Atlas Resource Partners, L.P.
Form 424B3
April 27, 2015
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As filed pursuant to Rule 424(b)(3)

Registration No. 333-202827

PROSPECTUS

ATLAS RESOURCE PARTNERS, L.P.

24,712,471 Common Units

This prospectus relates to the possible resale, from time to time, by the selling unitholders named in this prospectus or in any supplement to this prospectus, of up to (i) 3,749,986 common units that may be issued upon the conversion of 3,749,986 of our Class C Convertible Preferred Units, or Class C Units, and (ii) 20,962,485 common units, which together with the common units issuable upon conversion of the Class C Units are collectively referred to herein as the Units.

The selling unitholders may sell the Units at various times and in various types of transactions, including sales in the open market, sales in negotiated transactions and sales by a combination of these methods. We will not receive any proceeds from the sale of the Units by the selling unitholders.

As used in this prospectus, selling unitholders means New Atlas Holdings, LLC and the pledgees, donees, permitted transferees, assignees, successors and others who later come to hold any of New Atlas s interests in the Units other than through a public sale.

Our common units are traded on the New York Stock Exchange, or the NYSE, under the symbol ARP.

Investing in these securities involves certain risks. You should carefully read and consider the risk factors included in our periodic reports, in any prospectus supplement relating to a specific offering of securities and in other documents that we file with the Securities and Exchange Commission. See Risk Factors on page 2 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus dated April 24, 2015

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In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus and in any prospectus supplement. We have not authorized any other person to provide you with any other information. If anyone provides you with different or inconsistent information, you should not rely on it.

You should not assume that the information contained in this prospectus or in any prospectus supplement is accurate as of any date other than the date on the front cover of those documents. You should not assume that the information contained in the documents incorporated by reference in this prospectus or in any prospectus supplement is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the Securities and Exchange Commission (the SEC) incorporated by reference in this prospectus.

ABOUT THIS PROSPECTUS

This prospectus provides you with a general description of the securities that may be offered by the selling unitholders. We may provide a prospectus supplement that will contain specific information about the terms of an offering. The prospectus supplement may also add to, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. Therefore, before you invest in our securities, you should read carefully this prospectus, any prospectus supplement and the additional information described below under the heading Where You Can Find More Information.

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Certain sections of this registration statement contain statements reflecting our views about our future performance and constitute forward-looking statements. We and our representatives may, from time to time, make written or oral forward-looking statements, including statements contained in our filings with the SEC and in our reports to security holders. Generally, the inclusion of the words believe, expect, intend, estimate, project, anticipate, will and expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of us or any subsidiary, events or developments that we expect or anticipates would occur in the future are forward-looking statements.

These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in such forward-looking statements. Readers should consider the various factors, including those discussed in our most recent annual report on Form 10-K under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Critical Accounting Policies and Estimates , and our Quarterly Reports on Form 10-Q, that are on file with the SEC for additional factors that may affect our performance. The forward-looking statements are and will be based upon management s then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. We undertake no obligation to update any forward-looking statements as a result of new information, future events or otherwise.

You should rely only on the information contained in this prospectus, in any prospectus supplement and in material we file with the SEC. We have not authorized anyone to provide you with information that is different.

THE COMPANY

Our Business

We are a publicly-traded master-limited partnership (NYSE: ARP) and an independent developer and producer of natural gas, crude oil and natural gas liquids, with operations in basins across the United States. We are a leading sponsor and manager of tax-advantaged investment partnerships, or Drilling Partnerships, in which we co-invest, to finance a portion of our natural gas, crude oil and natural gas liquids production activities.

We believe we have established a strong track record of growing our reserves, production and cash flows through a balanced mix of natural gas, oil and natural gas liquids exploitation and development, sponsorship of our Drilling Partnerships, and the acquisition of oil and gas properties. Our primary business objective is to generate growing yet stable cash flows through the development and acquisition of mature, long-lived natural gas, oil and natural gas liquids properties. As of December 31, 2014, our estimated proved reserves were 1,429 Bcfe, including the reserves net to our equity interest in our Drilling Partnerships. Of our estimated proved reserves, approximately 77% were proved developed and approximately 71% were natural gas.

Organizational Structure

We were formed in October 2011 to own and operate substantially all of the exploration and production assets of Atlas Energy, L.P., or ATLS, which were transferred to us on March 5, 2012. At December 31, 2014, ATLS owned 100% of our general partner Class A units, all of our incentive distribution rights and an approximate 27.7% limited partner interest (20,962,485 common and 3,749,986 Class C Units) in us. On February 27, 2015, ATLS was acquired by Targa Resources Corp. (NYSE: TRGP) through a merger of wholly-owned subsidiary of Targa Resources Corp. with and into ATLS, referred to herein as the ATLS Merger, and in connection therewith ATLS (a) transferred certain of its assets, including its limited partnership interests in us, to Atlas Energy Group, LLC (NYSE: ATLS), our general partner, referred to herein as Atlas Energy Group, and its affiliates, and (b) distributed to the ATLS unitholders common units of Atlas Energy Group representing a 100% interest in Atlas Energy Group, referred to herein as the Spin-Off.

Following consummation of the ATLS Merger and Spin-Off, Atlas Energy Group owned 100% of our general partner Class A units, through which it manages and effectively controls us, and, through its wholly-owned subsidiary, New Atlas, owned an approximate 27.7% limited partner interest (20,962,485 common and 3,749,986 Class C Units) in us.

Our principal executive offices are located at Park Place Corporate Center One, 1000 Commerce Drive, Suite 400, Pittsburgh, PA 15275, and our telephone number is (877) 280-2857. Our website is *www.atlasresourcepartners.com*. Information on our website or any other website is not incorporated by reference herein and does not constitute a part of this prospectus supplement.

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RISK FACTORS

Investing in our securities involves risk. Before you decide whether to purchase any of our securities, in addition to the other information, documents or reports included or incorporated by reference into this prospectus and any prospectus supplement or other offering materials, you should carefully consider the risk factors in the section entitled Risk Factors in any prospectus supplement, in our most recent Annual Report on Form 10-K and any Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed by us subsequent to such Annual Report on Form 10-K, as the same may be amended, supplemented or superseded from time to time by our filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act. For more information, see the section of this prospectus entitled Where You Can Find More Information. These risks could materially and adversely affect our business, financial condition or operating results and could result in a partial or complete loss of your investment.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s web site at *http://www.sec.gov* or at our website at *http://www.atlasresourcepartners.com*. You may also read and copy any document we file at the SEC s public reference room at 100 F. Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for additional information on the public reference room.

The SEC allows us to incorporate by reference the information we file with it. This means that we can disclose important information to you by referring to these documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, prior to the date on which the offering under this registration statement is terminated, including filings made after the date of the initial registration statement of which this prospectus forms a part and before effectiveness of the registration statement, will automatically update and supersede this information.

We are incorporating by reference the following documents that we have previously filed with the SEC, other than any portions of the respective filings that were furnished, pursuant to Item 2.02 or Item 7.01 of Current Reports on Form 8-K or other applicable SEC rules, rather than filed:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2014;

- the description of our common units contained in our Form 10, filed on October 17, 2011, and any subsequent amendment thereto containing an update to such description;

- our Current Reports on Form 8-K filed on February 23, 2015, March 2, 2015, April 6, 2015, April 13, 2015 and April 14, 2015; and

- our Current Report on Form 8-K/A filed on August 8, 2014.

You may request a copy of any document incorporated by reference in this prospectus without charge by writing or calling us at:

Atlas Energy Group, LLC

Park Place Corporate Center One

1000 Commerce Drive, Suite 400

Pittsburgh, PA 15275

(877) 280-2857

Attn: Brian Begley

Except as set forth herein, information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website as part of this prospectus.

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USE OF PROCEEDS

The Units to be offered and sold pursuant to this prospectus will be offered and sold by the selling unitholders. We will not receive any proceeds from the sale of the Units by the selling unitholders.

DESCRIPTION OF COMMON UNITS

Common Units

The common units are a class of limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and exercise the rights or privileges available to holders of common units as outlined in our partnership agreement. For a description of the rights and preferences of holders of common units in partnership distributions, please read Our Cash Distribution Policy. For a description of the rights and privileges of the holders of our common units under our partnership agreement, including voting rights, please read Our Partnership Agreement.

Transfer Agent and Registrar

Duties. American Stock Transfer serves as registrar and transfer agent for the common units. We pay all fees charged by the transfer agent for transfers of common units except the following that must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;
- special charges for services requested by a common unitholder; and
- other similar fees or charges.

There will be no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal. The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and has accepted the appointment within 30 days after notice of the resignation or removal, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Each transferee:

represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;

automatically becomes bound by the terms and conditions of, and is deemed to have executed, our partnership agreement;

gives the consents and waivers contained in our partnership agreement.

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A transferee will become a limited partner of our partnership for the transferred common units automatically upon the recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records from time to time as necessary to accurately reflect the transfers.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfers of securities.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

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DESCRIPTION OF CLASS C CONVERTIBLE PREFERRED UNITS

Class C Units

The Class C Units are a class of limited partner interests in us with a face value of $23.10 per unit. The holders of Class C Units are entitled to participate in partnership distributions and exercise the rights or privileges available to holders of Class C Units as outlined in our partnership agreement. For a description of the rights and preferences of holders of Class C Units in partnership distributions, please read Our Cash Distribution Policy. For a description of the rights and privileges of the holders of Class C Units under our partnership agreement, including voting rights, please read Our Partnership Agreement.

The Class C Units receive cash distributions, paid quarterly on the same date as the distribution payment date for our common units, equal to the greater of (i) $0.51 and (b) the quarterly common unit distribution payable for the most recently completed fiscal quarter, in each case multiplied by the number of common units into which each Class C Unit is convertible. The record date for the determination of holders entitled to receive distributions of the Class C Units will be the same as the record date for determination of common unit holders entitled to receive quarterly distributions, provided that if we do not pay a distribution with respect to our common units for any quarter, the preferred distribution payment date will be not later than the 45th following the end of the quarter. If we fail to pay in full any distribution on the Class C Units, we will not be permitted to make any distributions on our common units until all such preferred distributions have been paid in full.

Holders have the right to convert their Class C Units, in whole or in part, at any time before July 31, 2016, into a number of common units equal to (i) the face value plus all unpaid preferred distributions (the liquidation value) divided by (ii) the face value, subject to customary anti-dilution adjustments. Unless previously converted, all Class C Units will convert into common units on July 31, 2016. If a Class C Unit conversion occurs before the record date for payment of common unit distributions and the Class C Units convert into additional common units (because of the increase in the liquidation value by virtue of unpaid preferred distributions), the additional common units will not receive the common unit distribution with respect to the relevant quarter. The number of common units being registered and offered hereby assumes the conversion of all Class C Units held by the selling securityholder.

The Class C Units have class voting rights (requiring the affirmative vote of at least 75% of the outstanding preferred units) on any matter that adversely affects or amends any of the rights, preferences, obligations or privileges of the Class C Units, except that no holder of Class C Units will have any voting rights with respect a merger, consolidation or business combination, or sale or other transfer of all or substantially all of our properties or assets, except to the extent it has converted its Class C Units into common units before the record date for common units to vote on any such transaction. Upon our liquidation, dissolution or winding up, or the sale of all or substantially all of our assets, the holders of Class C Units generally will be entitled to receive, in preference to the holders of any of our common units and other securities that rank junior to the Class C Units with respect to distributions, an amount equal to the liquidation value of the units.

Transfer Agent and Registrar

Duties. American Stock Transfer serves as registrar and transfer agent for the Class C Units. We pay all fees charged by the transfer agent except the following that must be paid by unitholders:

surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;

- special charges for services requested by a Class C unitholder; and

- other similar fees or charges.

There are no charges to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

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Resignation or Removal. The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and has accepted the appointment within 30 days after notice of the resignation or removal, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Class C Units

The Class C Units are transferable by a holder only in compliance with all federal and applicable state securities laws.

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OUR PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. We will provide holders of our securities with a copy of our partnership agreement upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please read Our Cash Distribution Policy;
- with regard to the transfer of common units, please read Description of Common Units Transfer of Common Units;
- with regard to the transfer of Class C Units, please read Description of Class C Preferred Units Transfer of Class C Units; and
- with regard to allocations of taxable income and taxable loss, please read Tax Considerations.

Organization and Duration

Our partnership was formed in October 2011 and will have a perpetual existence unless terminated pursuant to the terms of our partnership agreement.

Purpose

Our purpose under the partnership agreement is to engage in any business activity that is approved by our general partner and that lawfully may be conducted by a limited partnership organized under Delaware law; provided, that our general partner will not cause us to engage in any business activity that the general partner determines would cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for U.S. federal income tax purposes.

Although our general partner has the ability to cause us and our subsidiaries to engage in activities other than the production of natural gas and oil, our general partner has no current plans to do so and may decline to do so free of any duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. Our general partner is authorized in general to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

Cash Distributions

Our partnership agreement specifies the manner in which we will make cash distributions to holders of our common units and other partnership securities as well as to our general partner in respect of its incentive distribution rights. For a description of these cash distribution provisions, please read Our Cash Distribution Policy.

Capital Contributions; No Dilution of Class A Units; One-to-One Ratio Between Class A Units and Common Units

Unitholders are not obligated to make additional capital contributions, except as described below under Limited Liability.

The class A units are entitled to 2% of all distributions that we make prior to our liquidation. The 2% sharing ratio of the class A units will not be reduced if we issue additional equity securities in the future. Because the 2% sharing ratio will not be reduced if we issue additional equity securities, and in order to ensure that each class A unit represents the same percentage economic interest in us as one common unit, if we issue additional common units, we will also issue to our general partner, for no additional consideration and without any requirement to make a capital contribution, an additional number of class A units so that the total number of outstanding class A units after such issuance equals 2% of the sum of the total number of common units and common unit equivalents and class A units after such issuance.

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Voting Rights

The following is a summary of the unitholder vote required for the matters specified below. Matters requiring the approval of a unit majority require the approval of a majority of the common units. Except as set forth below, Class B Units, Class C Units, Class D Units and Class E Units have no voting rights.

In voting their common units, our general partner and its affiliates will have no duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. The holders of a majority of the common units represented in person or by proxy shall constitute a quorum at a meeting of such common unitholders, unless any such action requires approval by holders of a greater percentage of such units in which case the quorum shall be such greater percentage.

The following is a summary of the vote requirements specified for certain matters under our partnership agreement:

Issuance of additional partnership securities	No approval right. See Issuance of Additional Securities.
Amendment of our partnership agreement	Certain amendments may be made by our general partner without the approval of the common unitholders. Other amendments generally require the approval of a unit majority or, if any amendment could adversely affect their rights, the approval by a majority of the Class B or Class C Units or the approval by two-thirds of the Class D Units or Class E Units. See Amendment of the Partnership Agreement.
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority in certain circumstances. See Merger, Consolidation, Conversion, Sale or Other Disposition of Our Assets.
Dissolution of our partnership	Unit majority and the approval by a majority of the Class B and Class C Units and the approval by two-thirds of the Class D and Class E Units. See Termination and Dissolution.
Continuation of our partnership upon dissolution	Unit majority. See Termination and Dissolution.
Withdrawal of our general partner	Prior to March 13, 2022, under most circumstances, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, is required for the withdrawal of our general partner in a manner that would cause a dissolution of our partnership. See Withdrawal or Removal of Our General Partner.
Removal of our general partner	Not less than two-thirds of the outstanding common units, including common units held by our general partner and its affiliates. See Withdrawal or Removal of Our General Partner.
Transfer of the general partner interest	Our general partner may transfer without a vote of our common unitholders all, but not less than all, of its general partner interest in us to an affiliate or another person (other than an individual) in connection with its merger or consolidation with or into, or sale of all, or substantially all, of its assets, to such person. The approval of a majority of the common units, excluding

	common units held by our general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third-party prior to the tenth anniversary of the date of the distribution. See Transfer of General Partner Interest.
Transfer of ownership interests in our general partner	No approval required at any time. See Transfer of Ownership Interests in the General Partner.

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The holder of our class A units has all voting rights applicable to the general partner.

Applicable Law; Forum, Venue and Jurisdiction

Our partnership agreement is governed by Delaware law. Our partnership agreement requires that, unless we (through the approval of our general partner) consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for any claims, suits, actions or proceedings:

- arising out of or relating in any way to the partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of the partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners to us, or the rights or powers of, or restrictions on, the limited partners or us);
- brought in a derivative manner on our behalf;
- asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of us or our general partner, or owed by our general partner, to us or the limited partners;
- asserting a claim arising pursuant to any provision of the Delaware Revised Uniform Limited Partnership Act, or the Delaware Act; or
- asserting a claim governed by the internal affairs doctrine;

regardless of whether such claims, suits, actions or proceedings sound in contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims. However, if and only if the Court of Chancery of the State of Delaware dismisses any such claims, suits, actions or proceedings for lack of subject matter jurisdiction, such claims, suits, actions or proceedings may be brought in another state or federal court sitting in the State of Delaware. By acquiring or purchasing a common unit, a limited partner is irrevocably consenting to these limitations and provisions regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware in connection with any such claims, suits, actions or proceedings.

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and otherwise acts in conformity with the provisions of our partnership agreement, the limited partner s liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital it is obligated to contribute to us for its common units plus its share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by the limited partners as a group:

- to remove or replace our general partner,

- to approve some amendments to our partnership agreement, or

- to take other action under our partnership agreement

constituted participation in the control of our business for purposes of the Delaware Act, then our limited partners could be held personally liable for our obligations under Delaware law to the same extent as our general partner. This liability would extend to persons who transact business with us and reasonably believe that the limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware Act, a limited partnership cannot make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. Moreover, under the Delaware Act, a limited partnership may also not make a distribution to a partner upon the winding up of the limited partnership before liabilities of the limited partnership to creditors have been satisfied by payment or the making of reasonable provision for payment thereof. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act will be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware Act, an assignee who becomes a limited partner is liable for the obligations of his assignor to make contributions to the partnership, except such person is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

We currently conduct business in Alabama, Arkansas, Colorado, Indiana, Kansas, Kentucky, Louisiana, Michigan, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Virgina, West Virginia and Wyoming. Limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established in many jurisdictions. If it were determined that we were conducting business in any state without compliance with the applicable limited partnership statute, or that the right or exercise of the right by the limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement or to take other action under our partnership agreement constituted participation in the control of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner that our general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

Issuance of Additional Securities

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities for the consideration and on the terms and conditions determined by our general partner without the approval of our unitholders, subject to the rights of holders of our Class B, Class D Units and Class E Units to approve the creation or issuance of any securities senior to such units. The affirmative vote of the holders of at least 75% of the outstanding Class B Units is required to issue any equity securities ranking senior to, or pari passu with, the Class B Units with respect to liquidation preference or distributions. The affirmative vote of the holders of at least two-thirds of the outstanding Class D Units, voting as a single class and together with holders of any securities not expressly made senior or subordinated to the Class D Units, is required to issue any securities ranking senior to the Class D Units with respect to distributions. The affirmative vote of the holders of at least two-thirds of the outstanding Class E Units, voting as a single class and together with holders of any securities not expressly made senior or subordinated to the Class E Units, is required to issue any securities ranking senior to the Class E Units with respect to distributions.

It is possible that we will fund acquisitions through the issuance of additional common units or other partnership securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional common units or other partnership securities may dilute the value of the interests of the then-existing holders of common units in our net assets. The holders of common units will not have preemptive rights to acquire additional common units or other partnership securities.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities that, as determined by our general partner, may have special voting rights to which the common units are not entitled. In addition, our partnership agreement does not prohibit the issuance by our subsidiaries of equity securities, which may effectively rank senior to our common units.

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The class A units will be entitled to 2% of all distributions that we make prior to our liquidation, other than distributions we make on our Class D and Class E Units. The 2% sharing ratio of the class A units will not be reduced if we issue additional equity securities in the future. Because the 2% sharing ratio will not be reduced if we issue additional equity securities, and in order to ensure that each class A unit represents the same percentage economic interest in us as one common unit, if we issue additional common units or units convertible into common units, we will also issue to our general partner, for no additional consideration and without any requirement to make a capital contribution, an additional number of class A units so that the total number of outstanding class A units after such issuance equals 2% of the sum of the total number of common units, common unit equivalents and class A units after such issuance.

In addition to the right to receive additional class A units, our general partner will have a limited preemptive right in connection with any issuance by us of additional partnership securities. The right, which the general partner may assign in whole or in part to any of its affiliates, will entitle the general partner to purchase additional units of any securities being sold to third parties, on the same terms as such third parties, in an amount up to the amount necessary to maintain the aggregate ownership percentage of the general partner and its affiliates at the same level before and after such issuance.

Amendment of the Partnership Agreement

General. Amendments to our partnership agreement may be proposed only by our general partner. However, our general partner will have no duty or obligation to propose any amendment and may decline to do so free of any duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners. To adopt a proposed amendment, other than the amendments discussed under No Unitholder Approval , our general partner is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment.

Prohibited Amendments. No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected; or

- enlarge the obligations of, restrict in any way any action by or rights of or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which consent may be given or withheld at its option.

The provision of our partnership agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class.

