

TELECOM ARGENTINA SA
Form 6-K
June 07, 2010
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

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

of the Securities Exchange Act of 1934

For the month of June, 2010

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant's name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

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

Yes No

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

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Telecom Argentina S.A.

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2010

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TELECOM ARGENTINA S.A.

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

Consolidated Financial Statements as of March 31, 2010 and December 31, 2009 and for the three-month periods ended March 31, 2010 and 2009

\$: Argentine peso

US\$: US dollar

\$3.878 = US\$1 as of March 31, 2010

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TELECOM ARGENTINA S.A.

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

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

| | As of March 31, 2010 (unaudited) | As of December 31, 2009 |
|--------------------------------------|--|-------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and banks | \$ 63 | \$ 62 |
| Investments | 1,667 | 1,227 |
| Accounts receivable, net | 1,047 | 1,163 |
| Other receivables, net | 241 | 241 |
| Inventories, net | 223 | 243 |
| Other assets, net | 7 | 7 |
| Total current assets | 3,248 | 2,943 |
| Non-Current Assets | | |
| Other receivables, net | 75 | 74 |
| Investments | 2 | 1 |
| Fixed assets, net | 6,895 | 6,839 |
| Intangible assets, net | 768 | 773 |
| Other assets, net | 4 | 3 |
| Total non-current assets | 7,744 | 7,690 |
| TOTAL ASSETS | \$ 10,992 | \$ 10,633 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 1,932 | \$ 2,212 |
| Debt | 828 | 763 |
| Salaries and social security payable | 272 | 300 |
| Taxes payable | 975 | 769 |
| Other liabilities | 55 | 52 |
| Contingencies | 69 | 73 |
| Total current liabilities | 4,131 | 4,169 |
| Non-Current Liabilities | | |
| Accounts payable | 22 | 24 |
| Debt | 43 | 58 |
| Salaries and social security payable | 79 | 82 |
| Taxes payable | 185 | 212 |

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| | | |
|---|------------------|------------------|
| Other liabilities | 184 | 186 |
| Contingencies | 414 | 374 |
| Total non-current liabilities | 927 | 936 |
| TOTAL LIABILITIES | \$ 5,058 | \$ 5,105 |
| Noncontrolling interest | 93 | 92 |
| SHAREHOLDERS EQUITY | \$ 5,841 | \$ 5,436 |
| TOTAL LIABILITIES, NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY | \$ 10,992 | \$ 10,633 |

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

Adrián Calaza
Chief Financial Officer

Gerardo Werthein
Vice-Chairman in exercise of the Presidency

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Income

for the three-month periods ended March 31, 2010 and 2009

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

| | For the three-month periods ended March 31, | |
|---|--|----------------|
| | 2010 | 2009 |
| Net sales | \$ 3,249 | \$ 2,829 |
| Cost of services | (1,618) | (1,421) |
| Gross profit | 1,631 | 1,408 |
| General and administrative expenses | (121) | (92) |
| Selling expenses | (747) | (657) |
| Operating income | 763 | 659 |
| Financial results, net | (57) | (94) |
| Other expenses, net | (51) | |
| Net income before income tax and noncontrolling interest | 655 | 565 |
| Income tax expense, net | (242) | (213) |
| Noncontrolling interest | (2) | (1) |
| Net income | \$ 411 | \$ 351 |
| Net income per share | \$ 0.42 | \$ 0.36 |

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

Adrián Calaza
Chief Financial Officer

Gerardo Werthein
Vice-Chairman in exercise of the Presidency

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TELECOM ARGENTINA S.A.

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

Unaudited Consolidated Statements of Changes in Shareholders' Equity

for the three-month periods ended March 31, 2010 and 2009

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

| | Shareholders' contributions (Note 9.a) | | | Legal reserve | Unappropriated earnings (Note 9.b) | | Total | Total Shareholders equity |
|---|---|--------------------|----------------------------------|------------------|---|-------------------------|--------------|---------------------------------|
| | Common stock | of common stock | Inflation adjustment Total | | Foreign currency translation adjustments | Accumulated earnings | | |
| Balances as of January 1, 2009 | \$ 984 | 2,688 | 3,672 | | 95 | 253 | 348 | \$ 4,020 |
| Foreign currency translation adjustments | | | | | 3 | | 3 | 3 |
| Changes in the fair value of cash flow hedges, net of income tax | | | | | 1 | | 1 | 1 |
| Net income for the period | | | | | | 351 | 351 | 351 |
| Balances as of March 31, 2009 | \$ 984 | 2,688 | 3,672 | | (i) 99 | 604 | 703 | \$ 4,375 |
| Balances as of January 1, 2010 | \$ 984 | 2,688 | 3,672 | | 106 | 1,658 | 1,764 | \$ 5,436 |
| Foreign currency translation adjustments | | | | | (4) | | (4) | (4) |
| Changes in the fair value of cash flow hedges, net of income tax | | | | | (2) | | (2) | (2) |
| Net income for the period | | | | | | 411 | 411 | 411 |
| Balances as of March 31, 2010 | \$ 984 | 2,688 | 3,672 | | (ii) 100 | 2,069 | 2,169 | \$ 5,841 |

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

(i) Foreign currency translation adjustments at March 31, 2009, consist of the following:

| | Foreign currency translation adjustments | Fair value of cash flow hedges |
|--------------|---|---|
| Personal | 90 | 8 |
| Telecom | | 1 |
| Total | 90 | 9 |

(ii) Foreign currency translation adjustments at March 31, 2010, consist of the following:

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| | Foreign currency translation adjustments | Fair value of cash flow hedges |
|-----------------|---|---|
| Personal | 102 | (2) |
| Total | 102 | (2) |

Adrián Calaza
Chief Financial Officer

Gerardo Werthein
Vice-Chairman in exercise of the Presidency

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Unaudited Consolidated Statements of Cash Flows****for the three-month periods ended March 31, 2010 and 2009**

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

| | For the three-month periods ended March 31, | |
|---|--|--------------|
| | 2010 | 2009 |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Net income for the period | \$ 411 | \$ 351 |
| Adjustments to reconcile net income to net cash flows provided by operating activities | | |
| Allowance for doubtful accounts and other allowances | 37 | 45 |
| Depreciation of fixed assets | 297 | 253 |
| Amortization of intangible assets | 4 | 5 |
| Consumption of materials | 25 | 23 |
| Gain on sale/disposal of fixed assets and other assets | | (5) |
| Provision for lawsuits and contingencies | 38 | (15) |
| Holdings (gain) loss on inventories | 8 | (12) |
| Interest and other financial losses on loans | 70 | 120 |
| Income tax | 142 | 175 |
| Noncontrolling interest | 2 | 1 |
| Net decrease (increase) in assets | 83 | (7) |
| Net decrease in liabilities | (139) | (79) |
| Total cash flows provided by operating activities | 978 | 855 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Fixed asset acquisitions | (513) | (375) |
| Intangible asset acquisitions | (8) | (5) |
| Proceeds for the sale of fixed assets and other assets | 1 | 9 |
| Increase in investments not considered as cash and cash equivalents | (1) | (10) |
| Total cash flows used in investing activities | (521) | (381) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Debt proceeds | 15 | 22 |
| Payment of debt | (33) | (60) |
| Payment of interest and debt-related expenses | (1) | (15) |
| Total cash flows used in financing activities | (19) | (53) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 438 | 421 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR | 1,273 | 902 |

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| | | |
|--|-----------------|-----------------|
| CASH AND CASH EQUIVALENTS AT PERIOD END | \$ 1,711 | \$ 1,323 |
|--|-----------------|-----------------|

See Note 6 for supplementary cash flow information.

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

Adrián Calaza
Chief Financial Officer

Gerardo Werthein
Vice-Chairman in exercise of the Presidency

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TELECOM ARGENTINA S.A.

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)

1. The Company and its operations

Telecom Argentina S.A. (Telecom Argentina or Telecom and together with its subsidiaries, the Company or the Telecom Group, indistinctively) was created by a decree of the Argentine Government in January 1990 and organized as a *sociedad anónima* under the name Sociedad Licenciataria Norte S.A. in April 1990.

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

Telecom Argentina's license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina through October 10, 1999. As from such date, the Company began providing telephone services in the southern region of Argentina and competing in the previously exclusive northern region.

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

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

| Reportable segment | Subsidiaries | Percentage of capital stock owned and voting rights (i) | Indirect control through | Date of acquisition |
|--------------------------|---|---|--------------------------|---------------------|
| Voice, data and Internet | Telecom Argentina USA Inc. (Telecom USA) | 100.00% | | 09.12.00 |
| | Micro Sistemas Sociedad Anonima (Micro Sistemas) (ii) | 99.99% | | 12.31.97 |
| Wireless | Telecom Personal S.A. (Personal) | 99.99% | | 07.06.94 |
| | Núcleo S.A. (Núcleo) | 67.50% | Personal | 02.03.98 |
| | Springville S.A. (Springville) (ii) | 100.00% | Personal | 04.07.09 |

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

(ii) Dormant entity at March 31, 2010.

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

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

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

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

The Privatization Regulations, including the List of Conditions;

The Transfer Agreement;

The Licenses granted to Telecom Argentina and its subsidiaries;

The Tariff Agreements; and

Various governmental decrees, including Decree No. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum management.

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

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

(b) Licenses granted as of March 31, 2010

As of March 31, 2010, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

Local fixed telephony;

Public telephony;

Domestic and international long-distance telephony;

Domestic and international point-to-point link services;

Domestic and international telex services;

Value added services, data transmission, videoconferencing and broadcasting signal services; and

Internet access.

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

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

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

(c) Revocation of the license

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

an interruption of all or a substantial portion of service;

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

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

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

a reduction of Nortel Inversora S.A.'s (Nortel, the parent company of the Company) interest in Telecom Argentina to less than 51%, or the reduction of Nortel's common shareholders' interest in Nortel to less than 51%, in either case without prior approval of the Regulatory Bodies;

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

an assignment or delegation of Telecom Italia S.p.A.'s (Telecom Italia or the Operator) functions without the prior approval of the Regulatory Bodies;

the Company's bankruptcy.

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

repeated interruptions of the services;

any transfer of the license and/or the related rights and obligations, without the prior approval of the Regulatory Authority;

any encumbrance of the license;

any voluntary insolvency proceedings or bankruptcy of Personal;

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

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

repeated interruptions of the services;

any voluntary insolvency proceedings or bankruptcy of Núcleo;

non-compliance with certain obligations.

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

(d) Decree No. 764/00

Decree No. 764/00 substantially modified three regulations:

General Regulation of Licenses

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

Argentine Interconnection Regulation

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

On January 22, 2009, the SC issued Resolution No. 8/09 through which it created a Working Commission composed by members of the SC and the CNC to prepare a draft of the Number Portability Regulation.

Universal Service (SU) Regulation

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

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

New SU Regulation

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

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

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

It also established that the SC will review SU programs which were established under the previous regulation, guaranteeing the continuity of those already being administered and implementing those that had been under review.

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TELECOM ARGENTINA S.A.

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

Notes to the Unaudited Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

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

The level of financing of SU ongoing programs established under the previous regulation will be determined by the SC, whereas telecommunications providers appointed to participate in future SU Programs will be selected by competitive bidding.

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

Decree No. 558/08 also mandates the creation of the SU Fund and orders that it must be established within 180 days from the date of publication. Providers of telecommunications services shall act in their capacity as trustors for this fund, and shall rely on the assistance of a Technical Committee made up of seven members (two members shall be appointed by the SC, one member shall be appointed by the CNC, three members shall be appointed by the telecommunication services providers two of which shall be appointed by Telecom and Telefonica and one by the rest of the providers and another member will be appointed by independent local operators). This Technical Committee will be informed by the SC of the programs that will be financed and will be responsible for managing and controlling the SU Fund, carrying out technical-economic evaluations of existing projects and supervising the process of competitive bidding and adjudication of new SU programs, with the prior approval by the SC.

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

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

On January 12, 2009, the Company and Personal, filed claims before the SC objecting to the provisions of SC Resolution No. 405/08, based on the illegality of this rule, arguing that it contradicts Decree No. 558/08 because it violates the rights of both licensees to factor their compensation for the provision of the SU programs in the calculation of their investment contribution, in accordance with the pay or play mechanism stated in the Decree No. 558/08.

The management of the Group, with the opinion of its legal counsel, considers it has meritorious legal arguments for the claims filed against Resolution No. 405/08.

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

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On April 4, 2009, by means of SC Resolution No. 88/09, the SC created a new program denominated Telephony and Internet for towns without provision of basic Telephone services that will be subsidized with funds from the SU Fund. The new program seeks to provide local telephony, domestic long distance, international long distance and Internet in towns that currently do not provide basic telephone services. SC Resolution No. 88/09 specifies the methodology that licensees will have to follow for proposals to render these services in several of the 1,491 towns and 1,496 schools identified in the Annex of the Resolution. The proposed projects approved by the SC will be sent to the Technical Committee of the SU Fund so that availability of funds can be evaluated and they can be included in a bidding process provided for in Decree No. 558/08.

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

Notes to the Unaudited Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

In Telecom

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

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

In compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713 /07, Telecom Argentina has estimated a receivable of \$696 (unaudited) for the period initiated in July 2007 and filed its calculations for review by the regulatory authority. This receivable has not yet been recorded since it is subject to the approval of the SU programs, the review of the SC and the availability of funds in the SU Trust.

In Personal

Since January 2001, Personal has been recording a provision related to its obligation to make contributions to the SU fund. As of March 31, 2010, this provision amounts to \$167. In addition, since July 2007 and in compliance with SC Resolution No. 80/07 and CNC Resolution No. 2,713/07, Personal has deposited the correspondent contributions on their respective maturity date (amounting to \$77 as of March 31, 2010) into a special individual account held under their name at the Banco de la Nación Argentina; these contributions were recorded as a receivable in the caption Other receivables of the consolidated balance sheets.

