TELECOM ARGENTINA SA
Form 6-K
August 24, 2005

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

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

of the Securities Exchange Act of 1934

For the month of August, 2005

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant s name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

(Address of principal executive offices)

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

Form 20-F __X__ Form 40-F ______

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

Yes ______ No __X__

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

Yes ______ No __X__

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

Yes ______ No __X__

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

Telecom Argentina S.A.

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TELECOM ARGENTINA S.A. **Item 1**

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

Unaudited Consolidated Financial Statements as of June 30, 2005 and December 31, 2004 and for the six-month periods ended June 30, 2005 and 2004

$: Argentine peso

US$: U.S. dollar

$2.887 = US$1 as of June 30, 2005

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TELECOM ARGENTINA S.A. **Item 1**

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Unaudited Consolidated Balance Sheets as of June 30, 2005 and December 31, 2004

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

	As of June 30, 2005 (unaudited)	As of December 31, 2004
ASSETS		
Current Assets		
Cash and banks	$ 36	$ 32
Investments, net	3,975	3,630
Accounts receivable, net	600	612
Other receivables, net	85	78
Inventories, net	109	79
Other assets	6	3
Total current assets	**4,811**	**4,434**
Non-Current Assets		
Other receivables, net	253	228
Investments	2	2
Fixed assets, net	6,401	6,895
Intangible assets, net	749	773
Total non-current assets	**7,405**	**7,898**
TOTAL ASSETS	**$ 12,216**	**$ 12,332**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 573	$ 509
Debt	8,800	9,434
Salaries and social security payable	79	79
Taxes payable	200	153
Other liabilities	28	22
Contingencies	58	30
Total current liabilities	**9,738**	**10,227**
Non-Current Liabilities		
Accounts payable	$ 4	$ 7
Debt	1,127	1,219
Salaries and social security payable	28	33

Taxes payable		5
Other liabilities	65	71
Contingencies	234	214
Total non-current liabilities	**1,458**	**1,549**
TOTAL LIABILITIES	**$ 11,196**	**$ 11,776**
Minority interest	**34**	**30**
Foreign currency translation adjustments	**26**	**24**
SHAREHOLDERS EQUITY	**$ 960**	**$ 502**
TOTAL LIABILITIES, MINORITY INTEREST, FOREIGN CURRENCY TRANSLATION ADJUSTMENTS AND SHAREHOLDERS EQUITY	**$ 12,216**	**$ 12,332**

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

Valerio Cavallo	**Carlos Felices**	**Amadeo R. Vázquez**
Chief Financial Officer	**Chief Executive Officer**	**President**

TELECOM ARGENTINA S.A. **Item 1**

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

Unaudited Consolidated Statements of Income

for the six-month periods ended June 30, 2005 and 2004

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

	For the six-month periods ended	
	June 30, 2005	**June 30, 2004**
Net sales	$ 2,585	$ 2,070
Cost of services	(1,699)	(1,383)
Gross profit	**886**	**687**
General and administrative expenses	(148)	(125)
Selling expenses	(515)	(430)
Operating income	**223**	**132**
Equity gain from related companies	7	
Financial results, net	299	(298)
Other expenses, net	(50)	(55)
Results on debt restructuring	(15)	
Net income (loss) before income tax and minority interest	**464**	**(221)**
Income tax expense, net	(3)	(8)
Minority interest	(3)	(1)
Net income (loss)	**$ 458**	**$ (230)**
Net income (loss) per share	**0.47**	**(0.23)**

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

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Chief Financial Officer	**Chief Executive Officer**	**President**

TELECOM ARGENTINA S.A. **Item 1**

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Unaudited Consolidated Statements of Changes in Shareholders Equity

for the six-month periods ended June 30, 2005 and 2004

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

	Shareholders contributions			Unappropriated results			
	Common stock	Inflation adjustment of common stock	Total	Legal reserve	Retained earnings/ (Accumulated deficit)	Total	Total Shareholders equity
Balances as of January 1, 2004	**$ 984**	**3,044**	**4,028**	**277**	**(3,137)**	**(2,860)**	**1,168**
Net loss					(230)	(230)	(230)
Balances as of June 30, 2004	**984**	**3,044**	**4,028**	**277**	**(3,367)**	**(3,090)**	**$ 938**
Balances as of January 1, 2005	**984**	**3,044**	**4,028**	**277**	**(3,803)**	**(3,526)**	**502**
Net income					458	458	458
Balances as of June 30, 2005	**$ 984**	**3,044**	**4,028**	**277**	**(3,345)**	**(3,068)**	**$ 960**