No Unitholder Approval. Our general partner may generally make amendments to our partnership agreement without the approval of any limited partner to reflect:

a change in our name, the location of our principal place of business, our registered agent or registered office;

the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;

a change that our general partner determines to be necessary or appropriate for us to qualify us or continue our qualification as a limited partnership or other entity in which the limited partners have limited liability under the laws of any state or to ensure that we will not be taxed as a corporation or otherwise taxed as an entity for U.S. federal income tax purposes;

a change in our fiscal year or taxable year and related changes;

an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner, or its directors, officers, agents or trustees, from in any manner being subject to the provisions of the Investment Company Act of 1940, the Investment Advisers Act of 1940 or plan asset regulations adopted under the Employee Retirement Income Security Act of 1974, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

an amendment that our general partner determines to be necessary or appropriate for the authorization or issuance of additional partnership securities or options, warrants, rights or appreciation rights relating to partnership securities;

an amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;

any amendment effected, necessitated or contemplated by a merger agreement or plan of conversion that has been approved under the terms of our partnership agreement;

any amendment that our general partner determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by our partnership agreement;

any amendment necessary to require our limited partners to provide a statement, certification or other evidence to us regarding whether such limited partner is subject to U.S. federal income taxation on the income generated by us or regarding such limited partner s nationality or citizenship and to provide for the ability of our general partner to redeem the units of any limited partner who fails to provide such statement, certification or other evidence;

conversions into, mergers with or conveyances to another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the conversion, merger or conveyance other than those it receives by way of the conversion, merger or conveyance; and

any other amendment substantially similar to any of the matters described above.

In addition, our general partner may amend our partnership agreement, without the approval of the unitholders, if our general partner determines that those amendments:

do not adversely affect the limited partners in any material respect;

are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange or interdealer quotation system on which the limited partner interests are or will be listed for trading;

are necessary or appropriate for any action taken by our general partner relating to splits or combinations of units or to implement the tax-related provisions of our partnership agreement; or

are required to effect the intent expressed in this registration statement or the intent of the provisions of our partnership agreement or are otherwise contemplated by our partnership agreement.

Unitholder Approval. For amendments of the type not requiring unitholder approval, our general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to our limited partners or result in our being treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of the outstanding common units if our general partner determines that such amendment will affect the limited liability of any limited partner under Delaware law.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the

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approval of at least a majority of the type or class of units so affected, or, with respect to our Class D and Class E Units, approval of at least two-thirds of Class D Units or Class E Units, as applicable. Any amendment that reduces the voting percentage required to take any action other than to remove the general partner or call a meeting of unitholders is required to be approved by the affirmative vote of limited partners whose aggregate outstanding common units constitute not less than the voting requirement sought to be reduced. Any amendment that would increase the percentage of common units required to remove the general partner or call a meeting of unitholders must be approved by the affirmative vote of limited partners whose aggregate outstanding common units constitute not less than the percentage sought to be increased.

Merger, Consolidation, Conversion, Sale or Other Disposition of Our Assets

A merger, consolidation or conversion of us requires the prior consent of our general partner. However, our general partner will have no duty or obligation to consent to any merger, consolidation or conversion and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or any other standard imposed by our partnership agreement, the Delaware Act or applicable law.

In addition, the partnership agreement generally prohibits our general partner, without the prior approval by a unit majority, from causing us to sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions. Our general partner may, however, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without the approval of a unit majority. Our general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without that approval. Finally, our general partner may consummate any merger, consolidation or conversion without the prior approval of our unitholders if we are the surviving entity in the transaction, our general partner has received an opinion of counsel regarding limited liability and tax matters, the transaction will not result in an amendment to the partnership agreement (other than an amendment that the general partner could adopt without the consent of other partners), each of our units will be an identical unit of our partnership following the transaction and the number of partnership securities to be issued does not exceed 20% of our outstanding partnership securities immediately prior to the transaction.

If the conditions specified in the partnership agreement are satisfied, our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey all of our assets to, a newly formed entity if the purpose of that conversion, merger or conveyance is to effect a change in our legal form into another limited liability entity, our general partner has received an opinion of counsel regarding limited liability and tax matters and the general partner determines that the governing instruments of the new entity provide the limited partners and the general partner with substantially the same rights and obligations as contained in the partnership agreement. The unitholders are not entitled to dissenters rights of appraisal under the partnership agreement or applicable Delaware law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets or any other similar transaction or event.

Termination and Dissolution

We will continue as a limited partnership until dissolved under our partnership agreement. We will dissolve upon:

- the election of our general partner to dissolve us, if approved by a unit majority;

the entry of a decree of judicial dissolution of our partnership;

there being no limited partners, unless we are continued without dissolution in accordance with applicable Delaware law; or

the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in us in accordance with our partnership agreement or withdrawal or removal following approval and admission of a successor.

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Upon a dissolution under the last item above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor general partner an entity approved by the holders of a unit majority subject to our receipt of an opinion of counsel to the effect that:

- the action would not result in the loss of limited liability under Delaware law of any limited partner; and
- neither our partnership nor any of our subsidiaries would be taxed as a corporation or otherwise be taxable as an entity for U.S. federal income tax purposes upon the exercise of that right to continue (to the extent not already so treated or taxed).

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that are necessary or appropriate liquidate our assets and apply the proceeds of the liquidation as described in Our Cash Distribution Policy. The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

Withdrawal or Removal of Our General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to the tenth anniversary of the date of the distribution, without obtaining the approval of the holders of at least a majority of our outstanding common units, excluding common units held by our general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after the tenth anniversary of the date of the distribution, our general partner may withdraw as our general partner without first obtaining approval from the unitholders by giving 90 days written notice. Notwithstanding the information above, our general partner may withdraw as our general partner without unitholder approval upon 90 days notice to our limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than our general partner and its affiliates. In addition, our partnership agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. See Transfer of General Partner Interest.

If our general partner withdraws, other than as a result of a transfer of all or a part of its general partner interest in us, the holders of a unit majority may elect a successor to the withdrawing general partner. If a successor is not elected prior to the effective date of the withdrawal, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved and liquidated, unless within a specified period of time after that withdrawal, the holders of a unit majority elect to continue the partnership by appointing a successor general partner. See Termination and Dissolution.

Our general partner may not be removed unless that removal is approved by the vote of the holders of at least 66 ⅔% of the outstanding units, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a unit majority, including units held by our general partner and its affiliates. The ownership of more than 33 ⅓% of our outstanding common units by our general partner and its affiliates would give them the practical ability to prevent our general partner s removal.

In the event of removal of our general partner under circumstances where cause exists or a withdrawal of our general partner that violates our partnership agreement, a successor general partner will have the option to purchase the class A units and incentive distribution rights of the departing general partner for a cash payment equal to the fair market value of those interests. Under all other circumstances where our general partner

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withdraws or is removed, the departing general partner will have the option to require the successor general partner to purchase those interests for their fair market value. In each case, fair market value will be determined by agreement between the departing general partner and the successor general partner. If they cannot reach an agreement, an independent expert selected by the departing general partner and the successor general partner will determine the fair market value. If the departing general partner and the successor general partner cannot agree on an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the purchase option is not exercised by either the departing general partner or the successor general partner, the class A units and incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interest

Except for the transfer by our general partner of all, but not less than all, of its class A units to:

- an affiliate of our general partner (other than an individual); or

- another entity as part of the merger or consolidation of our general partner with or into another entity or the transfer by our general partner of all or substantially all of its assets to another entity,

our general partner may not transfer all or any part of its general partner interest to another person, prior to the tenth anniversary of the date of the distribution, without the approval of the holders of at least a majority of our outstanding common units, excluding common units held by our general partner and its affiliates. As a condition of this transfer, the transferee must assume, among other things, the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner and its affiliates may at any time transfer common units to one or more persons without unitholder approval.

Transfer of Ownership Interests in the General Partner

The members of our general partner may sell or transfer all or part of their interest in our general partner without the approval of the unitholders.

Transfer of Incentive Distribution Rights

Our general partner or any other holder of incentive distribution rights may transfer any or all of its incentive distribution rights without unitholder approval.

Change of Management Provisions

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove Atlas Energy Group as our general partner or otherwise change the management of our general partner. If any person or group other than our general partner and its affiliates acquires beneficial ownership of 20% or more of our common units, that person or group will lose voting rights on all of its units and the common units will not be considered outstanding for the purposes of noticing meetings, determining the presence of a quorum, calculating required votes and other similar matters. This loss of voting rights does not

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apply to any person or group that acquires the common units from our general partner or its affiliates, any transferees of that person or group approved by our general partner or any person or group who acquires the common units directly from us if our general partner notifies such person or group in writing, in advance, that this limitation will not apply.

Limited Call Right

If at any time our general partner and its affiliates own more than two-thirds of the outstanding common units, our general partner will have the right, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons as of a record date selected by our general partner on at least 10 but not more than 60 days notice.

The purchase price is the greater of:

- the highest cash price paid by our general partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those limited partner interests; and

- the average of the daily closing prices of the limited partner interests of such class over the 20 trading days preceding the date three days before the date the notice is mailed.

As a result of our general partner s right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased at a price that may be lower than market prices at various times prior to such purchase or lower than a unitholder may anticipate the market price to be in the future. The federal income tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market.

Meetings; Voting

Except as described above under Change of Management Provisions, unitholders who are record holders of common units on a record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited. Our general partner does not anticipate that any meeting of common unitholders will be called in the foreseeable future.

Any action that is required or permitted to be taken by the common unitholders may be taken either at a meeting of the common unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of common units necessary to authorize or take that action at a meeting. Meetings of the common unitholders may be called by our general partner or by holders of at least 20% of the outstanding common units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding common units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the common units, in which case the quorum will be the greater percentage.

Except as described above under Change of Management Provisions, each record holder will have a vote in accordance with his percentage interest, although additional limited partner interests having different voting rights could be issued. See Issuance of Additional Securities. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner.

Any notice, demand, request report, or proxy material required or permitted to be given or made to record holders of common units under our partnership agreement will be delivered to the record holder by us or by the transfer agent.

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Status as Limited Partner

By transfer of any common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Except as described above under Limited Liability, the common units will be fully paid, and unitholders will not be required to make additional contributions.

Non-Citizen Assignees; Redemption

If we are or become subject to federal, state or local laws or regulations that, in the reasonable determination of our general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship or other related status of any limited partner, we may redeem the units held by the limited partner at their current market price. In order to avoid any cancellation or forfeiture, our general partner may require any limited partner or transferee to furnish information about his nationality, citizenship or related status. If a limited partner fails to furnish this information within 30 days after a request for the information, or our general partner determines after receipt of the information that the limited partner is not an eligible citizen, then the limited partner may be treated as a non-citizen assignee. A non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon our liquidation.

In addition, in such circumstance, we will have the right to acquire all (but not less than all) of the units held by such limited partner or non-citizen assignee. The purchase price for such units will be the average of the daily closing prices per unit for the 20 consecutive trading days immediately prior to the date set for such purchase, and such purchase price will be paid (in the sole discretion of our general partner) either in cash or by delivery of a promissory note. Any such promissory note will bear interest at the rate of 5% annually and will be payable in three equal annual installments of principal and accrued interest, commencing one year after the purchase date.

Non-Taxpaying Holders; Redemption

If our general partner, with the advice of counsel, determines that our not being treated as an association taxable as a corporation or otherwise taxable as an entity for U.S. federal income tax purposes, coupled with the tax status (or lack of proof thereof) of one or more of our limited partners, has, or is reasonably likely to have, a material adverse effect on the maximum applicable rate that can be charged to customers by our subsidiaries, then our general partner may adopt such amendments to our partnership agreement as it determines necessary or advisable to:

- obtain proof of the U.S. federal income tax status of our limited partners (and their owners, to the extent relevant); and

- permit us to redeem the units at their current market price held by any person whose tax status has or is reasonably likely to have a material adverse effect on our ability to operate our assets or generate revenues from our assets or who fails to comply with the procedures instituted by our general partner to obtain proof of the U.S. federal income tax status.

A non-taxpaying assignee does not have the right to direct the voting of his units and may not receive distributions in-kind upon our liquidation.

Indemnification

Under our partnership agreement, in most circumstances, we will indemnify the following persons, by reason of their status as such, to the fullest extent permitted by law, from and against all losses, claims or damages arising out of or incurred in connection with our business:

- our general partner;
- any departing general partner;

any person who is or was an affiliate of our general partner or any departing general partner;

any person who is or was a manager, managing member, officer, director, employee, agent, fiduciary or trustee of our partnership, our subsidiaries, our general partner, any departing general partner or any affiliate of our partnership, our subsidiaries, our general partner, any departing general partner;

any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as a manager, managing member officer, director, employee, agent, fiduciary or trustee of another person; and

any person whom the general partner designates as an indemnitee for purposes of our partnership agreement. Our indemnification obligation arises only if the indemnified person did not act in bad faith or engage in fraud, willful misconduct or, in the case of a criminal matter, knowledge of the indemnified person s unlawful conduct.

Any indemnification under these provisions will be only out of our assets. Our general partner will not be personally liable for the indemnification obligations and will not have any obligation to contribute or loan funds to us in connection with it. Our partnership agreement permits us to purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under the partnership agreement.

Reimbursement of Expenses

Our partnership agreement requires us to reimburse our general partner for all direct and indirect expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf, and expenses allocated to our general partner by its affiliates. Our general partner is entitled to determine the expenses that are allocable to us, and our partnership agreement does not place any aggregate limit on the amount of such reimbursements.

Books and Reports

Our general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For financial and tax reporting purposes, our fiscal year end is December 31.

We will furnish or make available to record holders of common units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent registered public accounting firm. Except for our fourth quarter, we also furnish or make available summary financial information within 90 days after the close of each quarter. We will be deemed to have made any such report available if we file such report with the SEC on EDGAR or make the report available on a publicly available website that we maintain.

We will furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to our unitholders will depend on the cooperation of our unitholders in supplying us with specific information. Every unitholder will receive information to assist it in determining its federal and state tax liability and filing its federal and state income tax returns, regardless of whether it supplies us with information.

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Right to Inspect Our Books and Records

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to its interest as a limited partner, upon reasonable written demand stating the purpose of such demand and at his own expense, obtain:

- a current list of the name and last known address of each partner;
- a copy of our tax returns;
- information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner;
- copies of our partnership agreement, the certificate of limited partnership and related amendments and powers of attorney under which they have been executed; and
- information regarding the status of our business and financial condition.

Our general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which our general partner believes is not in our best interests or which we are required by law or by agreements with third parties to keep confidential.

Registration Rights

In our partnership agreement, we have agreed to register for resale under the Securities Act and applicable state securities laws any common units or other partnership securities proposed to be sold by our general partner or any of its affiliates if an exemption from the registration requirements is not otherwise available. There is no limit on the number of times that we may be required to file registration statements pursuant to this obligation. We have also agreed to include any securities held by our general partner or any of its respective affiliates in any registration statement that we file to offer securities for cash, other than an offering relating solely to an employee benefit plan. These registration rights continue for two years following any withdrawal or removal of our general partner. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions.

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OUR CASH DISTRIBUTION POLICY

Set forth below is a summary of the significant provisions of our partnership agreement that relate to our cash distributions.

General

The amount of distributions paid under our cash distribution policy and the decision to make any distribution will be determined by our general partner in its discretion, taking into account the terms of our partnership agreement. Our cash distribution policy reflects a basic judgment, given our current asset base, that our unitholders will be better served by the distribution of our available cash (which is defined in our partnership agreement and is net of any expenses and reserves established by our general partner) than by our retaining such available cash. It is the current policy of our general partner that we should increase our level of cash distributions per unit only when, in its judgment, it believes that:

- we have sufficient reserves and liquidity for the proper conduct of our business; and
- we can maintain such an increased distribution level for a sustained period.

The amount of available cash, which is defined in our partnership agreement, will be determined by our general partner after the completion of the distribution and will be based upon recommendations from our management. Because we believe that we will generally finance any expansion capital expenditures and investment capital expenditures from external financing sources, we believe that our investors are best served by our distributing all of our available cash. In addition, because we are not subject to entity-level U.S. federal income tax as a partnership, we have more cash to distribute to you than would be the case if we were subject to U.S. federal income tax. Our cash distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash.

Minimum Quarterly Distributions

We currently intend to distribute to the holders of our Class D Units a quarterly distribution of approximately \$0.54 per Class D Unit, or approximately \$2.16 per Class D Unit per year, to the holders of Class E Units a quarterly distribution of approximately \$0.67 per Class E Unit, or approximately \$2.69 per Class E Unit per year, to the holders of our Class B Preferred Units on a quarterly basis at least a minimum quarterly distribution of \$0.40 per unit, or \$1.60 per unit per year, and to holders of our Class C Units on a quarterly basis at least a minimum quarterly distribution of \$0.51 per unit, or \$2.04 per unit per year, to the extent we have sufficient available cash after we establish appropriate reserves and pay fees and expenses, including payments to our general partner in reimbursement of costs and expenses it incurs on our behalf. Our minimum quarterly distribution is intended to reflect the level of cash that we expect to be available for distribution per common unit, preferred units and class A unit each quarter. There is no guarantee that we will pay the minimum quarterly distribution, or any distribution, in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default or an event of default is existing under our credit agreement.

It is the current policy of our general partner that we should raise our quarterly cash distribution only when our general partner believes that:

- we have sufficient reserves and liquidity for the proper conduct of our business; and
- we can maintain such an increased distribution level for a sustained period.

While this is our current policy, our general partner may alter the policy in the future when and if it determines such alteration to be appropriate.

Quarterly Distributions of Available Cash

Our partnership agreement requires that we make distributions of all available cash (as defined in our partnership agreement) within 45 days after the end of each quarter, beginning with the quarter ending March 31, 2012, to holders of record on the applicable record date.

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For these purposes, available cash generally means, for any of our fiscal quarters:

- all cash on hand at the end of the quarter (including amounts available for working capital purposes under a credit facility, commercial paper facility or other similar financing arrangement),

- *less* the amount of cash reserves established by our general partner at the date of determination of available cash for the quarter in order to:

  - provide for the proper conduct of our business (including reserves for working capital, operating expenses, future capital expenditures and credit needs and potential acquisitions);

  - comply with applicable law and any of our debt instruments or other agreements; or

  - provide funds for distributions to (1) our unitholders for any one or more of the next four quarters or (2) with respect to our incentive distribution rights (provided that our general partner may not establish cash reserves for future distributions on our common units and class A units unless it determines that the establishment of such reserves will not prevent us from distributing the minimum distribution on all common units and class A units);

- *plus*, if our general partner so determines, all or any portion of cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter.

Working capital borrowings are borrowings that are made under our credit facility or another arrangement and used solely for working capital purposes or to pay distributions to unitholders.

Operating Surplus and Capital Surplus

General

All cash we distribute to unitholders will be characterized as either operating surplus or capital surplus. Our partnership agreement requires that we distribute available cash from operating surplus differently than available cash from capital surplus.

Definition of Operating Surplus

Operating surplus generally means:

- $60 million (as described below); *plus* all of our cash receipts after the separation, including working capital borrowings but excluding cash from (1) borrowings that are not working capital borrowings, (2) sales of equity and debt securities and (3) sales or other dispositions of assets outside the ordinary course of business; *plus*

working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; *plus*

cash distributions paid on equity securities that we may issue after the separation to finance all or a portion of the construction, acquisition, development, replacement or improvement of a capital asset (such as equipment or reserves) during the period beginning on the date that we enter into a binding obligation to commence the construction, acquisition, development or improvement of a capital improvement or replacement of a capital asset and ending on the earlier to occur of the date the capital improvement or capital asset begins producing in paying quantities, the date it is placed into service or the date that it is abandoned or disposed of; *plus*

cash distributions paid (including incremental incentive distributions) on equity issued to pay the construction period interest on debt incurred (including periodic net payments under related interest

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rate swap arrangements), or to pay construction period distributions on equity issued, to finance the capital improvements or capital assets referred to above; *less*

our operating expenditures (as defined below); *less*

the amount of cash reserves established by our general partner to provide funds for future operating expenditures; *less*

all working capital borrowings not repaid within 12 months after having been incurred or repaid within such twelve-month period with the proceeds of additional working capital borrowings; *less*

any cash loss realized on disposition of an investment capital expenditure.

If a working capital borrowing, which increases operating surplus, is not repaid during the twelve-month period following the borrowing, it will be deemed repaid at the end of such period, thus decreasing operating surplus at such time. When such working capital borrowing is in fact repaid, it will not be treated as a reduction in operating surplus because operating surplus will have been previously reduced by the deemed repayment.

Operating expenditures is defined in our partnership agreement, and generally means all of our cash expenditures, including but not limited to:

taxes;

reimbursement of expenses to our general partner and its affiliates;

payments made in the ordinary course of business on hedge contracts;

director and officer compensation;

repayment of working capital borrowings;

debt service payments; and

estimated maintenance capital expenditures,

Operating expenditures, however, do not include:

- repayment of working capital borrowings previously deducted from operating surplus pursuant to the penultimate bullet point of the definition of operating surplus when the repayment actually occurs;

- payments (including prepayments and prepayment penalties) of principal of and premium on indebtedness, other than working capital borrowings;

- expansion capital expenditures;

- actual maintenance capital expenditures;

- investment capital expenditures;

- payment of transaction expenses relating to interim capital transactions;

- distributions to our unitholders and distributions with respect to our incentive distribution rights; or

- repurchases of equity interests except to fund obligations under employee benefit plans.

As described above, operating surplus does not reflect actual cash on hand that is available for distribution to our unitholders. For example, it includes a provision that will enable us, if we choose, to distribute as operating surplus up to $60 million of cash that we receive in the future from non-operating sources, such as asset sales, issuances of securities and long-term borrowings that would otherwise be distributed as capital surplus. In addition, the effect of including in the definition of operating surplus certain cash distributions on equity securities would be to increase operating surplus by the amount of the cash distributions. As a result, we may also distribute as operating surplus up to the amount of the cash distributions we receive from non-operating sources.

