

TELECOM ARGENTINA SA
Form 6-K
April 08, 2011
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of April 2011

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)

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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 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

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

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

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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Telecom Argentina S.A.

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

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TELECOM ARGENTINA S.A.

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

Consolidated Financial Statements as of December 31, 2010 and December 31, 2009 and for the years ended December 31, 2010, 2009 and 2008

\$: Argentine peso

US\$: US dollar

\$3.976 = US\$1 as of December 31, 2010

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

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Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Consolidated Balance Sheets as of December 31, 2010 and 2009**

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

	As of December 31,	
	2010	2009
ASSETS		
Current Assets		
Cash and banks	\$ 119	\$ 62
Investments	1,268	1,227
Accounts receivable, net	1,449	1,163
Other receivables, net	334	241
Inventories, net	437	243
Other assets, net	7	7
Total current assets	3,614	2,943
Non-Current Assets		
Other receivables, net	98	74
Investments	1	1
Fixed assets, net	7,479	6,839
Intangible assets, net	769	773
Other assets, net	3	3
Total non-current assets	8,350	7,690
TOTAL ASSETS	\$ 11,964	\$ 10,633
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 2,908	\$ 2,212
Debt	42	763
Salaries and social security payable	390	300
Taxes payable	1,022	769
Other liabilities	54	52
Contingencies	64	73
Total current liabilities	4,480	4,169
Non-Current Liabilities		
Accounts payable		24
Debt	121	58
Salaries and social security payable	110	82
Taxes payable	154	212
Other liabilities	200	186
Contingencies	536	374

Total non-current liabilities	1,121	936
TOTAL LIABILITIES	\$ 5,601	\$ 5,105
Noncontrolling interest	126	92
SHAREHOLDERS EQUITY	\$ 6,237	\$ 5,436
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY	\$ 11,964	\$ 10,633

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008**

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

	For the years ended December 31,		
	2010	2009	2008
Net sales	\$ 14,679	\$ 12,226	\$ 10,608
Cost of services	(7,355)	(6,093)	(5,712)
Gross profit	7,324	6,133	4,896
General and administrative expenses	(530)	(448)	(364)
Selling expenses	(3,593)	(2,923)	(2,491)
Operating income	3,201	2,762	2,041
Gain on equity investees		13	
Financial results, net	(34)	(329)	(265)
Other expenses, net	(317)	(229)	(268)
Net income before income tax and noncontrolling interest	2,850	2,217	1,508
Income tax expense, net	(1,010)	(797)	(535)
Noncontrolling interest	(19)	(15)	(12)
Net income	\$ 1,821	\$ 1,405	\$ 961
Net income per share	\$ 1.85	\$ 1.43	\$ 0.98

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

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

Consolidated Statements of Changes in Shareholders' Equity

for the years ended December 31, 2010, 2009 and 2008

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

	Shareholders' contributions (Note 9.a) Inflation adjustment of			Unappropriated earnings (Note 9.b)			Total Shareholders equity
	Common stock	common stock	Total	Legal reserve	Other reserves	Accumulated earnings (deficit) Total	
Balances as of January 1, 2008	\$ 984	2,688	3,672		66	(708)	\$ 3,030
Foreign currency translation adjustments					21	21	21
Changes in the fair value of cash flow hedges, net of tax					8	8	8
Net income for the year						961	961
Balances as of December 31, 2008	\$ 984	2,688	3,672		95	253	\$ 4,020
Foreign currency translation adjustments (i)					19	19	19
Changes in the fair value of cash flow hedges, net of tax					(8)	(8)	(8)
Net income for the year						1,405	1,405
Balances as of December 31, 2009	\$ 984	2,688	3,672		(ii) 106	1,658	\$ 5,436
As approved by the Shareholders' Ordinary Meeting held on April 28, 2010:							
Legal Reserve				360		(360)	
Cash dividends (\$1.07 peso per share) - Note 6						(1,053)	(1,053)
Foreign currency translation adjustments					33	33	33
Net income for the year						1,821	1,821
Balances as of December 31, 2010	\$ 984	2,688	3,672	360	(ii) 139	2,066	\$ 6,237

(i) Includes (13) corresponding to the foreign currency translation adjustment realized on capital reimbursement of Núcleo (Notes 5.m and 7.f).

(ii) The balance corresponds to foreign currency translation adjustments.

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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

	For the years ended December 31,		
	2010	2009	2008
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Net income for the year	\$ 1,821	\$ 1,405	\$ 961
Adjustments to reconcile net income to net cash flows provided by operating activities			
Allowance for doubtful accounts and other allowances	152	182	108
Depreciation of fixed assets	1,331	1,119	1,267
Amortization of intangible assets	23	19	22
Gain on equity investees		(13)	
Consumption of materials	114	109	109
Gain on sale/disposal of fixed assets and other assets	(8)	(10)	(8)
Provision for lawsuits and contingencies	187	122	100
Holdings (gain) losses on inventories	15	7	(2)
Interest and other financial losses on loans	92	371	563
Income tax	3	167	353
Noncontrolling interest	19	15	12
Net increase in assets	(773)	(391)	(494)
Net increase in liabilities	762	186	328
Total cash flows provided by operating activities	3,738	3,288	3,319
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Fixed asset acquisitions	(1,803)	(1,474)	(1,546)
Intangible asset acquisitions	(27)	(17)	(15)
Equity investees acquisitions			(97)
Proceeds for the sale of fixed assets and other assets	10	15	12
Decrease (increase) in investments not considered as cash and cash equivalents	15	245	329
Total cash flows used in investing activities	(1,805)	(1,231)	(1,317)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Debt proceeds	200	361	91
Payment of debt	(890)	(1,852)	(1,444)
Payment of interest and debt-related expenses	(78)	(168)	(185)
Cash dividends paid	(1,053)	(19)	(20)
Payment of capital reimbursement of Núcleo		(8)	
Total cash flows used in financing activities	(1,821)	(1,686)	(1,558)
INCREASE IN CASH AND CASH EQUIVALENTS	112	371	444
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	1,273	902	458
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 1,385	\$ 1,273	\$ 902

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See Note 6 for supplementary cash flow information.

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

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Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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

1. The Company and its operations

Telecom Argentina S.A. (Telecom Argentina and together with its subsidiaries, the Company or the Telecom Group, indistinctively) 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. in April 1990.

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).

Telecom Argentina's license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina through 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.

The Company provides fixed-line public telecommunication services, international long-distance service, data transmission and Internet services in Argentina. Accordingly, the Company had amended its by-laws in accordance with the prior approval obtained from the Department of Communications (SC, the Regulatory Authority) and the *Comisión Nacional de Valores* (CNV), the National Securities Commission in Argentina.

A description of the subsidiaries with their respective percentage of capital stock owned as of December 31, 2010, is presented as follows:

Reportable segment	Subsidiaries	Percentage of capital stock owned and voting rights (i)	Indirect control through	Date of acquisition
Fixed telephony	Telecom Argentina USA Inc. (Telecom USA)	100.00%		09.12.00
	Micro Sistemas Sociedad Anonima (Micro Sistemas) (ii)	99.99%		12.31.97
Mobile services	Telecom Personal S.A. (Personal)	99.99%		07.06.94
	Núcleo S.A. (Núcleo)	67.50%	Personal	02.03.98
	Springville S.A. (Springville) (ii)	100.00%	Personal	04.07.09

(i) Percentage of equity interest owned has been rounded.

(ii) Dormant entity at December 31, 2010.

2. Regulatory framework**(a) Regulatory bodies and general legal framework**

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Telecom Argentina and 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 SC and supervised by the *Comisión Nacional de Comunicaciones*, the National Communications Commission (CNC). The CNC is in charge of general oversight and supervision of telecommunications services. The SC has the power to develop, suggest and implement policies which are applicable to telecommunications services; 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 major technical plans and to resolve administrative appeals filed against CNC resolutions.

The principal features of the regulatory framework in Argentina 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.

Núcleo, Personal s Paraguayan controlled company, is supervised by the *Comisión Nacional de Telecomunicaciones de Paraguay*, the National Communications Commission of Paraguay (CONATEL). Telecom USA, Telecom Argentina s subsidiary, is supervised by the Federal Communications Commission (the FCC).

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Notes to the 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 December 31, 2010

As of December 31, 2010, 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 December 31, 2010, the Company's subsidiaries have been granted the following licenses:

Personal has been granted non-exclusive, non-expiring licenses to provide mobile telecommunication services in the northern region of Argentina, data transmission and value added services throughout the country, mobile radio communication services in the Federal District and Greater Buenos Aires areas, PCS services throughout the country and it is registered to provide national and international long-distance telephone services; and

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Núcleo has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as PCS services, data transmission and videoconferences services and Internet access in certain areas of that country.

(c) Revocation of the license

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

an interruption of all or a substantial portion of service;

a modification of its corporate purpose or change of domicile to a jurisdiction outside Argentina;

a sale or transfer of the license to third parties without prior approval of the Regulatory Bodies;

any sale, encumbrance or transfer of assets which has the effect of reducing services provided, without the prior approval of the Regulatory Bodies;

a 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 Bodies;

any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina without prior approval of the Regulatory Bodies;

the Company's bankruptcy.