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

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

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

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

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

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

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

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

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

2. Regulatory framework (continued)

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

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

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

(f) Public telephony in penal institutions

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

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

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

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

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

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

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

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

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

At March 31, 2010, the Company has a net receivable of \$68 which, in addition with the receivable of \$23 corresponding to the tax on deposits to and withdrawals from bank accounts (IDC), is included in the caption Other receivables (\$1 as current receivables and \$90 as non-current receivables).

Since the resolution allows the Company to offset the receivables with existing and/or future regulatory duties and the intention of the Company is to exercise its offsetting rights, the receivable was recorded net of reserves. At March 31, 2010, the reserves corresponding to these regulatory duties amounted to \$84.

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

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2. Regulatory framework (continued)

(h) Rendering of fixed telephony through mobile telephony infrastructure

By SC Resolution No. 151/07, fixed telephony was granted access to particular frequency bands, with the purpose of enabling basic telephone services in rural and suburban areas to be rendered through the wireless infrastructure used for the provision of mobile telephony service. Licensees will provide such service within their respective fixed telephony service original regions. The Company has started to install fixed lines based on this technology in order to satisfy service demand in rural and suburban areas.

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

Rate Rebalancing

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

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

Price Cap

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

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

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

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

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

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

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

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

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

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

2. Regulatory framework (continued)

(j) Renegotiation of agreements with the Argentine Government

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

However, in January 2002, the Argentine Government enacted Law No. 25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the Public Emergency Law), which provided, among other aspects, for the following:

The pesification of tariffs;

The elimination of dollar or other foreign-currency adjustments and indexing provisions for tariffs;

The establishment of an exchange rate for dollar-denominated prices and rates of \$1 =US\$1; and

The renegotiation of the conditions of the contractual agreements entered into between privatized companies and the Argentine Government.

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

The overall impact of tariffs for public services on the economy and income levels;

Service quality and investment plans, as contractually agreed;

The customers' interests and access to the services;

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The security of the systems; and

The profitability of the service providers.

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

Furthermore, in July 2003, Decree No. 311/03 created the Unidad de Renegociación y Análisis de Contratos de Servicios Públicos (UNIREN), (Division for the Renegotiation and Analysis of Contracts of Public Utilities Services), a special division within the Ministry of Economy and the Ministry of Federal Planning, Public Investments and Services, pursuant to which the contractual relationships between the Argentine Government and the service providers were to be revised and renegotiated. In October 2003, the Argentine Government enacted Law No. 25,790 pursuant to which the original term to renegotiate the contracts was extended through December 31, 2004. As from that date, the Argentine Government enacted subsequent laws pursuant to which this term was extended through December 31, 2011.

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

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

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

2. Regulatory framework (continued)

New Letter of Understanding with the UNIREN

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

The main terms and conditions of the Letter include:

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

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

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

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

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

Telecom Argentina s commitment and the commitment of its indirect shareholders Telecom Italia S.p.A. and W de Argentina Inversiones S.L., to suspend for a period of 210 working days any and all claims, appeals and petitions already filed or in the process of being filed, in administrative, arbitral or judicial offices, in Argentina or in any other country, that are founded in or related to any act or measure taken after the issuance of the Public Emergency Law with respect to the Transfer Agreement and the License. The

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suspension will take effect after the 30th day from the end of the public hearing convened to deal with the Letter. Once the Minutes of Agreement of the Renegotiation is ratified, any and all claims, appeals and/or proceedings will be disregarded;

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

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

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

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

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

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

2. Regulatory framework (continued)

(k) Buy Argentine Act

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

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

Compre Trabajo Argentino also mandates that Telecom Argentina publish any bid for services in the Official Bulletin in order to provide any and all prospective offerors with the information necessary for them to participate. This mandatory publication requires considerable lead-time prior to the issuance of the purchase order and has had the result of extending the period needed to complete certain purchases. Non-compliance with Compre Trabajo Argentino is subject to criminal sanctions.

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

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

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

3. Preparation of financial statements

(a) Basis of presentation

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

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

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In March 2009, the Argentine Federation of Professional Boards of Economic Sciences (the FACPCE) approved Technical Resolution (RT) 26 Adoption of International Financial Reporting Standards , which will be fully effective for companies making public offering of securities (such as the Company) as from January 1, 2011. In June 2009, the FACPCE approved RT27 which provides for amendments to the existing RT for those companies not adopting IFRS. On December 30, 2009, the CNV issued Resolution No. 562/09 adopting RT26 with a few differences related to the companies obliged to adopt IFRS and the date of adoption. FACPCE is revising RT26 in order to align RT26 and CNV Resolution No. 562/09. Additional information is given in Note 15.

(b) Basis of consolidation

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

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

In accordance with Argentine GAAP, the presentation of the parent company s individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes (see Note 13 for a description of certain condensed unconsolidated information).

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

3. Preparation of financial statements (continued)**(c) Presentation of financial statements in constant Argentine Pesos**

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

However, on March 25, 2003, the Argentine Government reinstructed the CNV to preclude companies from presenting price-level restated financial statements. Therefore, CNV Resolution No. 441/03 resolved discontinuing inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date.

In October 2003, the CPCECABA resolved to discontinue inflation accounting as of September 30, 2003. Since Argentine GAAP required companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution represented a departure from Argentine GAAP. Changes in wholesale price indices for the periods indicated were as follows:

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

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

| | As reported (*) (I) | As restated through September 30, 2003 (**) | | Effect | |
|--------------------------------|------------------------|--|-----|-------------|-----|
| | | (II) | (I) | (II) | (I) |
| Total assets | 10,992 | 10,952 | | (40) | |
| Total liabilities | 5,058 | 5,044 | | (14) | |
| Noncontrolling interest | 93 | 93 | | | |
| Shareholders equity | 5,841 | 5,815 | | (26) | |
| Net income | 411 | 412 | | 1 | |

(*) As required by CNV resolution.

(**) As required by Argentine GAAP.

(d) Interim financial information

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The accompanying March 31, 2010 consolidated financial statements are unaudited. The interim consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes. The unaudited financial statements include, in the opinion of Management of the Company, all adjustments, consisting only of normal recurring adjustments that are considered necessary for the fair presentation of the information in the financial statements. Operating results for the three-month period ended March 31, 2010 are not necessarily indicative of results that may be expected for any future periods.

(e) Use of estimates

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

(f) Reclassifications

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

In particular, the comparative figures at March 31, 2009 were restated to reflect the effect of the changes in the useful lives of fixed assets of the Telecom Group as from January 1st, 2009. As it was informed in the consolidated financial statements as of June 30, 2009, this change resulted in a \$34 decrease in depreciation expense (\$22 net of tax effect) for the three-month period ended March 31, 2009.

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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3. Preparation of financial statements (continued)

(g) Statement of cash flows

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

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

(h) Concentration of credit risk

The Company's cash equivalents and investments include money market mutual funds placed with various major financial institutions with high credit ratings. The Company's investment policy limits its credit exposure to any one issuer/obligor.

The Company's customers include numerous corporations. The Company serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Company's account receivables are not subject to significant concentration of credit risk. While receivables for sales to these various customers are generally unsecured, the financial condition and creditworthiness of customers are routinely evaluated. Fixed customer lines were 3,991,000 (unaudited) at March 31, 2010 and 3,941,000 (unaudited) at March 31, 2009 and wireless customer lines, excluding prepaid lines and Internet subscribers (Argentina and Paraguay combined) were 4,698,000 (unaudited) at March 31, 2010 and 4,505,000 (unaudited) at March 31, 2009.

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

(i) Earnings per share

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

4. Summary of significant accounting policies

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

(a) Foreign currency translation

The financial statements of the Company's foreign subsidiaries are translated in accordance with RT 18, Specific Considerations for the Preparation of Financial Statements. RT 18 establishes guidelines to classify foreign investments either as foreign operations or foreign entities.

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A company is to be regarded as a foreign entity if it is financially, economically and organizationally autonomous. Otherwise, a company is to be regarded as a foreign operation if its operations are integral to those of the Company. The Company's foreign subsidiaries have been classified as foreign entities since they are financially, economically and organizationally autonomous. Accordingly, and pursuant to RT 18, financial statements of foreign entities are translated using period-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as Foreign currency translation adjustments, a separate caption in the equity section.

(b) Revenue recognition

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

Voice, data and Internet services

Fixed telephone services:

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

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

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from corresponding accounts receivable. Revenues derived from other telecommunications services, principally network access, long distance and airtime usage, are recognized monthly as services are provided.

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4. Summary of significant accounting policies (continued)

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

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

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

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

International long-distance services:

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

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

Revenues are recognized as services are provided.

Data transmission and Internet services:

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

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

Wireless telecommunication services

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

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

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

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

(c) Foreign currency transaction gains/losses

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

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4. Summary of significant accounting policies (continued)

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

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

The net carrying value of these capitalized costs was \$55 as of March 31, 2010 and \$57 as of December 31, 2009, both in the Voice, data and Internet segment.

(d) Cash and banks

Cash and banks are stated at face value.

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

Certain receivables and payables on the sale or purchase of goods and services, respectively, and those arising from financial transactions, are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at the time of initial measurement. This method is also called the amortized cost method and is equivalent to the face value of the receivables/payables plus the accrued interest less the collections/payments made at period-end.

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

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

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

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

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

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

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

(h) Investments

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

The Company has investments in certain government bonds. The Company has classified these securities as held-to-maturity as management has the intent and ability to hold those securities to maturity.

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

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

(i) Inventories, net

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

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

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

4. Summary of significant accounting policies (continued)***(j) Other assets, net***

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

(k) Fixed assets, net

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

As of the date of these financial statements, the Company has received the transfer of title pertaining to substantially all of the fixed assets received from ENTel, other than 14.7% of the total transferred buildings, representing \$10 of net carrying value as of March 31, 2010. Nevertheless, the Company is in complete possession of these fixed assets and operates them normally.

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

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

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

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

| Asset | Estimated useful life (years) |
|-------------------------------|-------------------------------|
| Buildings received from ENTel | 35 |
| Buildings | 50 |
| Tower and pole | 15 |
| Transmission equipment | 3-20 |
| Wireless network access | 5-10 |

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| | |
|-------------------------------------|-------|
| Switching equipment | 5-13 |
| Power equipment | 7-15 |
| External wiring | 10-20 |
| Computer equipment | 3-5 |
| Telephony equipment and instruments | 5-10 |
| Installations | 3-10 |

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

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

(l) Intangible assets, net

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

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

Intangible assets comprise the following:

Software obtained or developed for internal use

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

Debt issue costs

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

PCS license

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

PCS and Band B of Paraguay licenses

Núcleo s PCS and Band B licenses were amortized under the straight-line method over 10 years through fiscal year 2007. Renovation costs are being amortized in 5 years.

Rights of use

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

Exclusivity agreements

Exclusivity agreements were entered into with certain retailers and third parties relating to the promotion of the Company's services and products. Amounts capitalized are being amortized over the life of the agreements, which range from fiscal year 2009 to fiscal year 2028.

Customer relationships

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

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

(m) Impairment of long-lived assets

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

The devaluation of the Argentine peso, which occurred in January 2002, and the pesification of Telecom Argentina's tariffs materially affected the Company's financial position and results of operations, and changed the rules under which the Company operated. However, as indicated in Note 2.j., Law No. 25,561 authorized the Argentine Government to renegotiate the conditions of the contracts with the privatized companies, taking into account their profitability, among other criteria.

In this regard, the Company has made certain assumptions in the determination of its estimated cash flows to evaluate a potential impairment of its long-lived assets in relation to each operating segment. In the preparation of such estimates and in connection with the fixed-line business, the Company has considered different scenarios, some of which contemplate the modification of the current level of Telecom Argentina's regulated tariffs which would enable Telecom Argentina to finance the technological renovation of its fixed-line network in the next years.

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

(n) Severance indemnities

Severance payments made to employees are expensed as incurred.

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

(o) Taxes payable

Income taxes

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

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

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

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

Tax on minimum presumed income

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

For the three-month period ended March 31, 2010, Telecom has estimated a provision for income taxes.

Turnover tax

Under Argentine tax law, the Company is subject to a tax levied on gross revenues. Rates differ depending on the jurisdiction where revenues are earned for tax purposes. Average rates were approximately 4.0% for the three-month periods ended March 31, 2010 and 2009.

(p) Other liabilities

Pension benefits

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

Retirement liabilities shown under other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability. Benefits consist of the payment of a single lump sum equal to the salary of one month for each five years of service. There is no vested benefit obligation until the occurrence of those conditions. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits. The net periodic pension costs are recognized as employees render the services necessary to earn pension benefits. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as required by RT 23. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement.

Deferred revenue on sale of capacity

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

Court fee

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

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

4. Summary of significant accounting policies (continued)

Legal fee

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

(q) Exchange of debt instruments

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

(r) Litigation

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

(s) Derivatives to hedge the Company's exposure to foreign currency

The Company has adopted the Caption No. 2 of RT 18 issued by the FACPCE, Accounting for Derivative Instruments and Hedging Activities, which requires the recognition of all derivative financial instruments as assets and/or liabilities at their estimated fair value, whether designated in a hedging relationship or not.

Changes in the fair value of effective cash flow hedges are recognized as a separate component of Shareholders' equity of the balance sheet (in the item line Foreign currency translation adjustments) and subsequently reclassified to earnings when the hedged items affect earnings. Gains and losses from fair value hedges are recognized in earnings in the period of any changes in the fair value of the related recognized asset or liability.

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

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.

