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17. Differences between Argentine GAAP and US GAAP (continued)

d) Other adjustments

The Company has aggregated under this caption certain reconciling items which management believes are not significant to the Company s financial position and results of operations. These items are described as follows:

- Inventories

Under Argentine GAAP, inventories are stated at the lower of replacement cost or net realizable value. Under US GAAP, inventories are stated at the lower of cost or market.

- Present-value accounting

As indicated in Note 4.f., under Argentine GAAP, certain monetary assets and liabilities are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at the time of measurement, unless the company has the intent and ability to dispose of those assets or advance settlement of liabilities. Under US GAAP, present valuing or discounting of these assets and liabilities is precluded.

- Equity gain (loss) on related companies

The Company held a 0.15%, 0.15% and 5.75% ownership interest in New Skies Satellites N.V., Intelsat and Nahuelsat as of September 30, 2003, respectively. Under Argentine GAAP, the Company has recorded these investments at the lower of cost or equity.

As of December 31, 2002, the Company wrote down its investment in Nahuelsat to zero since its original cost was considered to be permanently impaired based on available information as of that date. However, under Argentine GAAP, the Company has written up this investment since management considered that Nahuelsat s financial situation had improved. This write-up is included in equity gain (loss) from related companies in the statement of income.

For US GAAP purposes, the Company accounts for investments in non-marketable equity securities in accordance with Accounting Principles Board Opinion No. 18 (APB 18) and related interpretations. Under APB 18, investments in less than 20% of the capital stock are generally carried at cost. Under the cost method, investments are recorded and reported at original cost until they are partially or entirely disposed of or the original cost value has been impaired. As indicated above, the Company s investment in Nahuelsat was written down to zero because its impairment was considered to be permanent, thus establishing a new cost basis for the investment. Subsequent write-ups are precluded under US GAAP.

e) Tax effects on US GAAP adjustments

The adjustment represents the effect on deferred income taxes of the foregoing reconciling items, as appropriate.

f) Valuation allowance of tax credits

Under Argentine GAAP, the Company has provided a valuation allowance for a portion of its net deferred tax assets, as the future realization of the tax benefit is not considered by management to be more likely than not. Therefore, a full valuation allowance has been provided for net deferred tax assets of Telecom Argentina and Telecom Personal. Also, as indicated in Note 4.n., the Company is subject to a tax on minimum presumed income. Under Argentine GAAP, the Company considered the ultimate realization of the credit relating to the minimum presumed income tax to be more likely than not based on current projections and its legal expiration period of 10 years. As such, the Company deferred this amount as other non-current receivables in the balance sheet.

However, SFAS 109 establishes more specific and strict procedures to assess whether a valuation allowance should be established for deferred tax assets. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Judgment must be used in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (a) the more positive evidence is necessary and (b) the more difficult it is to support a conclusion that a valuation allowance is not needed.

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17. Differences between Argentine GAAP and US GAAP (continued)

Accordingly, under US GAAP, a full valuation allowance has been provided for the tax credits related to tax on minimum presumed income of Telecom Argentina and Telecom Personal and the tax effects on US GAAP adjustments as described in e) above.

g) Minority interest

The adjustment represents the effect on minority interest of the foregoing reconciling items, as appropriate.

h) Accounting for stock transferred by the Argentine government to employees

Under Argentine GAAP, there are no specific rules governing the accounting to be followed by employers when a principal shareholder transfers shares to a company s employees.

Under US GAAP, the Company has elected to follow Accounting Principles Board Opinion No. 25 (APB No. 25), Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123. In accordance with AIN-APB No 25 Accounting for Stock Issued to Employees - Accounting Interpretations of APB Opinion No. 25 , the economic substance of a plan established by the principal stockholders is substantially the same for the company and the employee, whether the plan is adopted by the company or a principal stockholder. Consequently, the company should account for this type of plan when one is established or financed by a principal stockholder unless (1) the relationship between the stockholder and the company s employee is one which would normally result in generosity, (2) the stockholder has an obligation to the employee which is completely unrelated to the latter s employment, or (3) the company clearly does not benefit from the transaction. The rationale established in this Interpretation has been applied to other situations in which a principal stockholder undertakes transactions for the benefit of the company. SAB No. 79 (SAB Topic 5T) requires any transaction undertaken by a company s principal stockholder for the benefit of the company to be accounted for according to its substance and not its form. Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the company s stock and the exercise price. SFAS No. 123 defines a fair value based method of accounting for an employee stock option or similar equity investment.

The Argentine government agreed to establish a Share Ownership Plan, principally for the benefit of the former employees of ENTel transferred to the Company. Under the terms of the plan, employees eligible to participate acquired the shares of the Company previously held by the Government for an amount significantly less than the then market value of the shares as of the Transfer Date. This discount arises because the eligible employees were only required to pay cash for the shares in an amount equivalent to the cash portion of the proceeds received by the Argentine government from Nortel. The purchase price formula was originally established during the privatization.

Had the Company been required by SEC regulations to include a reconciliation between Argentine GAAP and US GAAP for the fiscal year 1991, it would have included as a reconciling item a charge amounting to $465 in the statement of income. However, this charge represented a reclassification between equity accounts, and consequently, it had no impact on shareholders equity or cash flows determined under US GAAP. The charge was calculated based upon the difference between the estimated total price per share paid by Nortel as of the Transfer Date and the purchase price to be paid by eligible employees.

i) Indefinite-life intangibles impairment testing

As indicated in Note 4.k., the Company identified the PCS license as an indefinite life intangible. Under Argentine GAAP, indefinite life intangibles are not amortized but tested annually for impairment. The carrying value of these intangibles is considered impaired by the Company when the expected cash flows, undiscounted and without interest, from such assets are separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. The Company concluded that an impairment loss was not necessary.