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None of actual maintenance capital expenditures, investment capital expenditures or expansion capital expenditures are subtracted from operating surplus. Because actual maintenance capital expenditures, investment capital expenditures and expansion capital expenditures include interest payments (and related fees) on debt incurred and distributions on equity issued (including incremental distributions on incentive distribution rights) to finance all of the portion of the construction, acquisition, development, replacement or improvement of a capital asset (such as equipment or reserves) during the period from when we enter into a binding commitment to commence the construction, acquisition, development or improvement of a capital asset or replacement of a capital asset until the earlier to occur of the date any such capital asset is placed into service or the date that it is abandoned or disposed of, such interest payments and equity distributions are also not subtracted from operating surplus (except, in the case of maintenance capital expenditures, to the extent such interest payments and distributions are included in estimated maintenance capital expenditures).

Capital Expenditures

Estimated maintenance capital expenditures reduce operating surplus, but expansion capital expenditures, actual maintenance capital expenditures and investment capital expenditures do not.

Maintenance Capital Expenditures

Maintenance capital expenditures are those capital expenditures we expect to make on an ongoing basis to maintain our current production levels over the long term. We expect that a primary component of maintenance capital expenditures will be capital expenditures associated with the replacement of equipment and oil and natural gas reserves (including non-proved reserves attributable to undeveloped leasehold acreage and other similar assets), whether through the development, exploitation and production of an existing leasehold or the acquisition or development of a new oil or natural gas property, including to offset expected production declines from producing properties. Maintenance capital expenditures will also include interest (and related fees) on debt incurred and distributions on equity issued (including incremental distributions on incentive distribution rights) to finance all or any portion of a replacement asset that is paid in respect of the period beginning on the date that we enter into a binding obligation to commence construction or development of the replacement asset and ending on the earlier to occur of the date the replacement asset is placed into service or the date that it is abandoned or disposed of. Capital expenditures made solely for investment purposes will not be considered maintenance capital expenditures.

Because our maintenance capital expenditures can be irregular, the amount of our actual maintenance capital expenditures may differ substantially from period to period, which could cause similar fluctuations in the amounts of operating surplus, adjusted operating surplus and cash available for distribution to our unitholders if we subtracted actual maintenance capital expenditures from operating surplus. To address this issue, our partnership agreement will require that an estimate of the average quarterly maintenance capital expenditures (including estimated plugging and abandonment costs) necessary to maintain our asset base over the long term be subtracted from operating surplus each quarter as opposed to the actual amounts spent. The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by the board of directors of our general partner at least once a year. We will make the estimate at least annually and whenever an event occurs that is likely to result in a material adjustment to the amount of future estimated maintenance capital expenditures, such as a major acquisition or the introduction of new governmental regulations that will impact our business. Any adjustment to this estimate will be prospective only.

The use of estimated maintenance capital expenditures in calculating operating surplus will have the following effects:

it will reduce the risk that maintenance capital expenditures in any one quarter will be large enough to render operating surplus less than the minimum quarterly distribution to be paid on all the units for that quarter;

- it will increase our ability to distribute as operating surplus cash we receive from non-operating sources;

- in quarters where estimated maintenance capital expenditures exceed actual maintenance capital expenditures, it will be more difficult for us to raise our distributions above the minimum quarterly distribution, because the amount of estimated maintenance capital expenditures will reduce the amount of cash available for distribution to our unitholders, even in quarters where there are no corresponding actual capital expenditures; conversely, the use of estimated maintenance capital expenditures in calculating operating surplus will have the opposite effect for quarters in which actual maintenance capital expenditures exceed our estimated maintenance capital expenditures; and

- it will be more difficult for us to raise our distribution above the minimum quarterly distribution and pay incentive distribution rights.

Expansion Capital Expenditures

Expansion capital expenditures are those capital expenditures that we expect will increase the production of our and gas properties over the long term. Examples of expansion capital expenditures include the acquisition of reserves or equipment, the acquisition of new leasehold interests, or the development, exploitation and production of an existing leasehold interest, to the extent such expenditures are incurred to increase the production of our oil and gas properties over the long term. Expansion capital expenditures will also include interest (and related fees) on debt incurred and distributions on equity issued (including incremental distributions on incentive distribution rights) to finance all or any portion of a capital improvement that is paid in respect of the period beginning on the date that we enter into a binding obligation to commence construction or development of the capital improvement and ending on the earlier to occur of the date the capital improvement is placed into service or the date that it is abandoned or disposed of. Capital expenditures made solely for investment purposes will not be considered expansion capital expenditures.

Investment Capital Expenditures

Investment capital expenditures are those capital expenditures that are neither maintenance capital expenditures nor expansion capital expenditures. Investment capital expenditures largely will consist of capital expenditures made for investment purposes. Examples of investment capital expenditures include traditional capital expenditures for investment purposes, such as purchases of securities, as well as other capital expenditures that might be made in lieu of such traditional investment capital expenditures, such as the acquisition of a capital asset for investment purposes or development of our undeveloped properties in excess of the maintenance of our asset base, but which are not expected to expand our asset base for more than the short term.

Capital expenditures that are made in part for maintenance capital purposes and in part for investment capital or expansion capital purposes will be allocated as maintenance capital expenditures, investment capital expenditures or expansion capital expenditure by the board of directors of our general partner based upon its good faith determination.

Definition of Capital Surplus

Capital surplus is defined in our partnership agreement as any distribution of available cash in excess of our cumulative operating surplus. Accordingly, capital surplus would generally be generated by:

borrowings (including sales of debt securities) other than working capital borrowings;

sales of debt and equity securities; and

sales or other dispositions of assets for cash, other than inventory, accounts receivable and other assets disposed of in the ordinary course of business or as part of normal retirement or replacement of assets.

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Characterization of Cash Distributions

We treat all available cash distributed as distributed from operating surplus until the sum of all available cash distributed since we began operations equals our total operating surplus from the date that we began operations until the end of the quarter that immediately preceded the distribution. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As described above, operating surplus includes up to $60 million which does not reflect actual cash on hand that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to this amount of cash we receive in the future from non-operating sources such as asset sales, issuances of securities and borrowings that would otherwise be distributed as capital surplus. We do not currently anticipate that we will make any distributions from capital surplus.

Distributions of Available Cash from Operating Surplus

We will make distributions of available cash from operating surplus for any quarter in the following manner:

first, *pari passu* (A) to the holders of Class B Units, Class D Units and Class E Units, pro rata, until there has been distributed in respect of each Class B Unit then outstanding an amount equal to $0.40 and in respect of each Class D Unit and Class E Unit then outstanding an amount equal to the quarterly distribution set forth in the certificate of designation for the Class D Units and Class E Units and (B) to the holders of the class A units, pro rata, in an amount equal to 2.0202% of the amount distributed with respect to the Class B Units pursuant to clause (A) above;

second, 2% to the holders of our class A units and 98% to the holders of our Class C Units, each pro rata, until there has been distributed in respect of each Class C Unit then outstanding the amount specified in the certificate of designation for the Class C Units;

third, to the holders of the incentive distribution rights, (A) 13/85ths of such amount paid pursuant to second above that is between $0.46 per outstanding unit for such quarter, which we refer to as the first target distribution, and $0.50 per outstanding unit for such quarter, which we refer to as the second target distribution ; (B) 23/75ths of such amount paid pursuant to second above that is between the second target distribution and $0.60 per outstanding unit for such quarter, which we refer to as the third target distribution ; and (C) 48/50ths of such amount paid pursuant to second above that is over the third target distribution for such quarter;

fourth, 2% to the holders of our class A units and 98% to the holders of our common units, each pro rata, until there has been distributed in respect of each common unit then outstanding an amount equal to the minimum quarterly distribution for such quarter;

fifth, 2% to the holders of our class A units and 98% to the holders of our common units and Class B Units, each pro rata, until there has been distributed in respect of each common unit and Class B Unit then outstanding an amount equal to the first target distribution for such quarter; and after that, in the manner described in Cash Distribution Policy Incentive Distribution Rights.

Adjusted operating surplus for any period generally means operating surplus generated during that period, less:

1. any net increase in working capital borrowings with respect to that period; and

2. any net decrease in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period,

and plus:

3. any net decrease in working capital borrowings made with respect to that period;

4. any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium; and

5. any net decrease made in subsequent periods in cash reserves for operating expenditures initially established with respect to such period to the extent such decrease results in a reduction of adjusted operating surplus in subsequent periods pursuant to item 2 above.

Operating surplus generated during a period is equal to the difference between:

- the operating surplus determined at the end of that period; and

- the operating surplus determined at the beginning of that period.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive increasing amounts of quarterly distributions of available cash from operating surplus after we have made payments in excess of the first target distribution and the tests described below have been met. Our general partner currently holds all of the incentive distribution rights, but may transfer these rights separately from its general partner interest in us, without the consent of the unitholders.

We will make incentive distributions to the holders of our incentive distribution rights for any quarter in which we have distributed available cash from operating surplus to our unitholders in an amount equal to the first target distribution, as follows:

- first, 2% to the holders of our class A units and 85% to the holders of our common units and Class B Units, each pro rata, and 13% to the holders of the incentive distribution rights, until there has been distributed in respect of each common unit and Class B Unit then outstanding an amount equal to the second target distribution for such quarter;

- second, 2% to the holders of our class A units and 75% to the holders of our common units and Class B Units, each pro rata, and 23% to the holders of the incentive distribution rights, until there has been distributed in respect of each common unit and Class B Unit then outstanding an amount equal to the third target distribution for such quarter; and

- after that, 2% to the holders of our class A units and 50% to the holders of our common units and Class B Units, each pro rata, and 48% to the holders of the incentive distribution rights.

The class A units represent a 2% general partner interest in us, and the holder of such units are entitled to 2% of our cash distributions, without any requirement to make a capital contribution to us. The 2% sharing ratio of the class A units will not be reduced if we issue additional common units in the future. Because the 2% sharing ratio will not be reduced if we issue additional common units, and in order to ensure that each class A unit represents the same percentage economic interest in Atlas Resource Partners as one common unit, if we issue additional common units, we will also issue to our general partner, for no additional consideration and without any requirement to make a capital contribution, an additional number of class A units so that the total number of outstanding class A units after such issuance equals 2% of the sum of the total number of common units and class A units after such issuance.

Right to Reset Incentive Distribution Levels

The holder of our incentive distribution rights, which will initially be our general partner, has the right under our partnership agreement to elect to relinquish the right to receive incentive distribution payments based on the initial cash target distribution levels and to reset, at higher levels, the minimum quarterly distribution amount and cash target distribution levels upon which the incentive distribution payments to our general partner would be set. If our general partner transfers all or a portion of our incentive distribution rights in the future, then the holder or holders of a majority of our incentive distribution rights will be entitled to exercise this right.

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Notwithstanding the foregoing, the general partner does not have the right to reset the minimum quarterly distributions payable to holders of our Class B Units or Class C Units without the consent of such holders. Upon a reset of the minimum quarterly distribution amount as set forth herein, holders of Class B Units shall continue to have the right to receive distributions equal to the greater of (i) $0.40 and (ii) the quarterly distribution payable to holders of common units for the most recently completed quarter, in each case multiplied by the number of common units into which such Class B Unit is then convertible, and holders of Class C Units shall continue to have the right to receive distributions equal to the greater of (i) $0.51 and (ii) the quarterly distribution payable to holders of common units for the most recently completed quarter, in each case multiplied by the number of common units into which such Class C Unit is then convertible.

The right to reset the minimum quarterly distribution amount and the target distribution levels upon which the incentive distributions are based may be exercised, without approval of our unitholders or the conflicts committee of the board of directors of our general partner, at any time when we have made cash distributions to the holders of the incentive distribution rights at the highest level of incentive distribution for the prior four consecutive fiscal quarters. The reset minimum quarterly distribution amount and target distribution levels are described below and will be higher than the minimum quarterly distribution amount and the target distribution levels prior to the reset and there will be no incentive distributions paid under the reset target distribution levels. We anticipate that the holder of our incentive distribution rights would exercise this reset right in order to facilitate acquisitions or internal growth projects that would otherwise not be sufficiently accretive to cash distributions per common unit, taking into account the existing levels of incentive distribution payments being made to such holder.

In connection with the resetting of the minimum quarterly distribution amount and the target distribution levels and the corresponding relinquishment of incentive distribution payments based on the target cash distributions prior to the reset, the holder of our incentive distribution rights will be entitled to receive a number of newly issued common units based on a predetermined formula described below that takes into account the cash parity value of the average cash distributions related to the incentive distribution rights received by such holder for the two quarters prior to the reset event, as compared to the average cash distributions per common unit during this period.

The number of common units that the holder of our incentive distribution rights would be entitled to receive from us in connection with a resetting of the minimum quarterly distribution amount and the target distribution levels then in effect would be equal to:

- the average amount of cash distributions received by the holder of our incentive distribution rights in respect of such rights during the two consecutive fiscal quarters ended immediately prior to the date of such reset election; *divided by*

- the average of the amount of cash distributed per common unit during each of these two quarters.

Following a reset election, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per class A unit and common unit for the two fiscal quarters immediately preceding the reset election (which amount we refer to as the reset minimum quarterly distribution) and the target distribution levels will be reset to be correspondingly higher such that we would distribute all of our available cash from operating surplus for each quarter thereafter as follows:

first, 2% to holders of our class A units and 98% to the holders of our common units, each pro rata, until each holder receives an amount per unit equal to 115% of the reset minimum quarterly distribution for that quarter;

second, 2% to the holders of our class A units and 85% to the holders of our common units, each pro rata, and 13% to our general partner, until each holder of our class A units and holder of our common units receives an amount per unit equal to 125% of the reset minimum quarterly distribution for the quarter;

third, 2% to the holders of our class A units and 75% to the holders of our common units, each pro rata, and 23% to our general partner, until each holder of our class A units and holder of our common units receives an amount per unit equal to 150% of the reset minimum quarterly distribution for the quarter; and

thereafter, 2% to the holders of our class A units and 50% to the holders of our common units, each pro rata, and 48% to our general partner.

The holder of our incentive distribution rights will be entitled to cause the minimum quarterly distribution amount and the target distribution levels to be reset on more than one occasion, provided that it may not make a reset election except at a time when it has received incentive distributions for the prior four consecutive fiscal quarters based on the highest level of incentive distributions that it is entitled to receive under our partnership agreement.

Distributions from Capital Surplus

We distribute available cash from capital surplus, if any, in the following manner:

first, *pari passu* (A) to the holders of Class B Units, Class D Units and Class E Units, pro rata, until (i) a hypothetical holder of a Class B Unit acquired on the date the Class B Units were initially issued has received with respect to such Class B Unit, during the period since the date the Class B Units were initially issued through such distribution date, distributions of available cash that are deemed to be capital surplus in an aggregate amount equal to the face value of the Class B Units set forth in the certificate of designation for the Class B Units and (ii) a hypothetical holder of a Class D Unit or Class E Units acquired on the date such units were initially issued has received with respect to such units, during the period since the date the such units were initially issued through such distribution date, distributions of available cash that are deemed to be capital surplus in an aggregate amount equal to the face value of the Class D Units and Class E Units set forth in the certificates of designation for such units, and (B) to the holders of class A units, pro rata, in an amount equal to 2.0202% of the amounts distributed with respect to the Class B Units pursuant to clause (A) above;

second, 2% to the holders of our class A units and 98% to the holders of Class C Units, pro rata, until a hypothetical holder of a Class C Unit acquired on the date the Class C Units were initially issued has received aggregate distributions of available cash that are deemed to be capital surplus in an amount equal to the face value of the Class C Units;

third, 2% to the holders of our class A units and 98% to the holders of our common units, pro rata, until distributions have been paid on each common unit from capital surplus in an aggregate amount equal to the initial unrecovered unit price (as defined below); and

after that, we will distribute all available cash from capital surplus as if it were from operating surplus.

Our partnership agreement treats a distribution from capital surplus as the repayment of an investment in our units, which we refer to as the unrecovered unit price. The initial unrecovered unit price will be equal to the average of the closing prices of an Atlas Resource Partners common unit on the NYSE for the five trading days immediately following the completion of the distribution. Any distributions from capital surplus after the distribution will reduce the unrecovered unit price. In addition, any distribution of capital surplus will also reduce the minimum quarterly distribution, the first target distribution, the second target distribution and the third target distribution, which we refer to in this document as target distribution levels. Each of the target distribution levels will be reduced in connection with a distribution of capital surplus to an amount equal to the then-applicable target distribution level multiplied by a fraction, the numerator of which is the unrecovered unit price immediately prior to such distribution of capital surplus, and the denominator of which is the unrecovered unit price immediately after such distribution of capital surplus.

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After the minimum quarterly distribution and the target distribution levels have been reduced to zero, we will treat all distributions of available cash from all sources as if they were from operating surplus. Because the minimum quarterly distribution and the target distribution levels will have been reduced to zero, our general partner will then be entitled to receive 50% of all distributions of available cash in its capacity as general partner and holder of the incentive distribution rights, in addition to any distributions to which it may be entitled as a holder of units.

Distributions from capital surplus will not reduce the minimum quarterly distribution or target distribution levels for the quarter in which they are distributed.

Adjustment of Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjustments made upon a distribution of available cash from capital surplus, we will proportionately adjust the minimum quarterly distribution, target distribution levels and any other amounts calculated on a per unit basis upward or downward, as appropriate, if any combination or subdivision of common units occurs. For example, if a two-for-one split of the common units occurs, we will reduce the minimum quarterly distribution and the target distribution levels.

We will not make any adjustment for the issuance of additional common units for cash or property.

We may also adjust the minimum quarterly distribution and the target distribution levels if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes. In this event, we will reduce the minimum quarterly distribution and the target distribution levels for each quarter after that time to amounts equal to the product of:

- the minimum quarterly distribution and each of the target distribution levels, and
- one minus the sum of:
  - the highest marginal federal income tax rate which could apply to the partnership that is taxed as a corporation plus
  - the effective overall state and local income tax rate that would have been applicable in the preceding calendar year as a result of the new imposition of the entity level tax, after taking into account the benefit of any deduction allowable for federal income tax purposes for the payment of state and local income taxes, but only to the extent of the increase in rates resulting from that legislation or interpretation.

For example, assuming we are not previously subject to state and local income tax, if we became taxable as a corporation for federal income tax purposes and subject to a maximum marginal federal, and effective state and local, income tax rate of 40%, then we would reduce the minimum quarterly distribution and the target distribution levels to 60% of the amount immediately before the adjustment.

Distributions of Cash Upon Liquidation

When we commence dissolution and liquidation, we will sell or otherwise dispose of our assets and adjust the partners capital account balances to reflect any resulting gain or loss. We will first apply the proceeds of liquidation to the payment of our creditors in the order of priority provided in our partnership agreement and by law. Then we will pay $26.03 per Class B Unit plus all unpaid distributions to the holders of the Class B Units, and $25.00 per Class D Unit and Class E Units plus all unpaid distributions to the holders of such units, in each case subject to adjustment. Then we will pay $23.10 per Class C Unit plus all unpaid distributions to the holders of the Class C Units, subject to adjustment. After that, we will distribute the proceeds to the other unitholders and our general partner in accordance with their capital account balances, as so adjusted.

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We maintain capital accounts in order to ensure that the partnership s allocations of income, gain, loss and deduction are respected under the Internal Revenue Code. The balance of a partner s capital account also determines how much cash or other property the partner will receive on liquidation of the partnership. A partner s capital account is credited with (increased by) the following items:

- the amount of cash and fair market value of any property (net of liabilities) contributed by the partner to the partnership, and
- the partner s share of book income and gain (including income and gain exempt from tax).

A partner s capital account is debited with (reduced by) the following items:

- the amount of cash and fair market value (net of liabilities) of property distributed to the partner, and
- the partner s share of loss and deduction (including some items not deductible for tax purposes).

Partners are entitled to liquidating distributions in accordance with their capital account balances. Upon our liquidation, any gain, or unrealized gain attributable to assets distributed in kind, will be allocated to the partners in the following manner:

- first, to our partners who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;
- second, 2% to the holders of our class A units and 98% to the holders of our common units, each pro rata, until the capital account for each common unit is equal to the sum of:
  - the unrecovered unit price, and
  - the amount of the unpaid minimum quarterly distribution for the quarter during which our liquidation occurs;
- third, 2% to the holders of our class A units and 98% to holders of our common units, each pro rata, until there has been allocated under this paragraph an amount per unit equal to:
  - the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence, less

the cumulative amount per unit of any distribution of available cash from operating surplus in excess of the minimum quarterly distribution per unit that was distributed 2% to the holders of our class A units and 98% to the holders of our common units, each pro rata, for each quarter of our existence;

fourth, 2% to the holders of our class A units and 85% to the holders of our common units, each pro rata, and 13% to the holders of the incentive distribution rights, until there has been allocated under this paragraph an amount per unit equal to:

the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence, less

the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that was distributed 2% to the holders of our class A units and 85% to the holders of our common units, each pro rata, and 13% to the holder of our incentive distribution rights for each quarter of our existence; and

fifth, 2% to the holders of our class A units and 75% to the holders of our common units, each pro rata, and 23% to the holder of our incentive distribution rights, until there has been allocated under this paragraph an amount per unit equal to:

the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence, less the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that was distributed 2% to the holders of our class A units and 75% to the holders of our common units, each pro rata, and 23% to the holder of our incentive distribution rights for each quarter of our existence; and

after that, 50% to the holders of our common units and 2% to the holders of our class A units, each pro rata, and 48% to the holder of our incentive distribution rights.

Upon our liquidation, any loss will generally be allocated to our general partner and the unitholders in the following manner:

first, 2% to the holders of our class A units and 98% to the holders of our common units, each pro rata, until the capital accounts of the common unitholders have been reduced to zero; and

after that, 100% to our general partner.