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

The main characteristics of the derivatives at March 31, 2010 are the following:

a) Non-Deliverable Forward (NDF) contracts to purchase foreign currency for Notes

When entering into these NDF contracts, the management objective was to reduce its exposure to foreign currency fluctuations and denominate its Notes in Argentine pesos. At inception, the critical terms of the NDF were substantially similar to the terms of the foreign currency-denominated obligations (amounts and maturity dates). Accordingly, these hedges were designated as cash flow hedges. In accordance with Argentine GAAP, changes in the fair value of these hedges were recognized in the item line Foreign currency translation adjustments and subsequently reclassified to earnings when the hedged items affect earnings.

For the three-month period ended March 31, 2010, the US dollar-denominated Notes (hedged item) have generated foreign currency exchange differences; consequently, a loss of \$33 was reclassified to financial results in the item line Gain (loss) on derivatives .

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

4. Summary of significant accounting policies (continued)

At March 31, 2010, an amount of \$2 (a loss, net of tax effect) is included in the item line Foreign currency translation adjustments , corresponding to the US dollar acquired to hedge the interest of the Notes to be accrued.

Personal entered into several contracts to purchase foreign currency which main characteristics at March 31, 2010, are the following:

| Currency | Amount (in million) | Average exchange rate | Date | Expiring date | Book value at March 31, 2010 assets (liabilities) |
|----------|------------------------|-----------------------------|--------------------------|-------------------------|--|
| US\$ | 187.2 | 4.3155 \$/US\$ | August 2009/January 2010 | June 2010 December 2010 | (*)(38) |

(*) Included in Current debt, of which \$(10) corresponds to related parties see Note 7.e .

b) NDF contracts to purchase foreign currency for accounts payable

When entering into these NDF contracts, the management objective was to reduce its exposure to foreign currency fluctuations and denominate its accounts payable in Argentine pesos. At March 31, 2010, Personal entered into several NDF contracts amounting to US\$29.9 million (maturing June through December 2010). However, as the terms of the NDF do not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective.

For the three-month period ended March 31, 2010, the changes in the fair value of these hedges were recognized as a loss in the financial results as Gain (loss) on derivatives in an amount of \$4 with counterpart in the item line Accounts payable .

(t) Vacation expenses

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

(u) Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the three-month periods ended March 31, 2010 and 2009 are shown in Note 16.h. under the caption Advertising .

5. Breakdown of the main accounts**(a) Cash and banks**

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Cash and banks consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|-------|----------------------------|-------------------------------|
| Cash | \$ 8 | \$ 12 |
| Banks | 55 | 50 |
| | \$ 63 | \$ 62 |

(b) Investments

Investments consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|------------------------------|----------------------------|-------------------------------|
| Current | | |
| Time deposits (Note 16.d) | \$ 1,483 | \$ 1,075 |
| Mutual funds (Note 16.c) | 140 | 120 |
| Related parties (Note 7.e) | 42 | 32 |
| Government bonds (Note 16.c) | 2 | |
| | \$ 1,667 | \$ 1,227 |
| Non current | | |
| Government bonds (Note 16.c) | \$ 1 | \$ |
| 2003 Telecommunications Fund | 1 | 1 |
| | \$ 2 | \$ 1 |

(c) Accounts receivable

Accounts receivable consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|---|----------------------------|-------------------------------|
| Current | | |
| Voice, data and Internet | \$ 576 | \$ 621 |
| Wireless (i) | 615 | 676 |
| Wireless related parties (Note 7.e) | 3 | 10 |
| Subtotal | 1,194 | 1,307 |
| Allowance for doubtful accounts (Note 16.e) | (147) | (144) |
| | \$ 1,047 | \$ 1,163 |

(i) Includes \$17 as of March 31, 2010 and \$19 as of December 31, 2009 corresponding to Núcleo s receivables.

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(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 March 31, 2010 | As of December 31, 2009 |
|--|----------------------------|-------------------------------|
| Current | | |
| Prepaid expenses | \$ 99 | \$ 80 |
| SU credits (Note 2.d) | 77 | 66 |
| Tax credits | 34 | 60 |
| Restricted funds | 10 | 10 |
| Credit on SC Resolution No. 41/07 and IDC (Note 2.g and i) | 1 | 4 |
| Derivatives (Note 4.s) | | 1 |
| Other | 33 | 36 |
| Subtotal | 254 | 257 |
| Regulatory contingencies (Notes 2 g and i and 16.e) | (1) | (4) |
| Allowance for doubtful accounts (Note 16.e) | (12) | (12) |
| | \$ 241 | \$ 241 |
| Non current | | |
| Credit on SC Resolution No. 41/07 and IDC (Note 2.g and i) | \$ 90 | \$ 87 |
| Restricted funds | 25 | 24 |
| Prepaid expenses | 27 | 19 |
| Other tax credits | 22 | 21 |
| Credit on minimum presumed income tax | 7 | 7 |
| Other | 9 | 12 |
| Subtotal | 180 | 170 |
| Regulatory contingencies (Notes 2 g and i and 16.e) | (83) | (75) |
| Allowance for doubtful accounts (Note 16.e) | (22) | (21) |
| | \$ 75 | \$ 74 |

(e) Inventories

Inventories consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|---|----------------------------|-------------------------------|
| Wireless handsets and equipment (Note 16.f) | \$ 240 | \$ 264 |
| Allowance for obsolescence (Note 16.e) | (17) | (21) |
| | \$ 223 | \$ 243 |

(f) Other assets

Other assets consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|--|----------------------------|-------------------------------|
| Current | | |
| Fixed assets held for sale | \$ 8 | \$ 8 |
| Allowance for other assets (Note 16.e) | (1) | (1) |
| | \$ 7 | \$ 7 |
| Non current | | |
| Fixed assets held for sale | \$ 7 | \$ 6 |
| Allowance for other assets (Note 16.e) | (3) | (3) |
| | \$ 4 | \$ 3 |

(g) Fixed assets

Fixed assets consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|------------------------------------|----------------------------|-------------------------------|
| Non current | | |
| Net carrying value (Note 16.a) | \$ 6,918 | \$ 6,864 |
| Write-off of materials (Note 16.e) | (23) | (25) |
| | \$ 6,895 | \$ 6,839 |

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

5. Breakdown of the main accounts (continued)*(h) Accounts payable*

Accounts payable consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|---|----------------------------|-------------------------------|
| Current | | |
| Fixed assets suppliers | \$ 959 | \$ 1,053 |
| Other assets and services suppliers | 559 | 690 |
| Inventories suppliers | 204 | 246 |
| Subtotal | 1,722 | 1,989 |
| Deferred revenues | 141 | 135 |
| Related parties (Note 7.e) | 38 | 32 |
| Agent commissions | 20 | 45 |
| SU reimbursement (Note 2.d) | 11 | 11 |
| | \$ 1,932 | \$ 2,212 |
| Non current | | |
| Fixed assets suppliers Related parties (Note 7.e) | \$ 22 | \$ 24 |

(i) Salaries and social security payable

Salaries and social security payable consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|---|----------------------------|-------------------------------|
| Current | | |
| Vacation, bonuses and social security payable | \$ 239 | \$ 264 |
| Termination benefits | 33 | 36 |

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\$ 272 \$ 300

Non current

Termination benefits \$ 79 \$ 82

(j) Taxes payable

Taxes payable consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|--|----------------------------|-------------------------------|
| Current | | |
| Income tax, net (Note 10) | \$ 599 | \$ 431 |
| Tax on SU (Note 2.d) | 167 | 155 |
| VAT, net | 74 | 33 |
| Turnover tax | 36 | 25 |
| Internal taxes | 34 | 43 |
| Regulatory fees | 26 | 24 |
| Municipal taxes | 7 | 12 |
| Other | 32 | 46 |
| | \$ 975 | \$ 769 |
| Non current (Note 10) | | |
| Deferred tax liabilities | \$ 172 | \$ 199 |
| Law No. 26,476 Tax Regularization Regime | 13 | 13 |
| | \$ 185 | \$ 212 |

(k) Other liabilities

Other liabilities consist of the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|---|----------------------------|-------------------------------|
| Current | | |
| Guarantees received | \$ 16 | \$ 16 |
| Deferred revenue on sale of capacity and related services | 13 | 12 |
| Customer loyalty programs | 5 | 5 |
| Court fee | 3 | 3 |
| Other | 18 | 16 |
| | \$ 55 | \$ 52 |
| Non current | | |
| Deferred revenue on sale of capacity and related services | \$ 112 | \$ 112 |
| Asset retirement obligations | 45 | 44 |
| Retirement benefits | 12 | 11 |
| Legal fee | 8 | 11 |
| Court fee | 6 | 7 |
| Customer loyalty programs | 1 | 1 |
| | \$ 184 | \$ 186 |

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

5. Breakdown of the main accounts (continued)*(l) Net sales*

Net sales consist of the following:

| | Three-month periods ended | |
|---------------------------------|---------------------------|-----------------|
| | March 31, | |
| | 2010 | 2009 |
| Voice | \$ 692 | \$ 684 |
| Internet | 316 | 235 |
| Data | 74 | 60 |
| Voice, data and Internet | 1,082 | 979 |
| Prepaid and post-paid | 777 | 658 |
| Roaming, TLRD and CPP | 415 | 403 |
| Value added services | 646 | 504 |
| Sale of handsets | 186 | 164 |
| Other | 37 | 28 |
| Wireless in Argentina | 2,061 | 1,757 |
| Prepaid and post-paid | 49 | 38 |
| Roaming, TLRD and CPP | 14 | 13 |
| Value added services | 34 | 32 |
| Sale of handsets | 1 | 2 |
| Internet | 4 | 5 |
| Other | 4 | 3 |
| Wireless in Paraguay | 106 | 93 |
| Total net sales | \$ 3,249 | \$ 2,829 |

(m) Financial results, net

Financial results, net consist of the following:

| | Three-month periods ended March 31, | |
|--|--|-----------------|
| | 2010 | 2009 |
| Generated by assets | | |
| Interest income | \$ 37 | \$ 23 |
| Related parties (Note 7.e) | | 2 |
| Foreign currency exchange gain | 12 | 49 |
| Holding (gain) loss on inventories (Note 16.f) | (8) | 12 |
| Other | 3 | 4 |
| Total generated by assets | \$ 44 | \$ 90 |
| Generated by liabilities | | |
| Interest expense | \$ (23) | \$ (50) |
| Less capitalized interest on fixed assets | | 5 |
| Gain on discounting of debt | | 6 |
| Foreign currency exchange loss | (34) | (141) |
| Loss on derivatives | (31) | (1) |
| Loss on derivatives related parties (Note 7.e) | (6) | |
| Loss on purchase of Notes | (2) | |
| Other | (5) | (3) |
| Total generated by liabilities | \$ (101) | \$ (184) |
| | \$ (57) | \$ (94) |

(n) Other expenses, net

Other expenses, net consist of the following:

| | Three-month periods ended March 31, | |
|--|--|-----------|
| | 2010 | 2009 |
| Provision for contingencies (Note 16.e) | \$ (38) | \$ (21) |
| Net reversal of provisions related to Law No. 26,476 Tax Regularization Regime | | 36 |
| Severance payments and termination benefits | (9) | (12) |
| Allowance for obsolescence of inventories (Note 16.e) | (4) | (3) |
| Provision for regulatory contingencies (Note 16.e) | (5) | (1) |
| Allowance for doubtful accounts and other assets (Note 16.e) | (1) | (1) |
| Gain on sale of fixed assets and other assets | | 5 |
| Allowance for obsolescence of materials (Note 16.e) | 2 | (1) |
| Other, net | 4 | (2) |
| | \$ (51) | \$ |

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

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 periods shown in the statements of cash flows:

| | As of March 31, | | As of December 31, | |
|--|-----------------|-----------------|--------------------|-----------------|
| | 2010 | 2009 | 2009 | 2008 |
| Cash and banks | \$ 63 | \$ 39 | \$ 62 | \$ 36 |
| Current investments | 1,667 | 1,513 | 1,227 | 1,089 |
| Total as per balance sheet | \$ 1,730 | \$ 1,552 | \$ 1,289 | \$ 1,125 |
| Less: | | | | |
| Items not considered cash and cash equivalents | | | | |
| - Related parties | (17) | (1) | (16) | |
| - Government bonds | (2) | (228) | | (223) |
| Total cash and cash equivalents as shown in the statement of cash flows | \$ 1,711 | \$ 1,323 | \$ 1,273 | \$ 902 |

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

| | Three-month periods ended | |
|---|---------------------------|---------------|
| | March 31, | |
| | 2010 | 2009 |
| Foreign currency exchange gain on cash and cash equivalents | \$ 9 | \$ 40 |
| Interest income generated by current investments | 24 | 14 |
| Interest income generated by accounts receivable | 13 | 10 |
| Subtotal (originated in financial transactions) | 46 | 64 |
| Income tax paid | (100) | (38) |
| Other cash flows provided by operating activities | 1,032 | 829 |
| Total cash flows provided by operating activities | \$ 978 | \$ 855 |

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Income taxes eliminated from operating activities components:

| | Three-month periods ended March 31, | |
|--|--|---------------|
| | 2010 | 2009 |
| Reversal of income tax included in the statement of income | \$ 242 | \$ 213 |
| Income taxes paid (includes payments in advance) | (100) | (38) |
| Total income taxes eliminated from operating activities | \$ 142 | \$ 175 |

Changes in assets/liabilities components:

| | Three-month periods ended March 31, | |
|--|--|----------------|
| | 2010 | 2009 |
| Net (increase) decrease in assets | | |
| Investments not considered as cash or cash equivalents | \$ | \$ 1 |
| Trade accounts receivable | 83 | (5) |
| Other receivables | (7) | (42) |
| Inventories | 7 | 39 |
| | \$ 83 | \$ (7) |
| Net (decrease) increase in liabilities | | |
| Accounts payable | \$ (144) | \$ (61) |
| Salaries and social benefits payable | (32) | (20) |
| Taxes payable | 38 | (2) |
| Other liabilities | 1 | 24 |
| Contingencies | (2) | (20) |
| | \$ (139) | \$ (79) |