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

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Chief Financial Officer	**Chief Executive Officer**	**President**

TELECOM ARGENTINA S.A. **Item 1**

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Unaudited Consolidated Statements of Cash Flows

for the six-month periods ended June 30, 2005 and 2004

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

	For the six-month periods ended	
	June 30, 2005	**June 30, 2004**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 458	$ (230)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities		
Allowance for doubtful accounts and other allowances	16	62
Depreciation of fixed assets	726	798
Amortization of intangible assets	23	53
Equity gain from related companies	(7)	
Consumption of materials	25	27
Fixed assets disposal	2	3
Provision for commissions	24	10
Provision for contingencies	39	24
Holdings results on inventories	10	2
Interest and other financial results	(633)	283
Income tax	3	8
Minority interest	3	1
Net increase in assets	(36)	(67)
Net increase (decrease) in liabilities	120	(35)
Total cash flows provided by operating activities	**773**	**939**
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed asset acquisitions	(291)	(189)
Intangible asset acquisitions	(13)	(1)
Proceeds for the sale of fixed assets and equity investments	15	
Decrease in investments not considered as cash and cash equivalents	654	129
Total cash flows provided by (used in) investing activities	**365**	**(61)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt proceeds	14	
Payment of debt	(70)	(2)
Payment of interest and debt-related expenses	(44)	(7)
Total cash flows used in financing activities	**(100)**	**(9)**
INCREASE IN CASH AND CASH EQUIVALENTS	**1,038**	**869**

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**2,940**	**2,216**
CASH AND CASH EQUIVALENTS AT PERIOD END	**$ 3,978**	**$ 3,085**

See Note 6 for supplementary cash flow information.

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

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TELECOM ARGENTINA S.A. **Item 1**

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

1. The Company and its operations

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

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

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

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

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

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

2. Regulatory framework

(a) Regulatory bodies and general legal framework

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

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

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

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

TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

(b) Licenses granted as of June 30, 2005

As of June 30, 2005, 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 June 30, 2005, the Company s subsidiaries have been granted the following licenses:

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

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

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

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

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

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

Nucleo s licenses are revocable mainly in the case of:

- interruption of services;
- the bankruptcy of Nucleo and,
- non-compliance with certain obligations.

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

(c) Renegotiation of agreements with the Argentine Government

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

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

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

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

- The 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.

Decree No. 293/02, dated February 12, 2002, entrusted the Ministry of Economy with the renegotiation of the agreements, including agreements that govern the provision of fixed telephone services. Initially, the contractual renegotiation proposals were to be submitted to the 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.

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

Furthermore, in July 2003, Decree No. 311/03 created a special unit within the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services, pursuant to which the contractual relationships between the Argentine Government and the 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. In December 2004, the Argentine Government enacted Law No. 25,972 pursuant to which this term was extended through December 31, 2005.

In May 2004, the Company signed a letter of understanding with the Argentine Government pursuant to which the Company committed not to modify the current tariff structure through December 31, 2004 and to continue with the tariff renegotiation process, which the Company had expected to conclude before December 31, 2004. The Company also committed to offer phone services to beneficiaries of Argentine Government welfare programs and to extend internet services in the interior of the country at discounted prices.

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

TELECOM ARGENTINA S.A.

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

(d) Universal Service (SU   ) Regulation

The SU regulation requires entities that receive revenues from telecommunications services to contribute 1% of these revenues to the SU fund. The regulation establishes 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 creates a committee responsible for the administration of the SU fund and the development of specific SU programs. The regulation adopts a   pay or play   mechanism for compliance with the mandatory contribution to the SU fund, although it establishes a mechanism for exemption from contribution for fixed telephony service providers, which combines loss of revenues and market share. However, material regulations to implement SU programs are still pending.