In addition, we will make interim adjustments to the capital accounts at the time we issue additional equity interests or make distributions of property. We will base these adjustments on the fair market value of the interests or the property distributed and we will allocate any gain or loss resulting from the adjustments to the unitholders and our general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive interim adjustments to the capital accounts, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional equity interests or our distributions of property or upon our liquidation in a manner which results, to the extent possible, in the capital account balances of our general partner equaling the amount which would have been our general partner s capital account balances if we had not made any earlier positive adjustments to the capital accounts.

Rationale for Our Cash Distribution Policy

Our cash distribution policy reflects a basic judgment, given our current asset base, that our unitholders will be better served by our distributing our available cash rather than our retaining it. It is the current policy of our general partner that we should increase our level of cash distributions per unit only when, in its judgment, it believes that:

we have sufficient reserves and liquidity for the proper conduct of our business, and

we can maintain such an increased distribution level for a sustained period.

The amount of available cash will be determined by our general partner for each calendar quarter after the distribution and will be based upon recommendations from our management. Because we believe that we will generally finance any expansion capital expenditures and investment capital expenditures from external financing sources, we believe that our unitholders are best served by our distributing all of our available cash. Our cash distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly.

Restrictions and Limitations on Our Ability to Make Distributions

We cannot guarantee that unitholders will receive cash distributions from us or that we can or will maintain any increases in our cash distributions. Our distribution policy may be changed at any time and is subject to certain restrictions, including:

Other than the obligation under our partnership agreement to distribute available cash on a quarterly basis, which is subject to our general partner s authority to establish reserves and other limitations, our unitholders have no contractual or other legal right to receive distributions;

Our general partner will have broad discretion to establish reserves for the prudent conduct of our business and for future cash distributions, and the establishment of those reserves could result in a reduction in cash distributions to you from the levels we currently anticipate pursuant to our stated distribution policy. Any determination to establish or increase reserves made by our general partner in good faith will be binding on the unitholders. We intend to reserve a portion of our cash generated from operations to fund our exploration and development capital expenditures. Over a longer period of time, if our general partner does not set aside sufficient cash reserves or make sufficient cash expenditures to maintain our asset base, we will be unable to pay the minimum quarterly distribution from cash generated from operations and would therefore expect to reduce our distributions. If our asset base decreases and we do not reduce our distributions, a portion of the distributions may be considered a return of part of our unitholders investment in us as opposed to a return on our unitholders investment;

Our ability to make distributions of available cash will depend primarily on our cash flow from operations, which will fluctuate primarily based on commodity prices, production volumes, investor funds raised and the number of wells we drill;

Even if we do not modify our cash distribution policy, the amount of distributions we pay and the decision to make any distribution will be determined by our general partner, taking into consideration the terms of our partnership agreement, our credit facility and any other debt agreements we may enter into in the future;

Under Section 17-607 of the Delaware Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities to exceed the fair value of our assets;

If and to the extent our cash available for distribution materially declines, we may reduce our distribution in order to service or repay our debt or fund expansion capital expenditures;

Our cash distribution policy is subject to restrictions on distributions under our credit facility and may be subject to restrictions under other debt agreements that we may enter into in the future. If we are unable to satisfy these restrictions, or if a default occurs under our credit facility (including a default of financial and other covenants), we would be prohibited from making cash distributions to our unitholders notwithstanding our stated cash distribution policy;

We may lack sufficient cash to pay distributions to our unitholders due to a number of factors, including the amount of natural gas and oil we produce, the price at which we sell our natural gas and oil, the level of our operating costs, our ability to acquire, locate and produce new reserves, results of our hedging activities, the number of wells we drill, the amount of funds we raise through our investment partnerships, the level of our interest expense, principal and interest payments on our outstanding debt, tax expenses, and the level of our capital expenditures. See Risk Factors for information regarding these factors;

Although our partnership agreement requires us to distribute our available cash, our partnership agreement may be amended with the approval of our general partner and a majority of our outstanding common units;

Prior to making any distribution on our common units, we will reimburse our general partner and its affiliates for all direct and indirect expenses they incur on our behalf. Our partnership agreement does not set a limit on the amount of expenses for which our general partner and its affiliates may be reimbursed. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our general partner by its affiliates. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. The reimbursement of expenses and payment of fees, if any, to our general partner and its affiliates will reduce the amount of cash available to pay cash distributions to our unitholders;

If and to the extent our cash available for distribution materially declines, we may reduce our distribution in order to service or repay our debt or fund growth capital expenditures;

Our ability to make distributions to our unitholders depends on the performance of our operating subsidiaries and their ability to distribute cash to us. The ability of our operating subsidiaries to make

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distributions to us may be restricted by, among other things, the provisions of existing and future indebtedness, applicable state partnership and limited liability company laws and other laws and regulations;

All available cash distributed by us from any source will be treated as distributed from operating surplus until the sum of all available cash distributed by us equals the cumulative operating surplus from the date that we began operations through the end of the quarter immediately preceding that distribution. We anticipate that distributions from operating surplus will generally not represent a return of capital. However, operating surplus, as defined in our partnership agreement, includes certain components that represent non-operating sources of cash, including a $60 million cash basket and working capital borrowings. Consequently, it is possible that distributions from operating surplus may represent a return of capital. For example, the $60 million cash basket would allow us to distribute as operating surplus cash proceeds we receive from non-operating sources, such as asset sales, issuances of securities and long-term borrowings, which would represent a return of capital. Distributions representing a return of capital could result in a corresponding decrease in our asset base. Additionally, any cash distributed by us in excess of operating surplus will be deemed to be capital surplus as the repayment of the initial investment in our units, which is similar to a return of capital. Distributions from capital surplus could result in a corresponding decrease in our asset base. We do not currently anticipate that we will make any distributions from capital surplus.

Our Cash Distribution Policy Limits Our Ability to Grow

Because we distribute our available cash, our growth may not be as significant as businesses that reinvest their available cash to expand ongoing operations. If we issue additional limited partnership units or incur debt to fund acquisitions and expansion and investment capital expenditures, the payment of distributions on those additional units or interest on that debt could increase the risk that we will be unable to maintain or increase our per unit distribution level. There are no limitations in our partnership agreement on our ability to issue additional units, including units ranking senior to the common units.

Our Ability to Grow is Dependent on Our Ability to Have Access to External Expansion Capital

Because we expect that we will distribute our available cash from operations to our unitholders each quarter in accordance with the terms of our partnership agreement, we expect that we will rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, to fund any expansion and investment capital expenditures and any acquisitions. As a result, to the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow. In addition, because we will distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest their available cash to expand their ongoing operations. To the extent that we issue additional units in connection with any expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our distribution levels. There are no limitations in our partnership agreement on our ability to issue additional units, except for the rights of the Class B, Class D and Class E Units to approve issuances of securities senior to such units (See Our Partnership Agreement Issuance of Additional Securities). The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which in turn may impact the available cash that we have to distribute to our unitholders.

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TAX CONSIDERATIONS

This section is a discussion of the material tax considerations that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Ledgewood, P.C., tax counsel to our general partner and us, insofar as it relates to matters of United States federal income tax law and legal conclusions with respect to those matters. This section is based upon current provisions of the Internal Revenue Code, existing and proposed regulations and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

The following discussion does not address on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds. Accordingly, we urge you to consult, and depend on, your own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to you of the ownership or disposition of common units.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Ledgewood and are based on the accuracy of the representations made by us.

We have not received, and will not request, a ruling from the IRS regarding any matter affecting us or prospective unitholders. Instead, we will rely on opinions of Ledgewood. Unlike a ruling, an opinion of counsel represents only that counsel s best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made here may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will result in a reduction in cash available for distribution to our unitholders and our general partner and thus will be borne indirectly by our unitholders and our general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, Ledgewood has not rendered an opinion with respect to the following specific federal income tax issues:

- the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read Tax Consequences of Unit Ownership Treatment of Short Sales);

- whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (please read Disposition of Common Units Allocations Between Transferors and Transferees); and

- whether our method for depreciating Section 743 adjustments is sustainable in certain cases (please read Disposition of Common Units Section 754 Election).

Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account its share of items of income, gain, loss and deduction of the partnership in computing its federal income tax liability, regardless of whether cash distributions are made to it by the partnership. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner s adjusted basis in its partnership interest.

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Section 7704 of the Internal Revenue Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the qualifying income exception, exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of qualifying income. Qualifying income includes income and gains derived from the transportation, storage, processing and marketing of crude oil, natural gas and products thereof. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than 2% of our current income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and our general partner and a review of the applicable legal authorities, Ledgewood is of the opinion that at least 90% of our current gross income constitutes qualifying income.

We have not received, and will not seek, a ruling from the IRS and the IRS has made no determination as to our status for federal income tax purposes or whether our operations generate qualifying income under Section 7704 of the Internal Revenue Code. Instead, we will rely on the opinion of Ledgewood that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below, we will be classified as a partnership for federal income tax purposes.

In rendering its opinion, Ledgewood has relied on factual representations made by us and our general partner. The representations made by us and our general partner upon which Ledgewood has relied are:

- Neither we nor our operating partnership or any operating subsidiary has elected or will elect to be treated as a corporation; and

- For each taxable year, more than 90% of our gross income will be income that Ledgewood has opined or will opine is qualifying income within the meaning of Section 7704(d) of the Internal Revenue Code.

If we fail to meet the qualifying income exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the qualifying income exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we were taxable as a corporation in any taxable year, either as a result of a failure to meet the qualifying income exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to the unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of our current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder s tax basis in his common units, or taxable capital gain, after the unitholder s tax basis in his common units is reduced to zero. Accordingly, taxation of us as a corporation would result in a material reduction in a unitholder s cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The discussion below is based on Ledgewood s opinion that we will be classified as a partnership for federal income tax purposes.

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Limited Partner Status

Unitholders who have become our limited partners will be treated as our partners for federal income tax purposes. Counsel is also of the opinion, based upon and in reliance upon those same representations set forth under Partnership Status, that

- assignees who have executed and delivered transfer applications and are awaiting admission as limited partners, and

- unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units,

will be treated as our partners for federal income tax purposes. As there is no direct authority addressing assignees of common units who are entitled to execute and deliver transfer applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, Counsel s opinion does not extend to these persons. Furthermore, a purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of common units unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those common units.

A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his or her status as a partner with respect to such units for federal income tax purposes. See Tax Consequences of Unit Ownership Treatment of Short Sales.

Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. These holders should consult their own tax advisors with respect to their status as our partners for federal income tax purposes.

Tax Consequences of Unit Ownership

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)

4. Summary of significant accounting policies (continued)

(l) Impairment of long-lived assets

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

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

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

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

(m) Severance indemnities

Severance payments made to employees are expensed as incurred.

(n) Taxes payable

- Income taxes

The provisions for income taxes in the statements of income for all periods presented have been computed on a separate return basis (i.e., assuming that the Company was not included in a consolidated income tax return). All income tax payments are made by the subsidiaries as required by the tax laws of the countries in which the subsidiaries operate. The Company records income taxes using the method required by RT 17.

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

- *Tax on minimum presumed income*

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

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

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)

4. Summary of significant accounting policies (continued)

- *Turnover tax*

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

(o) Other liabilities

Pension benefits

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

Retirement liabilities shown under other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability. Benefits consist of the payment of a single lump sum equal to one salary for each five years of service. There is no vested benefit obligation until the occurrence of those conditions. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement. The net periodic pension costs are recognized as employees render the services necessary to earn pension benefits. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as of June 30, 2005 and December 31, 2004.

Deferred revenue on sale of capacity

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

Court fee

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

(p) Litigation

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

(q) Derivatives

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

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

(r) Vacation expense

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

(s) Advertising costs

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

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Notes to the Unaudited Consolidated Financial Statements

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

4. Summary of significant accounting policies (continued)

(t) Exchange of debt instruments

Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment and that the old debt instrument be derecognized. Argentine GAAP clarifies that from a debtor s perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument should be initially recorded at fair value and that amount should be used to determine the debt extinguishment gain or loss to be recognized. Fair value should be determined by the present value of the future cash flows to be paid under the terms of the new debt instrument discounted at a rate commensurate with the risks of the debt instrument and time value of money.

(u) Results on debt restructuring

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

5. Breakdown of the main accounts

(a) Cash and banks

Cash and banks consist of the following:

	As of	**As of**

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

(b) Investments

Investments consist of the following:

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

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

(c) Accounts receivable

Accounts receivable consist of the following:

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

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

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

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Notes to the Unaudited Consolidated Financial Statements

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

5. Breakdown of the main accounts (continued)

(d) Other receivables

Other receivables consist of the following:

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

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

(e) Inventories

Inventories consist of the following:

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

(f) Other assets

Other assets consist of the following:

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

(g) Accounts payable

Accounts payable consist of the following:

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

(h) Salaries and social security payable

Salaries and social security payable consist of the following:

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

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Notes to the Unaudited Consolidated Financial Statements

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

5. Breakdown of the main accounts (continued)

(i) Taxes payable

Taxes payable consist of the following:

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

(i) Corresponds to the Company and Nucleo.

(j) Other liabilities

Other liabilities consist of the following:

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

(k) Net sales

Net sales consist of the following:

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

(l) Equity gain from related companies

Equity gain from related companies consists of the following:

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

(m) Financial results, net

Financial results, net consist of the following:

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

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Notes to the Unaudited Consolidated Financial Statements

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

5. Breakdown of the main accounts (continued)

(n) Other expenses, net

Other expenses, net consist of the following:

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

(o) Results on debt restructuring

Results on debt restructuring consist of the following:

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

6. Supplementary cash flow information

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

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

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

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

Changes in assets/liabilities components:

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

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

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

Non-cash investing and financing activities:

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

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

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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 as cash equivalents in the statement of cash flows:

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

Financing activities components:

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

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

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

7 - Related party transactions

(a) Controlling group

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

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

(b) Balances and transactions with related parties

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

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

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

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

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

7 - Related party transactions (continued)

		Six-month periods ended	
	Transaction description	**June 30, 2005**	**June 30, 2004**
Services rendered:			
Entel Chile S.A. (a) (c)	International inbound calls	$ 5	$ 3
Telecom Italia Sparkle S.p.A. (a)	International inbound calls	3	
Golden Lines (a)	International inbound calls	1	
Telecom Italia S.p.A. (a)	International inbound calls		1
Latin American Nautilus (a) (e)	International inbound calls		1
Entel PCS Telecomunicaciones S.A. (a)	Roaming	3	2
Telecom Italia Mobile S.p.A. (a)	Roaming	2	2
TIM Celular S.A. (a)	Roaming		1
TIM Brasil Servicio e Participacoes S.A. (a)	Roaming	2	
Retevisión Móvil S.A. (a)	Roaming	1	
Total net sales		**$ 17**	**$ 10**
Services received:			
Nahuelsat (f)	Rental expenses	$ 4	$ 4
Intelsat Ltd. (g)	Rental expenses	1	1
Telecom Italia Argentine branch (a)	Fees for services	1	1
Telecom Italia S.p.A. (a)	International outbound calls	6	2
Tel3 S.A. (a) (d)	Fees for services	8	4
Entel Chile S.A. (a) (c)	International outbound calls	5	4
Entel S.A. (Bolivia) (a)	International outbound calls	2	1
Etec S.A. (Cuba) (a)	International outbound calls	3	1
La Caja ART S.A. (b)	Insurance	1	1
Caja de Seguros S.A. (b)	Insurance	1	
Telecom Italia Sparkle S.p.A. (a)	International outbound calls	4	
Golden Lines (a)	International outbound calls	1	
Telecom Italia Mobile S.p.A. (a)	Roaming	5	1
Entel PCS Telecomunicaciones S.A. (a)	Roaming	1	
TIM Brasil Servicio e Participacoes S.A. (a)	Roaming	1	
Italtel S.p.A. (a)	Maintenance, materials and supplies	1	2
Teco Soft Argentina S.A. (a)	Fees for services		3
Latin American Nautilus (a) (e)	International outbound calls and lease of circuits		3

Total operating costs	**$ 45**	**$ 28**

	Six-month periods ended	
Transaction description	**June 30, 2005**	**June 30, 2004**
Purchases of fixed assets/intangible assets:		
Tel3 S.A. (a) (d)	3	1
Pirelli Energía Cables y Sistemas de Argentina S.A.(a) (d)	6	1
Total fixed assets and intangible assets	**$ 9**	**$ 2**

(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) This company was a related party until April 1, 2005.
(d) These companies were a related party until July 28, 2005.
(e) The Company had 10% of the capital stock in such company.
(f) The Company has 5.75% of the capital stock in such company.
(g) The Company had 0.15% of the capital stock in such company.

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 June 30, 2005, Telecom Argentina had loans outstanding to two officers of Telecom Argentina, totaling $0.5. The annual interest fixed rate for these loans is 6%.

8 - Debt

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

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

	As of June 30, 2005	As of December 31, 2004
Short-term debt:		
- Principal:		
Notes	$ 4,671	$ 5,353
Bank loans	1,148	1,177

Fixed assets financing	1,387	1,475
Subtotal	7,206	8,005
- Accrued interest	1,381	1,259
- Penalty interest	213	170
Total short-term debt	**$ 8,800**	**$ 9,434**
Long-term debt:		
- Principal:		
Bank loans	$ 1,158	$ 1,260
Gain on discounting of debt	(31)	(41)
Total long-term debt	**1,127**	**1,219**
Total debt	**$ 9,927**	**$ 10,653**

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

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

8 - Debt (continued)

As of June 30, 2005, Personal and Nucleo s debt had been restructured while the reviewing court approved Telecom Argentina s debt restructuring proposal in May 2005, and it is actually in the final stage. As of June 30, 2005, the total restructured debt and in-process restructuring debt is as follows:

	Telecom Argentina	Personal	Nucleo	Eliminations	Consolidated as of June 30, 2005
Restructured debt					
♦ Principal		1,181	79	(88)	1,172
♦ Accrued interest		23		(1)	22
Subtotal		1,204	79	(89)	1,194
♦ Gain on discounting of debt		(45)		14	(31)
Total (8.2)		1,159	79	(75)	1,163
n Current		37		(1)	36
n Non current		1,122	79	(74)	1,127
In-process restructuring debt					
♦ Principal	7,192				7,192
♦ Accrued interest	1,359				1,359
♦ Penalty interest	213				213
Total (8.3)	8,764				8,764
Total debt	8,764	1,159	79	(75)	9,927
n Current	8,764	37		(1)	8,800
n Non current		1,122	79	(74)	1,127

The Company had segregated certain amounts into time deposits with foreign financial institutions in order to have sufficient funds to satisfy the payments of principal and interest under its debt restructuring proposals. The Company previously obtained all necessary approvals from the regulatory authorities to remit and maintain these funds abroad. As of June 30, 2005, the Company has an aggregate remaining amount of $3,594 on deposit (US$ 581 million, Euro 533 million and Japanese Yen 2,230 million).

8.2. Restructured debt

As further described below, Personal and Nucleo restructured their outstanding debt representing 12% of the total Company s indebtedness as of June 30, 2005, as follows:

(a) Personal

In November 2004 Personal completed the restructuring of its debt which comprised of a reduction in principal and interest, a cash payout and the extension of maturity of the remaining indebtedness for a total amount of approximately US$ 413 million of which, on April 15, 2005, Personal made a prepayment to holders of the new loans for an aggregate amount of US$ 4 million, that will be applied to pay the full amount of the scheduled amortization payments on the new loans payable on April 15, 2005 and October 15, 2005 and a portion of the scheduled amortization payments on the new loans payable on April 15, 2006. Likewise, Personal made an additional optional prepayment for an aggregate amount of US$ 5 million, payable on April 15, 2006. The outstanding debt is comprised of the following:

	US$	Equivalent in Argentine pesos	Interest rate (i)	Maturity date
Series A	43	124	5.53% - 8%	October 2014
Series B	361	1,043	9%, 10% and 11%	October 2011
Total principal	**404**	**1,167**		

(i) Escalated interest rates for US dollar denominated notes see table below for escalated interest rates for other currencies denominated 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. Based on the opinion of an external financial expert, the restructured debt has been discounted to its present value using a discount rate of 11%.

(b) Nucleo

In November 2004, Nucleo completed the restructuring of its outstanding indebtedness with foreign creditors. Foreign creditors agreed to an extension of maturity to December 2008 and the forgiveness of accrued penalty interest.

The restructured debt with local creditors accrues interest at an annual fixed interest rate of 7.125% while the restructured debt with foreign creditors accrues interest at a variable interest rate of three-month LIBOR plus 4.5%.

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

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

8 - Debt (continued)

In March 2005, Nucleo made a prepayment to holders of the new loans for an aggregate amount of US$ 8.5 million, that will be applied to pay the full amount of the scheduled amortization payments on the new loans payable on December 27, 2005 and a portion of the scheduled amortization payments on the new loans payable on June 27, 2006, December 27, 2006, June 27, 2007, December 27, 2007 and ´June 27, 2008 plus the accrued interests as of that dates.

In May 2005, Nucleo made an additional optional prepayment for an aggregate amount of US$ 6.5 million plus the accrued interests as of that date. In June 2005, Nucleo made an additional optional prepayment for an aggregate amount of US$ 2 million plus the accrued interests as of that date. These additional prepayments were applied to pay the full amount of the scheduled amortization payments on the new loans payable on June 27, 2006 and December 27, 2006 and a portion of the scheduled amortization payments on the new loans payable on June 27, 2007, December 27, 2007, June 27, 2008 and December 27, 2008.

8.3. In-process restructuring debt

(a) Background

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

Following the debt restructuring of Personal and Nucleo as described above, the only in-process debt restructuring indebtedness of the Telecom Group is the one pertaining to Telecom Argentina. As of June 30, 2005, the in-process restructuring debt aggregated $8,764. Of the total amount of the outstanding debt, $6,097 is due (including principal amounts for US$ 850 million, Euro 793 million, Japanese yen 7,548 million and $75; and interest amounts for US$ 32 million, Euro 133 million, Japanese yen 648 million and $17) and $2,667 is payable on demand.