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;

any voluntary insolvency proceedings or bankruptcy of Personal;

a liquidation or dissolution of Personal, without the prior approval of the Regulatory Authority.

Núcleo's licenses are revocable mainly in the case of:

repeated interruptions of the services;

any voluntary insolvency proceedings or bankruptcy of Núcleo;

non-compliance with certain obligations.

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

2. Regulatory framework (continued)

(d) Decree No. 764/00

Decree No. 764/00 substantially modified three regulations:

General Regulation of Licenses

This regulation establishes a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, mobile, national and international, irrespective of whether these services are provided through telecommunications infrastructure owned by the service provider. Under the regulation, a licensee's corporate purpose does not need to be exclusively the provision of telecommunications services. In addition, the regulation does not establish any minimum investment or coverage requirements. Broadcasting service companies may also apply for a license to provide telecommunications services. The regulation further authorizes the resale of telecommunications services subject to the receipt of a license, and there are no restrictions on participation by foreign companies.

Argentine Interconnection Regulation

This regulation provides for an important reduction in the reference interconnection prices in effect at the time. The regulation also increases the number of infrastructure elements and services that the dominant operator is required to provide, including interconnection at the local exchange level, billing services and unbundling of local loops. This regulation also introduces interconnection for number translation services (NTS) such as Internet, audiotext, collect calling and the implementation of number portability, all of which shall be subject to future regulations.

Universal Service Regulation (RGSU)

The RGSU required entities that receive revenues from telecommunications services to contribute 1% of these revenues (net of taxes) to the Universal Service Fiduciary Fund (the SU fund). The regulation adopted a "pay or play" mechanism for compliance with the mandatory contribution to the SU fund. The regulation established a formula for calculating the subsidy for the provision of SU which takes into account the cost of providing this service and any foregone revenues. Additionally, the regulation created a committee responsible for the administration of the SU fund and the development of specific SU programs.

The SC issued Resolution No. 80/07 which stipulated that until the SU Fund was effectively implemented, telecommunication service providers, such as Telecom Argentina and Personal, were required to deposit any contributions accrued since the issuance of such Resolution into a special individual account held in their name at the Banco de la Nación Argentina. CNC Resolution No. 2,713/07, issued in August 2007, established how these contributions are to be calculated.

New SU Regulation

Decree No. 558/08, published on April 4, 2008, caused certain changes to the SU regime.

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The Decree established that the SC will assess the value of service providers' direct program contributions in compliance with obligations promulgated by Decree No. 764/00. It will also determine the level of funding required in the SU Fund for programs pending implementation. In the same manner, in order to guarantee the continuity of certain projects, the SC was given the choice to consider as SU contributions certain other undertakings made by telecommunication services providers and compensate providers for these undertakings.

The new regulation established two SU categories: a) areas with uncovered or unsatisfied needs; and b) customer groups with unsatisfied needs. It also determined that the SC would have exclusive responsibility for the issuance of general and specific resolutions regarding the new regulation, as well as for its interpretation and application.

It also established that the SC will review SU programs which were established under the previous regulation, guaranteeing the continuity of those already being administered and implementing those that had been under review. The financing of SU ongoing programs which were recognized as such will be determined by the SC, whereas telecommunications providers appointed to participate in future SU Programs will be selected by competitive bidding.

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TELECOM ARGENTINA S.A.

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

Notes to the Consolidated Financial Statements

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

2. Regulatory framework (continued)

The Decree requires Telecom Argentina and Telefónica de Argentina S.A. (Telefónica) to extend the coverage of their fixed line networks, within their respective original region of activity, within 60 months from the effective date of publication of the Decree. The SC will determine on a case by case basis if the providers will be compensated with funds from the SU Fund.

The Decree requires telecommunications service providers to contribute 1% of their revenues (from telecommunication services, net of taxes) to the SU Fund and keeps the pay or play mechanism for compliance with the mandatory monthly contribution to the SU Fund or, to claim the correspondent receivable, as the case may be.

Providers of telecommunications services shall rely on the assistance of a Technical Committee made up of seven members (two members shall be appointed by the SC, one member shall be appointed by the CNC, three members shall be appointed by the telecommunication services providers two of which shall be appointed by Telecom Argentina and Telefónica and one by the rest of the providers and another member will be appointed by independent local operators). This Technical Committee is informed by the SC of the programs to be financed and is responsible for managing and controlling the SU Fund, carrying out technical-economic evaluations of existing projects and supervising the process of competitive bidding and adjudication of new SU programs, with the prior approval by the SC.

At the date of issuance of these consolidated financial statements, the Technical Committee has been created and has begun to analyze the operative procedures associated to the functions derived from its responsibilities. Additionally, telecommunications service providers had already selected the Fiduciary institution and had sent the proposed Fiduciary agreement to the SC. The SC approved it in January 2009 through Resolution No. 7/09.

On December 9, 2008, the SC issued Resolution No. 405/08 which required telecommunication service providers to deposit into special accounts the 1% of their revenues as defined in Decree No. 558/08, without passing on any costs incurred for the provision of their services.

On January 12, 2009, the Company and Personal, filed claims before the SC objecting to the provisions of SC Resolution No. 405/08, based on the illegality of this rule, arguing that it contradicts Decree No. 558/08 because it violates the rights of both licensees to factor their compensation for the provision of the SU programs in the calculation of their investment contribution, in accordance with the pay or play mechanism stated in the Decree No. 558/08. The management of the Group, with the opinion of its legal counsel, considers it has meritorious legal arguments for the claims filed against Resolution No. 405/08 and the issuance of SC Resolution No. 154/10 supports those arguments.

On April 4, 2009, by means of SC Resolution No. 88/09, the SC created a program denominated Telephony and Internet for towns without provision of basic Telephone services that will be subsidized with funds from the SU Fund. The program seeks to provide local telephony, domestic long distance, international long distance and Internet in towns that currently do not provide basic telephone services. The proposed projects approved by the SC will be sent to the Technical Committee of the SU Fund so that availability of funds can be evaluated and they can be included in a bidding process provided for in Decree No. 558/08.

On December 1st, 2010, the SC issued Resolutions No. 147/10 and 148/10, approving Internet for educational institutions and Internet for public libraries programs, respectively. These programs aim to reclaim the Broadband Internet service to state-run educational institutions and public libraries, respectively, and will be implemented through the use of the FFSU resources.

On November 11, 2010, the SC issued Resolution No. 154/10 adopting the methodology for the deposit of the SU contributions to the trustee s escrow account. The resolution includes several provisions related to the determination of the contributions that correspond to previous and posterior periods to the dictation of the Decree No. 558/2008. It also provides that until the SC determines the existence of programs, the

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amounts that may correspond to their implementation may be discounted by the telecommunication providers when determining their contribution to the SU Fund. If completed the verification from the SC there were unrecognized amounts, they must be contributed into the FFSU.

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Notes to the Consolidated Financial Statements

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

2. Regulatory framework (continued)

At the date of issuance of these consolidated financial statements, the SU programs are still pending approval by the SC.

On December 30, 2010, the trustee notified Telecom Argentina and Personal the trustee's escrow account number in which they shall deposit the SU contributions under the provisions of SC Resolution No. 154/10.

On January 26, 2011 the SC issued Resolution No. 9/11 determining the Infrastructure and Facilities Program. The resolution provides that telecommunications services providers may affect to investment projects under this program, exclusively the amounts corresponding to their pending obligations of investment contributions born under Annex III of Decree No. 764/00, prior to Decree No. 558/08, and establishes a ninety-day business period for providers to submit investment projects for approval.

In Telecom Argentina

By the end of 2002, the SC formed a working group responsible for analyzing the method to be applied for measuring the net costs of SU performance particularly, the application of the Hybrid Cost Proxy Model (the HCPM Model), based on the incremental cost of a theoretical network. The working group was also tasked with defining non-monetary benefits and determining the methodology for its calculation, in order to assess the costs that would be offset due to performance of SU obligations. The working group decided that, given the complexity of this methodology, efforts should be made to continue the initial programs independently from application of the HCPM Model, and that there was a need to carry out a comprehensive review of the present general regulations relating to SU to ensure that these regulations were operative in the near term considering the existing social needs.

Several years after the market's liberalization and the effectiveness of the first SU regulations, service providers affected by these regulations have not received set-offs for providing services as required by the SU regime.

In compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713 /07, Telecom Argentina has estimated a receivable of \$860 (unaudited) for the period initiated in July 2007 and filed its calculations for review by the regulatory authority. This receivable has not yet been recorded since it is subject to the approval of the SU programs, the review of the SC and the availability of funds in the SU Trust.

In Personal

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the SU fund. As of December 31, 2010, this provision amounts to \$206. In addition, since July 2007 and in compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713/07, Personal has deposited the correspondent contributions on their respective maturity date (amounting to \$112 as of December 31, 2010) into an account held under their name at the Banco de la Nación Argentina; these contributions were recorded as a receivable in the caption Other receivables of the consolidated balance sheets.

At the date of issuance of these financial statements, these funds were transferred to the trustee's escrow account for the FFSU, in compliance with the provisions of SC Resolution No. 154/10 previously described.

As of January 2001, Personal, as well as the other mobile providers, had charged SU fund amounts to customers.

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SC Resolution No. 99/05 required entities that derived revenues from telecommunications services to contribute 1% of these revenues to the SU fund, and prohibited billing to customers any SU amounts.

