TELECOM ARGENTINA SA
Form 6-K
April 07, 2006
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

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

of the Securities Exchange Act of 1934

For the month of April, 2006

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant s name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

(Address of principal executive offices)

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

Form 20-F X Form 40-F ______

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

Yes ______ No X

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

Yes ______ No __X__

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

Yes ______ No __X__

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

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

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

Consolidated Financial Statements as of December 31, 2005 and December 31, 2004 and for the years ended December 31, 2005, 2004 and 2003

$: Argentine peso

US$: US dollar

$3.032 = US$1 as of December 31, 2005

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

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer
Consolidated Balance Sheets as of December 31, 2005 and 2004

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

	As of December 31, 2005	As of December 31, 2004
ASSETS		
Current Assets		
Cash and banks	$ 46	$ 32
Investments, net	596	3,630
Accounts receivable, net	705	612
Other receivables	76	77
Inventories, net	104	79
Other assets	5	3
Total current assets	**1,532**	**4,433**
Non-Current Assets		
Other receivables, net	269	219
Investments	2	2
Fixed assets, net	5,959	6,895
Intangible assets, net	764	773
Other assets, net	21	
Total non-current assets	**7,015**	**7,889**
TOTAL ASSETS	**$ 8,547**	**$ 12,322**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 824	$ 508
Debt	905	9,434
Salaries and social security payable	104	79
Taxes payable	222	153
Other liabilities	31	22
Contingencies	110	30
Total current liabilities	**2,196**	**10,226**
Non-Current Liabilities		
Debt	3,996	1,219
Salaries and social security payable	30	33
Taxes payable	92	5
Other liabilities	78	69
Contingencies	247	214
Total non-current liabilities	**4,443**	**1,540**
TOTAL LIABILITIES	**$ 6,639**	**$ 11,766**

Minority interest		**41**		**30**
Foreign currency translation adjustments		**31**		**24**
SHAREHOLDERS EQUITY	**$**	**1,836**	**$**	**502**
TOTAL LIABILITIES, MINORITY INTEREST, FOREIGN CURRENCY TRANSLATION ADJUSTMENTS AND SHAREHOLDERS EQUITY	**$**	**8,547**	**$**	**12,322**

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

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

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

Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer
Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003

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

	Years ended December 31,		
	2005	**2004**	**2003**
Net sales	$ 5,718	$ 4,494	$ 3,753
Cost of services	(3,704)	(2,968)	(2,643)
Gross profit	**2,014**	**1,526**	**1,110**
General and administrative expenses	(249)	(229)	(219)
Selling expenses	(1,261)	(897)	(784)
Operating income	**504**	**400**	**107**
Equity gain (loss) from related companies	7	(2)	2
Financial results, net	(306)	(1,172)	48
Other expenses, net	(165)	(78)	(168)
Gain on debt restructuring	1,424	209	376
Net income (loss) before income tax and minority interest	**1,464**	**(643)**	**365**
Income tax (expense) benefit, net	(122)	(26)	7
Minority interest	(8)	3	(21)
Net income (loss)	**$ 1,334**	**$ (666)**	**$ 351**
Net income (loss) per share	**$ 1.36**	**$ (0.68)**	**$ 0.36**

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

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

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

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, 2005, 2004 and 2003

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

	Shareholders contributions			Unappropriated results			
	Common stock	Inflation adjustment of common stock	Total	Legal reserve	Retained earnings/ (Accumulated deficit)	Total	Total Shareholders equity
Balances as of January 1, 2003	**$ 984**	**3,044**	**4,028**	**277**	**(3,488)**	**(3,211)**	**$ 817**
Net income					351	351	**351**
Balances as of December 31, 2003	**$ 984**	**3,044**	**4,028**	**277**	**(3,137)**	**(2,860)**	**$ 1,168**
Net loss					(666)	(666)	(666)
Balances as of December 31, 2004	**$ 984**	**3,044**	**4,028**	**277**	**(3,803)**	**(3,526)**	**$ 502**
Net income					1,334	1,334	**1,334**
Balances as of December 31, 2005	**$ 984**	**3,044**	**4,028**	**277**	**(2,469)**	**(2,192)**	**$ 1,836**

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

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

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

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

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

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

	Years ended December 31,		
	2005	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 1,334	$ (666)	$ 351
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities			
Allowance for doubtful accounts and other allowances	56	63	12
Depreciation of fixed assets	1,454	1,552	1,768
Amortization of intangible assets	44	94	109
Equity (gain) loss from related companies	(7)	2	(2)
Consumption of materials	58	54	39
Fixed assets disposal	11	4	9
Provision for commissions	86	25	1
Provision for contingencies	88	24	90
Holdings results on inventories	14	6	5
Interest and other financial results on loans	70	1,406	32
Gain on debt restructuring	(1,424)	(209)	(376)
Income tax	111	26	(7)
Minority interest	8	(3)	21
Net increase in assets	(166)	(198)	(355)
Net increase in liabilities	230	20	330
Total cash flows provided by operating activities	**1,967**	**2,200**	**2,027**
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed asset acquisitions	(548)	(461)	(162)
Intangible asset acquisitions	(33)	(12)	(6)
Proceeds for the sale of fixed assets and equity investments	13	4	3
Decrease (increase) in investments not considered as cash and cash equivalents	655	(382)	(180)
Total cash flows provided by (used in) investing activities	**87**	**(851)**	**(345)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Debt proceeds	1,236		
Payment of debt	(4,684)	(471)	(11)
Repurchase of debt			(422)
Payment of interest and debt-related expenses	(944)	(154)	(347)
Total cash flows used in financing activities	**(4,392)**	**(625)**	**(780)**
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,338)**	**724**	**902**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**2,940**	**2,216**	**1,314**
CASH AND CASH EQUIVALENTS AT YEAR END	**$ 602**	**$ 2,940**	**$ 2,216**

See Note 6 for supplementary cash flow information.

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

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

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

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
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 or Telecom 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 (SC) 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 SC 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 SC 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 SC has the authority to develop, suggest and implement policies; to ensure that these policies are applied; to review the applicable legal regulatory framework; to act as the enforcing authority with respect to the laws governing the relevant activities; to approve the major technical plans and to resolve administrative appeals filed against CNC resolutions.

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

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

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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 December 31, 2005

As of December 31, 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 December 31, 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.

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 SC.

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. 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 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 January 2006, the Argentine Government enacted Law No. 26,077 pursuant to which this term was extended through December 31, 2006.

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 expected to conclude 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.

The Company has fulfilled its commitments; however, the Argentine Government has not made a specific offer with regard to the renegotiation of the tariffs.

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)

(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 adopts a pay or play mechanism for compliance with the mandatory contribution 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. 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 for the supplies under the SU, which supplies 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

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the SU Fund. As of December 31, 2005, this provision amounted to $61. Personal, as well as the other cellular providers, is currently awaiting the establishment of the SU Fund as well as the guidelines to effect the contributions.

In May 2005, the SC issued Resolution No. 99/05 which prohibits billing and collecting the SU amount. The Resolution also instructs the CNC to (i) notify service providers to reimburse to customers any SU amounts improperly charged through billing and (ii) discontinue such practice immediately.

This resolution was implemented by CNC Resolution No. 2,356/05 on July 8, 2005, which required service providers to reimburse customers the previously billed SU amounts during a 90-day period. On August 9, 2005, Personal filed an injunction against Resolution No. 2,356/05.

After the 90-day period and due to the fact that the SC had not ruled on the injunction, on October 11, 2005, Personal requested the CNC (i) to extend the reimbursement period, (ii) to issue more precise guidelines for the implementation of the resolution and (iii) to rule on the injunction.

On October 12, 2005, the SC issued Resolution No. 301/05 which:

a) rejected the claims filed by Personal and the other cellular operators.

b) nullified CNC Resolution No. 2,356/05; and

c) instructed the CNC to order cellular providers to discontinue charging SU Fund amounts to customers and demanded reimbursement.

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)

On October 25, 2005, the CNC requested that Personal:

a) discontinue billing SU amounts to customers;

b) reimburse all collected SU amounts within 15 working days, plus interest (applying the same rate used for overdue invoices from customers);

c) identify the reimbursed amounts in the invoices; and

d) file within 40 working days following the period stated in b) above certain information to the regulatory authority for the verification of the reimbursements.

Personal s management, together with its legal counsels, believes that it has solid legal grounds to appeal these resolutions. However, considering the situation, management decided to reimburse the SU amounts billed to post-paid customers from January 1, 2001 through June 28, 2005, the date on which Personal ceased billing SU amounts.

Although Personal will reimburse the SU amounts as mandated by the resolutions, it will not surrender any of its rights to consider the resolutions as illegitimate and without merit. A reserve amounting to $25 has been established to cover these reimbursements.

On November 16, 2005, Personal filed a request with the CNC for the extension of the reimbursement period. Such extension was granted for 30 working days on January 25, 2006.

However, in January 2006, Personal began reimbursing its active post-paid customers all previously billed SU amounts plus interest, and is in the process of reimbursing the SU amounts billed to its former and inactive post-paid customers.

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.

On December 29, 2005 and January 26, 2006, the CNV approved, with certain amendments, Resolution CD No. 93/05 issued by the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA), which establishes new accounting and disclosure standards under Argentine GAAP. These standards will be effective for the Company as from January 1, 2006. Following is a brief summary of the most significant provisions of the new accounting pronouncements which affect the Company:

Impairment of Long-lived Assets

In August 2005, the CPCECABA issued Resolution CD No. 93/05 which introduces certain amendments to the calculation of the impairment of long-lived assets. Currently, under Argentine GAAP, the Company periodically evaluates the carrying value of its long-lived assets for impairment. The carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows, undiscounted and without interest, from such asset are separately identifiable and less than its carrying value. In that event, a loss is 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. Under the new standard, the carrying value of a long-lived asset will be considered impaired when the expected discounted cash flows from such asset are less than its carrying value. The Company estimates that the adoption of this new standard will not have a material effect on the Company s financial position and results of operations.

Disclosure of Foreign Currency Translation Adjustments

In August 2005, the CPCECABA issued Resolution CD No. 93/05 which required disclosure of the adjustments resulting from foreign currency translation as a component of equity. Currently foreign currency translation adjustments are accumulated and reported as a separate line item between the liability and equity sections of the balance sheet. Foreign currency translation adjustments amount to $31 as of December 31, 2005.