In Telecom

By the end of 2002, the SC formed a Working group whose main purpose was to analyze the method to be applied in measuring the costs of the SU performance   in particular the application of the   HCPM Model , based in incremental costs of a theoretical network , as well as the definition and methodology for the calculation of the   Non-Monetary Benefits , in order to determine the costs to offset for the performance of the SU. Said Working group determined that efforts should be made in the short term to go on with the initial programs, independently from the HPCM model, and that there was a need to carry out a thorough revision of the present General Regulations of the SU to make said regulations operative in the short term, according to the existing social needs.

After more than five years from the beginning of the opening of the market and the coming into effect of the first Regulations of the SU   and after four years from the coming into effect of its amendments-, said Regulations are still to be implemented. Therefore, those under said Regulations suppliers have not received set-offs under the SU for the supplies which they have been delivering since the beginning of the abovementioned opening of the market. In addition, as the Regulatory Authority has not issued any rules or regulations as regards the SU performance in general and the trust fund in particular, no contribution has been made effective to said fund. In relation to the abovementioned, Telecom decided not to record in its financial statements the net receivable it shall be entitled to when the SU Fund guidelines are issued.

In Personal

As from January 2001, Personal has been recording a provision with impact in earnings derived from its obligation to make contributions to the SU Fund. As of June 30, 2005, the amount was $48 million. Personal, as well as the rest of the telecommunication operators, is awaiting the Fund s guidelines and execution to be able to make its contribution to said Fund.

On May 4, 2005, the SC issued Resolution No. 99/05, in which it clarified that the required contribution of 1% of the total revenues drawn by the provision of the telecommunication services constitutes an obligation by the providers of the SU Fund. The contribution cannot be separated out in the invoices that all providers issue and charge to their clients. Furthermore, the Resolution instructs the CNC to notify those providers that have improperly accounted for the contribution in their invoices, to give the whole of the amounts received back to their clients in the terms and conditions which the regulatory authority shall decide, and to stop including said items in invoices.

On July 8, 2005, the CNC issued Resolution No. 2356/05, which implements Resolution No. 99/05 of the SC:

a) Orders providers who had included in their invoices and/or charged items related to the SU, to stop with such practices;

b) Orders providers, in a period of 90 days maximum, to give the amounts received as SU back to their clients from the moment it began to be charged up to its end, along with its interest, applying to that effect the same rate each company applies to invoices for their clients in the case of arrears of payment;

TELECOM ARGENTINA S.A.

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Notes to the Unaudited Consolidated Financial Statements

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

2. Regulatory framework (continued)

c) Orders providers to identify the devolution in the invoices or in credit notes, in a separate item, and to register the devolutions implemented by consumption credits to the clients, which shall be on intelligent platforms or networks;

d) Determines the information that shall be supplied to the CNC within the 60 days after the devolution mentioned in b) is practiced, in order that the effective devolution to the clients is verified.

The management of Personal, with the aid of its legal counsel, is at present analyzing the implications of these regulations and considers that it has solid legal grounds to appeal them and, if necessary, bring a court action. However, it must not be assumed that the resolution of this matter shall be favorable.

On August 9, 2005, the management of Personal has appealed Resolution No. 2356/05 issued by the CNC.

As the date of issuance of these financial statements, it was impossible to accurately quantify the costs that the fulfillment of these resolutions shall imply. However, even if the position of the Regulatory Authority prevails, the impact of said costs shall not be material as regards Personal s financial and economic situation.

3. Preparation of financial statements

(a) Basis of presentation

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

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

(b) Basis of consolidation

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

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

In accordance with Argentine GAAP, the presentation of the parent company s individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes (see Note 15 for a description of certain condensed unconsolidated information).

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

Reportable segment	Subsidiaries	Percentage of capital stock owned and voting rights as of June 30, 2005 (i)
Voice, data and Internet	Telecom Argentina USA	100.00%
	Micro Sistemas (ii)	99.99%
Wireless	Personal	99.99%
	Nucleo	67.50%
	Cable Insignia (iii)	75.00%
Directories publishing	Publicom S.A. (Publicom)	99.99%

(i) Percentage of equity interest owned has been rounded.
(ii) Not operating at June 30, 2005.
(iii) In process of liquidation.

TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

3. Preparation of financial statements (continued)

(c) Presentation of financial statements in constant Argentine Pesos

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

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

On July 16, 2002, the Argentine Government instructed the CNV to accept financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency, following the criteria of the CPCECABA.