Under US GAAP, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), on January 1, 2002. The Company determined that its license met the definition of indefinite-lived intangible assets under SFAS 142. Therefore, upon adoption of SFAS 142 the Company ceased amortizing its license cost, and tested it annually for impairment. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This valuation determined that the carrying amount of the license did not exceed the fair value of the assets. As a result, no impairment has been recognized for US GAAP purposes.

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17. Differences between Argentine GAAP and US GAAP (continued)

j) Goodwill

Under Argentine GAAP, the Company continued to amortize goodwill until it was fully amortized during the year ended December 31, 2002. In prior periods, goodwill represented the excess of purchase price over the fair market value of a business acquired. For the year ended December 31, 2002, the amortization charge was $10.

Under US GAAP, the Company adopted the provisions of SFAS 142 on January 1, 2002. Under the provisions of SFAS 142, goodwill is not amortized, but tested for impairment annually, or whenever there is an impairment indicator. As required by SFAS 142, the Company ceased amortization and performed a transitional goodwill impairment assessment at the reporting unit level to determine whether there was an indication that goodwill was impaired at the date of adoption. As a result of the test, the Company determined that the carrying value of goodwill was not supported by estimated future cash flows, and accordingly, recorded an impairment charge of $10, which represented the full amount of unamortized goodwill at the time of the test.

As such, the carrying value of goodwill is zero for both Argentine GAAP and US GAAP purposes and therefore no reconciling item is presented.

k) Recently issued accounting pronouncements

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables , which affects revenue arrangements entered into by the Company after January 1, 2004. The issue requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria and generally requires that arrangement consideration be allocated among the separate units of accounting based on their relative fair values. Revenue recognition is then considered separately for each unit of accounting. The adoption of this standard did not have a material impact on its financial position, results of operations or cash flows.

In January 2003, the FASB released FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 (FIN 46 R) to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46 R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financial statements for periods ending after December 31, 2004. The adoption of FIN 46 R did not have an impact on the Company s financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150 (SFAS 150), Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer s equity shares or variations inversely related to changes in the fair value of the issuer s equity shares. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Telecom has adopted the provisions of SFAS 150, which did not have an impact on Telecom s financial position or results of operations. The classification and measurement provisions in paragraphs 9, 10 and 22 of SFAS 150 are deferred for an indefinite period for certain mandatorily redeemable non-controlling interest in subsidiaries with finite duration. Telecom will continue to evaluate the impact of SFAS 150, if any, and any further classifications that may result from SFAS 150.

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18. Other financial statement information

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

a. Fixed assets, net

b. Intangible assets, net

c. Securities and equity investments

d. Current investments

e. Allowances and provisions

f. Cost of services

g. Foreign currency assets and liabilities

h. Expenses

i. Aging of assets and liabilities

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18. Other financial statement information (continued)

(a) Fixed assets, net

	Original value						
Principal account	**As of the beginning of year**	**Additions**	**Capitalization and/or reversal of foreign currency exchange differences**	**Foreign currency translation adjustments**	**Transfers**	**Decreases**	**As of the end of the period**
Land	**119**						119
Building	**1,674**				10	(1)	1,683
Transmission equipment	**5,112**	(*)18		3	106	(6)	5,233
Switching equipment	**3,847**	1		1	14		3,863
Power equipment	**536**	1		1	6		544
External wiring	**5,943**				5	(1)	5,947
Telephony equipment, instruments and systems for improvement in services	864			2	8		874
Cellular handsets given to customers at no charge	332	2		2			336
Vehicles	**109**	4				(5)	108
Furniture	**107**						107
Installations	**511**			1	2		514
Computer equipment	**2,511**	8		2	32	(1)	2,552
Work in progress	**63**	(**) 216			(181)	(2)	96
Fixed assets without materials	**21,728**	**250**		**12**	**2**	**(16)**	**21,976**
Materials	**90**	(***) 62			(2)	(42)	108
Total as of September 30, 2004	**21,818**	**312**		**12**		**(58)**	**22,084**
Total as of September 30, 2003	**21,734**	**60**	**(76)**	**13**		**(46)**	**21,685**

(*) Includes $3 transferred from materials.
(**) Includes $124 transferred from materials.
(***) Net of $127 transferred to fixed assets.

Principal account	Depreciation: Accumulated as of the beginning of the year	Annual rate (%)	Amount	Decreases and transfers	Accumulated as of the end of the period	Net carrying value as of September 30, 2004	Net Carrying Value As of December 31, 2003
Land						**119**	**119**
Building	(684)	4 9	(57)		(741)	**942**	**990**
Transmission equipment	(3,164)	10 11	(336)	4	(3,496)	**1,737**	**1,948**
Switching equipment	(2,686)	10	(239)		(2,925)	**938**	**1,161**
Power equipment	(320)	10 20	(35)		(355)	**189**	**216**
External wiring	(3,573)	7	(233)	1	(3,805)	**2,142**	**2,370**
Telephony equipment, instruments and systems for improvement in services	(683)	13 18	(47)		(730)	**144**	**181**
Cellular handsets given to customers at no charge	(328)	50	(5)		(333)	**3**	**4**
Vehicles	(99)	20 40	(8)	5	(102)	**6**	**10**
Furniture	(76)	10 20	(5)		(81)	**26**	**31**
Installations	(358)	9 33	(30)		(388)	**126**	**153**
Computer equipment	(1,846)	18 33	(204)	1	(2,049)	**503**	**665**
Work in progress						**96**	**63**
Fixed assets without materials	**(13,817)**		**(1,199)**	**11**	**(15,005)**	**6,971**	**7,911**
Materials						**108**	**90**
Total as of September 30, 2004	**(13,817)**		**(a) (1,199)**	**11**	**(15,005)**	**(b) 7,079**	**(b) 8,001**
Total as of September 30, 2003	**(12,045)**		**(c) (1,348)**	**8**	**(13,385)**	**8,300**	

(a) Includes (89) corresponding to the depreciation of capitalized foreign currency exchange differences and (5) corresponding to foreign currency translation adjustments.
(b) Includes 4 in September 04 and 4 in December 03 corresponding to the net carrying value of the capitalized cost of asset retirement obligations.
(c) Includes (91) corresponding to the depreciation of capitalized foreign currency exchange differences and (6) corresponding to foreign currency translation adjustments.