As a result, the CNC, through CNC Note No. 726/05, requested that Personal discontinue billing SU amounts to customers and reimburse all collected SU amounts plus interest (applying the same rate used for overdue invoices from customers).

Although the SC resolutions were appealed, management decided to reimburse the SU amounts which had been billed to post-paid customers from January 1, 2001 through June 28, 2005, the date on which Personal ceased billing SU amounts.

Although Personal reimbursed the SU amounts, it will not surrender its rights to consider the resolutions illegitimate and without merit.

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Notes to the Consolidated Financial Statements

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

2. Regulatory framework (continued)

During the first quarter of 2006, Personal fully reimbursed all previously billed SU amounts plus interest to its active post-paid customers (amounting to \$15, calculated using the Banco de la Nación Argentina interest rate collected by banks). In addition, as of May 2006, Personal had reimbursed the SU amounts billed to its former customers and former post-paid customers that have changed into prepaid customers (amounting to \$4) and still remains pending an amount of \$6 that is available for collecting.

In December 2006, the CNC issued a preliminary report regarding verification of Personal's SU reimbursement, which indicated that Personal completed the requirement of reimbursement of the SU amounts including interest. However, the report stated that the interest rate applied differed from the rate required by the CNC; finally, on August 7, 2008, the CNC ordered Personal to adjust the reimbursement applying the same rate used for overdue invoices from customers (that is, one and a half of the Banco de la Nación Argentina interest rate collected by banks).

In September 2008, Personal has rejected this claim explaining its grounds for justification of the applied interest rate. However, the management of Personal has considered the reimbursement of the interests claimed by the CNC. As a result, Personal had recorded a provision of \$10. During the third quarter of 2009, Personal has begun the reimbursement to its customers (amounting to \$5 as of December 31, 2010).

Number Portability

On January 22, 2009, the SC issued Resolution No. 08/09 pursuant to which an ad hoc Working Commission was created with representatives of the SC and the CNC, for the purpose of preparing a draft of the Number Portability Regime.

On August 19, 2010, through Resolution SC No. 98/2010, the SC approved the Number Portability Regime (NP), covering the STM, SRMC, PCS and SRCE (trunking) mobile services, defined in the resolution as portable services.

The implementation timetable was approved by Resolutions No. 8/2011 and 3/2011 jointly issued by the SC and the Ministry of Domestic Trade and defined December 2011 as the ongoing date for the NP.

The resolution also provides for the creation of a Portability Committee, which has already been formed with representatives of mobile operators and, among other responsibilities, is in charge of coordinating and supervising the NP's implementation process and functioning, reporting to the SC about fulfillment of the objectives included in the timetable, defining the NP's technical and operative procedures and specifications, and preparing the Bidding Specifications for the hiring of the Database Administrator, being all of the above subject to the SC's approval.

Personal has appointed its representatives in the Portability Committee, and has organized a working team with the objective of evaluating the impact of the above regulation and carrying out the tasks needed for its implementation, following the timetable.

(e) Regulation for the call by call selection of the providers of long-distance services

On December 28, 2001, the former Ministry of Infrastructure and Housing issued General Resolution No. 613/01 which approved a system that allows callers to select their preferred long-distance provider for each call. This call by call selection system is referred to as SPM .

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Subsequently, as a result of the claims submitted by several carriers objecting to General Resolution No. 613/01, the Ministry of Economy issued General Resolution No. 75/03, which introduced several changes to the regulations providing for SPM. The main changes relate to the following: long-distance carriers' freedom to provide SPM, changes in blockage modality due to delinquency, changes in the service connection modality and greater flexibility of obligations connected with service promotion and advertising. Resolution No. 75/03 also provides that origin providers, both fixed and mobile, must have their equipment and networks available to provide the SPM service on June 6, 2003. As of the date of these consolidated financial statements, this long-distance service modality is not implemented.

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2. Regulatory framework (continued)

(f) Public telephony in penal institutions

As stated by Decree No. 690/06, in August 2007, the SC issued Resolution No. 155/07, where it approves the Regulation for Communications that are initiated in Penal Institutions , establishing technical requirements for the system and the telephone lines installed in penal institutions, so that all communications carried out are registered.

Such Regulation shall be in effect in the term of one year, which may be extended to a similar period, counted sixty days from the date in which the technical definitions that the CNC must issue become available.

At the date of issuance of these consolidated financial statements, the Company is developing technical alternatives to implement in order to comply with this new rule.

(g) Tax Stability principle: impact of variations in Social Security contributions

On March 23, 2007, the SC issued Resolution No. 41/07 relating to the impact of variations in Social Security contributions occurring over the past several years.

Subsequent to November 8, 1990, there were several increases in the rates of Social Security Contributions, which were duly paid by Telecom Argentina. At the same time, and under the framework of the argentina@internet.todos Program, the Company paid, mostly during fiscal year 2000, reduced social security contribution rates.

Pursuant to Resolution No. 41/07, Telecom Argentina may offset the impact of costs borne as a result of increases in Social security contribution rates.

The Company made the required presentations to the SC of the net receivable under Resolution No. 41/07, which were subject to audits by the Regulatory Authority.

During the third quarter of 2007, the CNC performed the audits on the information given by the Company. The Company had access to documentation of the CNC 's audits, which resulted in no significant differences from the net amounts it had determined. Consequently, the Company recorded a receivable from increases in social security contributions and cancelled payables from reduction in social security contribution rates and other fines due by the Company.

At December 31, 2010, the Company has a net receivable of \$67 which, in addition with the receivable of \$23 corresponding to the tax on deposits to and withdrawals from bank accounts (IDC), is included in the non-current caption Other receivables .

Since the resolution allows the Company to offset the receivables with existing and/or future regulatory duties and the intention of the Company is to exercise its offsetting rights, the receivable was recorded net of reserves. At December 31, 2010, the reserves corresponding to these regulatory duties amounted to \$90.

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Since December 2008, the Company has begun the billing to the customers of the increases in the rates of its social security contributions accrued from October 2008, applying the same mechanism used to bill the IDC.

(h) Tariff structure of the national and international regulated fixed line services

Rate Rebalancing

The variation in revenues resulting from the Rate Rebalancing for the two-year period beginning February 1997 was determined to amount to an increase of \$9.5, by means of SC Resolution No. 4,269/99.

In December 2007, the Regulatory Authority notified the Company that it will offset this difference with the Resolution No. 41/07 receivables. As a consequence, during fiscal year 2007, the Company recorded a reserve on this matter on behalf of the CNC final results. In April 2009, the CNC notified the offsetting of the \$9.5 Rate Rebalancing amount with the Resolution No. 41/07 receivables. So, the Company has reduced the receivable with the corresponding reserve.

Price Cap

The Price Cap was a regulation mechanism applied in order to calculate changes in Telecom Argentina tariffs, based on changes in the U.S. Consumer Price Index (U.S. C.P.I.) and an efficiency factor.

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2. Regulatory framework (continued)

In August 2009, the Regulatory Bodies finalized the 1999 Price Cap audit resulting in a payable by the Company of \$3.1 plus interest. The Company has offset this balance with the credit resulting from SC Resolution No. 41/07, described in (g) above.

On April 6, 2000, the Argentine Government, Telefónica and Telecom Argentina signed an agreement (Price Cap 2000) that set the price cap efficiency factor at 6.75% (6% set by the SC and 0.75% set by Telecom Argentina and Telefónica) for the period from November 2000 to November 2001.

The 2000 Price cap audit results are still pending. Should the outcome is a payable by the Company it can be offset with the Resolution No. 41/07 receivables.

In April 2001, the Argentine Government, Telefónica and Telecom Argentina signed an agreement (2001 Price Cap) that set the efficiency factor for reduction of tariffs at 5.6% for the period from November 2001 to October 2002.

However, a preliminary injunction against Telecom Argentina disallowed Telecom Argentina to apply tariff increases by reference to the U.S. C.P.I. Telecom Argentina appealed this injunction arguing that if one part of the formula cannot be applied, the Price Cap system should be nullified. Finally, Public Emergency Law No. 25,561 explicitly prohibited tariff adjustments, so, at the date of issuance of these consolidated financial statements, the pesification and the freeze of the regulated tariffs are still in force. Additional information is given in Note 11.e Other claims.

Tax on deposits to and withdrawals from bank accounts (IDC) charged to customers

On February 6, 2003, the Ministry of Economy, through Resolution No. 72/03, defined the mechanism to allow, going forward, tariff increases on basic telephony services reflecting the impact of the IDC. The amount of tax charged must be shown separately in customers bills. The Company has determined the existence of a remaining unrecovered amount of approximately \$23 that arose before the issuance of Resolution No. 72/03, which will be claimed within the tariff renegotiation process (see (i) below).

In April 2007, the Company provided the CNC with supporting documentation on this amount for its audit. The Company had access to documentation of the Regulatory Authority s audits that corroborates the amounts claimed by the Company and the application of a similar offsetting mechanism pursuant to Resolution No. 41/07. Therefore, as of December 31, 2010 and 2009, the Company recorded as Other receivable a total of \$23.

(i) 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. C.P.I. These adjustments were not applied since 2000 according to a resolution of the SC.