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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)

3. Preparation of financial statements (continued)

(b) Basis of consolidation

These 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 14 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 December 31, 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 December 31, 2005.
(iii) In process of liquidation.

(c) Presentation of financial statements in constant Argentine Pesos

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

However, as a result of the 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 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. 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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3. Preparation of financial statements (continued)

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 for the year ended December 31, 2005, 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	8,456	8,547	**(91)**
Total liabilities	6,639	6,639	
Minority interest and foreign currency translation adjustments	72	72	
Shareholders equity	1,745	1,836	**(91)**
Net income	1,353	1,334	**19**

(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 with 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.

(g) Concentration of credit risk

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

The Company s customers include numerous corporations. The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company s account receivables are not subject to significant concentration of credit risk. While receivables for sales to these various customers are generally unsecured, the financial condition and creditworthiness of customers are routinely evaluated. Fixed customer lines were 3,625,000 (unaudited) at December 31, 2005, 3,484,000 (unaudited) at December 31, 2004, and 3,361,000 (unaudited) at December 31, 2003 and wireless customer lines (prepaid lines were not included) were 2,233,000 (unaudited) at December 31, 2005, 1,098,000 (unaudited) at December 31, 2004, and 562,000 (unaudited) at December 31, 2003.

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

(h) Earnings per share

The Company computes net (loss) income per common share by dividing net income (loss) for the year by the 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 , 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 year-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as a separate line item between the liability and equity sections of the balance sheet.

(b) Revenue recognition

The Company s principal sources of revenues are:

Voice, data and Internet services segment

- ***Fixed telephone services:***

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

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

Basic fees are generally billed monthly in advance and are recognized when services are provided. 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. 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.

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4. Summary of significant accounting policies (continued)

- *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.

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.

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.

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 wireless 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, 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.

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 years ended December 31, 2005, 2004 and 2003, net foreign currency transaction gains or losses were a gain of $405, a loss of $460, and a gain of $624, 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.

(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.

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4. Summary of significant accounting policies (continued)

(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 year 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 year end.

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

The Company has investments in certain government bonds which are carried at market value. Certain bonds had been classified as held-to-maturity as Telecom Argentina s management had the intent and ability to hold those securities to maturity. Such securities were recorded at amortized cost, subject to impairment evaluation as of December 31, 2004.

(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, net

Buildings 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 in accordance with applicable regulations (See Note 3.c.) which does not exceed the estimated realizable value of such 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 less accumulated depreciation. All amounts have been restated for inflation in accordance with applicable regulations (See Note 3.c.). 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	11-50
Tower and pole	15
Transmission equipment	7-10
Switching equipment	7-10
Power equipment	10
External wiring	17
Telephony equipment and instruments	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 2.7% of the total transferred buildings, representing $17 of net carrying value as of December 31, 2005. Nevertheless, the Company is in complete possession of these fixed assets and operates them normally.

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4. Summary of significant accounting policies (continued)

During the second quarter ended June 30, 2005, independent appraisals helped the Company s subsidiaries, Personal and Nucleo, to reassess the appropriateness of the useful lives of certain of their fixed assets. As a result of the work, Personal and Nucleo changed the useful lives of their TDMA and GSM networks and certain other network-related assets prospectively as from January 1, 2005. Accordingly, Personal and Nucleo recognized accelerated depreciation of $31 related to these assets.

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.

The Company capitalizes interest on long-term construction projects. Interest capitalized was $6, $5 and $6 for the years ended December 31, 2005, 2004 and 2003, respectively.

Certain foreign currency transaction gains and losses were capitalized as part of the cost of the assets from January 2002 through July 2003 (See Note 4.c for details). The net carrying value of these capitalized costs was $314 as of December 31, 2005 and $443 as of December 31, 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:

- <u>Software obtained or developed for internal use</u>

The Company has capitalized certain costs associated with the development of computer software for internal use. Costs capitalized during the years ended December 31, 2005 and 2004 were not significant. These costs are being amortized on a straight-line basis over a period of 6.5 years.

- *<u>Debt issue costs</u>*

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. As a consequence of the closing of the debt restructuring process and the exchange of debt instruments, the related expenses of Telecom Argentina were fully amortized as of August 31, 2005.

- 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.

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4. Summary of significant accounting policies (continued)

- *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. 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 2 to 29 years.

- *Trademarks*

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

(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 a long-lived asset is considered impaired by the Company when the expected cash flows, undiscounted 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 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 the preparation of such estimates, the Company has considered different scenarios, some of which contemplate the modification of the current level of Telecom Argentina s tariffs which would enable Telecom Argentina 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

As per Argentinean Tax Law, 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 they respectively 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% for the fiscal year ended December 31, 2005 and 30% for the fiscal year ended December 31, 2004 and 2003, respectively.

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4. Summary of significant accounting policies (continued)

- 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 December 31, 2005. Accordingly, the Company has determined an additional proportional charge for the year ended December 31, 2005 for the tax on minimum presumed income of $46, 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.

- 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 4.0% for the years ended December 31, 2005, 2004 and 2003.

(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 December 31, 2005 and 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 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%.

(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.

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4. Summary of significant accounting policies (continued)

(q) Derivatives to compensate future risks or minimized financial costs

Effective January 1, 2002, the Company adopted RT 20 issued by the FACPCE, 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, whether designated in a hedging relationship or not. Changes in the fair value of effective cash flow hedges are recognized as a separate component between the Liabilities and the Shareholders equity 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. Derivatives not designated or qualifying as a hedging instrument are adjusted to fair value through earnings.

While the Convertibility Law was in effect, as part of its risk management strategy, Telecom had used derivative financial instruments to hedge its exposure to foreign exchange rate fluctuations related to the Company s indebtedness not denominated in US dollars in order to reach a natural hedge with its income fixed in US dollars. During the fiscal year 2002, due to the end of the Convertibility Law and the suspension of the payments of the financial debt, Telecom Group had to prepay all of these derivative financial instruments that have been designated and recorded as hedge instruments.

During August and September 2005, following Telecom Argentina s successful completion of its debt restructuring process, the Company entered into two foreign exchange currency swap contracts to hedge its exposure to US dollar fluctuations related to the Euro and Japanese yen-denominated new Notes. The principal terms and conditions of these contracts are disclosed in Note 8.2.

Considering that the Company primarily generates cash flows in Argentine pesos and the terms of the swap do not perfectly match the terms of the Euro and Japanese yen-denominated obligations (due to the existence of the prepaid terms described in Note 8.2), these hedges were regarded as ineffective. Therefore, the changes in the fair value of these hedges were recognized in the financial results as Loss on derivatives .

Additionally, 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.

The Company does not enter into foreign exchange swap contracts for speculative or trading purposes.

(r) Vacation expenses

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 years ended December 31, 2005, 2004 and 2003 are shown in Note 15.h. under the line item Advertising expenses .

(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) Gain on debt restructuring

Due to its materiality, the gain on debt restructuring has been included in a separate line item in the statement of income entitled Gain on debt restructuring .

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5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of December 31, 2005	As of December 31, 2004
Cash	$ 12	$ 3
Banks	34	29
	$ 46	**$ 32**

(b) Investments

Investments consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Time deposits	$ 551	$ 3,330
Government bonds, equity investments and mutual funds	45	356
Subtotal	596	3,686
Impairment loss on the Argentina 2004 bond		(56)
	$ 596	**$ 3,630**
Non current		
2003 Telecommunications Fund	$ 2	$ 2
	$ 2	**$ 2**

(c) Accounts receivable

Accounts receivable consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Voice, data and Internet	$ 403	$ 379
Wireless (i)	363	301
Wireless - related parties	4	2
Directories publishing	36	34
Subtotal	**806**	**716**
Allowance for doubtful accounts	(101)	(104)
	$ 705	**$ 612**

(i) Includes $26 as of December 31, 2005 and $49 as of December 31, 2004 corresponding to international wireless receivables.

(d) Other receivables

Other receivables consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Tax credits	$ 28	$ 26
Prepaid expenses	14	17
Restricted funds	10	6
Advances to employees	2	2
Derivatives		9
Other	28	17
Subtotal	**82**	**77**
Allowance for doubtful accounts	(6)	
	$ 76	**$ 77**
Non current		
Credit on minimum presumed income tax (i)	$ 246	$ 200
Prepaid expenses	12	14
Other tax credits	7	4
Restricted funds	7	4
Other	4	1
Subtotal	**276**	**223**
Allowance for doubtful accounts	(7)	(4)
	$ 269	**$ 219**

(i) Considering the 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 December 31, 2005	As of December 31, 2004
Wireless handsets and equipment	$ 113	$ 82
Allowance for obsolescence	(9)	(3)
	$ 104	**$ 79**

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5. Breakdown of the main accounts (continued)

(f) Other assets

Other assets consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Buildings held for sale	$ 3	$
Deferred printing cost	1	1
Raw materials	2	2
Subtotal	**6**	**3**
Allowance for obsolescence	(1)	
	$ 5	**$ 3**
Non current		
Buildings held for sale	$ 31	$
Allowance for obsolescence	(10)	
	$ 21	**$**

(g) Accounts payable

Accounts payable consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Suppliers	$ 684	$ 443
Deferred revenues	70	40
Agent commissions	37	11
SU reimbursement	25	
Related parties	8	14
	$ 824	**$ 508**

(h) Salaries and social security payable

Salaries and social security payable consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Vacation, bonuses and social security payable	$ 84	$ 58
Special termination benefits	14	16
Other	6	5
	$ 104	**$ 79**
Non current		
Special termination benefits	$ 30	$ 29
Other		4
	$ 30	**$ 33**

(i) Taxes payable

Taxes payable consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Tax on Universal Service	61	39
Turnover tax	$ 46	$ 39
VAT, net	41	32
Income tax, net (i)	30	1
Tax on minimum presumed income, net	9	17
Regulatory fees	8	6
Internal taxes	9	5
Other	18	14
	$ 222	**$ 153**
Non current		
Deferred tax liabilities	**$ 92**	**$ 5**

(i) See Note 10.