Main non-cash operating transactions:

| | Three-month periods ended March 31, | |
|--|--|------|
| | 2010 | 2009 |
| Government bonds | \$ 2 | \$ |
| Derivatives | 2 | |
| Credit on minimum presumed income tax offset with income taxes | | 20 |
| Dividends payable of Núcleo | | 12 |
| Foreign currency translation adjustments in assets | 10 | 8 |
| Foreign currency translation adjustments in liabilities | 5 | 2 |

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

6. Supplementary cash flow information (continued)*Most significant investing activities:*

Fixed assets acquisitions include:

| | Three-month periods ended | |
|--|----------------------------------|-----------------|
| | March 31, | |
| | 2010 | 2009 |
| Acquisition of fixed assets (Note 16.a) | \$ (386) | \$ (282) |
| Plus: | | |
| Cancellation of accounts payable used in prior years acquisitions | (377) | (352) |
| Less: | | |
| Acquisition of fixed assets through incurrence of accounts payable | 249 | 252 |
| Capitalized interest on fixed assets | | 5 |
| Wireless handsets lent to customers at no cost (i) | 1 | 2 |
| | \$ (513) | \$ (375) |

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

Intangible assets acquisitions include:

| | Three-month periods ended | |
|---|----------------------------------|---------------|
| | March 31, | |
| | 2010 | 2009 |
| Acquisition of intangible assets (Note 16.b) | \$ | \$ |
| Plus: | | |
| Cancellation of accounts payable used in prior years acquisitions | (8) | (5) |
| | \$ (8) | \$ (5) |

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

| | Three-month periods ended | |
|--|---------------------------|----------------|
| | March 31, | |
| | 2010 | 2009 |
| Loan to Nortel | \$ (1) | \$ (2) |
| Acquisition of Government bonds | | (8) |
| Total cash flows used in investments not considered as cash equivalents | \$ (1) | \$ (10) |

Financing activities components:

| | Three-month periods ended | |
|--|---------------------------|----------------|
| | March 31, | |
| | 2010 | 2009 |
| Bank overdrafts | \$ 15 | \$ 11 |
| Debt proceeds | | 11 |
| Payment of Notes | (24) | (31) |
| Payment of bank loans | (9) | (29) |
| Payment of interest on bank loans | (1) | (3) |
| Collateral | | (12) |
| Total financing activities components | \$ (19) | \$ (53) |

7 Related party transactions*(a) Controlling group*

As of March 31, 2010, Nortel is the controlling shareholder of Telecom Argentina. Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares of Telecom Argentina, representing 54.74% of the total common stock of Telecom Argentina.

Nortel's ordinary shares (67.79% of the capital stock) are owned by Sofora Telecomunicaciones S.A. (Sofora). As of March 31, 2010, Sofora's shares are owned by the Telecom Italia Group (50%) and by W de Argentina Inversiones S.L. (50%).

In connection with these transactions, a Shareholders' Agreement between W de Argentina Inversiones S.L., Telecom Italia S.p.A. and Telecom Italia International N.V. for the joint management of Sofora, Nortel, Telecom and its subsidiaries was executed.

The Telecom Italia Group is the operator of Telecom Argentina.

(b) Call options acquired by Telecom Italia International N.V.

In September 2003, Telecom Italia International N.V. acquired, for an aggregate purchase price of US\$60 million, two call options on W de Argentina Inversiones S.L.'s entire interest in Sofora (jointly, the Telecom Italia International N.V. Options). The Telecom Italia International N.V. Options are: (i) a call option for the purchase of 48% of Sofora's share capital, which can be exercised since December 31, 2008, and (ii) a call option on 2% of Sofora's share capital, which can be exercised between December 31, 2008 and December 31, 2013.

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

7 Related party transactions (continued)

According to SC Note No. 1,004/08, dated June 26, 2008 and to SC Note No. 2,573/08, dated December 30, 2008, the exercise of the Telecom Italia International N.V. Options is subject to the prior approval of the SC.

Additionally, the Argentine Antitrust Commission (or the CNDC) Resolution No. 123/08 resolved that until the CNDC issues its decision in the matter of Telecom Italia International N.V. Options, as provided by Law No. 25,156, the Telecom Italia Group companies *must refrain from exercising, assigning, transferring or taking any other action with respect to those purchase options* .

The Telecom Italia Group filed an appeal against CNDC Resolution No. 123/08. On January 28, 2009, the CNDC, through Resolution No. 6/09, rejected the appeal on the grounds that the parties did not lose their rights, because CNDC Resolution No. 123/08 only *implies a suspension of the terms provided in the Options purchase contract until the Regulatory Authority mentioned in Law No. 25.156* issues a decision regarding the Transaction, as mentioned in d) below. Given the rejection of the appeal, Telecom Italia Group filed a complaint with the Second National Court of Appeals for Federal Civil and Commercial Matters (the CNACCF), requesting its review. The CNACCF declared itself competent to review the appeal, granted the appeal and served the National Government with notice of said appeal. A decision regarding said appeal is currently pending. On April 16, 2010, however, the Argentine Supreme Court ruled that the CNACCF did not have jurisdiction to resolve the appeal and ordered the transfer of the matter to Section A of the National Appeals Court for Economic Criminal Matters.

On March 26, 2009, the First National Court of Appeals for Federal Administrative Litigious Matters issued a precautionary measure declaring the suspension of the exercise of Telecom Italia International N.V. s rights set forth in the purchase option contract, upon request of the company Grupo Dracma S.A., presided by Mr. Adrián Werthein, and W de Argentina Inversiones S.L. This suspension will be effective until the SC renders a final decision regarding the validity of the legal effects in Argentina of the Transaction described in d) below, or, alternatively, when a final decision is rendered regarding the underlying matter for which the precautionary measure was issued, whichever occurs first. Telecom Italia International N.V. filed a special federal appeal against said precautionary measure, and upon its rejection, filed an appeal with Argentina s Supreme Court of Justice. The matter is still pending before Argentina s Supreme Court of Justice.

Telecom Argentina has been informed that W de Argentina Inversiones S.L. filed a complaint against Telecom Italia International N.V., before the National Commercial Court of First Instance N° 8, Secretariat N° 15 of the City of Buenos Aires, with the purpose of obtaining a decree of nullity on the Telecom Italia International N.V. Options. As of the date of issuance of these consolidated financial statements, resolution of the complaint is still pending.

Additional information on the Telecom Italia International N.V. Options is given in the 2009 Annual Report, which was approved on March 11, 2010.

(c) Related parties

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

Under FACPCE RT 21, Telefónica, S.A. (of Spain) and Telefónica de Argentina S.A. are not considered to be related parties.

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

On October 25, 2007, a consortium made up of Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Sintonia S.A. (Benetton) and Telefonica, S.A. (of Spain) bought Olimpia S.p.A.'s entire stock through the Italian company Telco S.p.A., which held approximately 23.6% of Telecom Italia S.p.A.'s voting shares (the Transaction). In accordance with the last public statement available (Telecom Italia S.p.A.'s financial statements as of December 31, 2009), Telco S.p.A. currently owns 22.45% of Telecom Italia S.p.A.'s voting shares.

After the Transaction, since October 2007, Pirelli & C. S.p.A., its controlled subsidiaries and its related parties have ceased to be related parties of Telecom and its subsidiaries.

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

Notes to the Unaudited Consolidated Financial Statements (Continued)

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

7 Related party transactions (continued)

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

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

Additional information on this matter is given in the 2009 Annual Report, which was approved on March 11, 2010. The relevant events occurred since the issuance of this Annual Report are detailed below.

On March 11, 2010, Chamber II of the CNACCF issued a resolution which denied a precautionary measure requested by Telecom Italia S.p.A. to suspend the March 8, 2010 resolution issued by Court No. 6.

On March 18, 2010, the CNDC issued Resolution No. 38/10, deciding inter alia, to grant the appeals filed against CNDC Resolution No. 30/10, form an ancillary appeal and elevate this case to Chamber A of the National Chamber of Economic Criminal Appeals.

On April 16, 2010, the Argentine Supreme Court assigned the National Court of Appeals for Criminal Economic Matters, Courtroom A, with competence to rule on appeals pursuant to Section 53 of the Argentine Antitrust Act filed against resolutions of the CNDC and SCI.

On April 19, 2010, the Commercial Court of First Instance No. 26, Secretariat No. 51 notified Personal that it had sustained a precautionary measure and suspended consideration of items 4, 8, 9 and 10 of the agenda at Annual General Ordinary Shareholders Meeting of Personal scheduled for April 20, 2010.

On April 20, 2010, the Annual General Ordinary Shareholders Meeting of Personal was held and the provisions of the aforementioned precautionary measure were complied.

Therefore, on April 20, 2010, the Commercial Court of First Instance No. 26, also notified Telecom Argentina that it had sustained a precautionary measure and suspended consideration of items 7, 11, 12, 13 and 21 of the agenda at Annual General Ordinary and Extraordinary Shareholders Meeting of Telecom scheduled for April 28, 2010.

The suspended items from Telecom Argentina's agenda are as follows:

7) *Consideration of Board of Directors and Supervisory Committee's performance from April 29, 2008 to the date of the Shareholders Meeting.*

11) *Determination of the number of directors and alternate directors for the twenty-second fiscal year (Fiscal Year 2010).*

12) *Election of directors and alternate directors for Fiscal Year 2010*

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13) *Determination of the number of members and alternate members of the Supervisory Committee for Fiscal Year 2010 and their election.*

21) *Modification of the disapproval of Gerardo Werthein's performance during the nineteenth fiscal year.*

On April 28, 2010, the Annual General Ordinary and Extraordinary Shareholders Meeting of Telecom was held and the provisions of the aforementioned precautionary measure were complied.

Telecom and Personal have appealed the precautionary measures issued by Commercial Court of First Instance No. 26.

Additional information on the Transaction and its consequences can be reviewed at www.cnv.gov.ar (section Autopista de Información Financiera) and at www.sec.gov.

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

7 Related party transactions (continued)*(e) Balances and transactions with related parties*

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

The following is a summary of the balances and transactions with related parties as of March 31, 2010 and December 31, 2009 and for the three-month periods ended March 31, 2010 and 2009:

| | As of March 31, 2010 | As of December 31, 2009 |
|---|----------------------------|-------------------------------|
| Investments | | |
| Nortel (Note 16.d) | \$ 17 | \$ 16 |
| Standard Bank S.A. (Note 16.d) (a) | 25 | |
| Standard Bank S.A. (Note 16.c) (a) | | 16 |
| | \$ 42 | \$ 32 |
| Accounts receivable | | |
| Standard Bank S.A. (a) | \$ 2 | \$ 5 |
| TIM Celular S.A. (b) | 1 | 3 |
| Telecom Italia S.p.A. (b) | | 2 |
| | \$ 3 | \$ 10 |
| Current accounts payable: | | |
| Telecom Italia Sparkle S.p.A. (b) | \$ 20 | \$ 18 |
| Telecom Italia S.p.A. (b) | 6 | 3 |
| Latin American Nautilus USA Inc. (b) | 5 | 5 |
| Latin American Nautilus Argentina S.A. (b) | 2 | 2 |
| Etec S.A. (b) | 1 | 2 |
| Standard Bank S.A. (a) | 1 | |
| Caja de Seguros S.A. (a) | 2 | |
| La Caja Aseguradora de Riesgos del Trabajo ART S.A. (a) | 1 | 2 |
| | \$ 38 | \$ 32 |

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| | | |
|--|--------------|--------------|
| Current debt | | |
| Standard Bank S.A. Derivatives (a) | \$ 10 | \$ 3 |
| | \$ 10 | \$ 3 |
| Non-current accounts payable: | | |
| Telecom Italia Sparkle S.p.A. (b) | \$ 20 | \$ 22 |
| Latin American Nautilus Argentina S.A. (b) | 2 | 2 |
| | \$ 22 | \$ 24 |

| Transaction description | Three-month periods ended | |
|--|---------------------------|----------------|
| | March 31, | |
| | 2010 | 2009 |
| Services rendered: | | |
| TIM Celular S.A. (b) Roaming | \$ 4 | \$ 3 |
| Telecom Italia Sparkle S.p.A. (b) International inbound calls | 4 | 6 |
| Telecom Italia S.p.A. (b) Roaming | 2 | 3 |
| Standard Bank S.A. (a) Usage of fixed telephony | 4 | 2 |
| Standard Bank S.A. (a) Interest | | 1 |
| Caja de Seguros S.A. (a) Others | 1 | |
| Nortel Interest | | 1 |
| Total services rendered | \$ 15 | \$ 16 |
| Services received: | | |
| Telecom Italia Sparkle S.p.A. (b) International outbound calls | (22) | (9) |
| Telecom Italia S.p.A. (b) Fees for services and roaming | (7) | (3) |
| Latin American Nautilus USA Inc. (b) International outbound calls | (4) | (1) |
| Etec S.A. (b) International outbound calls | (2) | (3) |
| TIM Celular S.A. (b) Roaming and Maintenance, materials and supplies | (1) | (3) |
| Latin American Nautilus Argentina S.A. (b) International outbound calls | (1) | (1) |
| Standard Bank S.A. (a) Loss on derivatives | (6) | |
| La Caja Aseguradora de Riesgos del Trabajo ART S.A. (a) Salaries and social security | (5) | (3) |
| Caja de Seguros S.A. (a) Insurance | (2) | (1) |
| Total services received | \$ (50) | \$ (24) |
| Purchases of fixed assets/intangible assets: | | |
| Telecom Italia S.p.A. (b) | \$ | \$ 1 |
| Total fixed assets and intangible assets | \$ | \$ 1 |

(a) Such companies relate to W de Argentina Inversiones S.L.