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However, in January 2002, the Argentine Government enacted Law No. 25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the Public Emergency Law), 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 overall impact of tariffs for public services on the economy and 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 service providers.

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2. Regulatory framework (continued)

Decree No. 293/02, dated February 12, 2002, entrusted the Ministry of Economy with the renegotiation of the agreements. Initially, the contractual renegotiation proposals were to be submitted to the Argentine 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 Argentine 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 Argentine Government and future and on-going investment commitments.

Furthermore, in July 2003, Decree No. 311/03 created the *Unidad de Renegociación y Análisis de Contratos de Servicios Públicos* (UNIREN), (Division of the Renegotiation and Analysis of Contracts of Public Utilities Services), a special division 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 service providers were to be revised and 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. As from that date, the Argentine Government enacted subsequent laws pursuant to which this term was extended through December 31, 2011.

In May 2004, the Company signed a Letter of Understanding (LOU) with the Argentine Government pursuant to which the Company committed not to modify the current tariff structure through December 31, 2004 and to continue with the tariff renegotiation process, which the Company expected to have concluded before December 31, 2004. The Company also committed to offer phone services to beneficiaries of governmental welfare programs and to extend internet services in the interior of the country at reduced prices.

Even though the Company fulfilled its commitments under the LOU, the Argentine Government did not make a specific offer related to the renegotiation of the tariffs at the date set in the LOU.

New Letter of Understanding with the UNIREN

On March 6, 2006, Telecom Argentina signed a new LOU (the Letter) with the UNIREN. Upon the fulfillment of the procedures set forth in the rules and regulations presently in effect, the Letter will provide the framework for the signing of the *Acta Acuerdo de Renegociación del Contrato de Transferencia de Acciones* or Minutes of Agreement of the Renegotiation of the Transfer Agreement (the Minutes of Agreement of the Renegotiation) approved by Decree No. 2,332/90, as stated in Section 9 of the Public Emergency Law.

The main terms and conditions of the Letter include:

The CNC and UNIREN have determined that Telecom Argentina satisfactorily complied with most of the requirements contemplated in the Transfer Agreement and by the regulatory framework. Isolated violations were satisfactorily remedied through fines and/or sanctions. Other matters arising in the normal course of business are still pending resolution, which was originally expected by June 30, 2006 (some of these matters are described below). Despite such expectation, the Regulatory Authority continues to analyze such open issues, the outcome of which will be disclosed when the analysis is completed;

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Telecom Argentina's commitments to invest in the technological development and updating of its network;

Telecom Argentina's commitment to the achievement of its long-term service quality goals;

The signing parties' commitment to comply with and maintain the terms set forth in the Transfer Agreement, and in the regulatory framework in effect;

The Argentine Government's commitment to create an appropriate and standardized regulatory framework for telecommunications services and to give Telecom Argentina fair and equivalent treatment to that given to other telecommunications providers that shall take part in the process;

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

2. Regulatory framework (continued)

Telecom Argentina's commitment and the commitment of its indirect shareholders Telecom Italia S.p.A. and W de Argentina Inversiones S.L., to suspend for a period of 210 working days any and all claims, appeals and petitions already filed or in the process of being filed, in administrative, arbitral or judicial offices, in Argentina or in any other country, that are founded in or related to any act or measure taken after the issuance of the Public Emergency Law with respect to the Transfer Agreement and the License. The suspension will take effect after the 30th day from the end of the public hearing convened to deal with the Letter. Once the Minutes of Agreement of the Renegotiation is ratified, any and all claims, appeals and/or proceedings will be disregarded;

An adjustment shall be made to increase the termination charge of international incoming calls to a local area to be equivalent to international values, which are at present strongly depreciated;

Off-peak telephone hours corresponding to reduced tariffs shall be unified with regards to local calls, long distance domestic and international calls.

On May 18, 2006, the Letter was subject to a public hearing procedure, with the purpose of encouraging the participation of the users and the community in general, taking into consideration that the Letter's terms and conditions will provide the framework for the signing of the Minutes of Agreement of the Renegotiation. These Minutes of Agreement of Renegotiation shall be in effect once all the requirements stipulated in the regulatory framework are complied with, which among other things, requires that a Telecom Argentina Stockholders Meeting be held to approve said Minutes. Both Telecom Argentina and its indirect stockholders Telecom Italia S.p.A. and W de Argentina Inversiones S.L. have timely fulfilled the Agreement's commitments.

At the date of issuance of these financial statements, the Company continues to await completion of the administrative steps required for the National Executive to submit to the National Congress a proposed Memorandum of Agreement for Renegotiation.

Although there can be no assurance as to the ultimate outcome of these matters, it is the opinion of the Management of the Company that the renegotiation agreement process will be satisfactorily completed.

(j) Buy Argentine Act

In December 2001, the Argentine Government passed Public Law No. 25,551 (Compre Trabajo Argentino or the Buy Argentine Act) and in August 2002, passed Decree No. 1,600/02 which approved and brought into effect the Compre Trabajo Argentino. The law requires Telecom Argentina to give preference to national goods and services, as defined in Public Laws No. 25,551 and No. 18,875, in any procurement related to the rendering of public telephony services (sect.1 & 2).

Preference must be given so long as the price of such goods is equal to or lesser than the price of a foreign good (including customs duties, taxes and other expenses that are linked to the nationality of goods) increased by 7% (when the Argentine offeror is a small or medium size company) or 5% (when the Argentine offeror is any other company) (sect.3).

Compre Trabajo Argentino also mandates that Telecom Argentina publish any bid for services in the Official Bulletin in order to provide any and all prospective offerors with the information necessary for them to participate. This mandatory publication requires considerable lead-time

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prior to the issuance of the purchase order and has had the result of extending the period needed to complete certain purchases. Non-compliance with Compre Trabajo Argentino is subject to criminal sanctions.

Public Law No. 18,875 establishes the obligation to exclusively contract services with local companies and professionals, as defined in such law. Any exception must receive the prior approval of the relevant Ministry.

In August 2004, CNC Resolution No. 2,350/04 enacted the Procedure for the fulfillment of the Buy Argentine Act , including the obligation for the Company to present half-year affidavits addressing the fulfillment of these rules. Non-compliance with this obligation is subject to administrative sanctions.

This regulation, thus, reduces the operating flexibility of the Company due to the time required to request bids for services and/or to obtain an approval of the relevant authority when necessary, and the higher administrative expenses derived from the obligation to present half-year affidavits.

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3. Preparation of financial statements

(a) Basis of presentation

The 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 2009, the Argentine Federation of Professional Boards of Economic Sciences (the FACPCE) approved Technical Resolution (RT) 26 Adoption of International Financial Reporting Standards , which will be fully effective for companies making public offering of securities (such as the Company) as from January 1, 2011. In June 2009, the FACPCE approved RT 27 which provides for amendments to the existing RT for those companies not adopting IFRS.

On December 30, 2009, the CNV issued Resolution No. 562/09 (RG 562/09) adopting RT 26 of the FACPCE for certain public companies (as defined by Law No. 17,811 Regime for Public Offering), including Telecom Argentina and Personal. RT 26 adopts IFRS as issued by the IASB. On December 3, 2010, RT 26 was modified through RT 29, with the aim to align the dates of adoption established by the professional standards with those established by RG 562/09. Additionally, RT 29 contemplates the optional implementation of IFRS for SMEs for entities that, unlike the Company, are not required to adopt IFRS. Therefore, Argentine companies not included in the scope of RG 562/09 may, at their discretion, continue applying existing accounting standards (Argentine GAAP), to apply IFRS or to apply the IFRS for SMEs for the preparation of their financial statements. At the date of issuance of these consolidated financial statements the CNV has not yet adopted RT 29.

Additional information is given in Note 14.

(b) Basis of consolidation

These consolidated financial statements include the accounts of Telecom Argentina and its subsidiaries over which it has effective control (Personal, Núcleo, Springville, Micro Sistemas and Telecom USA).

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 13 for a description of certain condensed unconsolidated information).

(c) Presentation of financial statements in constant Argentine Pesos

As required by the Argentine Government Decree No. 1,269/02 and CNV Resolution No. 415/02, the Company s consolidated financial statements have been restated in constant Argentine pesos until February 28, 2003, following the method established by RT 6 of the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA).

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However, on March 25, 2003, the Argentine Government reinstructed the CNV to preclude companies from presenting price-level restated financial statements. Therefore, CNV Resolution No. 441/03 resolved 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 resolved to discontinue inflation accounting as of September 30, 2003. Since Argentine GAAP required companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution represented a departure from Argentine GAAP. Changes in wholesale price indices for the periods indicated were as follows:

Periods		% change
January 2002	February 2003	119.73
January 2002	September 2003	115.03

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

3. Preparation of financial statements (continued)

As recommended by Argentine GAAP, the following table presents a comparison between certain condensed balance sheet and income statement information for the year ended December 31, 2010, as restated for the effects of inflation through September 30, 2003, and the corresponding reported amounts which included restatement only through February 28, 2003:

	As reported (*) (I)	As restated through September 30, 2003 (**) (II)	Effect (II) (I)
Total assets	11,964	11,930	(34)
Total liabilities	5,601	5,589	(12)
Noncontrolling interest	126	126	
Shareholders equity	6,237	6,215	(22)
Net income	1,821	1,826	5

(*) As required by CNV resolution.