The outstanding debt of Telecom Argentina is comprised of the following:

ü Short-term and Medium-term Notes Programs

Telecom Argentina issued various series of notes under short-term and medium-term global note programs (the Notes). These programs were approved by shareholders general meetings which authorized the Board of Directors to determine the respective terms and conditions of the Notes, including amount, price, interest rate and currency. These global programs and the Notes issued thereunder were ranked by Argentine rating agencies.

The terms and conditions of the various series of Notes contain customary affirmative and negative covenants, including, but not limited to, limitations on creation of liens on assets and/or revenues of Telecom Argentina, mergers and others.

The terms and conditions of the Notes and loan agreements issued by Telecom Argentina contain certain clauses, which provided for events of default, such as the following:

- Failure to pay principal or interest at maturity;
- Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of Telecom Argentina or its material subsidiaries, which equals or exceeds an aggregate amount of US$20 million;
- Telecom Argentina s written notice of its inability to pay its debts as they mature;
- Any final judgment providing for the payment of an aggregate amount exceeding US$20 million; and
- Telecom Argentina s or its material subsidiaries voluntary petition for bankruptcy, special bankruptcy proceedings (*Concurso Preventivo*) or similar judicial or extrajudicial reorganization arrangements.

As a result of the defaults, the bondholders and lenders were entitled, at their option, to request the acceleration of all principal and accrued interest outstanding as of the date of the defaults. As of the date of these financial statements, Telecom Argentina has received notices of acceleration from certain lenders representing loan amounts exceeding US$ 20 million. As a consequence, the total outstanding debt has been classified as current liabilities in these consolidated financial statements.

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

Notes to the Unaudited Consolidated Financial Statements

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

8 - Debt (continued)

In addition, the indentures and loan agreements provide for a penalty interest rate in the event that payments are not made when due. Such penalty interest ranged from an average 2% to 5% per year.

The following table shows the outstanding series of Notes under the programs as of June 30, 2005:

Global program	Date of issue	Nominal value (in millions)	Term, in years	Maturity date	Annual interest rate (i)	Book value at June 30, 2005	Market value at June 30, 2005
Program B:							
Series C	11.15.95	US$ 200	7	11.15.02	12.00	336	333
Series E (a)	5.5.97	US$ 100	8	5.5.05	6.56	289	280
Series F (c)	5.30.97	Euro 207	10	5.30.07	8.87	661	649
Series H (b) (c)	3.18.98	Euro 207	10	3.18.08	3.68	655	631
Series I	4.8.99	Euro 200	5	4.8.04	8.37	651	681
Series K	7.1.99	Euro 250	3	7.1.02	7.25	717	754
Program D:							
Series 1	4.7.00	Euro 250	3	4.7.03	7.62	784	626
Series 2	7.2.01	Euro 190	3	7.2.04	9.50	578	565
					Principal	**4,671**	**4,519**
					Accrued interest	1,034	
					Penalty interest	114	
						5,819	

(i) Percentages have been rounded.
(a) Accrue interest at LIBOR plus 3.125%. (*)
(b) Accrue interest at 6-month LIBOR plus 1.5%. (*)
(c) Originally issued in Italian Lira.
(*) As of June 30, 2005, LIBOR was 3.71%.

- Global Program B

Telecom Argentina has six series of Notes outstanding under Global Program B, with several maturity dates as shown in the table above. As of June 30, 2005, an amount of $4,095 is outstanding under the program. The net proceeds of the Notes were used to refinance debt and meet working capital needs.

- Global Programs C and D

Telecom Argentina was authorized to create a short-term note program and a medium-term note program, C and D, respectively, for the issuance and re-issuance of unsecured non-convertible notes for up to US$ 200 million and US$ 1,500 million, respectively. As of June 30, 2005, two series (1 and 2) are outstanding under Global Program D for an aggregate amount of $1,724. The net proceeds of the Notes were used to refinance debt and meet working capital needs.

ü **Bank loans**

These include term loans payable to various banks, bearing an annual weighted average rate of 5.52%.

ü **Fixed assets financing**

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 5.70%. The most significant are:

Mediocredito Centrale:

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

The Argentine Government remains the debtor to the Mediocredito Centrale; however, Telecom Argentina assumes the obligation to service the debt. In the event Telecom Argentina fails to pay the loan installments, and the Argentine Government has to settle the obligations, Telecom Argentina s debt towards the Argentine Government may be offset against receivables for services rendered to certain governmental agencies. As of June 30, 2005, an amount of approximately $146 (principal plus accrued and penalty interests) or Euro 41 million is outstanding under the agreement.

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8 - Debt (continued)

Japan Bank for International Cooperation:

On June 29, 1998, Telecom Argentina entered into a credit line agreement with the Japan Bank for International Cooperation (JBIC) for a loan of up to Japanese yen 12,000 million due June 15, 2010 of which Japanese yen 11,652 million were used. As of June 30, 2005, an amount of approximately $330 (principal plus accrued and penalty interest) is outstanding under the agreement.

(b) Filing of the APE with the Argentine courts

On June 22, 2004, Telecom Argentina filed a Registration Statement with the SEC in connection with the solicitation to grant powers of attorney or commitments to approve and execute an APE. Like documents were also filed with the CNV and the *Commissione Nazionale per le Societá e la Borsa* (CONSOB) (the Italian Securities Commission). The registration statements were partially amended on July 9, 2004.

Given that Telecom Argentina failed to obtain the consent of more than 95% of unsecured financial creditors, it was compelled, under the terms of the solicitation, to request court approval of the agreement.

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

The in-process restructuring debt comprises the unsecured creditors of Telecom Argentina as of August 31, 2004 which totaled $8,868 million as of that date (equivalent to US$ 2,959 million translated at the applicable exchange rate as of August 31, 2004). An amount of US$ 2,880 million out of the total US$ 2,959 million represents unsecured financial indebtedness while the remaining US$ 79 million represents unsecured commercial indebtedness.

On October 21, 2004, after reaching a level of consent of 82.35% of the total creditors representing 94.47% of the total financial indebtedness of Telecom Argentina as of August 31, 2004, the executive APE was filed with the reviewing court for approval.

Pursuant to the terms of the APE, Telecom Argentina proposed to restructure all of its outstanding unsecured financial indebtedness through different options including the issuance of new unsecured non-convertible notes (the New Notes) and/or cash payments. The unsecured commercial indebtedness will be paid in accordance with its original terms and conditions.

On November 2, 2004, the Shareholders Meeting of Telecom Argentina approved the issuance of the New Notes for up to a maximum amount of US$ 1,872 million or its equivalent in other currencies for the purpose of the refinancing of its unsecured financial indebtedness as further explained below. The total amount to be issued, denominated in US dollars, may be higher or lesser depending on the fluctuation of the US dollar and the foreign exchange rates of the Notes.

The equivalent dollar amounts were determined based on (1) the applicable exchange rate in force as of the reference date (August 4, 2004) and (2) the corresponding adjustment based on the CER Index.

Provided the conditions are met and approvals obtained, 47% of the New Notes will be Series A Notes and 53% will be Series B Notes, according to the options selected by consenting noteholders. For each US$ 1,058 of outstanding debt (which includes a capitalized interest coefficient factor as defined in the APE) consenting noteholders will receive the payment options as described in the table below:

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

(i) Noteholders who selected Option B will have 37.5% of their outstanding debt allocated to Option C.

The APE provides that non-consenting creditors will receive consideration in the form of Series A Notes, or such other consideration as is ordered by the reviewing court.

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8 - Debt (continued)

Series A Notes will be due in 2014 and Series B Notes will be due in 2011. Series A Notes and Series B Notes will be further split into listed and unlisted notes. Series A-1 and B-1 listed notes (collectively the New Listed Notes) will be issued in exchange for outstanding Notes. Series A-2 and B-2 unlisted notes (collectively the New Unlisted Notes) will be issued in exchange for outstanding loans and loan commissions.

Series A-1 Notes may be dollar- or euro-denominated listed notes. Series A-2 may be 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 will be 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.

On November 26, 2004 the Shareholders Meeting of Telecom Argentina ratified the filing of the APE for court approval and further resolved that the proceedings will continue. Such Shareholders Meeting further authorized to file the proposal with foreign courts to the extent applicable or advisable to Telecom Argentina.

From the date the APE was filed, the reviewing court has been requesting Telecom Argentina to produce additional documentation which Telecom Argentina submitted in due course.

On February 4, 2005, the reviewing court called for a meeting of consenting noteholders. All of the creditors who attended the meeting voted in favor of the restructuring proposal described in the APE and ratified the form of consideration to be paid, assuming the APE is approved by the reviewing court.

On February 25, 2005, under the applicable laws and regulations, the reviewing court ordered the opening of the APE process and the publication of notices in order for the creditor opposition period to start. As an additional security to the creditors, certain property of Telecom Argentina was restricted as to disposal. The net carrying value of these assets amounted to $877 as of June 30, 2005.

Having expired the term for filing any oppositions, four oppositions filed by the Argentine tax authority (the AFIP), a Provincial tax authority and two individuals who purport to be bondholders were received. The Company answered all four oppositions and requested that each be dismissed for lack of any merit. On May 26, 2005 the Court rejected all the oppositions and approved the APE. As ordered by the court, Telecom published notices in widely circulated national and foreign newspapers informing non-consenting creditors of the court s decision to permit them to select among any of the options offered by Telecom in its APE, within ten (10) court days following the last publication of notices. The Court had provided that non-consenting creditors that do not submit an election before the Court within such timeframe would be allocated to Option A.

The non-consenting creditors that decided to select any of the options offered by Telecom represented US$ 4.7 million of the total outstanding debt and elected Option B for US$ 4.4 million and Option A for US$ 0.3 million.

The Company is at present taking all the necessary steps to execute the APE. The consideration proposed in the APE is at the entire disposition of the totality of its financial creditors; to that effect, the issuance of Series A and Series B Notes listed with the Buenos Aires Stock Exchange (BCBA) and the CNV is to be approved, and the necessary presentations are being filed with the corresponding foreign regulatory entities.

Under the court reviewing process, Telecom Argentina is subject to a court fee of 0.25% levied on the total amount of restructured debt. In the opinion of legal counsel, the court fee accrues as from the commencement of the reviewing process. The fee will be payable in up to one hundred and ten monthly installments with an annual interest rate of 6%. Accordingly, Telecom Argentina accrued a total amount of $22, of which $20 was classified as non-current other liabilities during fiscal year 2004.

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8 - Debt (continued)

Moreover, Standard & Poors International Ratings and Fitch Ratings have assigned an international rating of B- for the notes that will be issued as consideration of the APE.

Telecom Argentina expects that the restructuring process will be successfully completed by the third quarter of 2005. If completed, the debt restructuring process will likely have a significant positive impact on the balance sheet and the statement of income.

(c) Legal actions brought against Telecom Argentina

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

Telecom Argentina was also served notice of three involuntary bankruptcy petitions.

As a result of the APE reviewing process, all of the proceedings mentioned above against Telecom Argentina have been stayed. Once court approval has been granted, the decision of the court shall apply to the claims mentioned.

8.4. Covenants of the New Notes (to be issued by Telecom Argentina as described above) and the restructured debt of Personal and Nucleo

Mandatory prepayments

If the relevant company has generated Excess Cash (calculated pursuant to the relevant debt instrument), then such company shall apply the Excess Cash, on a semi-annual basis, to make payments on the relevant debt instrument. Telecom Argentina and Personal may make payments on the remaining scheduled installments of their debt instruments in direct order of maturity, or, at the company s option, retire the debt instruments through open market purchases or pro-rata prepayments. Prior to making any such payment with Excess Cash, each of Telecom Argentina and Personal is permitted to retain a specific portion of the Excess Cash to supplant the company s existing cash balance and to retain a specific portion of the Excess Cash for specified uses relating to the operation of its business. Excess cash payments under Nucleo s loans are to be applied in direct order of maturity as specified therein.

Excess cash shall be measured semi-annually based on the financial statements as of June 30 and as of December 31 of each year, and any excess cash must be applied no later than the due date of the amortizations immediately subsequent to each June 30 or December 31, respectively.

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.

Reinvestment of Personal and Nucleo distribution payments

If Personal and/or Nucleo makes any distribution payment (as defined in the indenture governing of the Notes, including but not limited to the payment of dividends) the aggregate amount of payments is required to be reinvested in the paying entity.

Negative covenants

The terms and conditions of the Telecom Argentina s New Notes as well as the terms of the restructured debt of Personal and Nucleo require that the companies comply 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 the relevant company meets a specified indebtedness/EBITDA ratio: (i) with respect to Telecom Argentina and its restricted subsidiaries (other than Personal and its subsidiaries), 2.75 to 1 or, if any specified adjustment event has occurred, 2.25 to 1, (ii) with respect to Personal and its restricted subsidiaries (other than Nucleo and its subsidiaries), 2.25 to 1 and (iii) with respect to Nucleo and its subsidiaries, 2.00 to 1, in addition to certain other conditions;

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8 - Debt (continued)

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 and the Personal loans, specific limits are imposed on the amount and conditions of loans that may be made by Telecom Argentina to Personal and by Personal to Nucleo. These restricted payments covenants also restrict the ability of Personal and Nucleo to make loans to their respective parent companies (Telecom Argentina and 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) With respect to Nucleo, maintenance of certain financial ratios.

In the case of Telecom Argentina and its restricted subsidiaries, the negative covenants mentioned above will come into effect as soon as the New Notes are issued. However, in accordance with the terms of the APE agreement, until the date of issuance of the New Notes, the Company has agreed to meet the negative covenants as if the New Notes had been issued, except for certain cases as expressly defined in the APE.

8.5. Events of default for Telecom Argentina, Personal and Nucleo

The terms and conditions of the Telecom Argentina s New Notes as well as the terms of the restructured debt of Personal and Nucleo 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 in the case of Telecom Argentina and Personal and US$2 million (if any payment default exists) or US$ 3 million (if any other default that results in acceleration exists) in the case of Nucleo;

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

(iv) Any final judgment against Nucleo providing for the payment of an aggregate amount exceeding US$ 4 million;

(v) Telecom Argentina, Personal or Nucleo voluntary petition for bankruptcy, special bankruptcy proceedings or out-of-court reorganization agreements and,

(vi) Any event or condition which results in the revocation or loss of the licenses held by either Telecom Argentina, Personal and/or Nucleo and/or any of their 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, Personal or Nucleo, or, if applicable, any of their restricted subsidiaries, then Telecom Argentina, Personal or Nucleo shall be in default under the New Notes and the new loan agreements, as applicable. 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.

8.6. Measurement and classification of liabilities

Penalty and post-default interest increases

The debt of Telecom Argentina under restructuring contemplated the payment of penalty interest in the event of default. Accordingly, the Company recorded penalties and post-default interest increases for approximately $213 as of June 30, 2005. This amount is included in the line item debt in the balance sheet.

However, the Company s legal counsel believes that based on the facts that (i) the APE does not prescribe the payment of penalty interest and (ii) the forgiveness of the penalty interest of Personal and Nucleo aggregating $37 as of December 31, 2004, it is more likely than not that Telecom Argentina will not have to pay the penalties and post default interest increases contemplated by the indentures and loan agreements governing its outstanding debt if the APE restructuring is completed successfully.

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8 - Debt (continued)

Denomination of Telecom Argentina s debt

As discussed above, as of June 30, 2005 and December 31, 2004, a substantial portion of Telecom Argentina s outstanding debt is foreign-currency denominated and governed by foreign law. Notwithstanding the economic crisis in Argentina and subsequent devaluation and pesification, Telecom Argentina recorded its outstanding debt at their respective original foreign currencies since Telecom Argentina expects to complete the debt restructuring successfully.

If the APE restructuring plan is not completed on terms favorable to Telecom Argentina or not completed at all, management would have to analyze different courses of action which may include the pesification of foreign-currency denominated debts governed by foreign law.

Notwithstanding the foregoing, and taking into account the restructuring proposals made to Telecom Argentina s creditors and the APE, management has decided to honor the original currencies of its foreign-currency denominated liabilities.

9 - Shareholders equity

(a) Common stock

At June 30, 2005, the Company has 502,034,299 authorized, issued and outstanding shares of $1 par value Class A Common Stock, 436,323,992 shares of $1 par value Class B Common Stock and 46,022,687 shares of $1 par value Class C Common Stock. Common stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

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

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

(b) Restrictions on distribution of profits

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

(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, of which 52,415,411 were converted. In May 2000, the employees sold 50,663,377 shares through an international and national bid.

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

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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. As of the date of these financial statements, these elections have not yet been called.

(d) Rueda Reducida trading

As a result of the default situation described in Note 8, the BCBA decided to transfer the trading of the Company s notes to the so-called *Rueda Reducida* status, a special trading status of the BCBA for companies experiencing certain adverse financial conditions. In addition, since the Company s accumulated losses have absorbed its reserves and at least 50% of the Company s share capital, the BCBA has also decided to transfer the trading of the Company s common stock to the Rueda Reducida status.

(e) Mandatory reduction of capital

Under section 206 of the Argentine Companies Law, if at the annual shareholders meeting, a company s losses have absorbed its reserves and at least 50% of the share capital, a company is required to reduce its capital stock. Further, under paragraph 5 of section 94, if a company shareholders equity is negative, a company is required to commence dissolution proceedings unless its shareholders take action (either by making a capital contribution or authorizing the issuance of additional shares of the company) resulting in positive shareholders equity within 90 days of such annual shareholders meeting. Since the Company reported significant losses for the year ended December 31, 2004, which absorbed the Company s reserves and significantly reduced its shareholders equity, the Company qualifies for mandatory reduction of capital. This situation was maintained as of June 30, 2005.

The requirements of section 206 and paragraph 5 of section 94 had been temporarily suspended by a governmental decree until December 10, 2004. In May 2005, the government has formally issued an extension until December 10, 2005.

The Board of Directors will inform the shareholders to take actions as appropriate to remediate the situation described above.

10. Income tax

Income tax (expense) benefit for the six-month periods ended June 30, 2005 and 2004 consists of the following:

	Six-month periods ended June 30,	
	2005	2004
Current tax expense	$ (14)	$ (4)
Deferred tax benefit (expense)	11	(4)
Income tax expense	**$ (3)**	**$ (8)**

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 June 30, 2005	As of December 31, 2004
Tax loss carryforwards	$ 1,295	$ 1,573
Foreign exchange gains and losses	120	161
Allowance for doubtful accounts	75	78
Provision for contingencies	103	82
Other deferred tax assets, net	207	241
Fixed assets	(229)	(293)
Inflation adjustments (i)	(1,027)	(1,152)
Subtotal deferred tax assets	**$ 544**	**$ 690**
- Valuation allowance	(538)	(695)
Net deferred tax assets (liabilities)	**$ 6**	**$ (5)**

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

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10. Income tax (continued)

Income tax (expense) benefit for the six-month periods ended June 30, 2005 and 2004 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:

	Six-month periods ended June 30,	
	2005	**2004**
Income tax (expense) benefit at statutory income tax rate on pretax income (loss)	$ (162)	$ 77
Non taxable items	12	2
Tax payable (Note 12 c)	(10)	
Change in valuation allowance	157	(87)
Income tax expense	**$ (3)**	**$ (8)**

As of June 30, 2005, the Company has accumulated operating tax loss carryforwards of approximately $1,295. The following table details the operating tax loss carryforwards segregated by company and expiration date:

Expiration year	**Telecom Argentina**	**Publicom**	**Personal**	**Total consolidated**
2007	1,117		141	1,258
2008		2		2
2009	34	1		35
Total	**1,151**	**3**	**141**	**1,295**

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

The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Based on a number of factors, including the Argentine Government s interpretation of the Decree as described above, the current expiration period of tax loss carryforwards (5 years) and the fact that the Company anticipates insufficient future taxable income over the periods in which tax assets can be applied, management believes that there is sufficient uncertainty regarding the realization of a significant portion of its net deferred tax assets that, as of June 30, 2005, a valuation allowance has been provided for Telecom Argentina and Personal s related net deferred tax assets. The Company will continue to monitor the need for a change in the valuation allowance that has been provided.

(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.

In 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 and liabilities reported in the financial statements and the related tax basis amounts. Accordingly, following the guidelines of RT 17 and related interpretations, the Company has treated the differences between the tax basis and indexed book basis of non-monetary items as temporary from year 2002.

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

In 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 July 2004, the FACPCE and the CPCECABA have worked on a proposal for the modification of Argentine GAAP that would propose the two alternative approaches for the accounting treatment of the mentioned differences.

11. Modification of the terms of issuance of Argentina 2004 Bonds

In May 2001, the Argentine Government enacted Decree No. 424/01 obligating companies to purchase certain treasury bonds (Argentina 2004 Bonds or Patriotic Bonds). Accordingly, Telecom Argentina purchased approximately US$ 30 million of such bonds. Telecom Argentina intended to hold the securities to maturity in May 2004. Pursuant to the terms of issuance, these securities could be exchanged for tax certificates (CEOI) to settle federal tax obligations. A subsequent decree suspended this possibility and introduced certain significant changes to the regime. These changes included but were not limited to the establishment of monthly limits to the settlement of tax liabilities through the use of CEOI. In April 2004, the Argentine Government terminated the regime and conditioned its continuance upon the restructuring of the country s sovereign debt.

Telecom Argentina filed administrative claims seeking nullification of the decrees, which claims were rejected by the government.

As of June 30, 2005, Telecom Argentina has Argentina 2004 bonds outstanding for an aggregate amount of $79 (US$ 27 million) which could have been exchanged for CEOI. Based on the facts and circumstances described above, management recognized an other-than-temporary impairment loss of $56 to carry the securities at fair value.