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

18. Other financial statement information (continued)

(b) Intangible assets, net

	Original value			
Principal account	**As of the beginning of the year**	**Additions**	**Foreign currency translation adjustments**	**As of the end of the period**
Software obtained or developed for internal use	430		1	431
Debt issue costs	80			80
PCS license	662			662
Band B license (Paraguay)	117		4	121
Rights of use	45			45
Exclusivity agreements	98			98
Trademarks	8			8
Total as of September 30, 2004	**1,440**		**5**	**1,445**
Total as of September 30, 2003	**1,416**	**5**	**7**	**1,428**

	Amortization				
Principal account	**Accumulated as of the beginning of the year**	**Amount**	**Accumulated as of the end of the period**	**Net carrying value as of September 30, 2004**	**Net carrying value as of December 31, 2003**
Software obtained or developed for internal use	(301)	(64)	(365)	**66**	**129**
Debt issue costs	(72)	(4)	(76)	**4**	**8**

PCS license	(71)		(71)	**591**	**591**
Band B license (Paraguay)	(71)	(14)	(85)	**36**	**46**
Rights of use	(20)	(2)	(22)	**23**	**25**
Exclusivity agreements	(56)	(3)	(59)	**39**	**42**
Trademarks	(4)	(1)	(5)	**3**	**4**
Total as of September 30, 2004	**(595)**	**(a) (88)**	**(683)**	**762**	**845**
Total as of September 30, 2003	**(470)**	**(b) (89)**	**(559)**	**869**	

a) An amount of $30 is included in cost of services, $5 in general and administrative expenses, $45 in selling expenses and $4 in financial results, net. Also includes $4 corresponding to foreign currency translation adjustments which have been excluded from the income statement.

b) An amount of $31 is included in cost of services; $2 in general and administrative expenses; $48 in selling expenses, $5 in financial results, net. Also includes $3 corresponding to foreign currency translation adjustments which have been excluded from the income statement.

(c) Securities and equity investments

Issuer and characteristic of the securities	Type	Nominal value (b)	Number of securities/ shares	Net realizable value	Cost value as of September 30, 2004	Book value as of September 30, 2004	Book value as of December 31, 2003
CURRENT INVESTMENTS							
Government bonds							
Secured 2018 Bond		$1	8,399,999	8	9	8	7
Soberano Bond		Euro 1					69
Total current investments				**8**	**9**	**8**	**76**
NON-CURRENT INVESTMENTS							
Government bonds							
Argentina 2004 Bond		US$ 1					35
Total government bonds							**35**
Equity investments							
Nahuelsat	Ordinary	$1,000	5,750		13	1	2
Intelsat Ltd.	Ordinary	US$ 3	260,432		8	8	8
New Skies Satellites N.V.	Ordinary	Euro 0.05	171,740		4	4	
Total equity investments					**25**	**13**	**10**
Total non-current investments					**25**	**13**	**45**

(a) Per share data.

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

Notes to the Unaudited Consolidated Financial Statements

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

18. Other financial statement information (continued)

(d) Current investments

	Cost as of	Book value as of	
	September 30, 2004	September 30, 2004	December 31, 2003
CURRENT INVESTMENTS			
Time deposits			
In foreign currency	$ 3,213	$ 3,213	$ 1,665
In Argentine pesos	367	367	508
Mutual funds			
In Argentine pesos			192
Total current investments	**$ 3,580**	**$ 3,580**	**$ 2,365**
NON CURRENT INVESTMENTS			
Financial trust 2003 Telecommunications fund	2	2	2
Total non current investments	**$ 2**	**$ 2**	**$ 2**

(e) Allowances and provisions

Items	Opening balances	Additions	Reclassifications	Deductions	As of September 30, 2004
Deducted from current assets					
Allowance for doubtful accounts receivables	**112**	**(a)** 1		(6)	**107**

Allowance for obsolescence	**2**	**(d)** 1			**3**
Deducted from non-current assets					
Valuation allowance of net deferred tax assets	**447**	**(b)** 178			**625**
Impairment loss on the Argentina 2004 bond (Note 11)		**(c)** 57			**57**
Allowance for doubtful accounts	**3**	**(d)** 1			**4**
Total deducted from assets	**564**	**238**		**(6)**	**796**
Total deducted from assets as of September 30, 2003	**877**	**(e) 21**		**(f) (322)**	**576**
Included under current liabilities					
Provision for commissions	**1**	**(a)** 10			**11**
Provision for contingencies	**14**		12	(12)	**14**
Included under non-current liabilities					
Provision for contingencies	**210**	**(d)** 28	(12)		**226**
Total included under liabilities	**225**	**38**		**(12)**	**251**
Total included under liabilities as of September 30, 2003	**151**	**(d) 83**		**(g) (15)**	**219**

(a) Included in selling expenses.
(b) Included in income tax (expense).
(c) Included in financial results, net.
(d) Included in other expenses, net.
(e) Includes $19 in selling expenses and $2 in other expenses, net.
(f) Includes $7 corresponding to results on exposure to inflation.
(g) Includes $1 corresponding to results on exposure to inflation.