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5. Breakdown of the main accounts (continued)

(j) Other liabilities

Other liabilities consist of the following:

	As of December 31, 2005	As of December 31, 2004
Current		
Contributions to government programs	$ 13	$ 13
Court fee	3	2
Guarantees received	4	3
Other	11	4
	$ 31	**$ 22**
Non current		
Deferred revenue on sale of capacity and related services	32	34
Asset retirement obligations	21	13
Court fee	$ 15	$ 15
Retirement benefits	10	7
	$ 78	**$ 69**

(k) Net sales

Net sales consist of the following:

	Years ended December 31, 2005	2004	2003
Voice	$ 2,404	$ 2,302	$ 2,164
Data	150	151	185
Internet	317	265	207
Subtotal	**2,871**	**2,718**	**2,556**
Wireless	2,797	1,733	1,163
Directories publishing	**50**	**43**	**34**
	$ 5,718	**$ 4,494**	**$ 3,753**

(l) Equity gain (loss) from related companies

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

	Years ended December 31,		
	2005	2004	2003
Gain on sale of equity interest in Intelsat Ltd	$ 7	$	$
Nahuelsat		(2)	2
	$ 7	**$ (2)**	**$ 2**

(m) Financial results, net

Financial results, net consist of the following:

	Years ended December 31,		
	2005	2004	2003
Generated by assets			
Interest income	$ 103	$ 92	$ 108
Foreign currency exchange (loss) gain	(273)	178	(38)
Impairment loss on the Argentina 2004 bond		(56)	
Holding losses on inventories	(14)	(6)	(5)
Other	(16)	14	(16)
Total generated by assets	**$ (200)**	**$ 222**	**$ 49**
Generated by liabilities			
Interest expense	$ (674)	$ (747)	$ (664)
Loss on discounting of debt	(116)	(21)	
Less capitalized interest on fixed assets	6	5	6
Foreign currency exchange gain (loss)	761	(638)	711
Loss on derivatives	(83)		
Other		7	(54)
Total generated by liabilities	**$ (106)**	**$ (1,394)**	**$ (1)**
	$ (306)	**$ (1,172)**	**$ 48**

(n) Other expenses, net

Other expenses, net consist of the following:

	Years ended December 31,		
	2005	2004	2003
Severance indemnities and special termination benefits	$ (57)	$ (59)	$ (75)
Provision for contingencies	(88)	(24)	(90)
SU reimbursement	(11)		
Allowance for obsolescence	(18)	(1)	
Allowance for doubtful accounts	(9)	(1)	(1)
Other, net	18	7	(2)
	$ (165)	**$ (78)**	**$ (168)**

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5. Breakdown of the main accounts (continued)

(o) Gain on debt restructuring

Gain on debt restructuring consist of the following:

	Years ended December 31, 2005	2004	2003
Discount on principal	$ 167	$ 72	$ 361
Discount on accrued and penalty interest	984	142	49
Gain on discounting of debt	352	41	
Subtotal before related expenses and income tax	**1,503**	**255**	**410**
Other related expenses	(79)	(46)	(34)
	$ 1,424	**$ 209**	**$ 376**

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, 2005	2004	2003	2002
Cash and banks	$ 46	$ 32	$ 26	$ 53
Current investments	596	3,630	2,441	1,362
Total as per balance sheet	**$ 642**	**$ 3,662**	**$ 2,467**	**$ 1,415**
Less:				
Items not considered cash and cash equivalents				
- Currency-like bonds (i)				(36)
- Time deposits with maturities of more than three months		(463)	(193)	
- Government bonds	(40)	(251)(ii)	(58)	(65)
- Equity investments		(8)		
Total cash and cash equivalents as shown in the statement of cash flows	**$ 602**	**$ 2,940**	**$ 2,216**	**$ 1,314**

(i) Corresponds to national and provincial government bonds restricted as to their use for paying commercial and tax obligations in the respective jurisdictions of issuance.

(ii) 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:

	Years ended December 31,		
	2005	**2004**	**2003**
Net (increase) decrease in assets			
Investments not considered as cash or cash equivalents	$ (2)	$ (90)	$ (5)
Trade accounts receivable	(118)	(31)	(334)
Other receivables	3	4	(3)
Inventories	(49)	(81)	(13)
	$ (166)	**$ (198)**	**$ (355)**
Net (decrease) increase in liabilities			
Accounts payable	$ 225	$ 75	$ 141
Salaries and social benefits payable	22	5	17
Taxes payable	(13)	(46)	179
Other liabilities	9	4	10
Contingencies	(13)	(18)	(17)
	$ 230	**$ 20**	**$ 330**

Income taxes paid during the year ended December 31, 2005 amounted to $11. Interest paid during the years ended December 31, 2005, 2004 and 2003, amounted to $944, $154 and $347, respectively.

Non-cash investing and financing activities:

	Years ended December 31,		
	2005	**2004**	**2003**
Acquisition of fixed assets through incurrence of accounts payable	$ 194	$ 227	$ 188
Acquisition of intangible assets through incurrence of accounts payable		12	
Debt issue costs	4		
Capitalized interest on fixed assets	6	5	6
Wireless handsets lent to customers at no cost (i)	3	8	3
Asset retirement obligations	8	3	10
Provision for minimum presumed income tax	47	46	68
Government bonds and tax credits exchanged for tax certificates		4	(84)

(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.

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6. Supplementary cash flow information (continued)

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,		
	2005	**2004**	**2003**
Government bonds with maturities of more than three months	$ 213	$ (147)	$ 15
Time deposits with maturities of more than three months	442	(235)	(193)
Contribution to the 2003 Telecommunications Fund			(2)
Total cash flows from investments not considered as cash equivalents	**$ 655**	**$ (382)**	**$ (180)**

Financing activities components:

	Years ended December 31,		
	2005	**2004**	**2003**
Debt proceeds	$ 1,236	$	$
Payment of Notes	(3,432)		(277)
Payment of bank loans	(1,252)	(471)	(156)
Payment of interest on Notes and debt-related taxes and fees	(773)		(231)
Payment of interest on bank loans	(125)	(118)	(52)
Payment of debt restructuring related expenses	(46)	(36)	(12)
Payment of interest on fixed assets and inventory financing			(52)
Total financing activities components	**$ (4,392)**	**$ (625)**	**$ (780)**

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:

	Years ended December 31,		
	2005	**2004**	**2003**
Total cash flows provided by operating activities	$ 2,220	$ 2,073	$ 2,040
Total cash flows provided by (used in) investing activities	87	(851)	(345)
Total cash flows used in financing activities	(4,392)	(625)	(780)
Effect of exchange rate changes on cash and cash equivalents	(253)	127	(13)
(Decrease) increase in cash and cash equivalents	**$ (2,338)**	**$ 724**	**$ 902**

7 - Related party transactions

(a) Controlling group

As of December 31, 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 September 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 December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003:

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7 - Related party transactions (continued)

	As of December 31, 2005	As of December 31, 2004
Accounts receivable		
Telecom Italia Mobile S.p.A. (a)	$ 3	$ 2
TIM Celular S.A. (a)	1	
	$ 4	**$ 2**
Accounts payable:		
Telecom Italia Sparkle S.p.A. (a)	1	12
Italtel S.A. (a)	4	
Latin American Nautilus USA Inc (a)	1	
TIM SUL S.A. (a)	1	
La Caja ART S.A. (b)	1	
Telecom Italia S.p.A. Argentine branch (a)		1
Etec S.A. (a)		1
	$ 8	**$ 14**

	Transaction description	Years ended December 31, 2005	2004	2003
Services rendered:				
Telecom Italia Sparkle S.p.A. (a)	International inbound calls	$ 3	$ 4	$ 4
Entel S.A. (Bolivia) (a)	International inbound calls	1	1	1
Latin American Nautilus Argentina (a)	International inbound calls	1		
Latin American Nautilus USA Inc (a)	International inbound calls	1		
Telecom Italia Mobile S.p.A. (a)	Roaming	5	4	2
TIM Celular S.A. (a)	Roaming	6	2	
Corporación Digitel CA (a)	Roaming	1		
Latin American Nautilus (a)	International inbound calls		2	1
Golden Lines (c)	International inbound calls	1	1	1
Entel Chile S.A. (c)	International inbound calls	3	10	13
Entel PCS Telecomunicaciones S.A. (c)	Roaming	2	5	4
Total net sales		**$ 24**	**$ 29**	**$ 26**
Services received:				
Telecom Italia Argentine branch (a)	Fees for services	$ (3)	$ (3)	$ (3)
Telecom Italia S.p.A. (a)	International outbound calls	(7)		
Entel S.A. (Bolivia) (a)	International outbound calls	(3)	(4)	(3)
Etec S.A. (a)	International outbound calls	(4)	(3)	(4)

Telecom Italia Sparkle S.p.A. (a)	International outbound calls	(9)	(3)	(3)
Telecom Italia Mobile S.p.A. (a)	Roaming	(5)	(1)	(1)
TIM Celular S.A. (a)	Roaming	(3)		
Italtel S.A. (a)	Maintenance, materials and supplies	(1)		
Latin American Nautilus USA Inc.(a)	International outbound calls	(1)		
Latin American Nautilus (a)	International outbound calls and lease of circuits	(1)	(1)	
Teco Soft Argentina S.A. (in process of liquidation) (a)	Fees for services		(3)	(12)
La Caja ART S.A. (b)	Insurance	(3)	(2)	
Caja de Seguros S.A. (b)	Insurance	(1)	(2)	
Tel3 S.A. (c)	Fees for services	(8)	(14)	(3)
Entel Chile S.A. (c)	International outbound calls	(3)	(13)	(11)
Golden Lines (c)	International outbound calls	(1)	(1)	(1)
Pirelli Energía Cables y Sistemas de Argentina S.A.(c)	Fees for services		(10)	
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.(c)	Fees for services		(4)	
FCR Argentine branch (d)	Fees for services			(3)
Sofrecom Argentina S.A. (d)	Fees for services			(9)
Nahuelsat (c)	Rental expenses	(4)	(8)	(7)
Intelsat Ltd. (c)	Rental expenses	(1)	(3)	(5)
Multibrand (c)	Advertising			(1)
Total operating costs		**$ (58)**	**$ (75)**	**$ (66)**

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7 - Related party transactions (continued)

	Years ended December 31, 2005	2004	2003
Purchases of fixed assets/intangible assets:			
Telecom Italia Sparkle S.A.(a)	$ 18	$ 24	$
Italtel S.A. (a)	14		
Italtel S.p.A. (a)	1		
Latin American Nautilus Argentina (a)	1		
Teco Soft Argentina S.A. (in process of liquidation) (a)			1
Tel3 S.A. (c)	3	4	
Pirelli Energía Cables y Sistemas de Argentina S.A. (c)	6		
Sofrecom Argentina S.A. (d)			8
Total fixed assets and intangible assets	**$ 43**	**$ 28**	**$ 9**

(a) Such companies form part of Telecom Italia Group, a shareholder of the Company.
(b) Such companies form part of W de Argentina - Inversiones S.L., a shareholder of the Company.
(c) These companies were a related party before December 31, 2005.
(d) Such companies had formed part of France Telecom Group, a former shareholder of the Company and were related party until December 2003.