(b) Such companies relate to Telecom Italia Group.

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.

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

7 Related party transactions (continued)***(f) Merger of Cubecorp***

In July 2008, Telecom Argentina acquired 100% of the shares of Cubecorp for approximately \$98. With this acquisition, Telecom strengthens its Data Center services, as the Data Center acquired is equipped with world class infrastructure, which permits to offer clients with high reliability, availability and scalability customized to their needs.

The Board of Directors of Telecom and Cubecorp held on September 10, 2008, and October 7, 2008, respectively, approved a Preliminary Agreement of Merger, by which Telecom would merge Cubecorp, effective January 1st, 2009.

In March 2009, the Board of Directors of Cubecorp and Telecom approved the Merger Agreement, by which both companies would merge (subject to the approval of the CNV and to the approval of the Shareholders Meetings of Cubecorp and the Company), being the Company the continuing company and Cubecorp the dissolved without liquidation company. The CNV determined no legal or accounting observations for the merger and ordered the publication of the Merger Agreement in the Buenos Aires Stock Exchange (the BCBA) Daily Bulletin and in the CNV website (www.cnv.gov.ar, section Autopista de Información Financiera).

The Extraordinary Shareholders Meeting of Cubecorp held on March 19, 2009, and the Annual General Ordinary and Extraordinary Shareholders Meeting of Telecom held on April 28, 2010 approved the merger, the corresponding financial statements and the dissolution without liquidation of Cubecorp as provided by Law No. 19,550 section 94 art. 7. Additionally, the Final Merger Agreement with Cubecorp was authorized, effective January 1st, 2009; so the edicts required by Law No. 19,550 section 83 were issued. Once completed the period specified in the Law, the Final Merger Agreement will be granted. The merger had effect since January 1st, 2009, when the Company assumed the rendering of Cubecorp's services.

The relevance of the merger in the shareholders' equity, in accordance with the results of the Merger Special Consolidated Balance Sheet of Cubecorp and Telecom prepared as of December 31, 2008, with effect as from the first hour of January 1st, 2009, was the following:

| | Telecom | Cubecorp | Elimination | Merged balance sheet |
|------------------------------------|--------------|-----------|-------------|-------------------------|
| Current assets | 1,141 | 10 | (6) | 1,145 |
| Non-current investments - Cubecorp | 64 | | (64) | |
| Other non-current assets | 5,888 | 69 | | 5,957 |
| Total assets | 7,093 | 79 | (70) | 7,102 |
| Current liabilities | 2,391 | 5 | (6) | 2,390 |
| Non-current liabilities | 682 | 10 | | 692 |

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| | | | | |
|---|--------------|-----------|-------------|--------------|
| Total liabilities | 3,073 | 15 | (6) | 3,082 |
| Shareholders' equity | 4,020 | 64 | (64) | 4,020 |
| Total liabilities and shareholders' equity | 7,093 | 79 | (70) | 7,102 |

8 Debt

8.1. Short-term and long-term debt

As of March 31, 2010 and December 31, 2009, the Company's short-term and long-term debt comprises the following:

| | As of March 31, 2010 | As of December 31, 2009 |
|--------------------------------------|----------------------------|-------------------------------|
| Short-term debt: | | |
| - Principal: | | |
| Notes | \$ 677 | \$ 686 |
| Issue discount and underwriting fees | (1) | (1) |
| Bank loans | 78 | 72 |
| Bank overdrafts | 15 | |
| Subtotal | 769 | 757 |
| - Accrued interest | 21 | 3 |
| - Derivatives | 38 | 3 |
| Total short-term debt | \$ 828 | \$ 763 |
| Long-term debt: | | |
| - Principal: | | |
| Bank loans | \$ 43 | \$ 58 |
| Total long-term debt | \$ 43 | \$ 58 |
| Total debt | \$ 871 | \$ 821 |

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

8 Debt (continued)

The following table segregates the Telecom Group's debt by company as of March 31, 2010:

| | Personal | Núcleo | Consolidated as of March 31, 2010 | Consolidated as of December 31, 2009 |
|-------------------------|------------|------------|---|--|
| Principal | 676 | 136 | 812 | 815 |
| Accrued interest | 17 | 4 | 21 | 3 |
| Subtotal | 693 | 140 | 833 | 818 |
| Derivatives | 38 | | 38 | 3 |
| Total debt | 731 | 140 | 871 | 821 |
| Short-term debt | 731 | 97 | 828 | 763 |
| Long-term debt | | 43 | 43 | 58 |

8.2. Restructured debt of the subsidiaries*(a) Personal***1. Notes**

On December 22, 2005, Personal used the proceeds of the issuance of new notes (as further described below) and bank loans together with available cash to fully settle the outstanding indebtedness which had been restructured back in November 2004. Personal's objective was to improve its debt profile, by modifying its interest rates.

The Shareholders Meeting of Personal authorized the Board of Directors to determine the terms and conditions of the issue, including but not limited to, amount, price, interest rate and denomination of the notes.

RatingStandard & Poor's International Ratings
LLC, Argentine branch

| | |
|------------------------|----------------|
| International scale | Local scale |
|------------------------|----------------|

Fitch Ratings

| | |
|---------------------|-------------|
| International scale | Local scale |
|---------------------|-------------|

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| Date of issuance | B- | BBB- | B- | BBB- |
|------------------|----|------|----|------|
| March 31, 2010 | B- | AA | B | AA- |

During 2010, Personal purchased Notes pursuant to market purchase transactions amounting to \$24, acquiring an aggregate principal nominal amount of US\$ 5.85 million of Series 3 Medium Term Notes due 2010. The Notes acquired were cancelled according with the terms and conditions of the respective Indentures.

The following table shows the outstanding series of Notes as of March 31, 2010:

| Series | Nominal value (in millions) | Outstanding | | Maturity date | Annual rate % | Book value as of March 31, 2010 (in million of \$) | | | | Fair value as of March 31, 2010 |
|--------------|-----------------------------|-----------------------------|---------------|---------------|---------------|--|------------------|--------------------------------------|------------|---------------------------------|
| | | nominal value (in millions) | Term in years | | | Principal | Accrued interest | Issue discount and underwriting fees | Total | |
| 3 | US\$ 240 | US\$ 174 | 5 | December 2010 | 9.25 | 677 | 17 | (1) | 693 | 716 |
| Total | | | | | | 677 | 17 | (1) | 693 | 716 |

2. Covenants

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

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

if at any time the Leverage Ratio (total outstanding indebtedness / consolidated EBITDA for the most recently completed period of four consecutive fiscal quarters) is in excess of 3.00 to 1.00 and Personal makes any payment of dividends, the rate of interest accruing on the notes shall increase by 0.5% per annum.

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

8 Debt (continued)

3. Negative covenants

The terms and conditions of Personal's Notes require that Personal comply with various negative covenants, including limitations on:

- a) Incurrence and/or assumption of, and/or permitting to exist in Personal or its subsidiaries (as defined in the relevant debt instruments), any liens on the respective properties, assets or income for the purpose of securing any indebtedness of any person, except for certain permitted liens;
- b) Incurrence of and/or permitting any restricted subsidiaries to incur any indebtedness unless on the date of the incurrence of such indebtedness, after giving effect to such incurrence and the receipt and application of the proceeds therefrom, the Leverage Ratio does not exceed 3.00 to 1.00;
- c) Permitting any of its subsidiaries to, directly or indirectly, enter into, renew or extend any transaction or arrangement including the purchase, sale, lease or exchange of property or assets, or the rendering of any service, with any holder of 10% or more of the capital stock of Personal, except upon terms not less favorable to Personal or such subsidiary than those that could be obtained in a comparable arm's-length transaction with a person that is not an affiliate of Personal;
- d) The sale of certain assets with some exceptions, i.e. a minimum 75% of consideration received should be in cash or cash equivalents;
- e) Sale and leaseback transactions;
- f) Personal will not merge into or consolidate with any person or sell, assign, transfer or otherwise convey or dispose of all or substantially all of its assets, except for certain permitted conditions.

4. Events of default

The terms and conditions of Personal's Notes provide for certain events of default as follows:

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- a) Failure to pay principal or interest;
 - b) Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of Personal or its subsidiaries, which equals or exceeds an aggregate amount of US\$ 20 million and shall continue after the grace period;
 - c) Any final judgment against Personal or its subsidiaries providing for the payment of an aggregate amount exceeding US\$ 20 million;
 - d) Any voluntary petition for bankruptcy by Personal or its subsidiaries, special bankruptcy proceedings or out-of-court reorganization agreements and,
 - e) Any event or condition which results in the revocation or loss of the licenses held by either Personal and/or any of its subsidiaries which would materially affect the entities' business operations, their financial condition and results of operations.
- Provided any of the events of default occurs, the creditors are entitled, at their option, to declare the principal amount of the relevant debt instrument to be due and payable.

(b) Núcleo

Debt in local currency (Guaraníes)

The following table shows the outstanding loans with banks with operations in Paraguay and the main terms as of March 31, 2010:

| Nominal value (in million of Guaraníes) | Amortization term | Book value (in million of \$) | |
|---|----------------------|-------------------------------|-------------|
| | | Current | Non-current |
| 62,080 | 2 years | 27 | 24 |
| 36,800 | 1 year | 30 | |
| 28,800 | 2 years | 12 | 12 |
| 13,860 | 2 years | 6 | 5 |
| 6,300 | 2 years | 3 | 2 |
| 147,840 | | 78 | 43 |

The average annual rate of these loans is 9.72% in Guaraníes.

The terms and conditions of Núcleo's loans provide for certain events of default which are considered standard for these kind of operations.

Bank overdrafts

At March 31, 2010, Núcleo has bank overdrafts amounting to \$15 (equivalent to Guaraníes 18,249 million). At the date of issuance of these consolidated financial statements, \$9 were cancelled (equivalent to Guaraníes 10,542 million).

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

Notes to the Unaudited Consolidated Financial Statements (Continued)

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

9 Shareholders equity

(a) Common stock

At March 31, 2010, the Company had 502,034,299 authorized, issued and outstanding shares of \$1 par value Class A Common Stock (51% of the total capital stock), 440,910,912 shares of \$1 par value Class B Common Stock (44.79% of the total capital stock) and 41,435,767 shares of \$1 par value Class C Common Stock (4.21% of the total capital stock see c below). 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 404,078,504 of Class B shares are traded since Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares; and Class C shares are dedicated to the employee stock ownership program, as described below.

Each ADS represents 5 Class B shares and are traded on the NYSE under the ticker symbol TEO. 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 Corporations 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, plus/less previous years adjustments and, if any, considering the absorption of accumulated losses, 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). Accordingly, Telecom Argentina has absorbed the legal reserve in its entirety during fiscal year 2006 (\$277). Telecom Argentina will not be able to distribute dividends until the Company absorbs the total amount of accumulated losses and restores the legal reserve.

Telecom's Annual General and Extraordinary Shareholders Meeting held on April 28, 2010, approved the restoring of the legal reserve, in order to be able to distribute dividends.

(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, Decree No. 1,623/99 of the Argentine Government eliminated the restrictions on some of the Class C shares held by the PPP, although it excluded Class C shares of the Fund of Guarantee and Repurchase subject to an injunction against their use. In March 2000, the shareholders meeting of the Company approved the conversion of up to unrestricted 52,505,360 Class C shares into Class B shares (these shares didn't belong to the Fund of Guarantee and Repurchase).

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The Annual General and Extraordinary Meetings held on April 27, 2006, approved that the power for the conversion of up to 41,339,464 Class C ordinary shares into the same amount of Class B ordinary shares, be delegated to the Board of Directors. The conversion will take place based on: a) what is determined by Banco de la Ciudad de Buenos Aires (Fiduciary agent of PPP) as the case may be; and b) the amount of Class C shares eligible for conversion. As granted by the Meetings, the Board transferred the powers to convert the shares to some of the Board members and/or the Company's executive officers. From the total shares eligible for conversion approved by the Shareholders' Meetings, 4,496,971 Class C ordinary shares were converted into Class B ordinary shares.

Class C shares of the Fund of Guarantee and Repurchase which were affected by an injunction measure recorded in file *Garcías de Vicchi, Amerinda y otros c/ Sindicación de Accionistas Clase C del Programa de Propiedad Participada* were not eligible for conversion. As of the date of these consolidated financial statements, the injunction was not released, although it is limited to the amount of 4,593,274 shares.

41,418,562 Class C shares are still part of the Fund of Guarantee and Repurchase and are subject to the injunction described above.

In October 2009, the comptroller of the PPP, who was timely appointed by the National Court of Federal Civil and Commercial No.10, informed to Telecom that he intends to obtain the release of the injunctions affecting part of the shares included in the Fund of Guarantee and Repurchase, for the purpose of allowing the cancellation of the balance belonging to former employees who had transferred their shares to the Fund.

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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)

10. Income tax

As describe in Note 4.o, the Company accounts for income taxes in accordance with the guidelines of RT 17.