(**) As required by Argentine GAAP.

(d) Use of estimates

The preparation of the consolidated 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.

(e) Reclassifications

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

(f) Statement 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.

The statement of cash flows has been prepared using the indirect method.

(g) Concentration of credit risk

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The Company's cash equivalents and investments include money market mutual funds 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 were 4,019,000 (unaudited) at December 31, 2010, 3,967,000 (unaudited) at December 31, 2009 and 3,915,000 (unaudited) at December 31, 2008 and mobile customer lines, excluding prepaid lines and Internet subscribers (Argentina and Paraguay combined) were 5,171,000 (unaudited) at December 31, 2010, 4,613,000 (unaudited) at December 31, 2009 and 4,425,000 (unaudited) at December 31, 2008.

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 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.

(h) Earnings per share

The Company computes net income per common share by dividing net income for the year by the weighted average number of common shares outstanding.

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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.

(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. 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 if 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, financial statements of foreign entities are translated using year-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as Other reserves, a separate caption in the equity section.

(b) Revenue recognition

Revenues from equipment sales and services are disclosed, if applicable, net of discounts and bonuses granted to customers. Claims made by customers that the Management of the Company will probably rule in their favor are also deducted from sales. Actual results could differ from those estimates.

The Company's principal sources of revenues by reportable segments are:

Fixed Telephony

National fixed telephony

Domestic services revenues consist of monthly basic fees, measured service, long-distance calls and monthly fees for additional 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. Billed basic fees for which the related service has not yet been provided are deducted from corresponding accounts receivable. 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. Rehabilitation 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 rehabilitation fee. Associated direct

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expenses are also deferred over the estimated customer relationship period in an amount equal to or less than the amount of deferred revenues. Rehabilitation 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 are originated on their networks and transit and/or terminate on the Company's network. Revenue is recognized as services are provided.

The revenues and related expenses associated with the sale of equipment are recognized when the products are delivered and accepted by the customers.

International long-distance services

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

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4. Summary of significant accounting policies (continued)

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

Revenues from the sale of modems and the related sale expenses (which are generally higher than the connection fees charged to customers) are recognized when the products are delivered and accepted by the customers.

Mobile Services

The Company provides mobile services throughout Argentina via cellular and PCS networks. Cellular and PCS fees consist of monthly basic fees, airtime usage charges, roaming, charges for termination of calls coming from other cellular operators (TLRD), calling party pays charges (CPP) and additional charges for value-added services, including call waiting, call forwarding, three-way calling, voicemail, short message systems (SMS), and for other miscellaneous cellular and PCS services. These revenues are recognized as services are rendered.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from corresponding accounts receivable.

Equipment sales consist principally of revenues from the sale of mobile handsets to new and existing customers and to agents and other third-party distributors. The revenues and related expenses associated with the sale of mobile handsets, which are generally higher than the prices paid by the customers, are recognized when the products are delivered and accepted by them.

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.

(c) Foreign currency transaction gains/losses

Foreign currency transaction gains and losses are included in the determination of net income or loss.

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 to fixed assets accordingly.

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In July 2003, the CPCECABA suspended such accounting treatment and therefore required foreign currency transaction gains and losses to be included in the determination of net income as from July 28, 2003.

The net carrying value of these capitalized costs was \$47 as of December 31, 2010 and \$57 as of December 31, 2009, both in the Fixed Telephony segment.

(d) Cash and banks

Cash and banks are stated at face 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. This method is also called the amortized cost method and is equivalent to the face value of the receivables/payables plus the accrued interest less the collections/payments made at year-end.

As mentioned in Note 3.g, the Company provides for losses relating to doubtful accounts based on management's evaluation of various factors.

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4. Summary of significant accounting policies (continued)

(f) Other receivables and payables in currency not included in (e) and (g)

Other non-current receivables and non-current payables not included in (e) above and (g) below, are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at year-end.

Other current receivables and current payables are stated at face value.

(g) Deferred tax assets and liabilities and credits on minimum presumed income tax

Deferred tax assets and liabilities and minimum presumed income tax credits are stated at face value.

Since 2002, the Telecom Group, following the guidelines of the FACPCE, has treated the differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes as temporary differences

(h) Investments

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

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.

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

The 2003 Telecommunications Fund is recorded at the lower of cost or net realizable value.

(i) Inventories, net

Inventories are stated at replacement cost, which does not exceed the net realizable value. Where necessary, provision is made for obsolete, slow moving or defective inventory.

From time to time, the Management of Personal and Núcleo decide to sell mobile 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 companies' overall mobile 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.

(j) Other assets, net

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Fixed assets held for sale are stated at cost, less accumulated depreciation at the time of transfer to the held-for-sale category. All amounts have been restated for inflation as mentioned in Note 3.c. which does not exceed the estimated realizable value of such assets. Where necessary, a provision was made for the adjustment of the restated cost at realizable value.

(k) Fixed assets, net

Fixed assets received from ENTel have been valued at their transfer price. Subsequent additions have been valued at cost less accumulated depreciation. All amounts have been restated for inflation as mentioned in Note 3.c.

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 14.7% of the total transferred buildings, representing \$10 of net carrying value as of December 31, 2010. 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.

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 statements of income.

Until the date of cancellation of its financial debt, the Company had capitalized interest on long-term construction projects. Additional information is given in Note 5.n.

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

4. Summary of significant accounting policies (continued)

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the related assets, based on the rates specified below:

Asset	Estimated useful life (years)
Buildings received from ENTel	35
Buildings	50
Tower and pole	15
Transmission equipment	3 20
Mobile network access	5 10
Switching equipment	5 13
Power equipment	7 15
External wiring	10 20
Computer equipment	3 5
Telephony equipment and instruments	5 10
Installations	3 10

The Company is subject to asset retirement obligations (ARO) associated with its cell and switch site operating leases. The Company, in most cases, has the right to renew the initial lease term. Accordingly, the Company records a liability for an ARO. 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. Subsequent to the initial measurement, an entity should recognize changes in the ARO that result from (1) the passage of time and (2) revisions made to either the timing or amount of estimated cash flows. Changes resulting from revisions in the timing or amount of estimated cash flows should be recognized as increases or decreases in the carrying amount of the ARO and the associated capitalized retirement cost. Increases in the ARO as a result of upward revisions in undiscounted cash flow estimates should be considered new obligations and initially measured using current credit-adjusted risk-free interest rates. Any decreases in the ARO as a result of downward revisions in cash flow estimates should be treated as modifications of an existing ARO, and should be measured at the historical interest rate used to measure the initial ARO.

Fixed assets as a whole does not exceed the estimated realizable value (See 4.m below).

(l) Intangible assets, net

Intangible assets are stated at cost, less accumulated amortization. All amounts have been restated for inflation as mentioned in Note 3.c.

Intangible assets comprise the following:

Software obtained or developed for internal use

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The Company has capitalized certain costs associated with the development of computer software for internal use. These costs are being amortized on a straight-line basis over a period ranging between 5 years and 7.5 years.

Debt issue costs

Expenses incurred in connection with the issuance of debt are 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 , 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. Impairment testing of these assets is now required. The Company identified Personal s PCS licenses as indefinite life intangibles.

PCS and Band B of Paraguay licenses

Núcleo s PCS and Band B licenses were amortized under the straight-line method over 10 years through fiscal year 2007. Renovation costs are being amortized in 5 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. Acquisition costs 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 services and products. Amounts capitalized are being amortized over the life of the agreements, which range from fiscal year 2009 to fiscal year 2028.

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4. Summary of significant accounting policies (continued)

Customer relationships

Acquired in the purchase of shares of Cubecorp, it is amortized over the terms of permanence of the customers which was estimated in 15 years.

Intangible assets as a whole does not exceed the estimated realizable value (See 4.m below).

(m) 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 a long-lived asset is considered impaired by the Company when the expected cash flows, discounted and without interest cost, from such an asset, 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, which occurred in January 2002, 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.j., 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 operating segment. In the preparation of such estimates and in connection with the fixed-line business, the Company has considered different scenarios, some of which contemplate the modification of the current level of Telecom Argentina's regulated tariffs which would enable Telecom Argentina to finance the technological renovation of its fixed-line network in the next years.

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

(n) Severance indemnities

Severance payments made to employees are expensed as incurred.

(o) Taxes payable

Income taxes

As per Argentinean Tax Law, the provisions for income taxes have been computed on a separate return basis (i.e., the Company does not prepare a consolidated income tax return). All income tax payments are made by the subsidiaries as required by the tax laws of the countries in which they respectively operate. The Company records income taxes using the method required by RT 17.

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Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts 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 years presented.

Cash dividends received from a foreign subsidiary are computed on the statutory income tax rate. As per Argentinean Tax Law, income taxes paid abroad may be recognized as tax credits.

The statutory income tax rate in Paraguay was 10% for all years presented. As per Paraguayan Tax Law, dividends paid are computed with an additional income tax rate of 5% (this is the criterion used by Núcleo for the recording of its deferred tax assets and liabilities, representing an effective tax rate of 14.75%). When dividends are paid to foreign shareholders, there is an additional income tax rate of 15%, which is deducted from the amounts paid to the shareholders.

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 the tax basis of certain assets. 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.