The Company believes that the transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties. The Board of Directors approved transactions representing more than 1% of the total shareholders equity of the Company, after being approved by the Audit Committee in compliance with Decree No. 677/01.

As of December 31, 2005, Telecom Argentina had loans outstanding to officers of Telecom Argentina, totaling $0.4. The annual interest fixed rate for these loans is 6%.

8 - Debt

8.1. The Company s short-term and long-term debt

As of December 31, 2005 the Company s short-term and long-term debt comprises the following:

	As of December 31, 2005	As of December 31, 2004
Short-term debt:		
- Principal:		
Notes	$ 761	$ 5,353
Bank loans	39	1,177

Fixed assets financing				1,475
Subtotal		800		8,005
- Accrued interest		59		1,259
- Derivatives		46		
- Penalty interest				170
Total short-term debt	**$**	**905**	**$**	**9,434**
Long-term debt:				
- Principal:				
Notes	$	3,856	$	
Bank loans		386		1,260
- Gain on discounting of debt		(277)		(41)
- Derivatives		31		
Total long-term debt	**$**	**3,996**	**$**	**1,219**
Total debt	**$**	**4,901**	**$**	**10,653**

As further described below, on August 31, 2005, all the outstanding debt of Telecom was restructured. The following table segregates the Telecom Group s debt by company as of December 31, 2005:

	Telecom	Personal	Nucleo	Eliminations	Consolidated
Restructured debt					
♦ Principal	3,766	1,238	52	(14)	**5,042**
♦ Accrued interest	55	4			**59**
Subtotal	**3,821**	**1,242**	**52**	**(14)**	**5,101**
♦ Discounting of debt	(277)				**(277)**
♦ Derivatives	77				**77**
Total restructured debt	**3,621**	**1,242**	**52**	**(14)**	**4,901**
n Current	819	77	23	(14)	**905**
n Non current	2,802	1,165	29		**3,996**

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8 Debt (continued)

8.2. Restructured debt of Telecom Argentina

On August 31, 2005, Telecom Argentina completed its debt restructuring and complied with the terms of the APE, as follows:

1. The Company issued Series A Notes in the following currencies and original principal amounts: $26 million (including CER adjustment), US$105 million, Euro 534 million and Yen 12,328 million. Additionally, the Company paid to creditors who received consideration under Option A, $1 million, US$10 million, Euro 43 million and Yen 396 million for accrued interest from January 1, 2004 through August 31, 2005 (based on the nominal amount of Series A Notes at the contractual interest rates).

2. The Company issued US$999 million of Series B Notes under Option B. Additionally, the Company paid creditors who received consideration under Option B, US$150 million for accrued interest from January 1, 2004 through August 31, 2005 (based on the nominal amount of Series B Notes at the contractual interest rate).

3. The Company paid US$565 million to creditors who selected or were allocated into Option C. Additionally, the Company paid creditors who received consideration under Option C, US$21 million for accrued interest from January 1, 2004 through August 31, 2005 (at an annual rate of 2.28%).

4. The Company made principal payments of US$534 million under the terms of the new Notes consisting of:

   a. mandatory principal payments originally scheduled for October 15, 2004 and April 15, 2005, amounting to US$143 million.

   b. cash reserved but not applied pursuant to Option C (equal to US$98 million) and additional principal prepayments, amounting to US$293 million. Such amount effectively prepaid all principal amortization payments originally scheduled through October 15, 2007.

In compliance with the terms of the APE, on October 17, 2005, the Company made a mandatory interest payment amounting to US$13 million covering the period August 31, 2005 through October 15, 2005, and an optional principal prepayment amounting to US$78 million. This amount prepaid all principal amortization payments originally scheduled on April 2008.

Pursuant to the terms of the APE, non-participating creditors were entitled to receive consideration in the form of Series A Notes and cash consideration under Option A. Such consideration, plus the payments described above, payable to non-participating creditors is available for collection provided they follow certain collection procedures.

New Notes
Terms and conditions

Series A Notes will be due in 2014 and Series B Notes will be due in 2011. Series A Notes and Series B Notes were split into listed and unlisted notes.

Series A-1 Notes are dollar- or euro-denominated listed notes. Series A-2 are dollar-, euro-, yen- or peso-denominated unlisted notes. Peso-denominated Series A-2 unlisted notes are to be adjusted by CER index. Series B-1 Notes and Series B-2 Notes are dollar-denominated notes only.

Series A-1 Notes and Series A-2 Notes accrue escalated interest based on denomination as follows:

	From issue date until October 15, 2008	**From October 16, 2008 to maturity**
US dollar denominated	5.53%	8.00%
Euro denominated	4.83%	6.89%
Yen denominated	1.93%	3.69%
Peso denominated	3.23%	3.42%

Series B-1 Notes and Series B-2 Notes accrue escalated interest as follows:

	From issue date until October 15, 2005	**From October 16, 2005 to October 15, 2008**	**From October 16, 2008 to maturity**
US dollar denominated	9.00%	10.00%	11.00%

Penalty interest, if applicable, will accrue at an additional annual rate of 2% on overdue principal and interest.

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8 - Debt (continued)

Rating

The new Notes have received a rating of B- by both Standard & Poors International Ratings LLC, Argentine branch and Fitch Ratings.

Covenants

Mandatory prepayments

If the Company generates Excess Cash as contractually defined and calculated, such Excess Cash shall be applied on a semi-annual basis to make payments on the remaining scheduled installments of the debt instruments in direct order of maturity, or, at its option, retire the debt instruments through open market purchases or pro-rata prepayments.

Excess cash shall be measured semi-annually based on the consolidated financial statements of the Company (excluding Personal and its subsidiaries) as of June 30 and December 31 of each year, and any excess cash must be applied no later than the due date of the scheduled amortization payments immediately subsequent to each June 30 or December 31, respectively. Based on these financial statements, the Company has determined an excess cash of $370 (equivalent to US$ 122 million).

However, if at any time during the excess cash period, Telecom Argentina makes any distribution payment (as defined in the APE, including but not limited to the payment of dividends) the aggregate amount of the excess cash applied to pay the new Notes will have to be at least two and a half times such distribution payment.

Telecom will make an offer to redeem all outstanding notes, as described in the Indenture, in the case of a change of control.

Also, the Notes may be redeemed at Telecom Argentina s option, without payment of any premium or penalty, in whole or in part, at any time after the issuance date and prior to the maturity date at the redemption price equal to 100% of the outstanding principal amount thereof (adjusted to take into account any prepayments or repurchases), together with accrued interest, if any, to the date fixed for redemption and any additional amounts.

Negative covenants

The terms and conditions of the new Notes require that the Company complies with various negative covenants, including limitations on:

a) Incurrence and/or assumption of, and/or permitting to exist in Telecom Argentina or its restricted subsidiaries (as defined in the relevant debt instruments), any liens on the respective properties, assets or income for the purpose of securing any indebtedness of any person, except for certain permitted liens;

b) Incurrence of and/or permitting any restricted subsidiaries to incur any indebtedness (other than certain permitted indebtedness) unless Telecom Argentina meets a specified indebtedness/EBITDA ratio with respect to Telecom Argentina and its restricted subsidiaries (other than Personal and its subsidiaries) of 2.75 to 1 or, if any specified adjustment event has occurred, 2.25 to 1, in addition to certain other conditions;

c) Making specified restricted payments, including making any investments (other than permitted investments); under this covenant, the Company cannot make any investment in securities or indebtedness of, or extend loans to, other persons, unless such transactions are specifically permitted. Under the Telecom Argentina notes, specific limits are imposed on the amount and conditions of loans that may be made by Telecom Argentina to Personal.;

d) The sale of certain assets with some exceptions, i.e. a minimum 75% of consideration received should be in cash or cash equivalents and the proceeds of certain asset sales shall be used to pay the relevant debt instrument;

e) Sale and leaseback transactions;

f) Capital expenditures except for those expressly permitted;

g) Telecom will not merge into or consolidate with any person or sell, assign, transfer or otherwise convey or dispose of all or substantially all of its assets, except for certain permitted conditions.

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8 - Debt (continued)

Events of default

The terms and conditions of the new Notes provide for certain events of default as follows:

(i) Failure to pay principal or interest;

(ii) Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of the Company s subsidiaries, which equals or exceeds an aggregate amount of US$ 20 million;

(iii) Any final judgment against Telecom Argentina providing for the payment of an aggregate amount exceeding US$ 20 million;

(iv) Any voluntary petition for bankruptcy by Telecom Argentina, special bankruptcy proceedings or out-of-court reorganization agreements and,

(v) Any event or condition which results in the revocation or loss of the licenses held by either Telecom Argentina and/or any of its restricted subsidiaries which would materially affect the entities business operations, their financial condition and results of operations.

Should any of the events of default above described occur, with respect to Telecom Argentina or, if applicable, any of its restricted subsidiaries, then Telecom Argentina shall be in default under the new Notes. Telecom Argentina s default does not trigger an event of default under Personal or Nucleo s loans. Personal s default does not trigger an event of default under Nucleo s loans.

Provided any of the events of default occurs, the creditors (and or their agents or trustees) are entitled, at their option, to declare the principal amount of the relevant debt instrument to be due and payable.

Measurement of the new Notes

The new debt was initially recorded at fair value. Fair value was determined by the present value of the future cash flows to be paid under the terms of the new debt instruments discounted at a rate commensurate with the risks of the debt instrument and time value of money at the moment of the debt restructuring (August 2005). Based on the opinion of an external financial expert, the restructured debt has been discounted to its present value using a discount rate of (i) 10.5% for the dollar nominated notes; (ii) 9.2% for the euro nominated notes and (iii) 7.3% for the Japanese yen nominated notes.

As a consequence of the closing of Telecom Argentina s debt restructuring process, the Company reduced the face value of its financial debt by $352 as of August 31, 2005, with a charge to Gain on debt restructuring. This gain on discounting of debt will be reversed overtime, up to the maturity of the related debt.