Income tax payable as of March 31, 2010, and December 31, 2009, consists of the following:

| | As of March 31, 2010 | | | | | As of |
|--|----------------------|---------------|---------------|----------------|---------------|----------------------|
| | Telecom | Personal | Núcleo | Telecom USA | Total | December 31, 2009 |
| Income tax provision | \$ 409 | \$ 647 | \$ 7 | \$ | \$ 1,063 | \$ 797 |
| Credit on minimum presumed income tax | (23) | | | | (23) | (23) |
| Payments in advance of income taxes | (54) | (383) | (7) | | (444) | (346) |
| Law No. 26,476 Tax Regularization Regime | 3 | | | | 3 | 3 |
| Current Income tax payable | 335 | 264 | | | 599 | 431 |
| Law No. 26,476 Tax Regularization Regime | 13 | | | | 13 | 13 |
| Non current net deferred tax liabilities | 165 | 8 | (3) | 2 | 172 | 199 |
| Non-current Income tax payable (receivable) | 178 | 8 | (3) | 2 | 185 | 212 |
| Total Income tax liabilities (assets) | \$ 513 | \$ 272 | \$ (3) | \$ 2 | \$ 784 | \$ 643 |

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 March 31, 2010 | | | | | As of |
|----------------------------------|----------------------|------------|----------|----------------|------------|----------------------|
| | Telecom | Personal | Núcleo | Telecom USA | Total | December 31, 2009 |
| Tax loss carryforwards | \$ | \$ 1 | \$ | \$ | \$ 1 | \$ 1 |
| Allowance for doubtful accounts | 20 | 29 | 1 | | 50 | 55 |
| Provision for contingencies | 151 | 47 | | | 198 | 184 |
| Inventories | | 24 | | | 24 | 20 |
| Other deferred tax assets | 72 | 5 | | | 77 | 73 |
| Total deferred tax assets | 243 | 106 | 1 | | 350 | 333 |

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| | | | | | | |
|---|-----------------|----------------|-------------|---------------|-----------------|--------------|
| Fixed assets | (62) | (88) | 7 | (2) | (145) | (142) |
| Inflation adjustments (i) | (346) | (12) | (5) | | (363) | (377) |
| Total deferred tax (liabilities) assets | (408) | (100) | 2 | (2) | (508) | (519) |
| Subtotal deferred tax (liabilities) assets | (165) | 6 | 3 | (2) | (158) | (186) |
| - Valuation allowance (Note 16.e) | | (14) | | | (14) | (13) |
| Net deferred tax (liabilities) assets as of March 31, 2010 | \$ (165) | \$ (8) | \$ 3 | \$ (2) | \$ (172) | |
| Net deferred tax liabilities as of December 31, 2009 | \$ (187) | \$ (10) | \$ | \$ (2) | \$ | (199) |

(i) Mainly related to inflation adjustment on fixed assets, intangibles and other assets for financial reporting purposes. As of March 31, 2010, the Company has accumulated an operating tax loss carryforward of \$1 which expiration year is 2011.

Income tax benefit (expense) for the three-month periods ended March 31, 2010 and 2009 consists of the following:

| | Three-month period ended March 31, 2010 | | | | Total |
|-------------------------------------|---|-----------------|-------------|-------------|-----------------|
| | Telecom | Personal | Núcleo | Telecom USA | |
| Current tax expense | \$ (123) | \$ (144) | \$ (1) | \$ | \$ (268) |
| Deferred tax benefit | 22 | 2 | 3 | | 27 |
| Valuation allowance (Note 16.e) | | (1) | | | (1) |
| Income tax (expense) benefit | \$ (101) | \$ (143) | \$ 2 | \$ | \$ (242) |

| | Three-month period ended March 31, 2009 | | | | Total |
|---------------------------------|---|-----------------|-----------|---------------|-----------------|
| | Telecom | Personal | Núcleo | Telecom USA | |
| Current tax expense | \$ (96) | \$ (117) | \$ (1) | \$ | \$ (214) |
| Deferred tax benefit (expense) | (5) | 7 | 1 | (1) | 2 |
| Valuation allowance (Note 16.e) | | (1) | | | (1) |
| Income tax expense | \$ (101) | \$ (111) | \$ | \$ (1) | \$ (213) |

Income tax benefit (expense) for the three-month periods ended March 31, 2010 and 2009 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income as a result of the following:

| | Argentina | International | Total |
|--|-----------------|---------------|-----------------|
| Pre-tax income on a separate return basis | \$ 899 | \$ 4 | \$ 903 |
| Non taxable items Gain on equity investees | (246) | | (246) |
| Non taxable items Other | 4 | (2) | 2 |
| Subtotal | 657 | 2 | 659 |
| Statutory income tax rate | 35% | (*) | |
| Income tax expense at statutory tax rate | (229) | (1) | (230) |
| Change in deferred assets and liabilities | (13) | 2 | (11) |
| Change in valuation allowance (Note 16.e) | (1) | | (1) |
| Income tax (expense) benefit as of March 31, 2010 | \$ (243) | \$ 1 | \$ (242) |

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| | | | |
|---|-----------------|---------------|-----------------|
| Pre-tax income on a separate return basis | \$ 765 | \$ 7 | \$ 772 |
| Non taxable items Gain on equity investees | (205) | | (205) |
| Non taxable items Other | 16 | (6) | 10 |
| Subtotal | 576 | 1 | 572 |
| Statutory income tax rate | 35% | (*) | |
| Income tax expense at statutory tax rate | (201) | (1) | (202) |
| Change in deferred assets and liabilities | 12 | | 12 |
| Law No. 26,476 Tax Regularization Regime | (20) | | (20) |
| Additional income tax from cash dividends paid by foreign companies | (2) | | (2) |
| Change in valuation allowance (Note 16.e) | (1) | | (1) |
| Income tax expense as of March 31, 2009 | \$ (212) | \$ (1) | \$ (213) |

(*) The statutory tax rate in Paraguay was 10% plus an additional rate of 5% in case of payment of dividends, in the USA the effective tax rate was 35% and in Uruguay the statutory tax rate was 25%.

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

Notes to the Unaudited Consolidated Financial Statements (Continued)

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

11. Commitments and contingencies

(a) Purchase commitments

The Company has entered into various purchase orders amounting in the aggregate to approximately \$1,248 as of March 31, 2010, primarily related to the supply of switching equipment, external wiring, infrastructure agreements, inventory and other service agreements. This amount also includes the commitments mentioned in c) below.

(b) Investment commitments

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

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

(c) Commitments and contingencies assumed by Telecom from the sale of Publicom

On March 29, 2007, Telecom's Board of Directors approved the sale of its equity interest in Publicom to Yell Publicidad S.A. (a company incorporated in Spain, member of the Yell Group- *Grupo Yell*), which was executed on April 12, 2007 (the Closing Date).

A series of declarations and guarantees, standard for this type of transactions, assumed by Telecom towards the buyer with respect to Publicom and to itself and others assumed by the buyer towards Telecom and towards itself are included in the contract. Reciprocal obligations and commitments are also set forth, between Telecom and the buyer.

It has been ruled that Telecom shall indemnify and shall hold the buyer harmless from any and all damages that might result from:

- (i) Any claim addressed to the buyer by third parties in which the owner's equity, entitlement to inherent rights and /or unrestricted disposal of shares is successfully objected;
- (ii) Damages and losses of equity derived from incorrectness or inaccuracy of the declarations and guarantees;
- (iii) Damages and losses of equity derived from the non-fulfillment of the obligations and commitments undertaken by Telecom.

These indemnities granted by Telecom have time as well as economic limits.

On Closing Date and after the stock transfer was actually performed, Publicom accepted a proposal from Telecom. According to said proposal, Telecom:

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engages Publicom to publish Telecom s directories (white pages) for a 5-year period, which may be extended upon expiry date;

engages Publicom to distribute Telecom s white pages for a 20-year period, which may be extended upon expiry date;

engages Publicom to maintain the Internet portal, which allows to access the white pages through the web, for a 20-year period, term which may be extended upon expiry date;

grants Publicom the right to lease advertising spaces on the white pages for a 20-year period, which may be extended upon expiry date; and

authorizes the use of certain trademarks for the distribution and/or consultation on the Internet and/or advertising spaces agreements for the same specified period.

Telecom reserves the right to supervise certain matters associated with white pages publishing and distribution activities that allow Telecom to assure the fulfillment of its regulatory obligations during the term of the proposal. The terms and conditions of the proposal include usual provisions that allow Telecom to apply economic sanctions in the case of non-compliance, and in the case of serious non-compliance, allow Telecom to require an early termination. In the latter case, the Company could enter into an agreement with other providers.

The proposal set prices for the publishing, printing and distribution of the 2007 directories, and provided clauses for the subsequent editions in order to ensure Telecom that said services will be contracted at market price.

Telecom shall continue to include in its own invoices the amounts to be paid by its customers to Publicom for the contracted services or those that may be contracted in the future, and subsequently collect the amounts for said services on behalf and to the order of Publicom, without absorbing any delinquency.

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

11. Commitments and contingencies (continued)

(d) Contingencies

The Company is a party to several civil, tax, commercial, labor and regulatory proceedings and claims that have arisen in the ordinary course of business. In order to determine the proper level of reserves relating to these contingencies, the Management of the Company, based on the opinion of its internal and external legal counsel, assesses the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual case. The determination of the required reserves may change in the future due to new developments or changes as a matter of law or legal interpretation. Consequently, as of March 31, 2010, the Company has established reserves in an aggregate amount of \$567 to cover potential losses under these claims (\$84 for regulatory contingencies deducted from assets and \$483 included under liabilities) and certain amounts deposited in the Company's bank accounts have been restricted as to their use due to some judicial proceedings. As of March 31, 2010, these restricted funds totaled \$35 (included in the caption Other receivables).

Below is a summary of one of the most significant claims and legal actions for which reserves have been established:

Profit sharing bonds

In August 2008, the Supreme Court of Justice, when resolving a case against Telefonica, found the Decree No. 395/92 unconstitutional. Different legal actions were brought, mainly by former employees of the Company against the National Government and the Company, requesting that Decree No. 395/92 which expressly exempted the Company from issuing the profit sharing bonds provided in Law No. 23,696 be struck down as unconstitutional and, therefore, claiming compensation for the damages they had suffered because such bonds had not been issued.

In those suits for which judgment has already been rendered, the trial court judges hearing the matter resolved to dismiss the actions brought relying on arguments made by each case's respective prosecutors pointing that such rule was valid and constitutional. However, and based on the National Supreme Court of Justice's judgment on this matter, the three Divisions of the Courts of Appeal ruled that Decree No. 395/92 was unconstitutional.

In order to defend its rights, the Company filed various appeals against these unfavorable decisions, and although said decisions have not been reviewed by the National Supreme Court of Justice, it should be noted that the abovementioned ruling of the Supreme Court on the case against Telefonica has created a judicial precedent that, in the opinion of the legal counsel of the Company, increases the probability that the Company has to face certain contingencies as a result of an adverse ruling, notwithstanding the right of reimbursement that attends Telecom against the National State.

Said Court decision found the abovementioned decree unconstitutional and ordered to send the proceedings back to the court of origin so that said court could decide on which was the subject compelled to pay licensee and/or National Government- and the parameters that were to be taken into account in order to quantify the complaints set forth therein (percentage of profit sharing, statute of limitation, distribution method between the beneficiaries of the program).

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As of March 31, 2010, the management of the Company, with the aid of its legal counsel, has recorded a provision for contingencies that it estimates is sufficient to cover the risks associated with this claim, having considered the legal background up to the date of issuance of these consolidated financial statements.

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 Management of the Company, based upon the information available at this time and consultation with external and internal legal counsel, that the expected outcome of these other claims and legal actions, individually or in the aggregate, will not have a material effect on the Company's financial position or results of operations. Accordingly, no reserves have been established for the outcome of these actions.

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

11. 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 March 31, 2010, total claims in these labor lawsuits amounted to \$9.

Tax matters

In December 2001, the AFIP made an additional income tax claim on the amortization period utilized by Telintar to depreciate its optic fiber network in 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 above paragraph, during the third quarter of 2005, Telecom Argentina recorded a current tax liability amounting to \$0.5 against income taxes in the statement of income. Telecom Argentina and Telefonica appealed this judgment before the corresponding Federal Court. In June 2009, the Court revoked the ruling of the Fiscal Court and nullified the tax assessment that had been appealed. The Tax Authority has filed an appeal before the National Supreme Court of Justice.

The management of the Company together with its legal counsel believes it has meritorious legal defenses to these unfavorable judgments and 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.

In December 2006, the AFIP assessed additional income tax and tax on minimum presumed income for the 2000 and 2001 tax years claiming that Personal incorrectly deducted certain uncollectible receivables. Personal appealed this assessment with the National Fiscal Tribunal. The AFIP's claim is contrary to certain jurisprudential precedents by the National Fiscal Tribunal. Consequently, Personal and its legal counsel believe that the matter will be resolved in its favor when the appeal process is completed.

Other claims

Consumer Trade Union Proceedings

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In November 1995, Telecom Argentina was served with notice of a complaint filed by a consumer trade union, Consumidores Libres Cooperativa Limitada de Provisión de Servicios Comunitarios, against Telecom Argentina, Telefónica, Telintar and the Argentine Government. The suit seeks to declare null, illegal and unconstitutional all tariff rules and agreements as of the Transfer Agreement and to reduce the tariffs of the licensees so as to obtain a return rate not in excess of an annual 16% on fixed assets as described in the List of Conditions. Furthermore, the complaint seeks reimbursement of sums allegedly received in excess of the 16% return rate as well as sums resulting from the reduction in the rate of turnover tax for the city of Buenos Aires.

In October 2001, the Federal Court of Appeals for Contentious and Administrative Matters issued a precautionary measure suspending the ability of telecommunications companies to increase tariffs by reference to the U.S. consumer price index. However, the Public Emergency Law and the reformation of the exchange regime have had an analogous result to that proposed by the precautionary measure, by prohibiting, as of January 6, 2002, contracts held with the public administration, including public work and services contracts, from being adjusted to dollars or other foreign currencies. A decision of the Court of Appeals is still pending.

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

11. Commitments and contingencies (continued)

Additionally, 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 revoking the licenses granted to telecommunication service providers and termination of the exclusivity period. This case is currently in a preliminary stage.

Users and Consumer Trade Union Proceedings

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

12. Segment information

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

Telecom Argentina and its subsidiaries conform the following reportable segments:

| Reportable segment | Consolidated company/Operating segment |
|---------------------------------|--|
| Voice, data and Internet | Telecom Argentina Telecom USA Micro Sistemas (i) |
| Wireless | Personal Núcleo Springville (i) |

(i) Dormant entity at March 31, 2010 and 2009.