(f) Cost of services

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Inventory balance at the beginning of the year	$ 16	$ 18
Plus:		
Purchases	239	6
Financial results, net	(3)	(6)
Cellular handsets given to customers at no charge (a)	(2)	(2)
Retirements not included in cost of cellular handsets	(10)	(7)
Cost of services (Note 18.h)	2,003	1,924
Less:		
Inventory balance at the end of the period	(90)	(4)
COST OF SERVICES	**$ 2,153**	**$ 1,929**

(a) Under certain circumstances, the Company lends handsets to customers at no cost pursuant to term agreements. Handsets remain the property of the Company and customers are generally obligated to return them at the end of the respective agreements.

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

18. Other financial statement information (continued)

(g) Foreign currency assets and liabilities

		As of September 30, 2004			As of December 31, 2003
Items		**Amount of foreign currency**	**Current exchange rate**	**Amount in local currency**	**Amount in local currency**
Current assets					
Cash and banks					
Bank accounts	US$	5	2.98100	$ 15	$ 4
	G	2,048	0.0005006	1	2
Investments					
Time deposits	US$	598	2.98100	1,783	885
	EURO	385	3.70510	1,424	776
	G	9,525	0.0005006	6	4
Government bonds	EURO				69
Accounts receivable					
	US$	12	2.98100	37	55
	SDR				2
	G	103,768	0.0005006	53	66
Other receivables					
Tax credits	US$				38
	G	6,827	0.0005006	4	1
Prepaid expenses	US$	1	2.98100	4	
	G	3,302	0.0005006	2	1
Others	G	4,499	0.0005006	1	2
Non-current assets					
Other receivables					
Other tax credits	US$	27	2.98100	79	4
Impairment loss on the Argentina 2004 bond	US$	(19)	2.98100	(57)	
Investments					
Government bonds	US$				35

Total assets				**$ 3,352**	$ 1,944
Current liabilities					
Accounts payable					
Suppliers	US$	54	2.98100	$ 161	$ 65
	G	15,511	0.0005006	8	17
	SDR	1	4.37906	4	9
	EURO	3	3.70510	11	9
Advances from customers	G	5,538	0.0005006	3	3
Debt					
Notes Principal	US$	216	2.98100	645	634
	EURO	1,160	3.70510	4,298	4,278
Banks loans and others Principal	US$	469	2.98100	1,397	1,305
	¥	6,523	0.02714	177	178
Fixed assets financing Principal	US$	583	2.98100	1,739	1,707
	EURO	39	3.70510	143	143
	¥	11,652	0.02714	316	319
Inventory financing Principal	US$	149	2.98100	444	417
Accrued interest	US$	151	2.98100	449	271
	EURO	187	3.70510	694	448
	¥	958	0.02714	26	16
Penalty interest	US$	51	2.98100	151	76
	EURO	14	3.70510	53	24
	¥	221	0.02714	6	4
Salaries and social security payable					
Vacation, bonuses and social security payable	G	2,056	0.0005006	2	1
Taxes payable					
Income tax	G	8,108	0.0005006	5	
VAT	G				1
Other liabilities					
Other	G	1,028	0.0005006	1	
Non-current liabilities					
Debt					
Banks loans and others Principal	US$	8	2.98100	25	86
Total liabilities				**$ 10,758**	$ 10,011

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

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

Notes to the Unaudited Consolidated Financial Statements

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

18. Other financial statement information (continued)

(h) Expenses

	Expenses			Nine-month period ended September 30, 2004
	Cost of services	General and administrative	Selling	
Salaries and social security	$ 217	$ 70	$ 147	**$ 434**
Depreciation of fixed assets	1,022	31	141	**1,194**
Amortization of intangible assets	30	5	45	**80**
Taxes	76	6	17	**99**
Turnover tax	117			**117**
Materials and supplies	121	3	32	**156**
Transportation and freight	6	3	17	**26**
Insurance	14	3	3	**20**
Energy, water and others	22	5	7	**34**
Bad debt expense			1	**1**
Interconnection costs	101			**101**
Cost of international outbound calls	60			**60**
Lease of circuits	27			**27**
Rental expense	28	2	9	**39**
Fees for debt restructuring		31		**31**
Fees for services	22	14	19	**55**
Advertising			64	**64**
Commissions		9	157	**166**
Others	140	2	7	**149**
Total	**$ 2,003**	**$ 184**	**$ 666**	**$ 2,853**

	Expenses			Nine-month period ended September 30, 2003
			Selling	

	Cost of services	General and administrative		
Salaries and social security	$ 184	$ 73	$ 106	**$ 363**
Depreciation of fixed assets	1,131	48	163	**1,342**
Amortization of intangible assets	31	2	48	**81**
Taxes	69		20	**89**
Turnover tax	100			**100**
Materials and supplies	73	6	29	**108**
Transportation and freight	5	2	13	**20**
Insurance	11	2	5	**18**
Energy, water and others	19	3	7	**29**
Bad debt expense			19	**19**
Interconnection costs	100			**100**
Cost of international outbound calls	57			**57**
Lease of circuits	28			**28**
Rental expense	24	5	6	**35**
Fees for debt restructuring		14		**14**
Fees for services	17	12	32	**61**
Advertising			16	**16**
Commissions			103	**103**
Others	75	15	9	**99**
Total	**$ 1,924**	**$ 182**	**$ 576**	**$ 2,682**

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

18. Other financial statement information (continued)

(i) Aging of assets and liabilities

Date due	Investments	Accounts receivable	Other receivables	Accounts payable	Debt	Salaries and social security payable	Taxes payable	Other liabilities
Total due		**177**			**(a) 7,763**			
Not due								
Payable on demand					(a) 2,960			
Fourth quarter 2004	3,588	416	64	507	3	40	89	24
First quarter 2005		5	6			13		
Second quarter 2005		1	5			9	20	
Third quarter 2005			19			12		
Oct. 2005 thru Sep. 2006			39		3	13		8
Oct. 2006 thru Sep. 2007			9		4	6		2
Oct. 2007 thru Sep. 2008			6		4	4		2
Oct. 2008 thru Sep. 2009			73		14	3		2
Oct. 2009 thru Sep. 2010			1			2		2
Oct. 2010 and thereafter	2		116			3		23
Total not due	**3,590**	**422**	**338**	**507**	**2,988**	**105**	**109**	**63**
Total as of September 30, 2004	**3,590**	**599**	**338**	**(b) 507**	**10,751**	**105**	**109**	**63**
Balances with indexation clauses				4				
Balances bearing interest	3,588	174		5	10,541			
Balances not bearing interest	2	425	338	498	210	105	109	63
Total	**3,590**	**599**	**338**	**507**	**10,751**	**105**	**109**	**63**
Average annual interest rate (%)	**(c)**	**(d)**		**23.04**	**(e)**			