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4. Summary of significant accounting policies (continued)

For the year ended December 31, 2010, Telecom Argentina has estimated a provision for income taxes.

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 approximately 4.6% and 4.4% for the years ended December 31, 2010 and 2009, respectively.

(p) Other liabilities**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 the salary of one month 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 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 required by RT 23. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement.

The following tables summarize the benefit obligations associated with postretirement benefit plans as of December 31, 2010 and 2009, as well as the benefit costs for the years ended December 31, 2010, 2009 and 2008:

	As of December 31,	
	2010	2009
Accumulated benefit obligation	\$ 10	\$ 6
Effect of future compensation increases	12	5
Projected benefit obligation	\$ 22	\$ 11

Years ended December 31,

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	2010	2009	2008
Service cost	\$ 2	\$ 1	\$ 1
Interest cost	5	3	3
Total benefit cost	\$ 7	\$ 4	\$ 4

The actuarial assumptions used are based on market interest rates, past experience and management's best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. The main assumptions used in determining expense and benefit obligations are as follows:

	2010	2009	2008
Discount rate (1)	1.2 7.4%	10.3 12.3%	10.5%
Projected increase rate in compensation (2)	15.3 22%	12.6 16.7%	10 16%

- (1) Represents estimates of real rate of interest rather than nominal rate in \$.
- (2) In line with an estimated inflationary environment for the next three fiscal years.

Deferred revenue on sale of capacity

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Revenues are deferred and recognized as services are provided.

Court fee

Under the out-of-court restructuring agreement (Acuerdo Preventivo Extrajudicial or APE), the Company was subject to a court fee of 0.25% levied on the total amount finally approved as restructured by the court. The fee is paid in up to one hundred and ten monthly installments with an annual interest rate of 6% through September 2014.

Legal fee

Pursuant to Law No. 26,476 Tax Regularization Regime (Régimen de Regularización Impositiva Ley N° 26,476), the Company is subject to a legal fee which shall be paid in twelve monthly consecutive installments without interest as from final judgment.

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4. Summary of significant accounting policies (continued)

(q) Exchange of debt instruments

Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment and that the old debt instrument be derecognized. Argentine GAAP clarifies that from a debtor's perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument should be initially recorded at fair value and that amount should be used to determine the debt extinguishment gain or loss to be recognized. Fair value should be determined by the present value of the future cash flows to be paid under the terms of the new debt instrument discounted at a rate commensurate with the risks of the debt instrument and time value of money. This criterion was used by Telecom Argentina to account for its respective debt restructuring which was finished in August 2005 and fully cancelled on October 15, 2009.

(r) Litigation

The Company, in the ordinary course of business, is subject to various legal proceedings. The reserve for contingencies was established considering the potential outcome of these matters and the legal counsel's opinion.

(s) Derivatives

The Company adopts the Caption No. 2 of RT 18 issued by the FACPCE, "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, whether designated in a hedging relationship or not.

Changes in the fair value of effective cash flow hedges are recognized as a separate component of Shareholders' equity of the balance sheet (under "Other reserves") and subsequently reclassified to earnings when the hedged items affect earnings. Gains and losses from fair value hedges are recognized in earnings in the year of any changes in the fair value of the related recognized asset or liability.

Derivatives not designated or qualifying as a hedging instrument or ineffective derivatives are adjusted to fair value through earnings, being recorded in the item line "Gain (loss) on derivatives" of the statement of income's caption "Financial results, net".

During fiscal years 2009 and 2010, the Telecom Group had entered into several agreements to purchase foreign currency for Notes and accounts payable, which were accounted for following the criteria described above. At December 31, 2010, the Telecom Group has no derivative.

The Company does not enter into derivative agreements for speculative purposes.

(t) Vacation expenses

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

(u) Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2010, 2009 and 2008 are shown in Note 15.h. under the caption Advertising .

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of December 31, 2010	As of December 31, 2009
Cash	\$ 8	\$ 12
Banks	111	50
	\$ 119	\$ 62

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5. Breakdown of the main accounts (continued)**(b) Investments**

Investments consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Time deposits (Note 15.d)	\$ 1,266	\$ 1,075
Mutual funds (Note 15.c)		120
Related parties (Note 7.d)		32
Government bonds (Note 15.c)	2	
	\$ 1,268	\$ 1,227
Non current		
Related parties (Note 7.d)	\$	\$
2003 Telecommunications Fund	1	1
	\$ 1	\$ 1

(c) Accounts receivable

Accounts receivable consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Fixed telephony	\$ 629	\$ 621
Mobile (i)	958	676
Mobile related parties (Note 7.d)	13	10

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Subtotal	1,600	1,307
Allowance for doubtful accounts (Note 15.e)	(151)	(144)
	\$ 1,449	\$ 1,163

(i) Includes \$26 as of December 31, 2010 and \$19 as of December 31, 2009 corresponding to Núcleo s receivables.

(d) Other receivables

Other receivables consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Prepaid expenses	\$ 124	\$ 80
SU credits (Note 2.d)	112	66
Tax credits	48	60
Restricted funds	15	10
Credit on SC Resolution No. 41/07 and IDC (Note 2.g and h)		4
Derivatives (Note 4.t)		1
Other	42	36
Subtotal	347	257
Regulatory contingencies (Notes 2 g and i and 15.e)		(4)
Allowance for doubtful accounts (Note 15.e)	(13)	(12)
	\$ 334	\$ 241
Non current		
Credit on SC Resolution No. 41/07 and IDC (Note 2.g and h)	\$ 90	\$ 87
Restricted funds	31	24
Other tax credits	17	21
Prepaid expenses	53	19
Credit on minimum presumed income tax	6	7
Other	8	12
Subtotal	205	170
Regulatory contingencies (Notes 2 g and h and 15.e)	(90)	(75)
Allowance for doubtful accounts (Note 15.e)	(17)	(21)
	\$ 98	\$ 74

(e) Inventories

Inventories consist of the following:

	As of December 31, 2010	As of December 31, 2009
Mobile handsets and equipment (Note 15.f)	\$ 458	\$ 264

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Allowance for obsolescence (Note 15.e)	(21)	(21)
	\$ 437	\$ 243

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5. Breakdown of the main accounts (continued)**(f) Other assets**

Other assets consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Fixed assets held for sale	\$ 8	\$ 8
Allowance for other assets (Note 15.e)	(1)	(1)
	\$ 7	\$ 7
Non current		
Fixed assets held for sale	\$ 5	\$ 6
Allowance for other assets (Note 15.e)	(2)	(3)
	\$ 3	\$ 3

(g) Fixed assets

Fixed assets consist of the following:

	As of December 31, 2010	As of December 31, 2009
Non current		
Net carrying value (Note 15.a)	\$ 7,498	\$ 6,864
Write-off of materials (Note 15.e)	(19)	(25)
	\$ 7,479	\$ 6,839

(h) Accounts payable

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Accounts payable consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Fixed assets suppliers	\$ 1,261	\$ 1,053
Other assets and services suppliers	846	690
Inventories suppliers	450	246
Subtotal	2,557	1,989
Deferred revenues	172	135
Agent commissions	58	45
Related parties (Note 7.d)	110	32
SU reimbursement (Note 2.d)	11	11
	\$ 2,908	\$ 2,212
Non current		
Fixed assets suppliers Related parties (Note 7.d)	\$	\$ 24

(i) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Vacation, bonuses and social security payable	\$ 344	\$ 264
Termination benefits	46	36
	\$ 390	\$ 300
Non current		
Termination benefits	\$ 110	\$ 82

(j) Taxes payable

Taxes payable consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Income tax, net (Note 10)	\$ 491	\$ 431
Tax on SU (Note 2.d)	206	155
Internal taxes	40	43
VAT, net	126	33
Turnover tax	40	25
Regulatory fees	31	24
Municipal taxes	8	12
Other	80	46
	\$ 1,022	\$ 769
Non current (Note 10)		
Deferred tax liabilities	\$ 140	\$ 199
Law No. 26,476 Tax Regularization Regime	14	13
	\$ 154	\$ 212

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5. Breakdown of the main accounts (continued)**(k) Other liabilities**

Other liabilities consist of the following:

	As of December 31, 2010	As of December 31, 2009
Current		
Guarantees received	\$ 9	\$ 16
Deferred revenue on sale of capacity and related services	14	12
Customer loyalty programs	8	5
Court fee	3	3
Other	20	16
	\$ 54	\$ 52
Non current		
Deferred revenue on sale of capacity and related services	\$ 112	\$ 112
Asset retirement obligations	45	44
Retirement benefits	22	11
Legal fee	11	11
Court fee	6	7
Customer loyalty programs	2	1
Other	2	
	\$ 200	\$ 186

(l) Net sales

Net sales consist of the following:

	Years ended December 31,		
	2010	2009	2008
Voice	\$ 2,928	\$ 2,825	\$ 2,701

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Internet	1,374	1,058	735
Data	338	274	217
Fixed telephony	4,640	4,157	3,653
Prepaid and post-paid	3,213	2,766	2,369
Value added services	3,388	2,323	1,735
Roaming, TLRD and CPP	1,718	1,629	1,634
Sale of handsets	1,018	796	712
Other	164	114	115
Mobile services in Argentina	9,501	7,628	6,565
Prepaid and post-paid	224	200	184
Value added services	204	139	95
Roaming, TLRD and CPP	63	61	78
Sale of handsets	8	6	8
Internet	18	19	13
Other	21	16	12
Mobile services in Paraguay	538	441	390
Total net sales	\$ 14,679	\$ 12,226	\$ 10,608