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

12. Segment information (continued)

For the three-month periods ended March 31, 2010 and 2009, more than 96% of the Company's revenues were from sales generated in Argentina. More than 93% of the Company's fixed assets are in Argentina. Segment financial information was as follows:

*For the three-month period ended March 31, 2010***Income statement information**

| | Voice, data and Internet (a) | Personal | Wireless Núcleo | Subtotal | Total |
|--|---|-----------------|----------------------------|-----------------|--------------|
| Services | 1,070 | 1,875 | 105 | 1,980 | 3,050 |
| Equipment sales | 12 | 186 | 1 | 187 | 199 |
| Net sales | 1,082 | 2,061 | 106 | 2,167 | 3,249 |
| Salaries and social security | (306) | (89) | (9) | (98) | (404) |
| Taxes | (67) | (202) | (4) | (206) | (273) |
| Maintenance, materials and supplies | (105) | (46) | (5) | (51) | (156) |
| Bad debt expense | (7) | (21) | (1) | (22) | (29) |
| Interconnection costs | (47) | | | | (47) |
| Cost of international outbound calls | (39) | | | | (39) |
| Lease of circuits | (22) | (8) | (6) | (14) | (36) |
| Fees for services | (54) | (75) | (5) | (80) | (134) |
| Advertising | (17) | (55) | (7) | (62) | (79) |
| Agent commissions and distribution of prepaid cards commissions | (13) | (204) | (8) | (212) | (225) |
| Other commissions | (15) | (33) | (2) | (35) | (50) |
| Roaming | | (56) | (1) | (57) | (57) |
| Charges for TLRD | | (159) | (13) | (172) | (172) |
| Cost of sales | (10) | (282) | (6) | (288) | (298) |
| Others | (87) | (92) | (7) | (99) | (186) |
| Operating income before depreciation and amortization | 293 | 739 | 32 | 771 | 1,064 |
| Depreciation of fixed assets and amortization of intangible assets | (168) | (111) | (22) | (133) | (301) |
| Operating income | 125 | 628 | 10 | 638 | 763 |
| Financial results, net | 13 | (63) | (7) | (70) | (57) |
| Other expenses, net | (34) | (17) | | (17) | (51) |

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| | | | | | |
|---|------------|------------|----------|------------|------------|
| Net income before income tax and noncontrolling interest | 104 | 548 | 3 | 551 | 655 |
| Income tax (expense) benefit, net | (101) | (143) | 2 | (141) | (242) |
| Noncontrolling interest | | | (2) | (2) | (2) |
| Net income | 3 | 405 | 3 | 408 | 411 |

- (a) Includes net sales of \$11, operating income before depreciation of \$3, operating profit of \$2 and net income of \$2 corresponding to Telecom USA.

Balance sheet information

| | | | | | |
|---|--------------|------------------|--------------|--------------|--------------|
| Fixed assets, net | 4,131 | (b) 2,304 | 460 | 2,764 | 6,895 |
| Intangible assets, net | 172 | 593 | 3 | 596 | 768 |
| Capital expenditures (without ARO and debt issue costs) | 144 | (b) 223 | 19 | 242 | 386 |
| Depreciation of fixed assets | (164) | (111) | (22) | (133) | (297) |
| Amortization of intangible assets (without debt issue costs) | (4) | | | | (4) |
| Net financial asset (debt) | 787 | (b) 181 | (108) | 73 | 860 |

- (b) In Fixed assets, net and Capital expenditures, includes \$1 from Springville; in Net financial asset, includes \$1 of Cash and banks from Springville.

Cash flow information

| | | | | | |
|--|--------------|----------------|-------------|--------------|--------------|
| Cash flows provided by operating activities | 445 | 500 | 33 | 533 | 978 |
| Cash flows from investing activities | | | | | |
| Acquisition of fixed assets and intangible assets | (241) | (256) | (24) | (280) | (521) |
| Decrease (increase) in investments not considered as cash and cash equivalents and other | 1 | (1) | | (1) | |
| Total cash flows used in investing activities | (240) | (257) | (24) | (281) | (521) |
| Cash flows from financing activities | | | | | |
| Debt proceeds | | | 15 | 15 | 15 |
| Payment of debt | | (24) | (9) | (33) | (33) |
| Payment of interest and debt-related expenses | | | (1) | (1) | (1) |
| Total cash flows provided by (used in) financing activities | | (24) | 5 | (19) | (19) |
| Increase in cash and cash equivalents | 205 | 219 | 14 | 233 | 438 |
| Cash and cash equivalents at the beginning of the year | 579 | 676 | 18 | 694 | 1,273 |
| Cash and cash equivalents at period end | 784 | (b) 895 | 32 | 927 | 1,711 |

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

12. Segment information (continued)*For the three-month period ended March 31, 2009***Income statement information**

| | Voice, data and Internet (a) | Personal | Wireless Núcleo | Subtotal | Total |
|--|---|-----------------|----------------------------|-----------------|--------------|
| Services | 972 | 1,593 | 91 | 1,684 | 2,656 |
| Equipment sales | 7 | 164 | 2 | 166 | 173 |
| Net sales | 979 | 1,757 | 93 | 1,850 | 2,829 |
| Salaries and social security | (246) | (63) | (8) | (71) | (317) |
| Taxes | (62) | (165) | (4) | (169) | (231) |
| Maintenance, materials and supplies | (94) | (36) | (6) | (42) | (136) |
| Bad debt expense | (13) | (26) | | (26) | (39) |
| Interconnection costs | (43) | | | | (43) |
| Cost of international outbound calls | (47) | | | | (47) |
| Lease of circuits | (20) | (9) | (5) | (14) | (34) |
| Fees for services | (47) | (57) | (2) | (59) | (106) |
| Advertising | (28) | (45) | (5) | (50) | (78) |
| Agent commissions and distribution of prepaid cards commissions | (8) | (183) | (8) | (191) | (199) |
| Other commissions | (13) | (27) | (1) | (28) | (41) |
| Roaming | | (49) | (2) | (51) | (51) |
| Charges for TLRD | | (169) | (12) | (181) | (181) |
| Cost of sales | (9) | (251) | (3) | (254) | (263) |
| Others | (71) | (69) | (6) | (75) | (146) |
| Operating income before depreciation and amortization | 278 | 608 | 31 | 639 | 917 |
| Depreciation of fixed assets and amortization of intangible assets | (159) | (80) | (19) | (99) | (258) |
| Operating income | 119 | 528 | 12 | 540 | 659 |
| Financial results, net | (50) | (36) | (8) | (44) | (94) |
| Other expenses, net | 20 | (20) | | (20) | |
| Net income before income tax and noncontrolling interest | 89 | 472 | 4 | 476 | 565 |
| Income tax expense, net | (102) | (111) | | (111) | (213) |

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| | | | | | |
|--------------------------|-------------|------------|----------|------------|------------|
| Noncontrolling interest | | | (1) | (1) | (1) |
| Net (loss) income | (13) | 361 | 3 | 364 | 351 |

(a) Includes net sales of \$10, operating income before depreciation of \$3, operating profit of \$2 and net income of \$2 corresponding to Telecom USA.

Balance sheet information

| | | | | | |
|---|-------|-------|------|--------------|--------------|
| Fixed assets, net | 4,033 | 1,806 | 361 | 2,167 | 6,200 |
| Intangible assets, net | 168 | 597 | 1 | 598 | 766 |
| Capital expenditures (without ARO and debt issue costs) | 172 | 105 | 5 | 110 | 282 |
| Depreciation of fixed assets | (155) | (79) | (19) | (98) | (253) |
| Amortization of intangible assets (without debt issue costs) | (4) | (1) | | (1) | (5) |
| Net financial asset (debt) | (564) | 103 | (86) | 17 | (547) |

Cash flow information

| | | | | | |
|--|--------------|--------------|-------------|--------------|--------------|
| Cash flows provided by operating activities | 389 | 446 | 20 | 466 | 855 |
| <u>Cash flows from investing activities:</u> | | | | | |
| Acquisition of fixed assets and intangible assets | (229) | (137) | (14) | (151) | (380) |
| Decrease (increase) in investments not considered as cash and cash equivalents and other | 1 | (2) | | (2) | (1) |
| Total cash flows used in investing activities | (228) | (139) | (14) | (153) | (381) |
| <u>Cash flows from financing activities:</u> | | | | | |
| Debt proceeds | | | 22 | 22 | 22 |
| Payment of debt | | (31) | (29) | (60) | (60) |
| Payment of interest and debt-related expenses | (12) | | (3) | (3) | (15) |
| Total cash flows used in financing activities | (12) | (31) | (10) | (41) | (53) |
| Increase (decrease) in cash and cash equivalents | 149 | 276 | (4) | 272 | 421 |
| Cash and cash equivalents at the beginning of the year | 352 | 544 | 6 | 550 | 902 |
| Cash and cash equivalents at period end | 501 | 820 | 2 | 822 | 1,323 |

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

13. Unconsolidated information

In accordance with Argentine GAAP, the presentation of the parent company's individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information. 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 March 31, 2010 | As of December 31, 2009 |
|--------------------------------------|----------------------------|-------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and banks | \$ 22 | \$ 26 |
| Investments | 763 | 552 |
| Accounts receivable, net | 662 | 724 |
| Other receivables, net | 75 | 79 |
| Other assets, net | 6 | 6 |
| Total current assets | 1,528 | 1,387 |
| Non-Current Assets | | |
| Other receivables, net | 46 | 46 |
| Investments (i) | 2,154 | 1,915 |
| Fixed assets, net | 4,126 | 4,170 |
| Intangible assets, net | 172 | 176 |
| Other assets, net | 4 | 3 |
| Total non-current assets | 6,502 | 6,310 |
| TOTAL ASSETS | \$ 8,030 | \$ 7,697 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 771 | \$ 931 |
| Salaries and social security payable | 217 | 244 |
| Taxes payable | 381 | 263 |
| Other liabilities | 42 | 39 |

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| | | |
|--|-----------------|-----------------|
| Contingencies | 57 | 57 |
| Total current liabilities | 1,468 | 1,534 |
| Non-Current Liabilities | | |
| Accounts payable | 22 | 24 |
| Salaries and social security payable | 78 | 81 |
| Taxes payable | 180 | 202 |
| Other liabilities | 150 | 153 |
| Contingencies | 291 | 267 |
| Total non-current liabilities | 721 | 727 |
| TOTAL LIABILITIES | \$ 2,189 | \$ 2,261 |
| SHAREHOLDERS EQUITY | \$ 5,841 | \$ 5,436 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 8,030 | \$ 7,697 |

- (i) Includes \$2,152 and \$1,914 as of March 31, 2010 and December 31, 2009, respectively, corresponding to Telecom Argentina's equity interests in its consolidated subsidiaries. As of March 31, 2010, includes \$2,147 and \$5, corresponding to Personal and Telecom USA, respectively. As of December 31, 2009, includes \$1,909 and \$5, corresponding to Personal and Telecom USA, respectively.

Statements of income:

| | Three-month periods ended | |
|--|---------------------------|---------------|
| | March 31, | |
| | 2010 | 2009 |
| Net sales | \$ 1,251 | \$ 1,142 |
| Cost of services | (648) | (581) |
| Gross profit | 603 | 561 |
| General and administrative expenses | (74) | (63) |
| Selling expenses | (242) | (220) |
| Operating income | 287 | 278 |
| Gain on equity investees from Personal | 244 | 204 |
| Financial results, net | 14 | (50) |
| Other expenses, net | (33) | 20 |
| Net income before income tax | 512 | 452 |
| Income tax expense, net | (101) | (101) |
| Net income | \$ 411 | \$ 351 |

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

13. Unconsolidated information (continued)**Condensed statements of cash flows:**

| | Three-month periods ended March 31, | |
|--|--|---------------|
| | 2010 | 2009 |
| Cash flows provided by operating activities | \$ 445 | \$ 389 |
| Cash flows from investing activities | | |
| Acquisition of fixed and intangible assets | (241) | (228) |
| Decrease in investments not considered as cash and cash equivalents and other concepts | 1 | 3 |
| Total cash flows used in investing activities | (240) | (225) |
| Cash flows from financing activities | | |
| Payment of interest and debt-related expenses | | (12) |
| Total cash flows used in investing activities | | (12) |
| Increase in cash and cash equivalents | 205 | 152 |
| Cash and cash equivalents at the beginning of year | 578 | 348 |
| Cash and cash equivalents at period end | \$ 783 | \$ 500 |

14. 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 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 Total equity and Net income to US GAAP. This reconciliation does not include disclosure of all information that would be required under US GAAP and SEC rules and regulations.

I. Differences in measurement methods

As indicated in Note 3.c, the Company's consolidated financial statements include the effects of inflation until February 28, 2003. Under US GAAP, financial statements are prepared on a historical cost basis.

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However, the following reconciliation does not include the reversal of the adjustments to the consolidated financial statements for the effects of inflation, because, as permitted by the SEC, it 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 historical cost-based financial reporting for both Argentine GAAP and US GAAP.