(a) See Note 13.
(b) There are payables in kind that amounted to $1.
(c) $3,580 bears 2.01%.
(d) $124 bear 50% over the Banco Nación Argentina notes payable discount rate and $50 bear 19.43%.
(e) See note 8.

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

(f) Includes $119 corresponding to Nucleo.
(g) $100 bear 50% over the Banco Nación Argentina notes payable discount rate, and $52 bear 20.82%.

Marcelo Kozak	Carlos Felices	Alberto Messano
Accounting and Administrative Manager	**Chief Executive Officer**	**Director**

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REVIEW REPORT OF INTERIM FINANCIAL STATEMENTS

To the Directors and Shareholders of

Telecom Argentina S.A.

1. We have reviewed the accompanying consolidated balance sheet of Telecom Argentina S.A. (Telecom) and its consolidated subsidiaries as of September 30, 2004, and the related consolidated statements of income, changes in shareholders equity and cash flows for the nine month periods ended September 30, 2004 and 2003. These financial statements are the responsibility of the Company s management.

2. We conducted our reviews of these statements in accordance with Technical Resolution N° 7 of the Argentine Federation of Professional Councils in Economic Sciences for limited reviews of interim financial statements. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Argentina, the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

3. As further described in Note 3. (c) to the accompanying consolidated financial statements and as required by the corresponding regulatory agencies, the Company has discontinued the restatement of the consolidated financial statements in constant currency as from March 1, 2003. The Professional Council of Economics Sciences of the City of Buenos Aires (CPCECABA) required restatement for inflation until September 30, 2003. The estimated effects of not having performed the restatement into constant pesos from April 1 through September 30, 2003 has been quantified by the Company and included in such Note.

4. As indicated in Note 2. (c) to the accompanying consolidated financial statements, the Public Emergency and Exchange System Reform Law provided that in agreements executed by the Federal Government under public law regulations, including those related to public works and services, indexation clauses based on foreign currency price indices or any other indexation mechanism are annulled. In this regard, the Company s tariffs were set in pesos at the exchange rate of $1 per US$1 while part of the Company s costs and indebtedness is denominated in foreign currency. Consequently, the Company s operating conditions have been altered, negatively affecting its economic and financial equation. Additionally, as indicated in Note 13 to the accompanying consolidated financial statements, during the first half of 2002, the Board of Directors of Telecom decided to suspend payments of principal and interest on its outstanding financial indebtedness as well as those of its Argentine subsidiaries. As mentioned in such Note, on October 21, 2004, after reaching a level of consent of 82.35% of the total creditors representing 94.47% of the total financial indebtedness of the Company, the executed APE was filed with the reviewing court for approval. Furthermore, Telecom Personal (Personal , a wholly-owned subsidiary of Telecom) creditors representing 100% of the total Personal unsecured financial indebtedness consented to its restructuring proposal. Thus, Personal intends to pursue a restructuring for which no court approval is required. Personal expects to complete this process before December 2004. In addition, Nucleo S.A. (a wholly-owned subsidiary of Personal) is currently finalizing the restructuring of a portion of its financial indebtedness.

5. The accompanying consolidated financial statements of Telecom at September 30, 2004 were prepared considering the continuity of the normal course of business of the Company and of its subsidiary Personal, applying assets and liabilities valuation and classification criteria corresponding to a going concern and, therefore, they do not include any adjustments or classification that might result from the outcome of the uncertainty described in paragraph 4.

6. Based on the work done and on our examination of the Company s consolidated financial statements for the year ended December 31, 2003 on which we issued our report dated March 9, 2004 (with qualifications described in paragraphs 3, 4 and 5 of this report), we report that:

   a) the consolidated financial statements of Telecom at September 30, 2004 and 2003, described in paragraph 1, prepared in conformity with generally accepted accounting principles (GAAP) in Argentina, as approved by the CPCECABA, consider all significant facts and circumstances which are known to us and we have no observations to make regarding them other than those indicated in paragraphs 3, 4 and 5;

b) comparative information included in the accompanying consolidated balance sheets, derive from the Company s consolidated financial statements for the year ended December 31, 2003.

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7. Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 17 to the consolidated financial statements.

8. In compliance with current regulations, we report that:

a) the financial statements mentioned in paragraph 1 of this report have been transcribed to the Inventory and Balance Sheet book and are, as regards those matters that are within our competence, in conformity with relevant rules and regulations of the Commercial Corporation Law and CNV;

b) the financial statements of Telecom at September 30, 2004 arise from accounting records carried in all formal respects in accordance with current legal regulations;

c) we have read the Summary of Activity on the financial statements and the additional information to the notes of the financial statements required by Section 68 of the Buenos Aires Stock Exchange regulation on which, as regards those matters that are within our competence, we have no observations to make regarding them other than those indicated in paragraphs 3, 4 and 5;

d) at September 30, 2004, the debt corresponding to withholdings and contributions to the Integrated Retirement and Survivors Benefit System according to the Company s accounting records amounts to $8.487.675, none of which was claimable at that date.

Autonomous City of Buenos Aires, November 10, 2004.

PRICE WATERHOUSE & CO.

by (Partner)

Juan C. Grassi

TELECOM ARGENTINA S.A.