(m) Gain on equity investees

Gain on equity investees consist of the following:

	Years ended December 31,		
	2010	2009	2008
Foreign currency translation adjustment realized on capital reimbursement of Núcleo	\$	\$ 13	\$

(n) Financial results, net

Financial results, net consist of the following:

	Years ended December 31,		
	2010	2009	2008
Generated by assets			
Interest income	\$ 162	\$ 125	\$ 89
Related parties (Note 7.d)	3	5	1
Foreign currency exchange gain	26	103	104
Holding gain (loss) on inventories (Note 15.f)	(15)	(7)	2
Other	(5)		3
Total generated by assets	\$ 171	\$ 226	\$ 199
Generated by liabilities			
Interest expense	\$ (90)	\$ (173)	\$ (203)
Less capitalized interest on fixed assets		15	20
Gain (loss) on discounting of debt and other liabilities	(7)	12	(53)
Foreign currency exchange loss	(57)	(310)	(233)
Loss on derivatives	(56)	(94)	(29)
Loss on derivatives related parties (Note 7.d)	(12)	(9)	
Gain (loss) on purchase of Notes	(2)	(2)	34
Other	19	6	
Total generated by liabilities	\$ (205)	\$ (555)	\$ (464)
	\$ (34)	\$ (329)	\$ (265)

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5. Breakdown of the main accounts (continued)**(o) Other expenses, net**

Other expenses, net consist of the following:

	Years ended December 31,		
	2010	2009	2008
Provision for contingencies (Note 15.e)	\$ (187)	\$ (158)	\$ (100)
Severance payments and termination benefits	(121)	(73)	(144)
Allowance for obsolescence of inventories (Note 15.e)	(28)	(25)	(12)
Allowance for doubtful accounts and other assets	4	(4)	(6)
Provision for regulatory contingencies (Note 15.e)	(13)	(6)	(12)
Allowance for obsolescence of materials (Note 15.e)	4	(16)	(11)
Gain on sale of fixed assets and other assets	6	13	9
Net reversal of provisions related to Law No. 26,476 Tax Regularization Regime		36	
Other, net	18	4	8
	\$ (317)	\$ (229)	\$ (268)

6. Supplementary cash flow information

The statement of cash flows 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 years shown in the statements of cash flows:

	As of December 31,			
	2010	2009	2008	2007
Cash and banks	\$ 119	62	\$ 36	\$ 45
Current investments	1,268	1,227	1,089	947
Total as per balance sheet	\$ 1,387	1,289	\$ 1,125	\$ 992
Less:				
Items not considered cash and cash equivalents				
Related parties		(16)		

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Time deposits with maturities of more than three months				(534)
Government bonds	(2)		(223)	
Total cash and cash equivalents as shown in the statement of cash flows	\$ 1,385	1,273	\$ 902	\$ 458

The cash flows provided by operating activities (originated in financial transactions) are as follows:

	Years ended December 31,		
	2010	2009	2008
Foreign currency exchange gain on cash and cash equivalents	\$ 18	\$ 61	\$ 70
Interest income generated by current investments	104	76	43
Interest income generated by accounts receivable	58	49	46
Interest income generated by related parties	2	3	
Collection (payment) on swap settlement	(64)	(84)	170
Subtotal (originated in financial transactions)	118	105	329
Income tax paid	(1,007)	(630)	(182)
Other cash flows provided by operating activities	4,627	3,813	3,172
Total cash flows provided by operating activities	\$ 3,738	\$ 3,288	\$ 3,319

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Income taxes eliminated from operating activities components:

	Years ended December 31,		
	2010	2009	2008
Reversal of income tax included in the statement of income	\$ 1,010	\$ 797	\$ 535
Income taxes paid (includes payments in advance)	(1,007)	(630)	(182)
Total income taxes eliminated from operating activities	\$ 3	\$ 167	\$ 353

Changes in assets/liabilities components:

	Years ended December 31,		
	2010	2009	2008
Net (increase) decrease in assets			
Investments not considered as cash or cash equivalents	\$ 1	\$ (33)	\$ (23)
Trade accounts receivable	(405)	(281)	(175)
Other receivables	(128)	(38)	(188)
Inventories	(241)	(38)	(107)
Other assets		(1)	(1)
	\$ (773)	\$ (391)	\$ (494)
Net (decrease) increase in liabilities			
Accounts payable	\$ 468	\$ 131	\$ 52
Salaries and social benefits payable	118	63	112
Taxes payable	193	(17)	194
Other liabilities	19	25	8
Contingencies	(36)	(16)	(38)
	\$ 762	\$ 186	\$ 328

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

6. Supplementary cash flow information (continued)*Main non-cash operating transactions:*

	Years ended December 31,		
	2010	2009	2008
Government bonds	\$ 2	\$	\$
Credit on minimum presumed income tax offset with income taxes		7	285
Derivatives		8	200
Credit on income tax from cash dividends paid by foreign companies			5
Legal fee from Tax Regularization Regime		14	
Foreign currency translation adjustments in assets	89	92	47
Foreign currency translation adjustments in liabilities	41	36	8

Most significant investing activities:

Fixed assets acquisitions include:

	Years ended December 31,		
	2010	2009	2008
Acquisition of fixed assets (Note 15.a)	\$ (2,007)	\$ (1,801)	\$ (1,656)
Plus:			
Cancellation of accounts payable used in prior years acquisitions	(924)	(652)	(626)
Less:			
Acquisition of fixed assets through incurrence of accounts payable	1,120	945	703
Capitalized interest on fixed assets		15	20
Mobile handsets lent to customers at no cost (i)	5	16	3
Asset retirement obligations	3	3	10
	\$ (1,803)	\$ (1,474)	\$ (1,546)

(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.

Intangible assets acquisitions include:

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	Years ended December 31,		
	2010	2009	2008
Acquisition of intangible assets (Note 15.b)	\$ (20)	\$ (23)	\$ (41)
Plus:			
Cancellation of accounts payable used in prior years acquisitions	(23)	(7)	(5)
Less:			
Acquisition of intangible assets through incurrence of accounts payable	16	13	31
	\$ (27)	\$ (17)	\$ (15)

Equity investee acquisitions include:

	Years ended December 31,		
	2010	2009	2008
Cash paid for the acquisition of the shares of Cubecorp	\$	\$	\$ (98)
Cash and cash equivalents included in the acquisition of Cubecorp			1
	\$	\$	\$ (97)

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

	Years ended December 31,		
	2010	2009	2008
Collection of time deposits with maturities of more than three months	\$	\$	\$ 534
Loan to Nortel	15	(8)	(5)
Collection (acquisition) of Government bonds		253	(200)
Total cash flows from investments not considered as cash equivalents	\$ 15	\$ 245	\$ 329

Financing activities components:

	Years ended December 31,		
	2010	2009	2008
Bank overdrafts	\$ 59	\$ 218	\$ 16
Debt proceeds	141	143	75
Payment of Notes	(683)	(1,409)	(1,119)
Purchase of Notes	(35)	(108)	(237)
Payment of bank overdrafts	(46)	(218)	(16)
Payment of bank loans	(126)	(117)	(72)
Payment of interest on Notes	(63)	(149)	(180)
Payment of interest on bank loans	(15)	(13)	(5)
Payment of interest on bank overdrafts		(6)	
Payment of capital reimbursement of Núcleo		(8)	
Cash dividends paid		(19)	(20)
Total financing activities components	\$ (768)	\$ (1,686)	(1,558)

The Annual General Ordinary and Extraordinary Shareholders Meeting held on April 28, 2010 approved a cash dividend distribution in the amount of \$1,053 payable in two installments: the first was paid on May 5, 2010, amounting to \$689 (equivalent to \$0.70 per share) and the second was paid on December 20, 2010, for the balance of \$364 (equivalent to \$0.37 per share).

Otherwise, Núcleo paid cash dividends in the amount of \$19 and \$20 to its noncontrolling shareholders as of December 31, 2009 and 2008, respectively.

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

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

7 Related party transactions

(a) Controlling group

As of December 31, 2010, 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, representing 54.74% of the total common stock of Telecom Argentina.

Nortel's ordinary shares (67.79% of the capital stock) are owned by Sofora Telecomunicaciones S.A. (Sofora). As of December 31, 2010, Sofora's shares are owned by the Telecom Italia Group (58%) and by W de Argentina Inversiones S.L. (42%).

In connection with these transactions, on December 17, 2003, a Shareholders' Agreement between W de Argentina Inversiones S.L., Telecom Italia S.p.A. and Telecom Italia International N.V. for the joint management of Sofora, Nortel and Telecom Argentina, including Personal, was executed. On August 5, 2010, such Shareholders' Agreement was modified as a consequence of the TI W Commitment assumed by the shareholders of Sofora before the Argentine Antitrust Commission (or the CNDC), that introduced, on October 13, 2010, new modifications. Additional information on this New Shareholders' Agreement can be reviewed at www.cnv.gov.ar (section Autopista de Información Financiera).