As described in Note 5.o, the Company recorded a gain on debt restructuring of $1,503, equal to US$516 million, before related expenses and income tax, as follows:

Equivalent amounts in US$ million	**Outstanding debt as of August 31, 2005** **(I)**	**Amounts paid on August 31, 2005** **(II)**	**Discounts** **(III)**	**Restructured debt (nominal value) (b)** **(IV)** **= (I)-(II)-(III)**	**Gain on discounting of debt** **(V)**	**Book value** **(VI)** **= (IV)-(V)**
Principal	2,506	(1,099)(a)	(58)	1,349	(121)	1,228
Accrued interest	502	(247)	(255)			
Penalty interest	82		(82)			
	3,090	**(1,346)**	**(395)**	**1,349**	**(121)**	**1,228**

(a) Includes an optional payment equal to US$293 million.

(b) Corresponds to the issuance of Notes equal to US$1,883 million, net of a payment of US$534 million.

At the end of 2005, the Company has considered new assumptions in the determination of its estimated cash flows available to service the restructured debt, resulting in a loss of $44 included in Financial results, net in the line Loss on discounting of debt .

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8 - Debt (continued)

Main characteristics of the new Notes

The following table shows the outstanding series of Notes as of December 31, 2005:

							Book value at December 31, 2005 (in million of $)					Fair value
Series	Class	Nominal value (in millions)		Outstanding debt		Maturity date	Principal	Accrued interest	Total nominal value	Gain on discounting of debt	Total	as of December 31, 2005
Listed												
A-1	1	US$	98	US$	82	October 2014	250	3	253	(32)	221	238
A-1	2	Euro	493	Euro	416	October 2014	1,492	16	1,508	(178)	1,330	1,404
B-1		US$	933	US$	490	October 2011	1,486	31	1,517	(4)	1,513	1,504
							3,228	**50**	**3,278**	**(214)**	**3,064**	**3,146**
Unlisted												
A-2	1	US$	7	US$	6	October 2014	19		19	(2)	17	18
A-2	2	Euro	41	Euro	35	October 2014	124	1	125	(15)	110	116
A-2	3	Yen	12,328	Yen	10,405	October 2014	268	1	269	(46)	223	236
A-2	4	$	26	$	23	October 2014	23		23		23	23
B-2		US$	66	US$	35	October 2011	104	3	107		107	106
							538	**5**	**543**	**(63)**	**480**	**499**
							3,766	**55**	**3,821**	**(277)**	**3,544**	**3,645**

Legal actions brought against Telecom Argentina

1. Originated by the suspension in the payment of the financial debt

As of the date of these financial statements, eight summary attachment proceedings (*juicios ejecutivos)* for approximately US$3.8 filed against Telecom by individuals alleging to be holders of Telecom s outstanding notes had concluded. At December 31, 2005, attachments for said proceedings amount approximately US$0.7 million, and are in the process of being released.

2. Originated by the homologation of the APE

On October 12, 2005, Telecom requested that the overseeing judge declare that, by the issuance of debt with new payment terms and the payment of cash consideration pursuant to the APE on August 31, 2005, Telecom has duly fulfilled the APE according to the terms of section 59 of the Bankruptcy Law.

As a consequence of said pronouncement, the injunction enjoining Telecom from disposing of certain of its assets ceased to be in force, holders of the outstanding notes shall have to file new proceedings for collection in case the terms and conditions of the new Notes are not fulfilled and, if such is the case, Telecom shall be authorized to apply the remedies set forth in the Bankruptcy Law if more than a year elapses from the issuance of the resolution of section 59 of the abovementioned law.

3. Potential judicial claims by non-participant creditors

Telecom Argentina believes that certain non-participating creditors may file actions in the United States of America against it to seek collection of their original investments. Accordingly, on September 13, 2005, Telecom Argentina filed a petition with the Courts of New York under Section 304 of the U.S. Bankruptcy Law seeking execution of the APE process in the United States. On October 11, 2005, the opposing party in the action, the US Bank N.A. (First Trust of New York), as Trustee of the Indenture, did not object to the execution of the APE process in the United States. However, an alleged creditor, the Argo Fund, filed an action against Telecom s petition. During December 2005, both parties briefed the Court, and a ruling was granted in favor of Telecom Argentina s position on February 24, 2006. The final judgment (i) approved the execution of the APE process in the United States, (ii) ruled that the Trustee of the Indenture and the non-participating creditors were bound by the terms of the APE process and (iii) ruled that the restructured notes were extinguished by law and had to be settled. The Argo Fund appealed the judgment with the District Court, which is still pending. If Telecom Argentina is granted un unfavorable ruling, it expects that any potential claim from unsecured non-participating creditors will be rejected under Articles 56 and 76 of the Argentine *Ley de Concursos,* which establishes that the APE is binding to all unsecured creditors outstanding as of the date of submission of the APE process for judicial approval.

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8 - Debt (continued)

Derivatives

As indicated in Note 4.q, having successfully completed its debt restructuring process, in August and September 2005, the Company entered into two foreign exchange currency swap contracts to hedge its exposure to US dollar fluctuations related to the Euro and Japanese yen-denominated new Notes. These swap agreements establish, among other typical provisions for this type of transaction, the early termination provision without any payment obligation by either party, in the event that (i) the Company fails to pay certain of its obligations, (ii) certain of the Company s obligations are accelerated, (iii) the Company repudiates or declares a moratorium with respect to certain of its obligations, (iv) the Company restructures certain of its obligations in a certain way, or (v) the Company becomes insolvent or bankrupt or is subject to in-court or out-of-court restructuring or a voluntary and/or involuntary bankruptcy proceeding. These hedge contracts do not include any collateral.

The nature and detail of the outstanding swap contracts at December 31, 2005 are as follows:

Characteristics of the agreement	**Swap in euros**	**Swap in Yen**
- Date of the contract	08.23.05	09.30.05
- Principal swap exchange rate	1.2214 US$/Euro	113.3 Yen/US$
- Total swap in Euro	431 million	¥ 9.951 million
- Total swap in Yen	US$ 526 million	US$ 88 million
- Interest rate to be received in Euro/Yen (*)	4.83% annual	1.93% annual
- Interest rate to be paid in US$	6.90% annual	6.02% annual
- Total principal and interest to be received	484 million	¥ 10,442 million
- Total principal and interest to be paid	US$ 619 million	US$ 101 million
- Swap estimated market value as of 12.31.05 - liabilities	US$ 21.9 million	US$ 3.3 million

(*) Coincident to the new Notes rates nominated in that currency in such period.

8.3. Restructured debt of the subsidiaries

(a) Personal

1. New notes

In September 2005, the Board of Directors of Personal called for a shareholders meeting to create a global program for the issuance of notes (the Global Program) to pay down the outstanding notes restructured in 2004. Personal s objective was to improve its debt profile, by modifying its interest rates and eliminating certain restrictive covenants.

In October 2005, the Ordinary and Extraordinary Shareholders Meeting approved the creation of the Global Program and the issuance of non-convertible unsecured and unsubordinated notes for up to a maximum amount of US$ 500 million or its equivalent in other currencies. The offering of the notes issued under the Global Program and the establishment of the Global Program were authorized by Resolution No. 15,238 of the CNV dated November 10, 2005.

The notes were issued on December 22, 2005, the proceeds of which together with the proceeds from the bank loans (as discussed in 2 below) and available cash were used to fully settle the outstanding principal and interest amount under Series A and Series B issued on November 30,

2004. The amounts paid were approximately US$ 412 million, of which US$ 404 million related to principal and US$ 8 million related to interest.

The Shareholders Meeting of Personal authorized the Board of Directors to determine the terms and conditions of the issue, including but not limited to, amount, price, interest rate and denomination of the notes. The notes have received international ratings of B- by both Fitch Argentina Calificadora de Riesgo S.A. and Standard & Poor´s International Ratings Ltd., Argentina branch.

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8 - Debt (continued)

The following table shows the outstanding series of Notes as of December 31, 2005:

Series	Nominal value (in millions)	Term in years	Maturity date	Annual rate %	Book value as of December 31, 2005	Fair value as of December 31, 2005
1	$ 43	1	December 2006	12.00	43	43
2	$ 87	3	December 2008	(a)13.78	87	87
3	US$ 240	5	December 2010	9.25	728	734
Principal					**858**	**864**
Accrued interest					1	
Issue discount and underwriting fees					(7)	
Total					**852**	**864**

(a) Floating Badlar plus 6.5%. Badlar for the period from issuance through March 22, 2006 is 7.28%. Total interest rate cannot be lower than 10% or higher than 20%.

Personal may, at any time and from time to time, purchase notes in the secondary market.

2. Bank loans

In April 2005, Personal entered into a $13 million loan agreement with a financial institution. The proceeds were used to prepay down principal installments of the Series A and Series B loans. The loan matures in approximately one year.

In July 2005, Personal entered into loan agreements with certain financial institutions aggregating $17 million, the proceeds of which were used to purchase fixed assets. These loans mature between July and September 2006. In November 2005, Personal entered into a US$20 million loan agreement with a financial institution due February 2008. The proceeds of this loan was also used to acquire fixed assets.

On December 22, 2005, Personal entered into two Syndicated loans for an amount of US$ 69 million and $87, respectively.

The following table shows the main characteristics of the syndicated loans as of December 31, 2005:

Loans	Nominal value (in millions)	Term in months	Maturity date	Annual rate %	Book value as of December 31, 2005
Peso Facility					
Tranche A	$ 57	18	June 2007	12.20	57

Tranche B	$	30	24	December 2007	13.10	30
Dollar Facility						
Tranche A	US$	34.5	18	June 2007	(a)6.5625	104
Tranche B	US$	34.5	24	December 2007	(b)6.8125	105
Principal						296
Accrued interest						1
Total						**297**

(a) 3-months LIBOR of 4.5625 plus 2%.
(b) 3-months LIBOR of 4.5625 plus 2.25%.

3. <u>Covenants</u>

The terms and conditions of Personal s new Notes require that Personal comply with various covenants, including:

ü in the case of a change of control, Personal shall make an offer to redeem all outstanding notes, as described in the Indenture;

ü in the case of Series 3, if at any time the Leverage Ratio is in excess of 3.00 to 1 and Personal makes any payment of dividends, the rate of interest accruing on the notes shall increase by 0.5% per annum for the remainder of the time the notes remain outstanding and shall accrue from such dividend payment date at the rate of 9.75% per annum.