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

SUMMARY INFORMATION ON THE UNAUDITED CONSOLIDATED FINANCIAL

STATEMENTS AS OF SEPTEMBER 30, 2004

(In millions of Argentine pesos or as expressly indicated)

1. General considerations

Telecom Argentina recorded a consolidated net loss of $491 million for the nine-month period ended September 30, 2004 (9M04). Comparatively, consolidated net income for the nine-month period ended September 30, 2003 (9M03) was $779 million.

Earnings/loss per share and ADR for 9M04 amounted to $(0.50) and $(2.49), respectively. Earnings per share/loss and ADR for 9M03 were $0.79 and $3.96, respectively.

Operating profit before depreciation and amortization, operating profit/(loss) and net income/(loss) for 9M04 represented, 46%, 6% and (15%) of net sales, respectively; compared with 53%, 1% and 29%, respectively, for 9M03.

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Net sales	3,211	2,711
Cost of services	(2,153)	(1,929)
Gross profit	**1,058**	**782**
General and administrative expenses	(184)	(182)
Selling expenses	(666)	(576)
Operating income (loss)	**208**	**24**
Equity gain from related companies	(1)	2
Financial results, net	(622)	529
Other expenses, net	(69)	(138)
Gain on repurchase of debt		375
Net income (loss) before income tax and minority interest	**(484)**	**792**

Income tax benefit, net	(9)	
Minority interest	2	(13)
Net income	**(491)**	**779**
Net income per share (in pesos)	**(0.50)**	**0,79**

2. Company activities

Consolidated net revenues

Consolidated net revenues for 9M04 totaled $3,211 million, an increase of $500 million, or 18%, compared with $2,711 million for 9M03. The increase can be largely attributed to the increase in demand, particularly in the cellular business in Argentina and in the Internet.

Fixed telephony (Voice, data and Internet)

Ø ***Voice***

In fixed telephony operations, local measured service revenues increased by $19 million, or 5%, to $377 million during 9M04. Domestic long distance revenues increased by $7 million, or 2%, reaching $322 million. Revenues from both local and domestic long distance telephony increased due to higher traffic.

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

Monthly charges increased by $23 million, or 5%, to $471 million for 9M04, mainly due to the increase in customer lines. Customer lines as of September 30, 2004 increased to approximately 3,453,000, due to the recovery in demand, compared to approximately 3,328,000 as of September 30, 2003. However, the current level of lines in service is still 4% lower than before the economic crisis (December 2001). Moreover, monthly charges remained stable after the pesification and freeze enforced by the Argentine Government in January 6, 2002.

Revenues generated by interconnection services increased by $31 million, or 26%, to $150 million, mainly due to the increase of traffic transported by the fixed and cellular networks.

Regarding the international telephony activities during 9M04, revenues reached $158 million increasing by $2 million or 1%, mainly due to higher traffic.

Ø ***Data transmission and Internet***

Revenues generated by the data transmission business totaled $251 million, representing an increase of $4 million, or 2%, mainly due to higher Internet traffic and to the increase in monthly fees charged to other operators of wholesale services for ADSL and dial-up connections, partially off-set by lower prices for data transmission services. As of September 30, 2004 total lines in service with ADSL connections amounted to 111,000, an increase of 49,000, or 79%, compared to approximately 62,000 as of September 30, 2003. Internet minutes represented 33% of total traffic measured in minutes transported over the fixed-line network.

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Internet revenues from the Arnet unit increased by $13 million, or 30%, to $57 million, mainly due to a higher number of subscribers in ADSL high-speed accesses. As of September 30, 2004, the number of Arnet s ADSL subscribers reached approximately 70,000, while Internet dial-up customers reached approximately 156,000, increasing by 75% and 1%, respectively.

Cellular Telephony

The revenues generated by the cellular business during 9M04 increased by $388 million, or 47%, to $1,205 million.

Revenues of Telecom Personal in Argentina increased by $378 million, or 54%, to $1,084 million, mainly due to the higher number of subscribers, to the increase in outgoing and incoming traffic, and to the increase in sales of handsets as a consequence of the increase in the demand for cellular services and the development of the GSM network.

Furthermore, the average revenue per user increased by 14% (to $35 per customer, including revenues for TLRD or termination of calls coming from other cellular operators). Likewise, total cellular traffic increased by 42%.

Total cellular subscribers of Telecom Personal in Argentina reached approximately 3,375,000 at September 30, 2004, representing an increase of approximately 950,000 customers, or 39%.

Since the beginning of this fiscal year, the level of competition in the cellular market has increased significantly after the launch of GSM services. Accordingly, Telecom Personal continued to increase the coverage and capacity of its GSM network and has continued its marketing campaigns and promotions aimed to reposition its brand and strengthen its market leadership.

The customer base as of September 30, 2004 amounted to approximately 2,568,000 prepaid subscribers, representing 76% of the total customer base, and approximately 807,000 post-paid subscribers, representing the remaining 24%. These percentages were 82% and 18% respectively as of September 30, 2003.

Núcleo, Telecom Personal s subsidiary that provides cellular services in Paraguay, generated $121 million in revenues during 9M04, which are consolidated into the mobile telephony business together with the revenues of Telecom Personal. Nucleo s 9M04 revenues represented an increase of $10 million, or 9%.

As of September 30, 2004, Núcleo had approximately 458,000 customers, a decrease of approximately 12% due to the loss of dormant prepaid customers whose elimination from Nucleo s customer base was ordered by the Paraguayan regulatory authority.

Directories publishing

In the telephone directories publishing business, revenues from the affiliated company Publicom increased by $4 million to $8 million during 9M04 due to higher sales of advertising space in Paginas Amarillas directories and the launch of several new special directories.