Management together with legal counsel evaluated alternative courses of action and finally resolved to participate in the sovereign debt exchange proposed by the Argentine Government. In June 2005, Telecom Argentina exchanged Argentina 2004 bonds for new peso and dollar denominated Discount Bonds.

12. Commitments and contingencies

(a) Purchase commitments

The Company has entered into various purchase commitments aggregating approximately $195 as of June 30, 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 Department of Communications 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 aimed at developing the telecommunications sector in Argentina. Banco de Inversion y Comercio Exterior (BICE) was designated as Trustee of the Fund. The Fund is aimed at, among others:

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

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

(c) Contingencies

The Company is a party to several civil, tax, commercial and labor proceedings and claims that have arisen in the ordinary course of its business. The Company has established reserves for an aggregate amount of $292 to cover potential losses under these claims.

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

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12. Commitments and contingencies (continued)

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 June 30, 2005, labor lawsuits in this connection amounted to $17.

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 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 million as principal and $24.8 million as interest.

Under Argentine GAAP, the above referenced payment does not meet the criteria to be recognized as a tax credit. Thus, as of June 30, 2005, Telecom Argentina has recorded a tax liability amounting to $34.2 million against a charge to income taxes of $9.4 million and financial results, net (interest generated by liabilities) of $24.8 million in the statement of income.

Telecom Argentina has a contingent receivable against the National Government amounting to $34.2 million which Telecom Argentina estimates it would be recovered 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 million 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 alledged 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.

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12. Commitments and contingencies (continued)

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.

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 courts alleging the unconstitutionality of certain resolutions issued by the Department of Communications. 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 June 30, 2005, these restricted funds totaled $8. The Company has reclassified these balances to other receivables on the Company s balance sheet.

13. 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 following 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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13. Segment information (continued)

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

q ***Income statement information***

	Voice, data and Internet	Wireless	Directories publishing	Total
Handsets		132		132
Services	1,391	1,055	7	2,453
Net sales	**1,391**	**1,187**	**7**	**2,585**
Salaries and social security	(272)	(51)	(6)	**(329)**
Turnover tax	(47)	(52)		**(99)**
Maintenance, materials and supplies	(96)	(38)	(2)	**(136)**
Bad debt expense	(5)	(11)	1	**(15)**
Interconnection costs	(70)			**(70)**
Cost of international outbound calls	(48)			**(48)**
Lease of circuits	(14)	(2)		**(16)**
Fees for services	(38)	(28)		**(66)**
Advertising	(17)	(40)	(1)	**(58)**
Cost of cellular handsets		(234)		**(234)**
Commissions	(28)	(151)		**(179)**
Others	(93)	(268)	(2)	**(363)**
Operating income (loss) before depreciation and amortization	**663**	**312**	**(3)**	**972**
Depreciation of fixed assets	(544)	(181)	(1)	**(726)**
Amortization of intangible assets	(4)	(19)		**(23)**

Operating income (loss)	**115**	**112**	**(4)**	**223**
Equity gain from related companies	7			**7**
Financial results, net	332	(34)	1	**299**
Other expenses, net	(36)	(13)	(1)	**(50)**
Results on debt restructuring	(15)			**(15)**
Net income (loss) before income tax and minority interest	**403**	**65**	**(4)**	**464**
Income tax	(10)	6	1	**(3)**
Minority interest		(3)		**(3)**
Net income (loss)	**393**	**68**	**(3)**	**458**
q *Balance sheet information*				
Fixed assets, net	4,920	1,481		**6,401**
Intangible assets, net	79	667	3	**749**
Capital expenditures excluding materials	89	80		**169**
Acquisition of intangible assets				
Depreciation of fixed assets	(544)	(185)	(1)	**(730)**
Amortization of intangible assets	(5)	(21)		**(26)**
Net financial debt	(4,814)	(1,103)	1	**(5,916)**
q *Cash flow information*				
Cash flows provided by operating activities	**522**	**251**		**773**
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(134)	(170)		**(304)**
Decrease in investments not considered as cash and cash equivalents	667	2		**669**
Total cash flows provided by (used in) investing activities	**533**	**(168)**		**365**
Cash flows from financing activities:				
Debt proceeds		14		**14**
Payment of debt		(70)		**(70)**
Payment of interest and debt-related expenses		(44)		**(44)**
Total cash flows used in financing activities		**(100)**		**(100)**
Increase (decrease) in cash and cash equivalents	1,055	(17)		**1,038**
Cash and cash equivalents at the beginning of year	2,850	89	1	**2,940**
Cash and cash equivalents at period end	**3,905**	**72**	**1**	**3,978**

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13. Segment information (continued)

For the six-month period ended June 30, 2004

q ***Income statement information***

	Voice, data and Internet	Wireless	Directories publishing	Total
Handsets		47		47
Services	1,311	706	6	2,023
Net sales	**1,311**	**753**	**6**	**2,070**
Salaries and social security	(240)	(41)	(5)	**(286)**
Turnover tax	(41)	(33)		**(74)**
Maintenance, materials and supplies	(78)	(17)	(2)	**(97)**
Bad debt expense	6	(7)	(1)	**(2)**
Interconnection costs	(66)			**(66)**
Cost of international outbound calls	(39)			**(39)**
Lease of circuits	(16)	(1)		**(17)**
Fees for services	(38)	(8)	(1)	**(47)**
Advertising	(11)	(28)		**(39)**
Cost of cellular handsets		(75)		**(75)**
Commissions	(27)	(77)		**(104)**
Others	(81)	(159)	(1)	**(241)**
Operating income (loss) before depreciation and amortization	**680**	**307**	**(4)**	**983**
Depreciation of fixed assets	(643)	(154)	(1)	**(798)**
Amortization of intangible assets	(31)	(22)		**(53)**
Operating income (loss)	**6**	**131**	**(5)**	**132**
Financial results, net	(219)	(80)	1	**(298)**
Other expenses, net	(38)	(16)	(1)	**(55)**
Net income (loss) before income tax and minority interest	**(251)**	**35**	**(5)**	**(221)**
Income tax		(9)	1	**(8)**
Minority interest		(1)		**(1)**

Net income (loss)	**(251)**	**25**	**(4)**	**(230)**

q ***Balance sheet information***

Fixed assets, net	5,833	1,506	2	**7,341**
Intangible assets, net	78	710	4	**792**
Capital expenditures excluding materials	29	88		**117**
Acquisition of intangible assets				
Depreciation of fixed assets	(643)	(163)	(1)	**(807)**
Amortization of intangible assets	(32)	(30)		**(62)**
Net financial debt	(5,784)	(1,379)	2	**(7,161)**

q ***Cash flow information***

Cash flows provided by operating activities	**731**	**208**		**939**
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(66)	(124)		**(190)**
Decrease in investments not considered as cash and cash equivalents	73	56		**129**
Total cash flows provided by (used in) investing activities	**7**	**(68)**		**(61)**
Cash flows from financing activities:				
Payment of interest and debt-related expenses		(9)		**(9)**
Total cash flows used in financing activities		**(9)**		**(9)**
Increase in cash and cash equivalents	738	131		**869**
Cash and cash equivalents at the beginning of year	1,786	428	2	**2,216**
Cash and cash equivalents at period end	**2,524**	**559**	**2**	**3,085**

TELECOM ARGENTINA S.A.

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

14. 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
	2,585	**972**	**223**	**299**	**458**
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)**

15. Unconsolidated information

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

Balance sheets:

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

ASSETS		
Current Assets		
Cash and banks	$ 28	$ 24
Investments	3,921	3,554
Accounts receivable, net	317	327
Other receivables, net	41	59
Total current assets	**4,307**	**3,964**
Non-Current Assets		
Other receivables, net	155	143
Investments	1,016	1,068
Fixed assets, net	4,917	5,385
Intangible assets, net	79	84
Total non-current assets	**6,167**	**6,680**
TOTAL ASSETS	**$ 10,474**	**$ 10,644**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 289	$ 315
Debt	8,764	9,418
Salaries and social security payable	70	69
Taxes payable	96	61
Other liabilities	28	21
Contingencies	27	11
Total current liabilities	**9,274**	**9,895**
Non-Current Liabilities		
Accounts payable	4	7
Salaries and social security payable	28	33
Other liabilities	58	64
Contingencies	150	143
Total non-current liabilities	**240**	**247**
TOTAL LIABILITIES	**$ 9,514**	**$ 10,142**
SHAREHOLDERS EQUITY	**$ 960**	**$ 502**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 10,474**	**$ 10,644**

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Notes to the Unaudited Consolidated Financial Statements

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

15. Unconsolidated information (continued)

Statements of income:

	Six-month periods ended June 30,	
	2005	**2004**
Net sales	$ 1,499	$ 1,378
Cost of services	(932)	(949)
Gross profit	**567**	**429**
General and administrative expenses	(82)	(71)
Selling expenses	(262)	(284)
Operating income	**223**	**74**
Equity loss from related companies	(42)	(50)
Financial results, net	336	(218)
Other expenses, net	(34)	(36)
Results on debt restructuring	(15)	
Net income (loss) before income tax	**468**	**(230)**
Income tax expense, net	(10)	
Net income (loss)	**$ 458**	**$ (230)**

Condensed statements of cash flows:

	Six-month periods ended June 30,	
	2005	**2004**
Cash flows provided by operating activities	$ 524	$ 731
Cash flows from investing activities		

Acquisition of fixed and intangible assets	(134)	(66)
Decrease in investments not considered as cash and cash equivalents	672	73
Total cash flows provided by investing activities	**538**	**7**
Increase in cash and cash equivalents	1,062	738
Cash and cash equivalents at the beginning of year	2,853	1,785
Cash and cash equivalents at period end	**$ 3,915**	**$ 2,523**

16. Valuation differences between Argentine GAAP and US GAAP

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

Differences in measurement methods

Inflation accounting

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

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

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

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

	Six-month periods ended June 30,	
	2005	**2004**
Reconciliation of net income (loss):		
Total net income (loss) under Argentine GAAP	**$ 458**	**$ (230)**
US GAAP adjustments:		
Foreign currency translation (a)	(11)	(1)
Capitalization of foreign currency exchange differences (b.2)	56	59
2004 Debt Restructurings (c)	21	
Personal Pre-APE Debt Restructurings (d)		20
Other adjustments (e)	3	(3)
Tax effects on US GAAP adjustments (f)	(29)	(28)
Deferred income tax and tax on minimum presumed income (g)	20	10
Minority interest (h)	3	
Net income (loss) under US GAAP	**$ 521**	**$ (173)**

	As of June 30, 2005	As of December 31, 2004
Reconciliation of shareholders equity:		
Total shareholders equity under Argentine GAAP	**$ 960**	**$ 502**
US GAAP adjustments:		
Foreign currency translation (a)	33	47
Capitalization of foreign currency exchange differences (b.1)	(813)	(813)
Capitalization of foreign currency exchange differences (b.2)	426	370
2004 Debt Restructurings (c)	(214)	(235)
Other adjustments (e)	3	1
Tax effects on US GAAP adjustments (f)	210	239

Deferred income tax and tax on minimum presumed income (g)	(404)	(424)
Minority interest (h)	(9)	(13)
Shareholders (deficit) equity under US GAAP	**$ 192**	**$ (326)**

	As of June 30, 2005	As of June 30, 2004
Description of changes in shareholders equity under US GAAP:		
Shareholders equity (deficit) as of the beginning of the year	**$ (326)**	**$ 456**
Other comprehensive loss	(3)	(1)
Net income (loss) under US GAAP	521	(173)
Shareholders equity as of the end of the period	**$ 192**	**$ 282**

a) Foreign currency translation

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

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

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

b) Capitalization of foreign currency exchange differences

b.1) Under Argentine GAAP, foreign currency exchange differences (gains or losses) on or after January 6, 2002 through July 29, 2003, related to foreign-currency denominated debts as of such dates were allocated to the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements established were fulfilled. Under US GAAP, foreign currency exchange differences cannot be capitalized, and are expensed as incurred.

b.2) This adjustment represents the effect on accumulated depreciation of the adjustment described in b.1 above.

c) 2004 Debt Restructurings

As discussed in Note 8.2., Personal completed the restructuring of its outstanding indebtedness in November 2004 following an out-of-court restructuring agreement. Also, in November 2004, Personal s subsidiary, Nucleo, completed the restructuring of its outstanding debt. Personal and Nucleo are collectively hereinafter referred to as the entities and the restructuring of the entities´ outstanding indebtedness are collectively referred hereinafter as to the 2004 Debt Restructurings . The 2004 Debt Restructurings involved (i) the full settlement of certain outstanding loans of the entities and (ii) the combination of a partial debt settlement and a refinancing of the remaining outstanding loans of the entities with modified terms. In connection with (ii), the entities issued new debt instruments.

As mentioned above, in the fourth quarter of the year ended December 31, 2004 the entities recorded a gain of $12 related to the loans which were fully settled. Additionally, a gain of $243 related to the partial settlement and refinancing of debt and associated expenses amounting to $25 were also recorded. Under Argentine GAAP, the new debt were present valued and accordingly, the entities recorded a loss on accretion of $10 for the six month period ended June 30, 2005.

US GAAP requires an analysis to be performed under SFAS No.15, Accounting by Debtors and Creditors for Troubled Debt Restructurings and EITF 02-04, Debtors Accounting for a Modification or an Exchange of Debt Instruments in accordance with SFAS 15 , to assess whether the 2004 Debt Restructurings constituted troubled debt restructurings. The entities concluded that the 2004 Debt Restructurings were in fact troubled debt restructurings as the entities were in financial difficulties and creditors had granted a concession to them, under the definitions of such conditions in the EITF 02-04 guidance. The concessions resulted primarily from the discount on principal and accrued interest, extension of maturity and forgiveness of penalty interest. Accordingly, under US GAAP, the 2004 Debt Restructurings were accounted for as (i) a full settlement of certain outstanding loans with cash and (ii) a combination of a partial debt settlement and a continuation of debt with modified terms.

For those outstanding loans which were fully settled, there was no difference in accounting treatment between Argentine GAAP and US GAAP. The gain was measured by the excess of the carrying amount of the payables over the cash surrendered.

For those outstanding loans which were restructured by a partial cash settlement and the issuance of new debt instruments with modified terms, SFAS 15 requires an assessment of the total future cash payments specified by the new terms of the debt, including, principal, interest and contingent payments. No gain on restructuring is recognized unless the remaining carrying amount of the debt exceeds the total future cash payments specified by the new terms.

SFAS 15 also requires that the restructuring of each payable, including those negotiated and restructured jointly, to be accounted for individually. Accordingly, on a payable-by-payable basis, as the carrying value of these loans does not exceed the total future cash payments specified by the terms of the new instruments, no gain was recognized under US GAAP as of the date of the 2004 Debt Restructurings. The carrying value of the loans will be reduced as payments are made. Interest expense was computed as the discount rate that equated the present value of the future cash payments specified by the new debt with the carrying amount of the original loans.

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

In summary, the US GAAP reconciling item reflects the (a) reversal of the loss on accretion of new debt instruments, (b) reversal of gain on restructuring recognized under Argentine GAAP for those outstanding loans restructured by a partial cash settlement and the issuance of new debt instruments with modified terms, (c) reversal of the interest expense computed under Argentine GAAP and (d) the computation of the interest expense under US GAAP as described above.

The US GAAP reconciling item for the 2004 Debt Restructurings is comprised as follows:

Included in the reconciliation of net income (loss):

	Six-month period ended June 30, 2005
Reversal of loss on accretion of new debt instruments recognized under Argentine GAAP (a)	$ 10
Reversal of interest expense computed under Argentine GAAP (c)	56
Computation of interest expense under US GAAP (d)	(45)
Total US GAAP reconciling item for 2004 Debt Restructurings	**$ 21**

Included in the reconciliation of shareholders equity:

	As of June 30, 2005	As of December 31, 2004
Reversal of loss on accretion of new debt instruments (a)	$ 11	$ 1
Reversal of gain on restructuring recognized under Argentine GAAP (b)	(239)	(239)
Reversal of interest expense computed under Argentine GAAP (c)	68	12
Computation of interest expense under US GAAP (d)	(54)	(9)

Total US GAAP reconciling item for 2004 Debt Restructurings	**$ (214)**	**$ (235)**

d) Personal Pre-APE Debt Restructurings

In December 2002, Personal restructured a portion of its outstanding indebtedness as of that date. Under Argentine GAAP, Personal recognized a gain to carry the restructured debt to its present value. Under US GAAP, Personal assessed the transaction under SFAS No. 15 and EITF 02-04 and treated the restructuring as a troubled debt restructuring. As the carrying value of the old debt did not exceed the total future cash payments specified by the new debt, no gain was recognized under US GAAP.

During the six months ended June 30, 2004, Personal received notices of acceleration for the outstanding restructured debt, and accordingly, Personal recorded a loss of $20 under Argentine GAAP to carry the debt at fair value. Since no gain had been originally recorded under US GAAP and the old debt had not been derecognized, the US GAAP adjustment reflects the reversal of the loss recorded under Argentine GAAP.

e) Other adjustments

The Company has aggregated under this caption certain reconciling items which management believes are not significant to the Company s financial position and results of operations. The US GAAP reconciling items included under other adjustments were as follows for all periods presented:

Included in the reconciliation of net income (loss):

	Six-month periods ended June 30,	
	2005	**2004**
Inventories	$ 1	$
Present-value accounting	1	(3)
Accounting for investments in debt securities	1	
Total other adjustments (e)	**$ 3**	**$ (3)**

Included in the reconciliation of shareholders equity:

	As of June 30, 2005	**As of December 31, 2004**
Inventories	$ 1	$

Present-value accounting	2	1
Total other adjustments (e)	**$ 3**	**$ 1**

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

- Inventories

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

- Present-value accounting

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

- Accounting for investments in debt securities

Under Argentine GAAP, certain investments (discount bonds) were recorded at fair value with unrealized losses of $1 recognized in the statement of income. Under US GAAP, these investments are classified as available-for-sale. Accordingly, unrealized losses are excluded from earnings and reported as a separate component of shareholders equity.

f) Tax effects on US GAAP adjustments

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

g) Deferred income tax and tax on minimum presumed income

Income tax

Under both Argentine GAAP and US GAAP, the Company records income taxes using the liability method. 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.

Under Argentine GAAP, however, the realization test is performed on a net deferred tax asset basis, considering the existence of sufficient taxable income within the carryforward period and future reversals of existing temporary differences.

Under US GAAP, SFAS 109 requires a valuation allowance to be established for deferred tax assets when it is more likely than not (a probability level of more than 50%) that they will not be realized. In addition, under SFAS No. 109, tax loss carryforwards are treated just like deductible temporary differences. An asset is automatically recorded for a loss carryforward, and the asset is reduced by a valuation allowance if it is more likely than not that the benefit will be lost.

As the going concern uncertainty for Telecom Argentina constitutes significant negative evidence, under Argentine GAAP, a valuation allowance was established for all net deferred income tax assets related to Telecom Argentina. Under US GAAP, an additional valuation allowance was established for the tax effects on US GAAP adjustments as described in f) above and the portion of the deferred income tax assets to be lost.

As discussed above, based on the guidance set forth in Argentine GAAP, Personal performed a realization test based on a net deferred tax asset basis. Since there is sufficient uncertainty regarding the realizability of the net deferred tax asset, a full valuation allowance has been recorded. Under US GAAP, Personal has recorded a valuation allowance against the tax loss carryforwards and a portion of the other deferred tax assets since it considered more likely than not that they will not be realized.

Tax on minimum presumed income

As discussed in Note 4.n., the Company is subject to a tax on minimum presumed income. Under Argentine GAAP, management considered that the tax credit related to minimum presumed income will be realized based on current projections and legal expiration term. The credit is classified as a non-current receivable in the consolidated balance sheet.

Under US GAAP, the Company applied the guidance established in SFAS No. 109 to assess whether a valuation allowance for this deferred tax credit is required. As discussed above, the going concern uncertainty for Telecom Argentina constitutes significant negative evidence and accordingly a full valuation allowance was provided under US GAAP for this deferred tax credit related to Telecom Argentina.

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

h) Minority interest

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

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

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

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

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

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

j) Indefinite-life intangibles impairment testing

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

Under US GAAP, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), on January 1, 2002. The Company determined that its license met the definition of indefinite-lived intangible assets under SFAS 142. Under SFAS No. 142, indefinite-life intangibles are not amortized but subject to annual impairment testing or more frequent testing if an event occurs or circumstances change that would more likely than not reduce the fair value of the intangible asset below its carrying value. The Company has assessed the impairment of its PCS license under SFAS No. 142 in fiscal years 2004 and 2003. The impairment testing involves determining the fair market value of its PCS license and comparing the value with its carrying value. Based on this assessment, there was no impairment identified at December 31, 2004 and 2003.

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

k) Recently issued accounting pronouncements

On November 7, 2003, the FASB issued the final FASB Staff Position (FSP) FAS 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests under FASB Statement No. 150 (FAS 150), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity . The final FSP affects how public and nonpublic entities classify, measure, and disclose certain mandatorily redeemable non-controlling interests associated with finite-lived subsidiaries and mandatorily redeemable financial instruments and requires entities that have already adopted FAS 150 to rescind the adoption of certain provisions of FAS 150 and to permit them to present the adoption of the FSP either by restating previously issued financial statements or as a cumulative effect in the period of adoption. The Company has analyzed its financial instruments in light of FAS 150 and has determined that this statement is not applicable to its financial position and that the adoption of this statement has no impact on its consolidated statements. The classification and measurement provisions of SFAS 150 for certain mandatorily redeemable non-controlling interests with finite lived subsidiaries are deferred for an indefinite period. The Company will continue to evaluate the impact of SFAS 150, if any, and any further clarifications that may result from SFAS 150.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29. APB Opinion No. 29, Accounting for Nonmonetary Transactions , is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets whose results are not expected to significantly change the future cash flows of the entity. The adoption of SFAS No. 153 is not expected to have any impact on the Company s current financial condition or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections , a replacement of APB Opinion No. 20, Accounting Changes , and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements (FAS 154). FAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, most voluntary changes in accounting principles were required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. FAS 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. FAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. The Company is currently analyzing the impact that the adoption of FAS 154 will have on the consolidated financial position, results of operations or cash flows.