The terms and conditions of Personal s new debt instruments require that Personal comply with various covenants, including:

v Maximum Leverage Ratio: the Leverage Ratio as of the end of the last four quarters shall not be greater than 2.00:1.0 as of December 31, 2005 and shall not be greater than 1.75:1.0 for the quarter ended March 31, 2006 and each quarter ended thereafter;

v Interest Coverage Ratio: the Interest Coverage Ratio for any fiscal quarter shall be included in a range between 1.50 and 3.00 to 1.00 over the life of the loans.

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8 - Debt (continued)

4. Negative covenants

The terms and conditions of Personal s new Notes as well as the terms of the respective new debt instruments require that Personal comply with various negative covenants, including limitations on:

a) Incurrence and/or assumption of, and/or permitting to exist in Personal or its restricted subsidiaries (as defined in the relevant debt instruments), any liens on the respective properties, assets or income for the purpose of securing any indebtedness of any person, except for certain permitted liens;

b) Incurrence of and/or permitting any restricted subsidiaries to incur any indebtedness unless on the date of the incurrence of such indebtedness, after giving effect to such incurrence and the receipt and application of the proceeds therefrom, the Leverage Ratio does not exceed (a) 3.25 to 1, if such indebtedness is incurred prior to December 31, 2006; or (b) 3.00 to 1, if such indebtedness is incurred thereafter;

c) Making any investments (other than permitted investments) either directly or indirectly through its subsidiaries in any person (individuals or entities);

d) Permitting any of its subsidiaries to, directly or indirectly, enter into, renew or extend any transaction or arrangement including the purchase, sale, lease or exchange of property or assets, or the rendering of any service, with any holder of 10% or more of the capital stock of Personal, except upon terms not less favorable to Personal or such subsidiary than those that could be obtained in a comparable arm s-length transaction with a person that is not an affiliate of Personal;

e) The sale of certain assets with some exceptions, i.e. a minimum 75% of consideration received should be in cash or cash equivalents;

f) Sale and leaseback transactions;

g) Personal will not merge into or consolidate with any person or sell, assign, transfer or otherwise convey or dispose of all or substantially all of its assets, except for certain permitted conditions.

5. Events of default

The terms and conditions of Personal s new Notes as well as the terms of the respective new debt instruments of Personal provide for certain events of default as follows:

a) Failure to pay principal or interest;

b) Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of Personal or its restricted subsidiaries, which equals or exceeds an aggregate amount of US$ 20 million;

c) Any final judgment against Personal or its restricted subsidiaries providing for the payment of an aggregate amount exceeding US$ 20 million;

d) Any voluntary petition for bankruptcy by Personal or its restricted subsidiaries, special bankruptcy proceedings or out-of-court reorganization agreements and,

e) Any event or condition which results in the revocation or loss of the licenses held by either Personal and/or any of its restricted subsidiaries which would materially affect the entities´ business operations, their financial condition and results of operations.

Should any of the events of default above described occur, with respect to Personal or, if applicable, any of its restricted subsidiaries, then Personal shall be in default under the new Notes and the new loan agreements, as applicable.

Provided any of the events of default occurs, the creditors (and/or their agents or trustees) are entitled, at their option, to declare the principal amount of the relevant debt instrument to be due and payable.

(b) <u>Nucleo</u>

In November 2004, Nucleo completed the restructuring of its outstanding indebtedness with foreign creditors, under which Nucleo refinanced US$ 59 million in principal amounts maturing on December 27, 2008.

The restructured debt with local creditors (as of December 31, 2005, US$ 2 million) accrues interest at an annual fixed interest rate of 7.125% while the restructured debt with foreign creditors (as of December 31, 2005, US$ 15 million) accrues interest at a variable interest rate of three-month LIBO plus 4.5%.

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8 - Debt (continued)

Since contractual rates are commensurate with the risks of the debt instrument and time value of money at the moment of the debt restructuring, the new debt has not been discounted.

During fiscal year 2005, Nucleo made optional prepayments to holders of the new loans for an aggregate amount of US$ 28 million, that were applied to pay the full amount of the scheduled amortization payments on the new loans payable up to December 27, 2007 and a portion of the scheduled amortization payments on the new loans payable up to December 27, 2008 plus the accrued interests as of that dates. Consequently, Nucleo s outstanding debt as of December 31, 2005, amounted to US$ 17 million with a maturity date on December 27, 2008.

On January 27, 2006, Nucleo made optional prepayments to holders of the new loans for an aggregate amount of US$ 8 million, that were applied to pay the full amount of the scheduled amortization payments on the new loans payable up to June 27, 2008 and a portion of the scheduled amortization payments on the new loans payable up to December 27, 2008. Consequently, Nucleo s outstanding debt amounted to US$9 million with a maturity dates on December 27, 2008 and March 27, 2009. Additional information is given in Note 16.

9 - Shareholders equity

(a) Common stock

At December 31, 2005, the Company has 502,034,299 authorized, issued and outstanding shares of $1 par value Class A Common Stock, 436,413,941 shares of $1 par value Class B Common Stock and 45,932,738 shares of $1 par value Class C Common Stock. Common stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

The Company s shares are authorized by the CNV, the BCBA and the New York Stock Exchange (NYSE) for public trading. Only a portion of Class B shares are traded since Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares; and Class C shares are dedicated to the employee stock ownership program, as described below.

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

(b) Restrictions on distribution of profits

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

(c) Share ownership program

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

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

In September 2002, the Trustor requested the Company to take all necessary actions in order to effect the conversion of the shares held in the Trust which had been released from the injunction, to Class B shares.

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9 - Shareholders equity (continued)

The Company requested the Trustor to obtain judicial approval to permit the shareholders meeting to effect the conversion of the total amount of Class C shares to Class B shares in order to avoid calling for successive shareholders meetings every time restrictions on the shares are released for conversion. The Trustor informed the Company that a judicial resolution in favor of the total conversion had not been granted. The Company has also indicated that it is necessary to reach an agreement with the PPP for a timely and orderly sale of the converted Class B shares, because the sale of an inappropriate number of Class B shares could affect the price of the Class B shares.

In November 2003, the PPP lacked a legal representative. In March 2004, a judicial resolution nullified the intervention of the PPP and notified the Ministry of Labor and Social Security to call for elections in order to establish the Executive Committee of the PPP. The Meeting held on September 6, 2005, established this Committee with the purpose of the release of the injunction against 40,093,990 shares held in the Trust, in order to effect the conversion to Class B shares.

(d) Mandatory reduction of capital

Under section 206 of the Argentine Companies Law and CNV resolutions, if at the annual shareholders meeting, a company s losses have absorbed its reserves and at least 50% of its share capital, a company is required to reduce its capital stock.

The requirements of section 206 and paragraph 5 of section 94 were temporarily suspended by governmental decrees until December 10, 2005.

Since the Company reported significant losses for the year ended December 31, 2004, which absorbed the Company s reserves and significantly reduced its shareholders equity, the Company qualified for mandatory reduction of its capital stock. This situation remained unchanged as of December 31, 2005. Accordingly, the Board of Directors will propose to the shareholders that they vote to absorb the Company s legal reserve and a portion of the inflation adjustment of common stock in order to remediate this situation.

10. Income tax

Income tax (expense) benefit for the years ended December 31, 2005, 2004 and 2003 consists of the following:

	Years ended December 31,		
	2005	2004	2003
Current tax expense	$ (35)(i)	$ (1)	$
Deferred tax (expense) benefit	(87)	(25)	7
Income tax (expense) benefit	**$ (122)**	**$ (26)**	**$ 7**

(i) Corresponds $25 to Telecom Argentina, $8 to Nucleo and $2 to Publicom.

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

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

	As of December 31, 2005					As of December 31, 2004
	Telecom	Personal	Núcleo	Publicom	Total	
Tax loss carryforwards	$ 780	$ 192	$	$ 2	$ 974	$ 1,573
Foreign exchange gains and losses	63	17			80	161
Allowance for doubtful accounts	43	22		2	67	78
Provision for contingencies	71	52		4	127	82
Other deferred tax assets	50	9			59	241
Total deferred tax assets	**1,007**	**292**		**8**	**1,307**	**2,135**
Fixed assets	(145)	(65)	2		(208)	(293)
Inflation adjustments (i)	(780)	(129)	(4)		(913)	(1,152)
Total deferred tax liabilities	(925)	(194)	(2)		(1,121)	(1,445)
Subtotal deferred tax assets (liabilities)	**82**	**98**	**(2)**	**8**	**186**	**690**
- Valuation allowance	(276)			(2)	(278)	(ii)(695)
Net deferred tax assets (liabilities) As of December 31, 2005	**$ (194)**	**$ 98**	**$ (2)**	**$ 6**	**$ (92)**	
Net deferred tax assets (liabilities) As of December 31, 2004	**$**	**$ (6)**	**$ (6)**	**$ 7**		**$ (5)**

(i) Mainly relate to inflation adjustment on fixed assets, intangibles and other assets for financial reporting purposes.

(ii) Corresponded to the Company.

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10. Income tax (continued)

Income tax expense for the years ended December 31, 2005, 2004 and 2003 differed from the amounts computed by applying the Company s statutory income tax rate to pre-tax income (loss) as a result of the following:

	Years ended December 31, 2005	2004	2003
Income tax (expense) benefit at statutory income tax rate on pretax income (loss)	$ (512)	$ 225	$ (128)
Non taxable items	(2)	(3)	16
Tax payable	(25)		
Change in valuation allowance	417	(248)	119
Income tax expense	**$ (122)**	**$ (26)**	**$ 7**

As of December 31, 2005, the Company has accumulated operating tax loss carryforwards of $974. The following table details the operating tax loss carryforwards segregated by company and expiration date:

	Telecom Argentina	Personal	Publicom	Total consolidated
Expiration year				
2007	748	159		907
2008			2	2
2009	32			32
2010		33		33
Total	**780**	**192**	**2**	**974**

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

The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Based on a number of factors, including the Argentine Government s interpretation of the Decree as described above, the current expiration period of tax loss carryforwards (5 years) and the fact that the Company anticipates insufficient future taxable income over the periods in which tax assets can be applied, management believes that there is sufficient uncertainty regarding the realization of a portion of its net deferred tax assets that, as of December 31, 2005, a valuation allowance has been provided for Telecom Argentina s related net deferred tax assets.

(a) Impact of inflation adjustments on fixed assets

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

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

Under a second approach, the CPCECABA reached a consensus that differences between the tax basis and the related indexed amounts of fixed assets would be considered permanent rather than temporary differences.

In order to comply with applicable rules and regulations, in May 2003, the Company consulted with the CNV and requested the regulatory authority to issue a statement on the subject, so as to permit the Company to give proper accounting effect in these financial statements. As of the date of these financial statements, the CNV has not yet addressed the issue.