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
National fixed telephone service	1,532	1,443
International telephone service	158	156
Data transmission	251	247
Internet	57	44
Fixed telephony	**1,998**	**1,890**
Wireless	1,205	817
Directories publishing	8	4
Total net sales	**3,211**	**2,711**

Operating costs

The cost of services provided, administrative expenses and selling expenses for 9M04 increased by $316 million, or 12%, to $3,003 million, mainly due to the increase in commissions for handset sales, cost of handsets, TLRD costs, in labor, materials and supplies, and advertising expenses. The evolution of costs is mainly related to the increase in sales and increasing competition in the mobile telephony business.

Salaries and social security contributions increased by $71 million, or 20%, to $434 million primarily due to the increase in headcount in Telecom Argentina as a consequence of the addition since October 1, 2003 of employees previously employed by third parties and whose costs were previously accounted for under Services Fees. Additionally, labor cost rose as a consequence of the increase in salaries granted during the second semester of last year. As of September 30, 2004, the headcount totaled 14,263, compared to 12,882 as of September 30, 2003.

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The allowance for doubtful accounts decreased by $18 million, or 95%, to $1 million. This positive evolution was related to the improvement in the levels of collection and the recovery of past due accounts mainly in the fixed telephony business.

Sales commissions increased by $54 million, or 79%, to $122 million for 9M04, as a consequence of higher commissions paid for new customers and higher sales of cellular prepaid cards.

Costs related to advertising increased by $48 million, or 300%, to $64 million for 9M04. This increase was mainly due to higher media advertising expenses for the Internet and cellular businesses.

In the cellular telephony business, TLRD costs, which have been accounted since mid-2003, reached $90 million. Additionally, in 9M04 the cost of cellular handsets increased by $145 million reaching $150, million mainly due to the increase in handsets sales as a consequence of the cellular business growth after the launch of GSM service.

Depreciation of fixed and intangible assets decreased by $149 million, or 10%, to $1,274 million during 9M04 as a consequence of the end of the amortization period of certain assets.

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Salaries and social security	(434)	(363)
Taxes	(99)	(89)
Turnover tax	(117)	(100)
Materials and supplies	(156)	(108)
Transportation and freight	(26)	(20)
Bad debt expense	(1)	(19)
Interconnection costs	(101)	(100)
Cost of international outbound calls	(60)	(57)
Lease of circuits	(27)	(28)
Fees for debt restructuring	(31)	(14)
Fees for services	(55)	(61)
Advertising	(64)	(16)
Cost of cellular handsets	(150)	(5)
Commissions	(166)	(103)
Roaming	(39)	(28)
Charges for termination of calls coming from other cellular operators	(90)	(39)

Others	(113)	(114)
Subtotal	**(1,729)**	**(1,264)**
Depreciation of fixed assets	(1,194)	(1,342)
Amortization of intangibles assets	(80)	(81)
Operating costs	**(3,003)**	**(2,687)**

Financial results, net

The loss resulting from financial and holding results reached $622 million for 9M04 as compared to a gain of $529 million in 9M03. The difference can be largely attributed to a decrease of $935 million relating to net currency exchange differences. The gap was a consequence of the effect that the appreciation of the Argentine Peso against the Dollar and the EURO had on the financial debt of the Company during the 9M03 that was reversed in 9M04. Moreover, the depreciation of the Argentine Peso against the Dollar and the EURO during 9M04 prompted additional currency exchange losses.

Other expenses, net

Other expenses (net) decreased by $69 million, or 50%, to $69 million for the 9M04 mainly as a result of lower severance payments and lower provisions for lawsuits.

Cash flow and net financial debt

Net Debt (Loans minus Cash and Banks plus Investments) decreased by $427 million, or 6%, to $7,127 million for 9M04 compared with 9M03 ($7,554 million), as a consequence of the cash flow generation of the company partially offset by accrued interest and exchange rate differences.

Investments

Of the total amount of $250 million invested during 9M04, $73 million, or 29%, corresponds to fixed-line telephony, data transmission and Internet, and $177 million or 71% to the cellular business as Telecom Personal continues with the deployment of its GSM network.

Other matters

Debt Restructuring

On August 23, 2004 Telecom Argentina announced that it had achieved 94.47% participation in its *Acuerdo Preventivo Extrajudicial*, (APE) solicitation process launched on June 22, 2004.

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The APE was filed with the courts in Argentina on October 21st, 2004.

Telecom Argentina cannot predict the timing of the court approval for its APE but expects to complete its APE process and issue the new notes and pay the cash consideration contemplated in the APE in the first half of 2005.

Additionally, Telecom Personal announced on October 6, 2004 that it had achieved 100% participation in its APE solicitation process. Given this strong participation and support from its creditor base, Telecom Personal is pursuing an out-of-court restructuring without seeking court approval of the APE. Telecom Personal expects to end its restructuring before the end of this fiscal year.

3. Summary comparative consolidated balance sheets

	As of September 30,				
	2004	**2003**	**2002**	**2001**	**2000**
Current assets	4,416	2,589	2,283	2,819	4,012
Non current assets	8,100	9,381	11,452	12,061	12,648
Total assets	**12,516**	**11,970**	**13,735**	**14,880**	**16,660**
Current liabilities	11,465	9,981	12,478	3,802	4,660
Non current liabilities	321	343	144	5,810	6,467
Total liabilities	**11,786**	**10,324**	**12,622**	**9,612**	**11,127**
Minority interest	**30**	**23**	**8**	**27**	**29**
Foreign currency translation adjustments	**23**	**27**	**39**		
Shareholders equity	**677**	**1,596**	**1,066**	**5,241**	**5,504**
Total liabilities, minority interest, foreign currency translation adjustments and Shareholders equity	**12,516**	**11,970**	**13,735**	**14,880**	**16,660**