17. Other financial statement information

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

a. Fixed assets, net

b. Intangible assets, net

c. Securities and equity investments

d. Current investments

e. Allowances and provisions

f. Cost of services

g. Foreign currency assets and liabilities

h. Expenses

i. Aging of assets and liabilities

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)

17. Other financial statement information (continued)

(a) Fixed assets, net

	Original value					
Principal account	**As of the beginning of year**	**Additions**	**Foreign currency translation adjustments**	**Transfers**	**Decreases**	**As of the end of the period**
Land	118					118
Building	1,654			4		1,658
Transmission equipment	5,241	1	2	(5)	(2)	5,237
Switching equipment	3,922	1	1	53		3,977
Power equipment	534		1	3		538
External wiring	5,951			18		5,969
Telephony equipment and instruments	883		1	3		887
Cellular handsets given to customers at no cost	342	2	2			346
Vehicles	114	5			(1)	118
Furniture	108	1				109
Installations	446			2		448
Improvements in third parties buildings	102			2		104
Computer equipment	2,582	7	1	20	(5)	2,605
Work in progress	147	(*) 152		(100)		199
Fixed assets excluding materials	**22,144**	**169**	**8**		**(8)**	**22,313**
Materials	96	(**) 86			(25)	157
Total as of June 30, 2005	**22,240**	**255**	**8**		**(33)**	**22,470**
Total as of June 30, 2004	**21,818**	**158**	**19**		**(35)**	**21,960**

(*) Includes $43 transferred from materials.
(**) Net of $43 transferred to fixed assets.

	Depreciation						
Principal account	**Accumulated as of the beginning of the year**	**Annual rate (%)**	**Amount**	**Decreases and transfers**	**Accumulated as of the end of the period**	**Net carrying value as of June 30, 2005**	**Net carrying value as of December 31, 2004**
Land						**118**	**118**
Building	(745)	4 - 9	(35)		(780)	**878**	**909**
Transmission equipment	(3,600)	10 - 14	(220)	2	(3,818)	**1,419**	**1,641**
Switching equipment	(2,994)	10 - 14	(149)	(1)	(3,144)	**833**	**928**
Power equipment	(365)	10	(22)		(387)	**151**	**169**
External wiring	(3,880)	6	(152)		(4,032)	**1,937**	**2,071**
Telephony equipment and instruments	(744)	10 - 18	(25)		(769)	**118**	**139**
Cellular handsets given to customers at no cost	(337)	100	(5)		(342)	**4**	**5**
Vehicles	(98)	20	(3)	1	(100)	**18**	**16**
Furniture	(84)	10	(3)		(87)	**22**	**24**
Installations	(330)	10 - 25	(14)		(344)	**104**	**116**
Improvements in third parties buildings	(74)	2	(2)		(76)	**28**	**28**
Computer equipment	(2,094)	19 - 33	(100)	4	(2,190)	**415**	**488**
Work in progress						**199**	**147**
Fixed assets excluding materials	**(15,345)**		**(730)**	**6**	**(16,069)**	**6,244**	**6,799**
Materials						**157**	**96**
Total as of June 30, 2005	**(15,345)**		**(a) (730)**	**6**	**(16,069)**	**(b) 6,401**	**(b) 6,895**
Total as of June 30, 2004	**(13,817)**		**(c) (807)**	**5**	**(14,619)**	**(b) 7,341**	

(a) Includes $(56) corresponding to the depreciation of capitalized foreign currency exchange differences and $(4) corresponding to foreign currency translation adjustments.

(b) Includes $6 in June 2005, $6 in December 2004 and $4 in June 2004, corresponding to the net carrying value of the capitalized cost of asset retirement obligations.

(c) Includes $(59) corresponding to the depreciation of capitalized foreign currency exchange differences and $(9) corresponding to foreign currency translation adjustments.

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)

17. Other financial statement information (continued)

(b) Intangible assets, net

	Original value			
Principal account	**As of the beginning of the year**	**Additions**	**Foreign currency translation adjustments**	**As of the end of the period**
Software obtained or developed for internal use	431			431
Debt issue costs	81			81
PCS license	662			662
Band B license (Paraguay)	123		2	125
Rights of use	69			69
Exclusivity agreements	98			98
Trademarks	8			8
Total as of June 30, 2005	**1,472**		**2**	**1,474**
Total as of June 30, 2004	**1,440**		**9**	**1,449**

	Amortization				
Principal account	**Accumulated as of the beginning of the year**	**Amount**	**Accumulated as of the end of the period**	**Net carrying value as of June 30, 2005**	**Net carrying value as of December 31, 2004**
Software obtained or developed for internal use	(373)	(12)	(385)	**46**	**58**
Debt issue costs	(78)	(1)	(79)	**2**	**3**
PCS license	(71)		(71)	**591**	**591**
Band B license (Paraguay)	(89)	(9)	(98)	**27**	**34**
Rights of use	(23)	(2)	(25)	**44**	**46**

Exclusivity agreements	(60)	(2)	(62)	**36**	**38**
Trademarks	(5)		(5)	**3**	**3**
Total as of June 30, 2005	**(699)**	**(a) (26)**	**(725)**	**749**	**773**
Total as of June 30, 2004	**(595)**	**(b) (62)**	**(657)**	**792**	

a) An amount of $(18) is included in cost of services, $(1) in general and administrative expenses, $(4) in selling expenses and $(1) in financial results, net. Also includes $(2) corresponding to foreign currency translation adjustments.

b) An amount of $(21) is included in cost of services, $(2) in general and administrative expenses, $(30) in selling expenses and $(3) in financial results, net. Also includes $(6) corresponding to foreign currency translation adjustments.

(c) Securities and equity investments

Issuer and characteristic of the securities	**Type**	**Nominal value/ Market value**	**Number of securities/ shares**	**Net realizable value as of June 30, 2005**	**Cost value as of June 30, 2005**	**Book value as of June 30, 2005**	**Book value as of December 31, 2004**
CURRENT INVESTMENTS							
Government bonds							
Secured 2018 Bond		$ 1	8,399,999	11	9	11	10
Discount US$ Bond (Note 11)		US$ 1	3,894,131	10	11	10	
Discount Peso Bond (Note 11)		$ 1	11,358,852	12	11	12	
Argentina 2004 Bond (Note 11)		US$ 1					79
Other bonds		Euro 1					218
Total government bonds				**33**	**31**	**33**	**307**
Mutual funds							
ROBLE$		$ 1.06	13,028,735	14	14	14	
SUPERAHORRO$		$ 0.23	13,467,873	3	3	3	
Other		$ 1					41
Total mutual funds				**17**	**17**	**17**	**41**
Equity investments							
Intelsat Ltd.							8
Total equity investments							**8**
Total current investments				**50**	**48**	**50**	**356**
NON- CURRENT INVESTMENTS							
Equity investments							
Nahuelsat (i)	Ordinary	$ 1,000	5,750		13		
Total equity investments					**13**		
Total non-current investments					**13**		

(i) The Company has not received any dividends during the periods presented.

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)

17. Other financial statement information (continued)

(d) Current investments

	Cost as of	Book value as of	
	June 30, 2005	June 30, 2005	December 31, 2004
CURRENT INVESTMENTS			
Time deposits			
In foreign currency	$ 3,829	$ 3,829	$ 3,026
In Argentine pesos	96	96	304
Total current investments	**$ 3,925**	**$ 3,925**	**$ 3,330**

(e) Allowances and provisions

Items	Opening balances	Additions	Reclassifications	Deductions	As of June 30, 2005
Deducted from current assets					
Allowance for doubtful accounts receivables	**104**	15		(12)	**107**
Allowance for obsolescence	**3**			(2)	**1**
Impairment loss on the Argentina 2004 bond (Note 11)	**56**			(56)	
Total deducted from current assets	**163**	**(a) 15**		**(70)**	**108**
Deducted from non-current assets					
Valuation allowance of net deferred tax assets	**695**			(157)	**538**
Allowance for doubtful accounts	**4**	1			**5**

Total deducted from non-current assets	**699**	**(b) 1**		**(157)**	**543**
Total deducted from assets as of June 30, 2004	**564**	**(c) 149**		**(5)**	**708**
Included under current liabilities					
Provision for commissions	**14**	24		(12)	**26**
Provision for contingencies	**16**		19	(3)	**32**
Total included under current liabilities	**30**	**(a) 24**	**19**	**(15)**	**58**
Included under non-current liabilities					
Provision for contingencies	**214**	39	(19)		**234**
Total included under non-current liabilities	**214**	**(b) 39**	**(19)**		**234**
Total included under liabilities as of June 30, 2004	**225**	**(d) 34**		**(6)**	**253**

(a) Included in selling expenses.
(b) Included in other expenses, net.
(c) Includes $2 in selling expenses, $58 in financial results, net, $87 in income tax expenses and $2 in other expenses, net.
(d) Includes $10 in selling expenses and $24 in other expenses, net.

(f) Cost of services

	Six-month periods ended June 30,	
	2005	**2004**
Inventory balance at the beginning of the year	$ 82	$ 16
Plus:		
Purchases	275	119
Holding results on inventories	(10)	(2)
Cellular handsets given to customers at no cost (a)	(2)	(1)
Replacements	(1)	(7)
Cost of services (Note 17.h)	1,465	1,308
Less:		
Inventory balance at the end of the period	(110)	(50)
COST OF SERVICES	**$ 1,699**	**$ 1,383**

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

	Six-month periods ended June 30,	
	2005	**2004**
Handsets		

Net sales	$ 132	$ 47
Cost of sales	(234)	(75)
Gross loss from handsets	**$ (102)**	**$ (28)**
Services		
Net sales	$ 2,453	$ 2,023
Cost of sales	(1,465)	(1,308)
Gross profit from services	**$ 988**	**$ 715**
TOTAL GROSS PROFIT	**$ 886**	**$ 687**

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)

17. Other financial statement information (continued)

(g) Foreign currency assets and liabilities

	As of June 30, 2005				As of December 31, 2004
Items	**Amount of foreign currency (i)**		**Current exchange rate**	**Amount in local currency**	**Amount in local currency**
Current assets					
Cash and banks					
Bank accounts	US$	7	2.88700	$ 19	$ 12
	G	4,215	0.0004744	2	1
Investments					
Time deposits	US$	599	2.88700	1,730	1,507
	EURO	585	3.48840	2,041	1,515
	¥	2,230	0.02605	58	
	G				4
Government bonds	EURO				218
	US$	4	2.88700	10	79
Impairment loss on the Argentina 2004 bond	US$				(56)
Accounts receivable					
	US$	11	2.88700	33	48
	EURO	1	3.48840	3	
	G	51,655	0.0004744	25	41
Related parties	US$	1	2.88700	4	
Other receivables					
Tax credits	G	2,108	0.0004744	1	3
Prepaid expenses	US$	1	2.88700	3	2
	G	6,379	0.0004744	3	
Others	US$				11
	G	2,108	0.0004744	1	1
Non-current assets					
Other receivables					
Others	US$	2	2.88700	5	9

Total assets				**$ 3,938**	**$ 3,395**
Current liabilities					
Accounts payable					
Suppliers	US$	41	2.88700	$ 119	$ 170
	G	12,648	0.0004744	6	6
	SDR				5
	EURO	2	3.48840	6	5
Advances from customers	G	6,324	0.0004744	3	2
Related parties	US$	2	2.88700	4	14
	EURO	2	3.48840	6	
Debt					
Notes - Principal	US$	216	2.88700	625	644
	EURO	1,160	3.48840	4,046	4,709
Banks loans and others - Principal	US$	342	2.88700	987	1,026
	¥	2,750	0.02605	72	80
Fixed assets financing - Principal	US$	328	2.88700	948	978
	EURO	39	3.48840	135	157
	¥	11,652	0.02605	304	340
Accrued interest	US$	157	2.88700	454	369
	EURO	253	3.48840	883	851
	¥	1,075	0.02605	28	26
Penalty interest	US$	41	2.88700	118	92
	EURO	25	3.48840	86	71
	¥	341	0.02605	9	7
Salaries and social security payable					
Vacation, bonuses and social security payable	G	2,088	0.0004744	1	
Taxes payable					
Income tax	G	8,643	0.0004744	4	1
Other liabilities					
Other	US$	1	2.88700	2	1
Non-current liabilities					
Accounts payable					
Suppliers	US$	1	2.88700	4	7
Debt					
Banks loans and others - Principal	US$	401	2.88700	1,158	1,260
Gain on discounting of debt	US$	(11)	2.88700	(31)	(41)
Taxes payable					
Deferred tax liabilities	G	4,216	0.0004744	2	6
Other liabilities					
Deferred revenue on sale of capacity	US$	10	2.88700	28	31
Total liabilities				**$ 10,007**	**$ 10,817**

(i) US$ = United States dollars; SDR = Special drawing rights; G= Guaraníes; ¥ = Japanese Yen.

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)

17. Other financial statement information (continued)

(h) Expenses

	Expenses			**Six-month period ended June 30, 2005**
	Cost of services	**General and administrative**	**Selling**	
Salaries and social security	$ 153	$ 62	$ 114	**$ 329**
Depreciation of fixed assets	633	23	70	**726**
Amortization of intangible assets	18	1	4	**23**
Taxes	62	5	13	**80**
Turnover tax	99			**99**
Maintenance, materials and supplies	103	8	25	**136**
Transportation and freight	5	3	13	**21**
Insurance	4	2	1	**7**
Energy, water and others	20	5	6	**31**
Bad debt expense			15	**15**
Interconnection costs	70			**70**
Cost of international outbound calls	48			**48**
Lease of circuits	16			**16**
Rental expense	22	2	5	**29**
Fees for services	24	23	19	**66**
Advertising			58	**58**
Commissions		12	167	**179**
Roaming	58			**58**
Charges for termination of calls coming from other cellular operators	113			**113**
Others	17	2	5	**24**
Total	**$ 1,465**	**$ 148**	**$ 515**	**$ 2,128**

	Expenses			**Six-month**

	Cost of services	General and administrative	Selling	period ended June 30, 2004
Salaries and social security	$ 140	$ 54	$ 92	**$ 286**
Depreciation of fixed assets	682	20	96	**798**
Amortization of intangible assets	21	2	30	**53**
Taxes	52	4	11	**67**
Turnover tax	74			**74**
Maintenance, materials and supplies	72	3	22	**97**
Transportation and freight	4	2	10	**16**
Insurance	9	2	2	**13**
Energy, water and others	14	3	4	**21**
Bad debt expense			2	**2**
Interconnection costs	66			**66**
Cost of international outbound calls	39			**39**
Lease of circuits	17			**17**
Rental expense	18	2	5	**25**
Fees for services	10	25	12	**47**
Advertising			39	**39**
Commissions		6	98	**104**
Roaming	28			**28**
Charges for termination of calls coming from other cellular operators	53			**53**
Others	9	2	7	**18**
Total	**$ 1,308**	**$ 125**	**$ 430**	**$ 1,863**

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)

17. Other financial statement information (continued)

(i) Aging of assets and liabilities

Date due	Investments	Accounts receivable	Other receivables	Accounts payable	Debt	Salaries and social security payable	Taxes payable	Other liabilities
Total due		138			6,097			
Not due								
Payable on demand					2,667			
Third quarter 2005	3,974	451	57	556		43	184	22
Fourth quarter 2005	1	9	6	17	22	9		3
First quarter 2006		1	5			9		1
Second quarter 2006		1	17		14	18	16	2
Jul. 2006 thru Jun. 2007			14	4	45	8		4
Jul. 2007 thru Jun. 2008			9		140	6		4
Jul. 2008 thru Jun. 2009			2		334	5		10
Jul. 2009 thru Jun. 2010			1		333	3		4
Jul. 2010 thru Jun. 2011			82		221	2		4
Jul. 2011 and thereafter	2		145		85	4		39
Not date due established					(31)			
Total not due	**3,977**	**462**	**338**	**577**	**3,830**	**107**	**200**	**93**
Total as of June 30, 2005	**3,977**	**600**	**338**	**(a) 577**	**9,927**	**107**	**200**	**93**
Balances with indexation clauses				3				
Balances bearing interest	3,975	148			9,714			
Balances not bearing interest	2	452	338	574	213	107	200	93
Total	**3,977**	**600**	**338**	**577**	**9,927**	**107**	**200**	**93**

Average annual interest rate (%)	**2.60**	**(c)**			(b)			

(a) There are payables in kind that amounted to $1.
(b) See note 8.
(c) $112 bear 50% over the Banco Nación Argentina notes payable discount rate and $36 bear 9.06%.

Date due	**Investments**	**Accounts receivable**	**Other receivables**	**Accounts payable**	**Debt**	**Salaries and social security payable**	**Taxes payable**	**Other liabilities**
Total due		123			6,505			
Not due								
Payable on demand					2,913			
First quarter 2005	3,630	463	53	509		51	134	20
Second quarter 2005		23	3		9	12	17	2
Third quarter 2005		3	3			8	2	
Fourth quarter 2005			19		7	8		
Jan. 2006 thru Dec. 2006			11	1	53	13	1	3
Jan. 2007 thru Dec. 2007			4	1	78	6	4	5
Jan. 2008 thru Dec. 2008			2	1	296	5		5
Jan. 2009 thru Dec. 2009			76	1	350	3		5
Jan. 2010 thru Dec. 2010			2	1	337	2		4
Jan. 2011 and thereafter	2		133	2	146	4		49
Not date due established					(41)			
Total not due	**3,632**	**489**	**306**	**516**	**4,148**	**112**	**158**	**93**
Total as of December 31, 2004	**3,632**	**612**	**306**	**(a)516**	**10,653**	**112**	**158**	**93**
Balances with indexation clauses		20		5				
Balances bearing interest	3,599	128			10,483			
Balances not bearing interest	33	464	306	511	170	112	158	93
Total	**3,632**	**612**	**306**	**516**	**10,653**	**112**	**158**	**93**
Average annual interest rate (%)	**2.28**	**(d)**						

(d) $96 bear 50% over the Banco Nación Argentina notes payable discount rate, and $32 bear 9.44%.

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

REVIEW REPORT OF INTERIM FINANCIAL STATEMENTS

To the Directors and Shareholders of

Telecom Argentina S.A.

1. We have reviewed the accompanying consolidated balance sheet of Telecom Argentina S.A. (Telecom) and its consolidated subsidiaries as of June 30, 2005, and the related consolidated statements of income, changes in shareholders equity and cash flows for the six month periods ended June 30, 2005 and 2004. These financial statements are the responsibility of the Company s management.

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

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

4. As indicated in Note 2 (c) to the accompanying consolidated financial statements, the Public Emergency and Exchange System Reform Law provided that in agreements executed by the Federal Government under public law regulations, including those related to public works and services, indexation clauses based on foreign currency price indexes or any other indexation mechanism are annulled. In this regard, the Company s tariffs were set in pesos at the exchange rate of $1 per US$1 while part of the Company s costs and indebtedness is denominated in foreign currency. Consequently, the Company s operating condition has been altered, negatively affecting its economic and financial equation. Furthermore, as indicated in Note 8 to the accompanying consolidated financial statements, during the first half of year 2002, the Board of Directors of Telecom decided to suspend payments of principal and interest on its outstanding financial indebtedness. As mentioned in such Note, on October 21, 2004, after reaching a level of consent of 82.35% of the total creditors representing 94.47% of the total financial indebtedness of the Company, the executed APE (*Acuerdo Preventivo Extrajudicial*, an out-of-court restructuring agreement governed by Argentine Law) was filed with the reviewing court for approval. In May 2005, the reviewing court approved Telecom s APE and management believes that the restructuring process will be successfully completed by the third quarter of 2005. The accompanying consolidated financial statements of Telecom as of June 30, 2005 and 2004 were prepared considering the continuity of the normal course of business of the Company, applying assets and liabilities valuation and classification criteria corresponding to a going concern and, therefore, not including any adjustments and classifications that might result from the outcome of the uncertainty previously described.

5. Our review report on the financial statements of Telecom Personal S.A. (Telecom Personal , a wholly owned subsidiary of Telecom) as of June 30, 2004, dated August 10, 2004, included observations related to: a) the effects of the suspension of principal and interest payments decided by the Board of Directors of Telecom Personal and the outcome of the restructurings of the financial indebtedness of that company and of it s subsidiary Núcleo, and b) the preparation of the financial statements of Telecom Personal considering the continuity of the normal course of business of Telecom Personal and Núcleo, applying assets and liabilities valuation and classification criteria corresponding to a going concern and, therefore, not including any adjustments and classifications that might result from the outcome of the situations described in this paragraph. As mentioned in Note 8, these situations have been resolved due to the end of the restructuring process of Telecom Personal and Núcleo, which occurred in November 2004. Accordingly, our observations on the financial statements as of June 30, 2004, differ from such originally presented.

6. Based on the work done and on our examination of the Company s consolidated financial statements for the year ended December 31, 2004 on which we issued our report dated March 8, 2005 (with qualifications as described in paragraphs 3 and 4 of this review report), we report that:

   a) the consolidated financial statements of Telecom at June 30, 2005 and 2004, described in paragraph 1, prepared in conformity with generally accepted accounting principles (GAAP) in Argentina, as approved by the CPCECABA, consider all significant facts and circumstances which are known to us and we have no observations to make regarding them other than those indicated in paragraphs 3 and 4;

   b) comparative information included in the accompanying consolidated balance sheets, derive from the Company s consolidated financial statements for the year ended December 31, 2004.

7. Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 16 to the consolidated financial statements. Such information does not include disclosure of all information that would be required under US GAAP and SEC rules and regulations.

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

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

   b) the financial statements of Telecom at June 30, 2005 arise from accounting records carried in all formal respects in accordance with current legal regulations;

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

   d) at June 30, 2005, the debt corresponding to withholdings and contributions to the Integrated Retirement and Survivors Benefit System according to the Company s accounting records amounts to $12.780.538, none of which was claimable at that date.

Autonomous City of Buenos Aires, August 10, 2005.

PRICE WATERHOUSE & CO. S.R.L.

by (Partner)

Juan C. Grassi

TELECOM ARGENTINA S.A.

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

SUMMARY OF ACTIVITY ON THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

(In millions of Argentine pesos or as expressly indicated)

1. General considerations

Telecom Argentina reached a consolidated net income of $458 million for the six-month period ended June 30, 2005 (1H05) mainly due to positive financial results as a consequence of currency exchange differences. Comparatively, consolidated net loss for the six-month period ended June 30, 2004 (1H04) was $230 million.

Earnings per share and ADR for 1H05 amounted to $0.47 and $2.33, respectively. In comparison, (loss) per share and ADR for 1H04 were $(0.23) and $(1.15), respectively.

Operating profit before depreciation and amortization, operating profit/(loss) and net income/(loss) for 1H05 represented 38%, 9% and 18% of net sales, respectively; compared with 47%, 6% and (11%), respectively, for 1H04.

In a context of an increase in sales due to the strong expansion of the cellular business, the operating profit before depreciation and amortization for 1H05 has slightly decreased by 1%, reaching $972 million. This decrease was a result of higher costs in the cellular telephony business mainly generated by greater agent commissions and subsidies in the sale of handsets.

	Six-month periods ended June 30,	
	2005	**2004**
Net sales	2,585	2,070
Cost of services	(1,699)	(1,383)
Gross profit	**886**	**687**
General and administrative expenses	(148)	(125)
Selling expenses	(515)	(430)
Operating income	**223**	**132**
Equity gain from related companies	7	
Financial results, net	299	(298)

Other expenses, net	(50)	(55)
Results on debt restructuring	(15)	
Net income (loss) before income tax and minority interest	**464**	**(221)**
Income tax expense	(3)	(8)
Minority interest	(3)	(1)
Net income (loss)	**458**	**(230)**
Net income (loss) per share (in pesos)	**0.47**	**(0.23)**

2. Company activities

- **Consolidated net revenues**

Consolidated net revenues for 1H05 totaled $2,585 million, an increase of $515 million, or 25%, compared with $2,070 million for 1H04 mainly as a consequence of the increase in revenues generated by the cellular and Internet businesses.

Fixed telephony (Voice, data and Internet)

Ø ***Voice***

In fixed telephony operations, local measured service revenues increased by $1 million to $247 million during 1H05. Domestic long distance (DLD) revenues increased by $8 million reaching $220 million. Revenues in both services increased as a consequence of the higher traffic due to incremental demand and higher number of Lines in Service. Traffic in DLD service increased by 9% while local traffic increased by 1%.

Total traffic volume (Local and DLD), measured in minutes, increased by 2%.

Monthly charges increased by $20 million, or 6%, to $331 million for 1H05, mainly due to the increase in customer lines. Customer lines as of June 30, 2005 increased by 4% to approximately 3,534,000 when compared to approximately 3,409,000 as of June 30, 2004 due to the constant demand of fixed-line services. Nevertheless, the current level of customer lines as well as the number of lines in service, is still below the level reached before the economic crisis in December 2001.

Revenues generated by interconnection services increased by $20 million, or 20%, to $118 million, mainly due to the increase in cellular traffic transported by the fixed line network.

Regarding international telephony activities, during 1H05 revenues reached $110 million increasing by $5 million or 5%, mainly due to higher incoming and outgoing traffic levels partially offset by a decrease in rates.

I

TELECOM ARGENTINA S.A.

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

Ø ***Data transmission and Internet***

Revenues generated by the data transmission and Internet business totaled $224 million, representing an increase of $26 million, or 13%, mainly due to the increase in revenues generated by the Internet business as a consequence of the increase in the number of ADSL clients. Since 4Q04, the Company is experiencing a migration process of dial-up clients to ADSL services. This process has intensified and has resulted in lower dial-up traffic.

As of June 30, 2005 total lines in service with ADSL connections amounted to 159,000, an increase of 65,000, or 69%. The number of Arnet s ADSL subscribers reached approximately 106,000, increasing by 80% while Internet dial-up customers reached approximately 145,000, decreasing 8%. Internet dial-up minutes represented 28% of total traffic measured in minutes transported over the fixed-line network.

Cellular Telephony

The cellular market in Argentina has grown rapidly during the last months, with a substantial increase in the total number of subscribers and penetration.

In this environment, total cellular subscribers of Personal in Argentina reached approximately 4,813,000 at June 30, 2005, representing an increase of approximately 1,712,000 customers, or 55%. This increase in the client base was fueled by an impressive growth in the number of GSM subscribers that represent 37% of the total customer base.

The customer base as of June 30, 2005 amounted to approximately 3,324,000 prepaid subscribers, representing 69% of the total customer base, and approximately 1,489,000 post-paid subscribers, representing the remaining 31% (including clients of Cuentas Claras a mix prepaid/postpaid product). These percentages were 79% and 21%, respectively, as of June 30, 2004. The substantial improvement of the composition of the customer base is a consequence of the strategy of Personal to focus in the acquisition of high-end clients and to increase the participation in the postpaid services, among them the Cuentas Claras product, taking into account the current demand of the cellular market.

Revenues of Personal in Argentina increased by $420 million, or 63%, to $1,090 million, mainly due to the higher number of subscribers, to the increase in total traffic, to incremental value added services and to the increase in sales of handsets.

The average monthly revenue per customer increase to $35 or 3% when compared with 1H04 in spite of the significant increase in the number of clients. Additionally, total cellular traffic increased by 51% when compared with 1H04.

Núcleo, Personal s subsidiary that provides cellular services in Paraguay, generated $97 million in revenues during 1H05, which are consolidated into the mobile telephony business together with the revenues of Personal. Nucleo s 1H05 revenues represented an increase of $14 million, or 17%.

As of June 30, 2005, Núcleo had approximately 567,000 customers an increase of 91,000, or 19%. Nucleo s postpaid subscribers increased by 22% reaching 107,000 clients, representing 19% of the customer base. Prepaid customers increased by 19% reaching 460,000, equivalent to 81% of the customer base.

Directories publishing

Publicom sales increased by $ 1 million or 17% reaching $ 7 million due to higher sales of advertising space and the acquisition of new customers. It is expected that the favorable evolution of the commercial campaigns will be reflected in the publication of the most important directories that are distributed during the second half of the year.

	Six-month periods ended June 30,	
	2005	**2004**
National fixed telephone service	1,057	1,008
International telephone service	110	105
Data transmission	75	75
Internet	149	123
Fixed telephony	**1,391**	**1,311**
Wireless	1,187	753
Directories publishing	7	6
Total net sales	**2,585**	**2,070**

II

TELECOM ARGENTINA S.A.

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

Operating costs

The cost of services provided, administrative expenses and selling expenses for 1H05 increased by $424 million, or 22%, to $2,362 million. The evolution of costs is mainly related to the increase in sales and competition in the mobile telephony business in Argentina. As an example of this, subscriber acquisition cost (including handset subsidies, agent commissions and advertising) increased by $138 million or 157% reaching $226 million.

Salaries and social security contributions increased by $43 million, or 15%, to $329 million primarily due to the increase in salaries granted to unionized and non-unionized employees and to the increase in headcount in the cellular telephony business. As of June 30, 2005, the headcount totaled 14,332, compared to 14,175 as of June 30, 2004. The increase in headcount is also related to the expansion of the cellular business.

Taxes reached $179 million, an increase of $38 million when compared with 1H04 due to the impact of sales tax and higher fees paid to the regulator, the latter, in the cellular telephony activity.

The allowance for doubtful accounts increased to $15 million, equivalent to 0.6% of revenues. The level of allowances registered is significantly lower than the historical levels registered by the Group. The increase of $13 million is mainly due to a lower level of recovery of past due receivables in the fixed telephony business and a slight increase of uncollectables in the cellular telephony business after the significant expansion of the customer base.

Sales commissions increased by $66 million, or 87%, to $142 million for 1H05, as a consequence of the commissions paid for new customers and higher sales of cellular prepaid cards.

Costs related to advertising increased by $19 million or 49% to $58 million in spite of the fact that Personal and Arnet continued with their promotions and media advertising campaigns.

The cost of cellular handsets increased by $159 million reaching $234 million mainly due to the increase in handset sales. As a consequence of the strong competition and the growth in the cellular business, handset subsidies have increased by $74 million or 264%, reaching $ 102 million.

TLRD (termination charges in third parties cellular networks) and roaming cost increased by $90 million reaching $171 million, due to the increase in traffic among cellular operators.

Depreciation of fixed and intangible assets decreased by $102 million, or 12%, to $749 million during 1H05 as a consequence of the end of the amortization period of certain assets in the fixed telephony business.

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

	Six-month periods ended June 30,	
	2005	**2004**
Salaries and social security	(329)	(286)
Taxes	(80)	(67)
Turnover tax	(99)	(74)
Maintenance, materials and supplies	(136)	(97)
Transportation and freight	(21)	(16)
Bad debt expense	(15)	(2)
Interconnection costs	(70)	(66)
Cost of international outbound calls	(48)	(39)
Lease of circuits	(16)	(17)
Fees for services (*)	(66)	(47)
Advertising	(58)	(39)
Cost of cellular handsets	(234)	(75)
Commissions	(179)	(104)
Roaming	(58)	(28)
Charges for termination of calls coming from other cellular operators	(113)	(53)
Others	(91)	(77)
Subtotal	**(1,613)**	**(1,087)**
Depreciation of fixed assets	(726)	(798)
Amortization of intangibles assets	(23)	(53)
Operating costs	**(2,362)**	**(1,938)**

(*) Includes (17) in June 04 corresponding to fees for debt restructuring.

III

TELECOM ARGENTINA S.A.

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

Financial results, net

The gain resulting from net financial results reached $299 million for 1H05 as compared to a loss of $298 million in 1H04. The difference can be largely attributed to the $586 million registered as net currency exchange differences. The higher gain was a consequence of the effect of the appreciation of the Argentine Peso against the Euro and the Dollar on the net financial debt of the Company.

Other expenses, net

Other expenses (net) decreased by $5 million, or 9%, to $50 million for the 1H05 mainly as a consequence of lower severance charges partially compensated by higher provisions for lawsuits and other contingencies.

Net financial debt (face value)

Net Debt (Loans minus Cash and Banks plus Investments) decreased by $1,214 million, or 17%, to $5,947 million for 1H05 compared with 1H04 ($7,161 million), mainly as a consequence of the effect on the financial debt of the Company of the appreciation of the Argentine Peso against the Euro and the Dollar, the reduction of the debt due to the successful restructuring of Personal and Nucleo s debts and the cash flow generation of the Company, partially offset by accrued interests.

Investments

Of the total amount of $169 million invested in fixed assets during 1H05, $89 million, or 53%, corresponds to fixed-line telephony, data transmission and Internet, and $80 million or 47% to the cellular business.

Other matters

Debt restructuring process of Telecom Argentina - Homologation of the APE

On May 26, 2005, the Judge overseeing our debt restructuring process issued a resolution approving the Acuerdo Preventivo Extrajudicial (APE) that was subscribed by the Company and its financial creditors. Such decision became final on June 10, 2005.

As ordered by the Argentine court, Telecom Argentina published notices in widely circulated national and foreign newspapers informing non-consenting creditors of the court s decision to permit them to select among any of the options offered by Telecom Argentina in its APE, within ten (10) court days following the last publication of notices. The Argentine court had provided that non-consenting creditors that do not submit an election before the Argentine court within such timeframe would be allocated to Option A.

Moreover, Standard & Poors International Ratings and Fitch Ratings have assigned an international rating of B- for the notes that will be issued as consideration of the APE.

Universal Service Fund

On May 4, 2005, the Secretariat of Communication (SC) issued a resolution clarifying that the contribution to the Universal Service Fund is a contribution that has to be made by the operators and should not be charge in the invoices of the clients. Additionally, it orders to the National Commission of Telecommunications (CNC) to notify the companies that they should cease with this practice and reimburse their customers for the fees collected under such concept.

On July 8, 2005, the CNC issued a resolution implementing the resolution of the SC, instructing the companies to stop billing their customers for Universal Service with these fees and to reimburse the fees collected plus interest in a 90 days period.

On August 9, 2005 Personal has filed an administrative recourse, and is waiting for the resolution of this step in order to analyze further actions in this matter.

3. Summary comparative consolidated balance sheets

	As of June 30,				
	2005	**2004**	**2003**	**2002**	**2001**
Current assets	4,811	3,946	2,010	2,268	2,536
Non current assets	7,405	8,378	9,797	12,752	12,346
Total assets	**12,216**	**12,324**	**11,807**	**15,020**	**14,882**
Current liabilities	9,738	11,009	9,347	14,255	3,478
Non current liabilities	1,458	319	308	145	6,187
Total liabilities	**11,196**	**11,328**	**9,655**	**14,400**	**9,665**
Minority interest	**34**	**34**	**21**	**1**	**27**
Foreign currency translation adjustments	**26**	**24**	**26**	**47**	
Shareholders equity	**960**	**938**	**2,105**	**572**	**5,190**
Total liabilities, minority interest, foreign currency translation adjustments and Shareholders equity	**12,216**	**12,324**	**11,807**	**15,020**	**14,882**

IV

TELECOM ARGENTINA S.A.

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

4. Summary comparative consolidated statements of operations

	Six-month periods ended June 30,				
	2005	**2004**	**2003**	**2002**	**2001**
Net sales	2,585	2,070	1,750	2,294	3,538
Operating costs	(2,362)	(1,938)	(1,757)	(2,315)	(3,061)
Operating income (loss)	**223**	**132**	**(7)**	**(21)**	**477**
Equity gain (loss) from related companies	7			(16)	(2)
Amortization of goodwill				(7)	(9)
Financial results, net	299	(298)	1,019	(6,921)	(244)
Other expenses, net	(50)	(55)	(86)	(85)	(57)
Results on debt restructuring	(15)		374		
Net income (loss) before income tax and minority interest	**464**	**(221)**	**1,300**	**(7,050)**	**165**
Income tax benefit (expense), net	(3)	(8)		2,390	(74)
Minority interest	(3)	(1)	(12)	29	
Net income (loss)	**458**	**(230)**	**1,288**	**(4,631)**	**91**
Net income (loss) per share (in pesos)	**0.47**	**(0.23)**	**1.31**	**(4.70)**	**0.09**

5. Statistical data (in physical units)

v ***Fixed telephone service***

	2005		2004		2003		2002		2001	
June 30,	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**
Installed lines	3,821,595	13,936	3,801,410	591	3,800,300	(2,224)	3,802,394	352	3,782,836	32,023
Lines replaced (a)	1,851,232		1,851,232		1,851,232		1,851,232		1,851,232	
Lines in service (b)	3,853,561	35,082	3,700,622	27,076	3,578,557	18,640	3,632,259	(113,556)	3,914,142	20,450
Customers lines	3,534,019	27,874	3,409,261	29,235	3,285,070	18,681	3,331,263	(110,311)	3,615,616	10,158
Public phones installed	83,762	339	81,411	737	79,360	20	79,679	470	82,732	1,536
Percentage of lines connected to digital exchanges	100.0		100.0		100.0		100.0		100.0	

Lines in service per 100 inhabitants (c)	20.4	0.2	19.7	0.1	19.2		19.7	(0.7)	21.5	0.1
Lines in service per employee	340	1	323	3	332	10	318	(18)	378	5

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

v ***Cellular telephone service***

Personal

	2005		**2004**		**2003**		**2002**		**2001**	
June 30,	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**
Post-paid subscribers	1,489,000	346,000	662,000	104,000	406,000	(17,000)	570,000	(77,000)	830,000	(73,000)
Prepaid subscribers	3,324,000	244,000	2,439,000	144,000	1,849,000	37,000	1,546,000	85,000	1,350,000	90,000

Núcleo

	2005		**2004**		**2003**		**2002**		**2001**	
June 30,	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**
Post-paid subscribers	107,000	9,000	88,000	6,000	74,000	2,000	78,000	4,000	57,000	10,000
Prepaid subscribers	460,000	23,000	388,000	(65,000)	442,000	(2,000)	467,000	(1,000)	376,000	51,000

v **Internet**

	2005		**2004**		**2003**		**2002**		**2001**	
June 30,	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**	**Accumulated**	**Quarter**
Dial Up subscribers	138,400	(5,000)	150,800	200	146,500	4,000	153,000	(6,200)	255,500	15,800
ADSL subscribers	159,000	22,700	93,600	13,500	53,800	6,900	35,200	2,400	9,000	7,700

6. Consolidated ratios

June 30,	**2005**	**2004**	**2003**	**2002**	**2001**
Liquidity (1)	0.49	0.36	0.22	0.16	0.73
Solvency (2)	0.09	0.09	0.22	0.04	0.54

Locked up capital (3)	0.61	0.68	0.83	0.85	0.83

(1) Current assets/Current liabilities.
(2) Shareholders equity plus minority interest and temporary differences from translation/Total liabilities.
(3) Non current assets/Total assets.

V

TELECOM ARGENTINA S.A.

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

7. Outlook

During the 1H05 the main variables of the Argentine economy continued to show positive trends. The indicators of production output and economic activity continued to show a positive evolution, and in some cases with important levels of growth. Moreover, tax collection continued to increase at very important growth rates. With respect to the evolution of prices and inflation, indications of acceleration in the rhythm of price increases started to arise, after a period of two years of very low inflation. Monetary and economic authorities, together with the population in general, showed concerns on this issue, and took concrete actions to neutralize this effect, and achieved a deceleration in the evolution of prices. These actions could affect the positive performance of the Argentine economy, especially in the levels of personal spending. Meanwhile, as a result of the increase of tax collection and to the control of expenditure, fiscal results continued to show important levels of surplus. It must be pointed out that the latter has shown an increase due to wages increases granted to people working in the public sector and to the passive sector.

With respect to the operations of the Company, as in previous quarters, the fixed-line business continued to register increases in the number of customers and levels of traffic. Notwithstanding, the effect of the freeze of the fixed line tariffs enforced by the Government limits any potential absorption of incremental costs caused by the inflationary effect. It must be noted that the resolution of the renegotiation of the Transfer Agreement with the National authorities continues to be a pending issue.

The cellular business continued with the sustained growth of the customer base and the levels of traffic, although the market environment is highly competitive. This implied a substantial growth in sales and an increase in commercial costs, mainly vendor commissions and handset subsidies, although this permitted to capture a higher number of customers, but affected the margin of the business.

In the context of the debt restructuring process, on May 26, 2005, the Judge overseeing our debt restructuring process issued a resolution approving the Acuerdo Preventivo Extrajudicial (APE) that was subscribed by the Company and its financial creditors. Such decision became final on June 10, 2005.

As ordered by the Argentine court, Telecom Argentina published notices in widely circulated national and foreign newspapers informing non-consenting creditors of the court s decision to permit them to select among any of the options offered by Telecom Argentina in its APE, within ten (10) court days following the last publication of notices. The Argentine court had provided that non-consenting creditors that do not submit an election before the Argentine court within such timeframe would be allocated to Option A. This timeframe was fulfilled in July 4, 2005, so the Company believes that it is in the last stage of its debt restructuring process.

It must be stated that, despite the implementation of the APE, almost all the debt of the Group is denominated in foreign currency, and therefore the Company will continue to be exposed to fluctuation of the peso-to-dollar, peso-to-euro and peso-to-japanese yen foreign exchange rate.

The Telecom Group continues to work hard in order to improve the quality of its service and its market position, to gain operating efficiency that all together will allow to address the increasing demand of the telecommunications market. Moreover, the Company continues to undertake important investment projects in areas and services that have the potential to contribute a substantial increase in the generation of operating cash flow of the Telecom Group. The Company expects that such actions will result in the improvement in the levels of profitability.

Amadeo R. Vázquez
President

VI

TELECOM ARGENTINA S.A.

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

CORPORATE INFORMATION

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

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

BCBA

	Market quotation ($/share)		
Quarter	**High**	**Low**	**Volume of shares traded (in million)**
June 04	6.27	4.19	35.9
September 04	6.48	5.16	25.6
December 04	6.60	5.78	28.3
March 05	8.65	6.00	32.2
June 05	7.50	6.59	23.3

NYSE

	Market quotation (US$/ADR*)		
Quarter	**High**	**Low**	**Volume of ADRs traded (in million)**
June 04	11.09	7.30	16.3
September 04	10.92	8.49	12.1
December 04	11.11	9.60	15.7
March 05	14.63	10.20	29.1
June 05	13.18	11.37	14.5

* Calculated at 1 ADR = 5 shares

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

In Argentina

Telecom Argentina S.A.
Investor Relations Departments
Alicia Moreau de Justo 50, 10th Floor
(1107) Ciudad Autónoma de Buenos Aires
Tel.: 54-11-4968-4000
Argentina

Outside Argentina

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

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

Ø **DEPOSIT AND TRANSFER AGENT FOR ADRs**

JP Morgan Chase Bank
4 New York Plaza, Wall Street
New York, 212-623-1546
USA

SIGNATURES

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

	Telecom Argentina S.A.	
Date: August 24, 2005	By:	/s/ Carlos Alberto Felices
	Name:	Carlos Alberto Felices
	Title:	Chief Executive Officer