However, on March 25, 2003, the Argentine Government reinstructed the CNV to preclude companies from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV 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.

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

	As restated through September 30, 2003	As reported	Effect
Total assets	12,113	12,216	**(103)**
Total liabilities	11,196	11,196	
Shareholders equity	857	960	**(103)**
Net income	465	458	**7**

(d) Interim financial information

The accompanying June 30, 2005 consolidated financial statements are unaudited. The interim consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes. The unaudited financial statements include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments that are considered necessary for the fair presentation of the information in the financial statements. Operating results for the six months ended June 30, 2005 are not necessarily indicative of results that may be expected for any future periods.

(e) 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.

TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

3. Preparation of financial statements (continued)

The accompanying consolidated financial statements were prepared assuming: i) a favorable outcome to the tariff renegotiation process mentioned in Note 2.c) and ii) the successful outcome of the financial restructuring described in Note 8. Actual results could differ from those estimates. Therefore, the accompanying consolidated financial statements do not include any potential adjustments or classifications to the recorded amounts of assets or liabilities that might result from the adverse outcome of these uncertainties.

(f) Reclassifications

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

(g) Statement of cash flows

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

(h) Concentration of credit risk

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

The Company s customers include numerous corporations. The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company s account receivables are not subject to significant concentration of credit risk. While receivables for sales to these various customers are generally unsecured, the financial condition and creditworthiness of customers are routinely evaluated. Fixed service lines were 3,854,000 (unaudited) at June 30, 2005, and 3,701,000 (unaudited) at June 30, 2004 and wireless customer lines (prepaid lines were not included) were 1,489,000 (unaudited) at June 30, 2005, and 662,000 (unaudited) at June 30, 2004.

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

(i) Earnings/Dividends per share

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

4. Summary of significant accounting policies

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

(a) Foreign currency translation

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

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4. Summary of significant accounting policies (continued)

(b) Revenue recognition

The Company s principal sources of revenues are:

<u>Voice, data and Internet services segment</u>

- Fixed telephone services:

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

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

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

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

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

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

- International long-distance services:

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

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

Revenues are recognized as services are provided.

- Data transmission and Internet services:

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

Wireless telecommunication services segment

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

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

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

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4. Summary of significant accounting policies (continued)

Directory publishing segment

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

(c) Foreign currency transaction gains/losses

Generally, foreign currency transaction gains and losses are included in the determination of net income or loss. During the six-month periods ended June 30, 2005 and 2004, net foreign currency transaction gains or losses were a gain of $670 and a gain of $84, respectively.

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

In July 2003, the CPCECABA suspended such accounting treatment and therefore required foreign currency transaction gains and losses to be included in the determination of net income for the period as from July 29, 2003.

As further discussed in Note 8, as of June 30, 2005 and as of December 31, 2004, the Company recognized the outstanding foreign-currency denominated liabilities existing as of January 6, 2002, and governed by foreign law, at their respective original foreign currencies, translated at period-end exchange rates.

(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, unless the Company has the intent and ability to dispose of those assets or advance settlement of liabilities.

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

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

(g) Investments

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

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

The Company has investments in certain government bonds. The Company has classified these securities as held-to-maturity as management has the intent and ability to hold those securities to maturity. Such securities are recorded at amortized cost, subject to impairment evaluation. Due to the current economic situation and the deterioration of the public sector finances, there has been a significant impairment in the value of some of these securities. As such, the Company recognized other-than-temporary losses on these investments to carry them at fair value (see Note 11 for details).

The Company has certain equity interests in unconsolidated companies, representing 5.75% of the capital stock in such companies as of June 30, 2005. These investments have been accounted for at the lower of cost or realizable value.

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4. Summary of significant accounting policies (continued)

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

(h) Inventories, net

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

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

(i) Other assets

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

Printing costs related to directories are carried at cost and deferred until the related directories are distributed.

(j) Fixed assets, net

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

Asset	**Estimated useful life (years)**
Buildings	11-50
Transmission equipment	7-10
Switching equipment	7-10
Power equipment	10
External wiring	17
Telephony equipment and instrument	6-10
Installations	4-10
Computer equipment	3-5

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 2.8% of the total transferred buildings, representing $19 of net carrying value as of June 30, 2005. Nevertheless, the Company is in complete possession of these fixed assets and operates them normally.