4. Summary comparative consolidated statements of operations

	Nine-month periods ended September 30,				
	2004	2003	2002	2001	2000
Net sales	3,211	2,711	3,151	5,356	5,558
Operating costs	(3,003)	(2,687)	(3,294)	(4,606)	(4,597)
Operating income (loss)	**208**	**24**	**(143)**	**750**	**961**
Equity gain (loss) from related companies	(1)	2	(18)	(5)	(2)
Amortization of goodwill			(10)	(13)	(11)
Financial results, net	(622)	529	(5,862)	(365)	(363)
Other expenses, net	(69)	(138)	(115)	(109)	(83)
Gain on repurchase of debt		375			
Net income (loss) before income tax and minority interest	**(484)**	**792**	**(6,148)**	**258**	**502**
Income tax benefit (expense), net	(9)		1,990	(116)	(207)
Minority interest	2	(13)	21		2
Net income (loss)	**(491)**	**779**	**(4,137)**	**142**	**297**
Net income (loss) per share (in pesos)	**(0.50)**	**0.79**	**(4.20)**	**0.14**	**0.30**

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

September 30,	2004		2003		2002		2001		2000	
	Accumu-lated	Quarter	Accumu-lated	Quarter	Accumu-lated	Quarter	Accumu-lated	Quarter	Accumu-lated	Quarter
Installed lines	3,800,672	(738)	3,800,604	304	3,802,400	6	3,796,460	13,624	3,680,489	97,650
Lines replaced (a)	1,851,232		1,851,232		1,851,232		1,851,232		1,817,084	
Lines in service (b)	3,749,964	49,342	3,622,749	44,192	3,610,130	(22,129)	3,892,229	(21,913)	3,744,620	189,682
Customers lines	3,453,026	43,765	3,327,514	42,444	3,310,342	(20,921)	3,586,679	(28,937)	3,475,518	175,214
Public phones installed	83,286	1,875	79,446	86	79,497	(182)	82,574	(158)	78,738	727
Percentage of lines connected to digital exchanges	100.0		100.0		100.0		100.0		100.0	
Lines in service per 100 inhabitants (c)	19.9	0.2	19.4	0.2	19.6	(0.1)	21.3	(0.2)	20.7	1.0
Lines in service per employee	328	5	342	10	326	(1)	379	1	382	13

(a) As from November 8, 1990.
(b) Includes direct inward dialing numbers that do not occupy lines installed capacity.
(c) Corresponding to the northern region of Argentina.

6. Consolidated ratios

September 30,	2004	2003	2002	2001	2000
Liquidity (1)	0.39	0.26	0.18	0.74	0.86

Solvency (2)	0.06	0.16	0.09	0.55	0.50
Locked up capital (3)	0.65	0.78	0.83	0.81	0.76

(1) Current assets/Current liabilities.

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

(3) Non current assets/Total assets.

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7. Outlook

In 9M04 the macroeconomic scenario continued with a positive trend on its main variables. Levels of activity also continued with the positive trend shown in previous periods although their growth decelerated. Likewise, inflation rates remained stable. The level of fiscal collection continues with high percentages of growth and the fiscal results continue positive. The Company expects that this context will develop during this fiscal year.

Telecom s operations have improved as a consequence of the better levels of lines in service and better traffic in the fixed telephony. In the cellular business there is a higher number of new subscribers and a better level of traffic with more selling expenses as a consequence of the higher competence. On the other hand, the Telecom Group is still affected by the lack of resolution on the tariff structure renegotiation. Likewise, as the Telecom Group s consolidated debt is nominated in foreign currency, their operations are still being influenced by the fluctuation of the exchange rate of the Peso against the Dollar and the Euro. It should be noted that the negative trend in 9M04 in the exchange rate generated losses arising from currency exchange differences that were the main cause of the consolidated net loss for the period.

In the context of the debt restructuring, on August 23, 2004 Telecom Argentina announced that it had achieved 94.4% participation in its *Acuerdo Preventivo Extrajudicial*, (APE) solicitation process launched on June 22, 2004. The APE was filed with the courts in Argentina on October 21st, 2004. Considering this situation, the Company believes that this is the last stage of its debt restructuring process and expects to finish the process during the first half of fiscal year 2005.

Additionally, Telecom Personal announced on October 6, 2004 that it had achieved 100% participation in its APE solicitation process. Given this strong participation and support from its creditor base, Telecom Personal is pursuing an out-of-court restructuring without seeking court approval of the APE. Telecom Personal expects to end its restructuring before the end of this fiscal year.

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

Alberto Messano
Director

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CORPORATE INFORMATION

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

Ø **STOCK MARKET INFORMATION** (Source: Bloomberg)

BCBA

Quarter	Market quotation ($/share) High	Market quotation ($/share) Low	Volume of shares traded (in million)
September 03	4.04	3.20	62.2
December 03	5.15	3.80	37.7
March 04	6.56	5.14	51.3
June 04	6.27	4.19	35.9
September 04	6.48	5.16	25.6

NYSE

Quarter	Market quotation (US$/ADR*) High	Market quotation (US$/ADR*) Low	Volume of ADRs traded (in million)
September 03	6.95	5.45	35.3
December 03	8.83	6.54	20.0
March 04	11.06	8.88	27.3
June 04	11.09	7.30	16.3
September 04	10.92	8.49	12.1

* Calculated at 1 ADR = 5 shares

Ø **INVESTOR RELATIONS** for information about Telecom Argentina STET-France Telecom S.A., please contact:

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Morgan Guaranty Trust Co.
ADR Department
60 Wall Street
New York, New York 10260-0060
USA
Tel.: 1-212-648-9935

- **INTERNET** http://www.telecom.com.ar

- **DEPOSIT AND TRANSFER AGENT FOR ADRs**

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60 Wall Street
New York, New York 10260-0060
USA

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Telecom Argentina S.A.	
Date: November 18, 2004	By:	/s/ Alberto Yamandú Messano
	Name:	Alberto Yamandú Messano
	Title:	Director