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10. Income tax (continued)

In August 2005, the CPCECABA approved the RT and related interpretations issued by the FACPCE. The CPCECABA resolution permits entities who have recorded the difference between the tax basis and the indexed amounts of fixed assets as permanent to (i) continue treating the difference as permanent or (ii) treating the difference as temporary. Entities who have originally recorded the difference between the tax basis and the indexed amounts of fixed assets as temporary are not allowed the optional treatment. CNV Resolutions No. 485/05 and 487/06 adopted the new accounting standard which will be effective for the Company as from January 1, 2006. Since the Company has treated the difference as temporary, the application of the new accounting standard will not have an impact in the Company s financial position or results of operations.

11. Commitments and contingencies

(a) Purchase commitments

The Company has entered into various purchase commitments amounting in the aggregate to approximately $206 as of December 31, 2005, primarily related to the supply of switching equipment, maintenance and repair of public phones, infrastructure agreements and other service agreements.

(b) Investment commitments

In August 2003, Telecom Argentina was notified by the SC of a proposal for the creation of a $70-million fund (the *Complejo Industrial de las Telecomunicaciones 2003* or 2003 Telecommunications Fund) to be funded by the major telecommunication companies and aimed at developing the telecommunications sector in Argentina. Banco de Inversion y Comercio Exterior (BICE) was designated as Trustee of the Fund.

In November 2003, the Company contributed $1.5 at the inception of the Fund. In addition, management announced that it is the Company s intention to promote agreements with local suppliers which would facilitate their access to financing.

(c) Contingencies

The Company is a party to several civil, tax, commercial and labor proceedings and claims that have arisen in the ordinary course of its business. The Company has established reserves for an aggregate amount of $305 to cover potential losses under these claims.

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

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

Labor proceedings

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

ENTel and the Argentine Government have agreed to indemnify and hold the Company harmless in respect of such claims. Under current Argentine legislation, the Argentine Government may settle any amounts payable to the Company for these claims through the issuance of treasury bonds. As of December 31, 2005, total claims in these labor lawsuits amounted to $17.

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11. Commitments and contingencies (continued)

Tax matters

In December 2000, Telecom Argentina received notices from the AFIP of proposed adjustments to income taxes for the fiscal years 1993 through 1999 based on Telecom Argentina s criteria for calculating depreciation of its fiber optic network. In May 2005, Telecom Argentina was notified of the National Fiscal Court s unfavorable resolution which ratified the AFIP tax assessment relating to additional taxes and interest, although it excluded penalties. Accordingly, in July 2005, Telecom Argentina paid $9.4 in principal and $24.8 in interest.

Under Argentine GAAP, the above referenced payment does not meet the criteria to be recognized as a tax credit. Thus, Telecom Argentina has recorded a charge to income taxes of $9.4 and financial results, net (interest generated by liabilities) of $24.8 in the statement of income.

Telecom Argentina has a contingent receivable against the National Government amounting to $34.2 which Telecom Argentina estimates it would recover through government bonds in the event judicial appeals are sustained in its favor.

Additionally, in December 2001, Telecom Argentina received notices from the AFIP of proposed adjustments to income taxes based on the amortization period utilized by Telecom Argentina to depreciate its optic fiber network in Telintar s submarine cables. Telintar was dissolved and merged in equal parts into Telecom Argentina Internacional S.A. and Telefonica Larga Distancia de Argentina S.A., entities controlled by Telecom Argentina and Telefonica, respectively. Telecom Argentina Internacional S.A. was subsequently merged with and into Telecom Argentina in September 1999.

In July 2005, the National Fiscal Court resolved against Telecom Argentina ratifying the tax assessment relating to additional taxes, although it excluded interest and penalties. On the same grounds as described in the second paragraph above, as of June 30, 2005, Telecom Argentina recorded a current tax liability amounting to $0.5 against income taxes in the statement of income.

Telecom Argentina together with its legal counsel believes it has meritorious legal defenses to these unfavorable judgments. As of the date of these financial statements, Telecom Argentina appealed the first sentence issued by the National Fiscal Court and plans to appeal the second judgment in the short term.

In spite of the unfavorable judgments, Telecom Argentina believes that the ultimate outcome of these cases will not result in an incremental adverse impact on Telecom Argentina s results of operations and financial condition.

Other claims

Consumer Trade Union Proceedings

In November 1995, Telecom Argentina, together with Telefonica de Argentina, Telintar and the Argentine Government were named as defendants in a lawsuit filed in Argentine federal courts by a consumer activist group. The complaints in this lawsuit contend that consumers have been injured because of the application of unjustified tariffs for the provision of fixed line services. Plaintiffs are seeking damages, an injunction against the reduction of tariffs, disgorgement of all monies that the defendants have earned through the charge of the alleged abusive tariffs and a cap of 16% on the Company´s annual rate of return on its fixed assets. The court has rejected some of the claims but agreed to a stay of the others pending the outcome of the appeal.

In October 2001, the court awarded the plaintiffs an injunction enjoining the indexing of tariffs by the U.S. C.P.I. as permitted by the Transfer Agreement pending a final resolution in the case. Telecom Argentina vigorously appealed this decision. Hearings on the case are currently in process. Telecom Argentina believes the claims have no merit. Telecom Argentina cannot predict the outcome of this case, or reasonably estimate a range of possible loss given the current status of the litigation.

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11. Commitments and contingencies (continued)

Upon the extension of the exclusivity period for the provision of telecommunication services, the same consumer group filed a new lawsuit in Argentine federal courts against the service providers and the Argentine Government. Plaintiffs are seeking damages, an injunction against the revocation of licenses granted to telecommunication service providers and finalization of the exclusivity period. This case is at a preliminary stage, but Telecom Argentina does not believe it has merit and intends to contest it vigorously. Telecom Argentina is unable, however, to predict the outcome of this case, or reasonably estimate a range of possible loss given the current status of the litigation.

Users and Consumer Trade Union Proceedings

In August 2003, another consumer group filed suit against Telecom Argentina in Argentine federal court alleging the unconstitutionality of certain resolutions issued by the SC. These resolutions had amended a prior resolution which prescribed the way service providers had to refund customers for additional charges included in monthly fixed-line service fees. The amendment was intended to establish another method of refunding customers due to practical reasons. Telecom Argentina complied with the amended resolution and provided refunds to customers. The case is at a preliminary stage, but Telecom Argentina does not believe it has merit and will contest it vigorously. Telecom Argentina is unable, however, to predict the outcome of the case, or reasonably estimate a range of possible loss given the current status of the litigation.

Management of the Company believes that none of the matters discussed above will have a material adverse effect on the Company s results of operations, liquidity or financial condition.

Certain amounts deposited in the Company s bank accounts have been restricted as to their use due to some judicial proceedings. As of December 31, 2005, these restricted funds totaled $15. The Company has reclassified these balances to other receivables on the Company s balance sheet.

12. Segment information

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for management. Under this definition, the Company conducts its business through seven legal entities which represent seven operating segments. These operating segments have been aggregated into reportable segments according to the nature of the products and services provided. The Company manages its segments to the net income (loss) level of reporting.

The companies aggregated to create the reportable segments are as follows:

Reportable segment	Consolidated company/ Operating segment
Voice, data and Internet	Telecom Argentina
	Telecom Argentina USA
	Micro Sistemas
Wireless	Personal
	Nucleo
	Cable Insignia
Directories publishing	Publicom

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

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12. Segment information (continued)

For the years ended December 31, 2005, 2004 and 2003, more than 90 percent of the Company s revenues were from services provided within Argentina. More than 95% of the Company s fixed assets are in Argentina. Segment financial information was as follows:

For the year ended December 31, 2005

q *Income statement information*

	Voice, data and Internet (a)	Wireless Personal	Nucleo	Subtotal	Directories publishing	Total
Handsets	2,871	2,254	211	2,465	50	**5,386**
Services		322	10	332		**332**
Net sales	**2,871**	**2,576**	**221**	**2,797**	**50**	**5,718**
Salaries and social security	(558)	(99)	(14)	(113)	(14)	**(685)**
Taxes	(165)	(223)	(6)	(229)	(1)	**(395)**
Maintenance, materials and supplies	(207)	(69)	(10)	(79)	(19)	**(305)**
Bad debt expense	(5)	(22)	(1)	(23)	(1)	**(29)**
Interconnection costs	(144)					**(144)**
Cost of international outbound calls	(94)					**(94)**
Lease of circuits	(30)	(11)	(7)	(18)		**(48)**
Fees for services	(79)	(74)	(5)	(79)		**(158)**
Advertising	(41)	(100)	(9)	(109)	(2)	**(152)**
Cost of wireless handsets		(602)	(11)	(613)		**(613)**
Agent commissions and distribution of prepaid cards commissions	(17)	(343)	(26)	(369)		**(386)**
Other commissions	(39)	(40)	(1)	(41)	(2)	**(82)**
Roaming		(114)	(1)	(115)		**(115)**
Charges for termination of calls coming from other cellular operators (TLRD)		(251)	(20)	(271)		**(271)**
Others	(119)	(98)	(19)	(117)	(3)	**(239)**
Operating income before depreciation and amortization	**1,373**	**530**	**91**	**621**	**8**	**2,002**
Depreciation of fixed assets	(1,075)	(337)	(41)	(378)	(1)	**(1,454)**
Amortization of intangible assets	(9)	(20)	(15)	(35)		**(44)**
Operating income	**289**	**173**	**35**	**208**	**7**	**504**
Equity gain from related companies	7					**7**
Financial results, net	(117)	(188)	(3)	(191)	2	**(306)**
Other (expenses) income, net	(111)	(52)	1	(51)	(3)	**(165)**
Gain on debt restructuring	1,424					**1,424**

Net income (loss) before income tax and minority interest	**1,492**	**(67)**	**33**	**(34)**	**6**	**1,464**
Income tax	(219)	104	(4)	100	(3)	**(122)**
Minority interest			(8)	(8)		**(8)**
Net income	**1,273**	**37**	**21**	**58**	**3**	**1,334**

(a) Includes net sales of $29, operating income before depreciation of $14, operating profit of $13 and net income of $13 corresponding to Telecom Argentina USA. Also includes a net loss of $1 corresponding to Micro Sistemas.