During the second quarter ended June 30, 2005, independent appraisals helped the Company s subsidiary, Personal, to assess the appropriateness of the useful lives of certain of its fixed assets. As a result of the work, Personal changed the useful lives of its TDMA and GSM networks and certain assets prospectively as from January 1^{st}, 2005. Accordingly, Personal recognized accelerated depreciation of $ 24 and $ 2 related to the change in useful lives of the TDMA and GSM networks respectively, and lower depreciation for its other related assets amounting to $ 11.

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 statement of income.

The Company capitalizes interest on long-term construction projects. Interest capitalized was $6 and $1 for the six-month periods ended June 30, 2005 and 2004, respectively.

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4. Summary of significant accounting policies (continued)

Certain foreign currency transaction gains and losses were capitalized as part of the cost of the assets from January 2002 through July 2003 (See Note 4.c for details). The net carrying value of these capitalized costs were $387 as of June 30, 2005 and $443 as of December 31, 2004.

The Company does not have assets under capital leases as of June 30, 2005 and 2004.

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.

(k) Intangible assets, net

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

Intangible assets comprise the following:

- Software obtained or developed for internal use

The Company has capitalized certain costs associated with the development of computer software for internal use. Costs capitalized during the six-month periods ended June 30, 2005 and 2004 were not significant. These costs are being amortized on a straight-line basis over a period of 6.5 years.

- Debt issuance costs

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

- PCS license

The Company adopted RT 17, Overall considerations for the preparation of financial statements , as amended by CPCECABA, on January 1, 2002. This standard prescribes the accounting treatment for both identifiable intangibles and goodwill after initial recognition. Upon adoption of this standard, amortization of indefinite life intangibles ceased. Impairment testing of these assets is now required. The Company identified spectrum licenses as indefinite life intangibles.

- Band B license

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

- Rights of use

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

- Exclusivity agreements

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

- Trademarks

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

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4. Summary of significant accounting policies (continued)

(l) Impairment of long-lived assets

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

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

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

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

(m) Severance indemnities

Severance payments made to employees are expensed as incurred.

(n) Taxes payable

- Income taxes

The provisions for income taxes in the statements of income for all periods presented have been computed on a separate return basis (i.e., assuming that the Company was not included in 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 the subsidiaries operate. The Company records income taxes using the method required by RT 17.

Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. RT 17 also requires companies to record a valuation allowance for that component of net deferred tax assets which are not recoverable. The statutory income tax rate in Argentina was 35% for all periods presented. The statutory income tax rate in Paraguay was 20% and 30%, respectively, for all periods presented.

- *Tax on minimum presumed income*

The Company is subject to a tax on minimum presumed income. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on 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.

The Company has utilized a portion of its tax loss carryforwards in the computation of income taxes for the years ended December 31, 2004 and 2003. However, there are remaining tax loss carryforwards as of June 30, 2005. Accordingly, the Company has determined an additional proportional charge for the six-month period ended June 30, 2005 for the tax on minimum presumed income of $18, which, together with the previous year charges, was deferred as Other non-current receivables . These charges have been estimated as recoverable based on the Company s tax projections and the 10-year legal expiration term for use of the credit.

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4. Summary of significant accounting policies (continued)

- *Turnover tax*

Under Argentine tax law, the Company is subject to a tax levied on gross revenues. Rates differ depending on the jurisdiction where revenues are earned for tax purposes. Average rates were 3.8% and 3.6% for the six-month periods ended June 30, 2005 and 2004, respectively.

(o) 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 one salary for each five years of service. There is no vested benefit obligation until the occurrence of those conditions. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement. The net periodic pension costs are recognized as employees render the services necessary to earn pension benefits. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as of June 30, 2005 and December 31, 2004.

Deferred revenue on sale of capacity

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Up-front payments received are deferred and recognized as services are provided.

Court fee

Under the out-of-court restructuring agreement (Acuerdo Preventivo Extrajudicial or APE), the Company is subject to a court fee of 0.25% levied on the total amount finally approved as restructured by the court.

(p) Litigation

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

(q) Derivatives

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

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

(r) Vacation expense

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

(s) Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the six-month periods ended June 30, 2005 and 2004 are shown in Note 17.h. under the line item Advertising expenses .

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4. Summary of significant accounting policies (continued)

(t) 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.