(b) Related parties

Related parties (as described in FACPCE RT 21) are those legal entities or individuals which are related to the indirect shareholders of the Company.

However, under FACPCE RT 21, Telefónica, S.A. (of Spain) and its controlled companies, including Telefónica de Argentina S.A. and Telefónica Móviles de Argentina S.A. are not considered related parties. As of the date of issuance of these consolidated financial statements, such situation has been confirmed by the commitments assumed before the CNDC to ensure the separation and independence between the Telecom Italia Group and the Telecom Group, on one hand, and Telefónica S.A. (of Spain) and its controlled companies, on the other, with respect to their activities in the Argentine telecommunications market, such as it has been corroborated by the applicable authorities, as explained in paragraph c) immediately below.

(c) Changes in the equity stocks of the indirect shareholders of Telecom Italia

On October 25, 2007, a consortium made up of Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Sintonia S.A. (Benetton) and Telefónica, S.A. (of Spain) bought Olimpia S.p.A.'s entire stock through the Italian company Telco S.p.A., which held approximately 23.6% of Telecom Italia S.p.A.'s voting shares (the Telco Transaction). It must be mentioned that on December 22, 2009, Sintonia S.A. (Benetton) retired from the referred consortium and its participation was assumed by the remaining shareholders of Telco S.p.A. on a pro rata basis. In accordance with the last public statement available as of September 30, 2010, such participation is currently 22.40% of Telecom Italia S.p.A.'s voting shares. After the Telco Transaction, since October 2007, Pirelli & C. S.p.A., its controlled subsidiaries and its related parties have ceased to be related parties of Telecom Argentina and its subsidiaries.

The Telco Transaction has generated different opinions with respect to its impact on Argentina's telecommunications market in light of the Law for Defense of the Competition (Ley de Defensa de la Competencia or LDC) and the existing regulatory framework.

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Consequently, the Telco Transaction required the intervention of various administrative bodies whose decisions have been subject to various presentations and complaints before administrative and judicial courts.

On August 5, 2010, Telecom Italia S.p.A., Telecom Italia International N.V. and W de Argentina- Inversiones S.L. reached a settlement agreement pursuant to which they agreed, among others, to end all their differences relating to their direct shareholding of Sofora and indirect shareholding of Telecom Argentina and other companies of the Telecom Group, which had been originated as a result of the Telco Transaction having been entered into in Europe and other controversial issues. Pursuant to the above referred settlement agreement, the parties agreed to:

- a) Put an end to all the legal proceedings existing among the parties;

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Notes to the Consolidated Financial Statements

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

7 Related party transactions (continued)

- b) Amend the Sofora's Shareholders Agreement dated December 17, 2003, including, among others, certain measures to guarantee a more efficient corporate governance of the Telecom Group, ensuring, among others, an adequate compliance of the TI-W Commitment. For such purposes a Telecom Argentina and Personal's Regulatory Compliance Committee will be created and it will exercise its functions for as long as Telefónica, S.A. (of Spain) owns any subsidiaries in our country and maintains any direct or indirect participation in the Telecom Italia Group and hold similar rights to those provided in the Telco Transaction;
- c) Subject to the applicable authorizations, the transfer of 8% of the capital stock of Sofora from W de Argentina Inversiones S.L. to Telecom Italia International N.V., increasing Telecom Italia Group's participation to 58% of the capital stock of Sofora (the latter hereinafter referred to as the TI-W Transaction).

On October 6, 2010, Telefónica, S.A. (of Spain), Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. Telco S.p.A, and as parties involved, Telecom Italia S.p.A., Telecom Italia International N.V., Sofora, Nortel, Telecom Argentina, Personal, Telefónica de Argentina S.A. and Telefónica Móviles de Argentina S.A., submitted before the CNDC a document pursuant to which they assumed a commitment (hereinafter, the Telco Commitment) for the purpose of ensuring the separation and independence of the activities in the Argentina telecommunications market, of Telefónica, S.A. (of Spain) and its controlled subsidiaries, on one hand, and Telecom Italia S.p.A., Telecom Italia International N.V., Sofora, Telecom Argentina and Personal, on the other, preserving and encouraging the competition conditions of such companies in the national market.

In addition, in connection with the file relating to the TI-W Transaction, Sofora's shareholders submitted before the CNDC a commitment pursuant to which they assumed a number of obligations with respect to the administration and governance of the Telecom Group (hereinafter, the TI-W Commitment).

On October 12, 2010, the CNDC issued its Opinions No. 835 and 836 in connection with the Telco Transaction and the TI-W Transaction, respectively, which are available to the public at www.mecon.gov.ar/cndc. In its first Opinion, the CNDC advised among others the Secretariat of Economic Policy of the Ministry of Economy and Public Finances (hereinafter, the Secretariat of Economic Policy) to accept the Telco Commitment with the clarifications and specifications made in Title XIV of such CNDC Opinion No. 835, and subject the approval of the Telco Transaction, pursuant to Section 13, paragraph b) of the LDC, to the irrevocable and effective fulfilling of the Telco Commitment, with the clarifications and points made in Title XIV of the CNDC Opinion No. 835. In addition, the CNDC made some pro competition recommendations to the SC and to the CNC, which are included like Annex I to such Opinion.

The terms and conditions of the Telco Commitment offered by the above mentioned companies are detailed in Title XIV of the above mentioned Opinion, together with the clarifications and specifications made by the CNDC.

Through its Opinion No. 836, the CNDC advised among others to accept the TI-W Commitment, with the clarifications and specifications made in Title V.2 of the same Opinion and to authorize the TI-W Transaction, in the terms of Section 13 paragraph b) of the LDC. The terms and conditions of the TI-W Commitment are described in Title V of Opinion No. 836, together with the observations made by the CNDC.

On October 13, 2010, the Secretariat of Economic Policy issued its Resolution No. 148/10 which, in its operative part, among other issues, decided to subordinate the authorization of the Telco Transaction to the irrevocable and effective fulfillment of the Telco Commitment offered

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with the clarifications and specifications made in Title XIV of Opinion CNDC No. 835 . On the same date, the Secretariat of Economic Policy issued its Resolution No. 149/10, in which it accepted the TI-W Commitment and approved the TI-W Transaction in the terms of Section 13 paragraph b) of the LDC.

On the same date, the SC issued its Resolution No. 136/10 which, among other issues, in its operating part authorizes the change of control that happened at Telecom Argentina and Personal as a consequence of the TI-W Transaction. On the same resolution, the legal figure of the Operator included in the List of Conditions, Decree No. 62/90 as amended, was left without effect with respect to Telecom Argentina.

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7 Related party transactions (continued)

On October 13, 2010, the transfer of 8% of the shares of Sofora in favor of Telecom Italia International N.V. was perfected. Based on information provided by Sofora's shareholders, such 8% transfer's consideration was (i) US\$ 1 (one US dollar w/o cents) and (ii) the execution of certain agreements dated as of August 5, 2010, between the Telecom Italia Group and the Wertheim Group. Thus, the Telecom Italia Group has now reached a participation of 58% of the possible shares and votes in Sofora and W de Argentina Inversiones S.L. holds the remaining 42% of such possible shares and votes.

On October 26, 2010, Telecom Argentina's Board of Directors ratified the execution by Telecom Argentina of the Telco Commitment, accepted all the obligations and commitments that Telecom Argentina has assumed in the Telco Commitment, with the clarifications and specifications relating to them, made by the CNDC in Chapter XIV of its Opinion No. 835 dated October 12, 2010, and adopted a number of measures for its effective implementation; including the creation of a Regulatory Compliance Committee. In addition, it accepted Telecom Argentina's obligations arising from the TI-W Commitment submitted to the CNDC, in the file referring to the TI-W Transaction, with the clarifications and specifications that are referred to them, made by the CNDC in Paragraph V.2 of its Opinion No. 836 dated October 12, 2010, and adopted a series of measures for their effective implementation.

The Telco Commitment and the TI-W Commitment are available to the public at www.telecom.com.ar/compromisos.

Telecom Argentina and Personal have filed, in accordance with the applicable regulations referred to the disclosure of Relevant Facts, various notes and reports on the questions described in this section, which are available to the public at www.cnv.gob.ar (financial information section) for further review of the above.

(d) Balances and transactions with related parties

The Company has transactions in the normal course of business with certain related parties. For the years presented, the Company has not conducted any transactions with executive officers and/or persons related to them. Those balances and transactions are less than \$1; therefore they are not shown due to rounding.

The following is a summary of the balances and transactions with related parties as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008:

	As of December 31, 2010	As of December 31, 2009
Investments		
Nortel (Note 15.d)	\$	\$ 16
Standard Bank S.A. (Note 15.c) (a)		16
	\$	\$ 32

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Accounts receivable			
TIM Participacoes S.A. (b)	\$	4	\$ 3
Telecom Italia S.p.A. (b)			2
Telecom Italia Sparkle S.p.A. (b) (c)		4	
Standard Bank S.A. (a)		4	5
Caja de Seguros S.A. (a)		1	
	\$	13	\$ 10

Current accounts payable:			
Grupo Italtel (b) (d)	\$	46	\$
Telecom Italia Sparkle S.p.A. (b) (c)		27	18
Telecom Italia S.p.A. (b)		11	3
Latin American Nautilus Ltd. (b) (c)			