q *Balance sheet information*

Fixed assets, net	4,513	1,278	167	1,445	1	**5,959**
Intangible assets, net	91	644	26	670	3	**764**
Capital expenditures	279	261	32	293		**572**
Depreciation of fixed assets	(1,075)	(337)	(41)	(378)	(1)	**(1,454)**
Amortization of intangible assets	(12)	(21)	(15)	(36)		**(48)**

q *Cash flow information*

Cash flows provided by operating activities	**1,458**	**391**	**116**	**507**	**2**	**1,967**
Cash flows from investing activities:						
Acquisition of fixed assets and intangible assets	(296)	(264)	(20)	(284)	(1)	**(581)**
Decrease in investments not considered as cash and cash equivalents	668					**668**
Total cash flows provided by (used in) investing activities	**372**	**(264)**	**(20)**	**(284)**	**(1)**	**87**
Cash flows from financing activities:						
Debt proceeds		1,236		1,236		**1,236**
Payment of debt	(3,432)	(1,165)	(87)	(1,252)		**(4,684)**
Payment of interest and debt-related expenses	(805)	(132)	(7)	(139)		**(944)**
Total cash flows used in financing activities	**(4,237)**	**(61)**	**(94)**	**(155)**		**(4,392)**
Increase (decrease) in cash and cash equivalents	(2,407)	66	2	68	1	**(2,338)**
Cash and cash equivalents at the beginning of year	2,850	88	1	89	1	**2,940**
Cash and cash equivalents at year-end	**443**	**154**	**3**	**157**	**2**	**602**

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12. Segment information (continued)

For the year ended December 31, 2004

q *Income statement information*

	Voice, data and Internet (a)	Wireless Personal	Nucleo	Subtotal	Directories publishing	Total
Handsets	2,718	1,431	166	1,597	43	**4,358**
Services		135	1	136		**136**
Net sales	**2,718**	**1,566**	**167**	**1,733**	**43**	**4,494**
Salaries and social security	(491)	(80)	(10)	(90)	(12)	**(593)**
Taxes	(148)	(144)	(8)	(152)	(1)	**(301)**
Maintenance, materials and supplies	(184)	(28)	(6)	(34)	(15)	**(233)**
Bad debt expense	8	(11)	(1)	(12)	(1)	**(5)**
Interconnection costs	(135)					**(135)**
Cost of international outbound calls	(82)					**(82)**
Lease of circuits	(34)	(8)	(4)	(12)		**(46)**
Fees for services	(81)	(18)	(2)	(20)	(1)	**(102)**
Advertising	(27)	(57)	(7)	(64)	(2)	**(93)**
Cost of wireless handsets		(233)	(4)	(237)		**(237)**
Agent commissions and distribution of prepaid cards commissions	(18)	(139)	(20)	(159)		**(177)**
Other commissions	(36)	(23)	(2)	(25)		**(61)**
Roaming		(65)		(65)		**(65)**
Charges for TLRD		(124)	(13)	(137)		**(137)**
Others	(109)	(58)	(13)	(71)	(1)	**(181)**
Operating income before depreciation and amortization	**1,381**	**578**	**77**	**655**	**10**	**2,046**
Depreciation of fixed assets	(1,233)	(281)	(35)	(316)	(3)	**(1,552)**
Amortization of intangible assets	(48)	(28)	(17)	(45)	(1)	**(94)**
Operating income	**100**	**269**	**25**	**294**	**6**	**400**
Equity loss from related companies					(2)	**(2)**
Financial results, net	(989)	(166)	(18)	(184)	1	**(1,172)**
Other (expenses) income, net	(68)	(11)	1	(10)		**(78)**
Gain on debt restructuring	(21)	223	7	230		**209**
Net income (loss) before income tax and minority interest	**(978)**	**315**	**15**	**330**	**5**	**(643)**
Income tax		(6)	(18)	(24)	(2)	**(26)**
Minority interest			3	3		**3**

Net income (loss)	**(978)**	**309**		**309**	**3**	**(666)**

(a) Includes net sales of $38, operating income before depreciation of $14, operating profit of $13 and net income of $13 corresponding to Telecom Argentina USA.

q ***Balance sheet information***

Fixed assets, net	5,387	1,352	155	1,507	1	**6,895**
Intangible assets, net	84	648	38	686	3	**773**
Capital expenditures	183	232	34	266		**449**
Depreciation of fixed assets	(1,233)	(281)	(35)	(316)	(3)	**(1,552)**
Amortization of intangible assets	(50)	(29)	(19)	(48)	(1)	**(99)**

q ***Cash flow information***

Cash flows provided by (used in) operating activities	**1,754**	**366**	**81**	**447**	**(1)**	**2,200**
Cash flows from investing activities:						
Acquisition of fixed assets and intangible assets	(208)	(233)	(32)	(265)		**(473)**
(Increase) decrease in investments not considered as cash and cash equivalents	(465)	69	18	87		**(378)**
Total cash flows used in investing activities	**(673)**	**(164)**	**(14)**	**(178)**		**(851)**
Cash flows from financing activities:						
Payment of debt		(381)	(90)	(471)		**(471)**
Payment of interest and debt-related expenses	(17)	(116)	(21)	(137)		**(154)**
Total cash flows used in financing activities	**(17)**	**(497)**	**(111)**	**(608)**		**(625)**
Increase (decrease) in cash and cash equivalents	1,064	(295)	(44)	(339)	(1)	**724**
Cash and cash equivalents at the beginning of year	1,786	383	45	428	2	**2,216**
Cash and cash equivalents at year-end	**2,850**	**88**	**1**	**89**	**1**	**2,940**

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12. Segment information (continued)

For the year ended December 31, 2003

q *Income statement information*

	Voice, data and Internet	Wireless			Directories	
	(a)	Personal	Nucleo	Subtotal	publishing	Total
Handsets	2,556	989	158	1,147	34	**3,737**
Services		15	1	16		**16**
Net sales	**2,556**	**1,004**	**159**	**1,163**	**34**	**3,753**
Salaries and social security	(424)	(64)	(10)	(74)	(8)	**(506)**
Taxes	(150)	(102)	(4)	(106)		**(256)**
Maintenance, materials and supplies	(117)	(27)	(6)	(33)	(14)	**(164)**
Bad debt expense	3	(8)	(2)	(10)	(4)	**(11)**
Interconnection costs	(136)					**(136)**
Cost of international outbound calls	(76)					**(76)**
Lease of circuits	(29)	(3)	(6)	(9)		**(38)**
Fees for services	(83)	(9)	(4)	(13)	(2)	**(98)**
Advertising	(23)	(14)	(6)	(20)	(1)	**(44)**
Cost of wireless handsets		(22)		(22)		**(22)**
Agent commissions and distribution of prepaid cards commissions	(21)	(60)	(15)	(75)		**(96)**
Other commissions	(36)	(20)	(8)	(28)		**(64)**
Roaming		(39)		(39)		**(39)**
Charges for TLRD		(51)	(11)	(62)		**(62)**
Others	(100)	(45)	(10)	(55)	(2)	**(157)**
Operating income before depreciation and amortization	**1,364**	**540**	**77**	**617**	**3**	**1,984**
Depreciation of fixed assets	(1,436)	(288)	(39)	(327)	(5)	**(1,768)**
Amortization of intangible assets	(63)	(32)	(14)	(46)		**(109)**
Operating income (loss)	**(135)**	**220**	**24**	**244**	**(2)**	**107**
Equity gain from related companies					2	**2**
Financial results, net	(132)	134	34	168	12	**48**
Other expenses, net	(121)	(37)		(37)	(10)	**(168)**
Gain on debt restructuring	280	90		90	6	**376**
Net income (loss) before income tax and minority interest	**(108)**	**407**	**58**	**465**	**8**	**365**
Income tax			11	11	(4)	**7**
Minority interest			(21)	(21)		**(21)**

Net income (loss)	**(108)**	**407**	**48**	**455**	**4**	**351**

(a) Includes net sales of $34, operating income before depreciation of $17, operating profit of $17 and net income of $17 corresponding to Telecom Argentina USA.

q ***Balance sheet information***

Fixed assets, net	6,443	1,405	149	1,554	4	**8,001**
Intangible assets, net	110	677	54	731	4	**845**
Capital expenditures	52	55	17	72		**124**
Depreciation of fixed assets	(1,436)	(288)	(39)	(327)	(5)	**(1,768)**
Amortization of intangible assets	(67)	(32)	(16)	(48)		**(115)**

q ***Cash flow information***

Cash flows provided by operating activities	**1,521**	**427**	**72**	**499**	**7**	**2,027**
Cash flows from investing activities:						
Acquisition of fixed assets and intangible assets	(91)	(61)	(16)	(77)		**(168)**
Increase in investments not considered as cash and cash equivalents	(85)	(74)	(18)	(92)		**(177)**
Total cash flows used in investing activities	**(176)**	**(135)**	**(34)**	**(169)**		**(345)**
Cash flows from financing activities:						
Decrease in debt			(11)	(11)		**(11)**
Repurchase of debt	(328)	(87)		(87)	(7)	**(422)**
Payment of interest and debt-related expenses	(295)	(36)	(16)	(52)		**(347)**
Inter-segment transfers of cash	5	(5)		(5)		
Total cash flows used in financing activities	**(618)**	**(128)**	**(27)**	**(155)**	**(7)**	**(780)**
Increase in cash and cash equivalents	727	164	11	175		**902**
Cash and cash equivalents at the beginning of year	1,059	219	34	253	2	**1,314**
Cash and cash equivalents at year-end	**1,786**	**383**	**45**	**428**	**2**	**2,216**

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13. Selected consolidated quarterly information (unaudited)

Quarter ended	Net sales	Operating income before depreciation and amortization	Operating income	Financial results, net	Net (loss) income
Year 2005:					
March 31,	1,237	508	142	175	279
June 30,	1,348	464	81	124	179
September 30,	1,472	509	124	(208)	1,165
December 31,	1,661	521	157	(397)	(289)
	5,718	**2,002**	**504**	**(306)**	**1,334**
Year 2004:					
March 31,	1,017	494	65	95	124
June 30,	1,053	489	67	(393)	(354)
September 30,	1,141	499	76	(324)	(261)
December 31,	1,283	564	192	(550)	(175)
	4,494	**2,046**	**400**	**(1,172)**	**(666)**
Year 2003:					
March 31,	851	453	(24)	961	907
June 30,	899	490	17	58	381
September 30,	961	504	31	(490)	(509)
December 31,	1,042	537	83	(481)	(428)
	3,753	**1,984**	**107**	**48**	**351**