(u) Results on debt restructuring

As Telecom Argentina expects that the restructuring process will be successfully completed during fiscal year 2005 and will have a significant positive impact in the statement of income, the management has decided to include the fees related to this process in a separate line item in the statement of income titled Results on debt restructuring . Expected future income will also be recorded in this line.

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of	**As of**

	June 30, 2005	December 31, 2004
Cash	$ 3	$ 3
Banks	33	29
	$ 36	**$ 32**

(b) Investments

Investments consist of the following:

	As of June 30, 2005	As of December 31, 2004
Current		
Time deposits (i)	$ 3,925	$ 3,330
Government bonds, equity investments and mutual funds	50	356
Subtotal	3,975	3,686
Impairment loss on the Argentina 2004 bond		(56)
	$ 3,975	**$ 3,630**
Non current		
2003 Telecommunications Fund	$ 2	$ 2
	$ 2	**$ 2**

(i) Includes an amount of $3,594 as of June 30, 2005, which has been segregated by the Company for purposes of satisfying debt obligations.

(c) Accounts receivable

Accounts receivable consist of the following:

	As of June 30, 2005	As of December 31, 2004

Current		
Voice, data and Internet	$ 373	$ 379
Wireless (i)	318	303
Directories publishing	16	34
Subtotal	707	716
Allowance for doubtful accounts	(107)	(104)
	$ 600	**$ 612**

(i) Includes $32 as of June 30, 2005 and $49 as of December 31, 2004 corresponding to international wireless receivables.

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5. Breakdown of the main accounts (continued)

(d) Other receivables

Other receivables consist of the following:

	As of June 30, 2005	As of December 31, 2004
Current		
Tax credits	$ 33	$ 26
Prepaid expenses	23	17
Advances to employees	2	2
Other	27	33
	$ 85	**$ 78**
Non current		
Deferred tax assets, net of valuation allowance	$ 6	$
Credit on minimum presumed income tax (i)	222	200
Other tax credits	5	4
Prepaid expenses	12	14
Other	13	14
Subtotal	**258**	**232**
Allowance for doubtful accounts	(5)	(4)
	$ 253	**$ 228**

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

(e) Inventories

Inventories consist of the following:

	As of June 30, 2005	As of December 31, 2004
Wireless handsets and equipment	$ 110	$ 82
Allowance for obsolescence	(1)	(3)
	$ 109	**$ 79**

(f) Other assets

Other assets consist of the following:

	As of June 30, 2005	As of December 31, 2004
Deferred printing cost	$ 2	$ 1
Raw materials	4	2
	$ 6	**$ 3**

(g) Accounts payable

Accounts payable consist of the following:

	As of June 30, 2005	As of December 31, 2004
Current		
Suppliers	$ 509	$ 451
Deferred revenues	54	40
Related parties (Note 7)	10	18
	$ 573	**$ 509**
Non current		
Suppliers	**$ 4**	**$ 7**

(h) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of June 30, 2005	As of December 31, 2004
Current		
Vacation, bonuses and social security payable	$ 62	$ 58
Special termination benefits	12	16
Other	5	5
	$ 79	**$ 79**
Non current		
Special termination benefits	$ 28	$ 29
Other		4
	$ 28	**$ 33**

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5. Breakdown of the main accounts (continued)

(i) Taxes payable

Taxes payable consist of the following:

	As of June 30, 2005	As of December 31, 2004
Current		
Turnover tax	$ 39	$ 39
VAT, net	38	32
Tax on minimum presumed income, net	14	17
Income tax, net (i)	39	1
Tax on Universal Service	48	39
Other	22	25
	$ 200	**$ 153**
Non current		
Deferred tax liabilities	**$**	**$ 5**

(i) Corresponds to the Company and Nucleo.

(j) Other liabilities

Other liabilities consist of the following:

	As of June 30, 2005	As of December 31, 2004
Current		
Contributions to government programs	$ 13	$ 13
Court fee	2	2
Other	13	7
	$ 28	**$ 22**
Non current		
Court fee	$ 20	$ 20
Gain on discount of other liabilities	(4)	(5)
Deferred revenue on sale of capacity and related services	28	36
Asset retirement obligations	13	13
Retirement benefits	8	7
	$ 65	**$ 71**

(k) Net sales

Net sales consist of the following:

	Six-month periods ended	
	June 30, 2005	June 30, 2004
Voice	$ 1,167	$ 1,113
Data	75	75
Internet	149	123
Subtotal	**1,391**	**1,311**
Wireless	1,187	753
Directories publishing	7	6
	$ 2,585	**$ 2,070**

(l) Equity gain from related companies

Equity gain from related companies consists of the following:

	Six-month periods ended	
	June 30, 2005	June 30, 2004
Gain on sale of equity interest in Intelsat Ltd	7	
	$ 7	**$**

(m) Financial results, net

Financial results, net consist of the following:

	Six-month periods ended	
	June 30, 2005	June 30, 2004
Generated by assets		
Interest income	$ 60	$ 42
Foreign currency exchange loss	(352)	(11)
Impairment loss on the Argentina 2004 bond		(58)
Other	(32)	5
Total generated by assets	**$ (324)**	**$ (22)**
Generated by liabilities		
Interest expense	$ (398)	$ (353)
Less capitalized interest on fixed assets	6	1
Foreign currency exchange gain	1,022	95
Other	(7)	(19)
Total generated by liabilities	**$ 623**	**$ (276)**
	$ 299	**$ (298)**

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5. Breakdown of the main accounts (continued)

(n) Other expenses, net

Other expenses, net consist of the following:

	Six-month periods ended	
	June 30, 2005	**June 30, 2004**
Termination benefits	$ (21)	$ (30)
Provision for contingencies	(39)	(24)
Other, net	10	(1)
	$ (50)	**$ (55)**

(o) Results on debt restructuring

Results on debt restructuring consist of the following:

	Six-month periods ended	
	June 30, 2005	**June 30, 2004**
Other related expenses	(15)	
	$ (15)	**$**

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/periods shown in the statements of cash flows:

	As of June 30,		As of December 31,	
	2005	2004	2004	2003
Cash and banks	$ 36	$ 23	$ 32	$ 26
Current investments	3,975	3,187	3,630	2,441
Total as per balance sheet	**$ 4,011**	**$ 3,210**	**$ 3,662**	**$ 2,467**
Less:				
Items not considered cash and cash equivalents				
- Time deposits with maturities of more than three months		(117)	(463)	(193)
- Government bonds	(33)	(8)	(i) (251)	(58)
- Equity investments			(8)	
Total cash and cash equivalents as shown in the statement of cash flows	**$ 3,978**	**$ 3,085**	**$ 2,940**	**$ 2,216**

(i) Corresponds to the current portion of held-to-maturity investments. In December 2004 includes $23 corresponding to the Argentina 2004 bond, net of impairment loss.

Changes in assets/liabilities components:

	Six-month periods ended June 30,	
	2005	2004
Net (increase) decrease in assets		
Investments not considered as cash or cash equivalents	$ 28	$ 4
Trade accounts receivable	(2)	13
Other receivables	(17)	(40)
Inventories	(42)	(37)
Other assets	(3)	(7)
	$ (36)	**$ (67)**
Net (decrease) increase in liabilities		
Accounts payable	$ 119	$ 8

Compensation and social benefits payable	(5)	(11)
Taxes payable	19	(23)
Other liabilities	2	(3)
Contingencies	(15)	(6)
	$ 120	**$ (35)**

The Company has not paid income taxes in any of the periods presented. Interest paid during the six-month periods ended June 30, 2005 and 2004, amounted to $44 and $7, respectively.

Non-cash investing and financing activities:

	Six-month periods ended June 30,	
	2005	**2004**
Acquisition of fixed assets through incurrence of accounts payable	$ 64	$ 90
Capitalized interest on fixed assets	6	1
Wireless handsets lent to customers at no cost (i)	2	1
Provision for minimum presumed income tax	20	17
Cash deposit to guarantee the payment of satellite services of Intelsat Ltd.	1	
Capacity-related services	5	
Foreign currency translation adjustments in:		
- Accounts receivables	1	(4)
- Other receivables		(1)
- Accounts payable		2
- Debt	(2)	13
- Other liabilities		1
Government bonds and tax credits exchanged for tax certificates		35

(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.

TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements

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

6. Supplementary cash flow information (continued)

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

	Six-month periods ended June 30,	
	2005	**2004**
Government bonds with maturities of more than three months	$ 211	$ 52
Time deposits with maturities of more than three months	443	77
Total cash flows from investments not considered as cash equivalents	**$ 654**	**$ 129**

Financing activities components:

	Six-month periods ended June 30,	
	2005	**2004**
Debt proceeds	$ 14	$
Payment of bank loans	(70)	(2)
Payment of interest on bank loans	(44)	(7)
Total financing activities components	**$ (100)**	**$ (9)**

The following table includes the cash from operating, investing and financing activities after disclosing the effects of inflation accounting and exchange rate changes on cash and cash equivalents:

	Six-month periods ended June 30, 2005	2004
Total cash flows provided by operating activities	$ 1,101	$ 944
Total cash flows provided by (used in) investing activities	365	(61)
Total cash flows used in financing activities	(100)	(9)
Effect of exchange rate changes on cash and cash equivalents	(328)	(5)
Increases in cash and cash equivalents	**$ 1,038**	**$ 869**

7 - Related party transactions

(a) Controlling group

As of June 30, 2005, Nortel is the controlling shareholder of Telecom Argentina. Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares of Telecom Argentina. Nortel s ordinary shares were owned equally by the Telecom Italia Group and the France Telecom Group prior to December 2003.

On December 19, 2003, the Telecom Italia Group and the France Telecom Group contributed their respective interests in Nortel to a newly created company, Sofora Telecomunicaciones S.A. (Sofora) in exchange for shares of Sofora. At that time, the Telecom Italia Group and the France Telecom Group had the same shareholding interests in Sofora. Following the approval obtained from the regulatory authorities, the Company was informed that the France Telecom Group sold its 48% interest in Sofora plus a put option for the remaining 2% to W de Argentina - Inversiones S.L. for a total purchase price of US$125 million. The put option will be exercisable from January 31, 2008 through December 31, 2013. As of June 30, 2005, the shareholders of Sofora are the Telecom Italia Group representing 50%, W de Argentina - Inversiones S.L. representing 48% and the France Telecom Group representing 2% of Sofora s capital stock. W de Argentina - Inversiones S.L. has granted two call options to the Telecom Italia Group to purchase its equity interest in Sofora for an aggregate purchase price of US$ 60 million. The first call option to acquire 48% of the equity interest of Sofora may be exercised within 15 days after December 31, 2008. The second call option to acquire the remaining 2% of the equity interest of Sofora may be exercised at any time between December 31, 2008 and December 31, 2013.

(b) Balances and transactions with related parties

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

	As of June 30, 2005	As of December 31, 2004

Accounts receivable		
Telecom Italia Mobile S.p.A. (a)	1	2
Entel PCS Telecomunicaciones S.A. (a)	2	2
Retevisión Móvil S.A. (a)	1	
	$ 4	**$ 4**
Accounts payable:		
Telecom Italia S.p.A. (a)	6	
Telecom Italia Sparkle S.p.A. (a)	1	12
Tel3 S.A. (a) (d)	2	1
Italtel S.p.A. (a)	1	
Pirelli Energía Cables y Sistemas de Argentina S.A.(a) (d)		2
Entel Chile S.A. (a) (c)		1
Telecom Italia S.p.A. Argentine branch (a)		1
Etec S.A. (a)		1
	$ 10	**$ 18**

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Notes to the Unaudited Consolidated Financial Statements

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

7 - Related party transactions (continued)

		Six-month periods ended	
	Transaction description	**June 30, 2005**	**June 30, 2004**
Services rendered:			
Entel Chile S.A. (a) (c)	International inbound calls	$ 5	$ 3
Telecom Italia Sparkle S.p.A. (a)	International inbound calls	3	
Golden Lines (a)	International inbound calls	1	
Telecom Italia S.p.A. (a)	International inbound calls		1
Latin American Nautilus (a) (e)	International inbound calls		1
Entel PCS Telecomunicaciones S.A. (a)	Roaming	3	2
Telecom Italia Mobile S.p.A. (a)	Roaming	2	2
TIM Celular S.A. (a)	Roaming		1
TIM Brasil Servicio e Participacoes S.A. (a)	Roaming	2	
Retevisión Móvil S.A. (a)	Roaming	1	
Total net sales		**$ 17**	**$ 10**
Services received:			
Nahuelsat (f)	Rental expenses	$	