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.

| | Three-month periods ended March 31, | |
|---|--|---------------|
| | 2010 | 2009 |
| Reconciliation of net income: | | |
| Total net income under Argentine GAAP | \$ 411 | \$ 351 |
| US GAAP adjustments: | | |
| Depreciation of foreign currency exchange differences (a.2) | 2 | 4 |
| Fair value option for Notes of Telecom Argentina (b) | | (164) |
| Other adjustments (c) | 4 | (5) |
| Tax effects on US GAAP adjustments (d) | (2) | 58 |
| Noncontrolling interest (e) | 2 | 1 |
| Net income under US GAAP | \$ 417 | \$ 245 |

| | As of March 31, 2010 | As of December 31, 2009 |
|---|--|-------------------------------|
| | Reconciliation of total equity: | |
| Total equity under Argentine GAAP | \$ 5,841 | \$ 5,436 |
| US GAAP adjustments: | | |
| Capitalization of foreign currency exchange differences (a.1) | (784) | (784) |
| Accumulated depreciation of foreign currency exchange differences (a.2) | 729 | 727 |
| Other adjustments (c) | (20) | (24) |
| Tax effects on US GAAP adjustments (d) | 26 | 28 |
| Noncontrolling interest (e) | 93 | 92 |
| Total equity under US GAAP | \$ 5,885 | \$ 5,475 |

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

14. Valuation differences between Argentine GAAP and US GAAP (continued)

| | Three-month periods ended March 31, | |
|--|--|---------------------|
| | 2010 | 2009 |
| Description of changes in total equity under US GAAP: | | |
| Total equity as of the beginning of the year | \$ 5,475 | \$ 4,214 |
| Other comprehensive income attributable to Telecom Argentina | (6) | 4 |
| Noncontrolling interest variation | (1) | (10) |
| Net income under US GAAP | 417 | 245 |
| Total equity as of the end of the period | \$ 5,885 | \$ 4,453 |

a) Capitalization of foreign currency exchange differences

a.1) Under Argentine GAAP, foreign currency exchange differences (gains or losses) generated on or after January 6, 2002 through July 28, 2003, in connection with 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 were met. Under US GAAP, foreign currency exchange differences cannot be capitalized, and were expensed as incurred. Therefore, such capitalization and its depreciation were reversed.

a.2) This adjustment represents the effect on depreciation for the periods ended March 31, 2010 and 2009 and the accumulated depreciation at each period/year-end, of the adjustment described in a.1) above.

b) Fair value option for Notes of Telecom Argentina

The Company adopted in 2008 the provisions of ASC 825 regarding the fair value option for valuation of financial assets and liabilities. The Company elected to fair value all series of the Notes of Telecom Argentina. Such Notes were originated from a troubled debt restructuring ended in 2005 and were accounted for under US GAAP 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. Management of the Company believed that the fair value option better reflected the current value of the debt and approximated such debt value to that recorded under Argentine GAAP. Moreover, the adoption of the fair value for Notes of Telecom Argentina was consistent with the valuation criterion followed for the derivative contracts entered into in connection with this debt, which were recorded at fair value both under US GAAP and Argentine GAAP.

The US GAAP reconciliation item for net income for the three-month period ended March 31, 2009 reflects the changes in the fair value of Notes of Telecom Argentina outstanding as of that date.

On October 15, 2009, Telecom has repaid in full the outstanding debt issued in accordance with the terms and conditions of the APE. Therefore as of that date the reconciling item was reversed.

c) Other adjustments

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The US GAAP reconciling items included under other adjustments were as follows for all periods presented:

Included in the reconciliation of Net income:

| | Three-month periods ended | |
|------------------------------------|---------------------------|---------------|
| | March 31, | |
| | 2010 | 2009 |
| Inventories | \$ 3 | \$ |
| Present-value accounting | 2 | (5) |
| Fixed assets held for sale | (1) | |
| Total other adjustments (c) | \$ 4 | \$ (5) |

Included in the reconciliation of Total equity:

| | As of | As of |
|------------------------------------|-------------------|----------------------|
| | March 31, 2010 | December 31, 2009 |
| Inventories | \$ 4 | \$ 1 |
| Present-value accounting | (21) | (23) |
| Fixed assets held for sale | (3) | (2) |
| Total other adjustments (c) | \$ (20) | \$ (24) |

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

14. Valuation differences between Argentine GAAP and US GAAP (continued)

Inventories

As indicated in Note 4.i., under Argentine GAAP, inventories are stated at replacement cost. 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 liabilities are measured based on the calculation of their discounted value. Under US GAAP, discounting of these liabilities is precluded.

Fixed assets held for sale

Under Argentine GAAP, the Company classified certain fixed assets as held for sale which are stated at the lower of cost less accumulated depreciation at the time of transfer to the held-for-sale category, or market. However, under US GAAP, a long-lived asset to be sold is classified as held for sale only if all of the conditions of ASC 360 are met. As some of these conditions are not met under US GAAP, these assets have to be classified as held and used and depreciated. The US GAAP adjustment for the periods presented represents the higher depreciation of such assets held and used under US GAAP as of each period-end.

d) Tax effects on US GAAP adjustments

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

e) Noncontrolling interest

The Company adopted in 2009, the provisions of ASC 810 regarding accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary requiring that: a) noncontrolling interest to be presented in the consolidated statement of financial position within equity; and b) consolidated net income attributable to the noncontrolling interest to be presented on the face of the consolidated statement of income. As a result of the adoption of these standards, a reconciling item for the Noncontrolling interest is included in the Total equity and Net income under US GAAP.

Net income under US GAAP for each period presented and Total equity under US GAAP as of each period/year-end are comprised as follows:

| | Three-month periods ended | |
|---------------------------------|----------------------------------|-------------|
| | March 31, | |
| Net income under US GAAP | 2010 | 2009 |

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| | | |
|--|---------------|---------------|
| Net Income under US GAAP attributable to Telecom Argentina | \$ 415 | \$ 244 |
| Net Income under US GAAP attributable to Noncontrolling Interest | 2 | 1 |
| Net income under US GAAP | \$ 417 | \$ 245 |

| | | |
|--|------------------|---------------------|
| | As of | As of |
| | March 31, | December 31, |
| | 2010 | 2009 |
| Total equity under US GAAP | | |
| Total Telecom Argentina Shareholders' equity under US GAAP | \$ 5,792 | \$ 5,383 |
| Noncontrolling Interest under US GAAP | 93 | 92 |
| Total equity under US GAAP | \$ 5,885 | \$ 5,475 |

Changes in Noncontrolling interest under US GAAP for each period presented are comprised as follows:

| | | |
|--|----------------------------------|--------------|
| | Three-month periods ended | |
| | March 31, | |
| | 2010 | 2009 |
| Description of Changes in Noncontrolling Interest under US GAAP | | |
| Noncontrolling Interest as of the beginning of the year | \$ 92 | \$ 81 |
| Dividends | | (12) |
| Noncontrolling interest's foreign currency translation adjustments | (1) | 2 |
| Net income under US GAAP | 2 | 1 |
| Noncontrolling Interest as of the end of the period | \$ 93 | \$ 72 |

f) 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.

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

14. Valuation differences between Argentine GAAP and US GAAP (continued)

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.

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 total equity 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.

g) Other Derivatives

Telecom Personal entered into financing arrangements as part of the issuance of debt. These financial instruments contained derivative instruments that were embedded in the financial instruments, i.e. optional redemption. The Company assessed whether the economic characteristics of these embedded derivatives were clearly and closely related to the economic characteristics of the remaining component of the financial instruments (i.e., the host contract), according to the requirements of ASC 815. Since it was determined that the embedded derivative possessed economic characteristics that were clearly and closely related to the economic characteristics of the host contract, the embedded derivative were not separated from the host contract.

h) Impairment of long-lived assets, except for indefinite-life PCS license

As indicated in Note 4.m., under Argentine GAAP, the carrying value of a long-lived asset is considered impaired by the Company when the expected discounted cash flows from such an asset, is less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Under US GAAP, as a first step, the carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows, undiscounted, from such an asset, is less than its carrying value. In such case, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset.

Based on both Argentine GAAP and US GAAP assessments, there was no impairment identified for long-lived assets.

i) Recently issued accounting pronouncements

In October 2009, the FASB issued the Accounting Standards Update 2009-13 (ASU 2009-13). The objective of this Update is to address amendments to the accounting for multiple-deliverable arrangements. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently analyzing the impact that the adoption of the ASU will have on the Company's financial position and results of operations.

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In January 2010, the FASB issued the Accounting Standards Update 2010-06 (ASU 2010-06), which modifies ASC 820-10 requiring new disclosures for assets and liabilities that are measured at fair value. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for certain disclosures about Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not have any impact on the Company's current financial position nor results of operations.

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

15. Adoption of IFRS

On December 30, 2009, the CNV issued Resolution No. 562/09 (RG 562/09) adopting RT26 of the FACPCE for certain public companies (as defined by Law No. 17,811 Regime for Public Offering). RT26 adopts IFRS as issued by the International Accounting Standards Board (IASB), effective for fiscal years beginning January 1, 2012, while early adoption is permitted for fiscal year beginning January 1, 2011. RG 562/09 also provides for the preparation of financial statements in accordance with IFRS as additional information of the statutory financial statements for the fiscal year beginning January 1, 2010.

In accordance with RG 562/09, the Company developed an implementation plan for the adoption of IFRS in Telecom and its subsidiaries (the Implementation Plan). Such Plan was approved by the Board of Directors on March 16, 2010. The Implementation Plan provides for the adoption of IFRS according to the dates established in RG 562/09 and addresses the presentation of IFRS financial statements as additional information to the consolidated financial statements in order to facilitate the understanding of the effects of the new standards on Telecom Group s income and equity. On March 17, 2010, and in accordance with the requirements of RG 562/09, the Company made a public release to the market to inform the approval of the Implementation Plan as Relevant event through the CNV.

At the date of issuance of these consolidated financial statements, the Company is making progress in the Implementation Plan in accordance with the scheduled dates.

It is noted that since RT26 was issued, the Company has made progress in the diagnostic of the main measurement and disclosures differences between Argentine GAAP and IFRS in the Telecom Group.

The main *valuation differences* between Argentine GAAP and IFRS which have been identified as of the date of these financial statements are as follows:

- a) *Inventories*: Under Argentine GAAP inventories are stated at replacement cost. Under IFRS inventories are valued at cost, while last in first out method is not allowed.
- b) *Capitalization of foreign currency exchange differences*: Under Argentine GAAP, foreign currency exchange differences (gains or losses) generated on or after January 6, 2002 through July 28, 2003, in connection with 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 were met. Under IFRS, capitalization of foreign currency exchange differences is permitted within certain limits. Therefore, the amounts capitalized under Argentine GAAP in excess of those allowed by IFRS and its reductions, net of accumulated depreciation, should be reversed.
- c) *Fixed assets held for sale*: Under Argentine GAAP the Company classifies certain fixed assets as held for sale which are included under the caption Other assets . Under IFRS a long-lived asset to be sold is classified as held for sale only if certain conditions are

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met. As some of these conditions are not met under IFRS, these assets have to be included under Fixed assets and be depreciated.

- d) *Customer loyalty programs:* Personal offers to its customers an incentive program. Under Argentine GAAP such program is accounted for based on actuarial calculations considering the cost of the points expected to be exchanged by the customers. Such cost is recorded as operating expenses. Under IFRS the obligations related to such program should be accounted for based on actuarial calculations considering the fair value of the points expected to be exchanged by the customers and should be accounted for in the item Net sales .

- e) *Noncontrolling Interest:* Under IFRS noncontrolling interest in a subsidiary should be presented as a caption of the consolidated statement of changes in Shareholders' equity instead of being presented as a separate caption between total liabilities and equity as required by Argentine GAAP. Moreover, consolidated net income, consolidated comprehensive income and the related amounts of each attributable to the parent and the noncontrolling interest, should be disclosed separately on the face of the consolidated statement of income.

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Notes to the Unaudited Consolidated Financial Statements (Continued)

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

15. Adoption of IFRS (continued)

Additionally, other typical differences of telecommunications industry have been identified, such as:

- f) *Revenue recognition*: IFRS establish specific rules for revenue recognition for bundling transactions (i.e. handsets and service contracts). Those rules differ in certain aspects with Argentine GAAP.
- g) *Intangible assets*: Under IFRS certain directly attributable subscriber acquisition costs regarding contracts with a minimum contractual period and an enforced termination penalty can be capitalized only if certain conditions are met (as is the case for postpaid and *cuentas claras* customers in the mobile business). There are no similar provisions for the treatment of subscriber acquisition costs under Argentine GAAP.

Moreover, the main *disclosure differences* that have been identified as of the date of issuance of these consolidated financial statements are the following:

- a) IFRS allows presentation of assets and liabilities in increasing or decreasing order of liquidity in the statement of financial position, however Argentine GAAP requires following a decreasing order of liquidity.
- b) There are no specific rules under IFRS in the form to present the income statement of a company. Presentation of income and expenses by nature or by activity is allowed (cost of services provided, administration and selling expenses).
- c) The items that are included under Other expenses under Argentine GAAP should be classified as operating expenses or financial results under IFRS, as the case may be.
- d) IFRS contemplate the preparation of condensed Interim financial statements which result in an easier set of information than the annual financial statements and, in certain aspects, differ from the present consolidated financial statements.

On the other hand, IFRS establish more disclosure requirements than those actually required under Argentine GAAP (for annual reports), basically related to credit, liquidity and market risks, related parties, financial instruments and fair value of assets and liabilities, among others.

It should be noted that the abovementioned differences result from the differences between Argentine GAAP and IFRS that are effective as of the date of issuance of these consolidated financial statements.

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Finally, it is important to point out that valuation differences mentioned in a), b), c) y e) above are the same than those that have been identified for the preparation of the reconciliation between Argentine GAAP and US GAAP. Consequently, their impact is disclosed in Note 14 to these consolidated financial statements.

16. Other financial statement information

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

- a. Fixed assets, net
- b. Intangible assets, net
- c. Securities and equity investments
- d. Current investments
- e. Allowances and provisions
- f. Cost of services
- g. Foreign currency assets and liabilities
- h. Expenses
- i. Aging of assets and liabilities

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

16. Other financial statement information (continued)*(a) Fixed assets, net*

| Principal account | As of the beginning of year | Additions | Original value | | Decreases | As of the end of the period |
|---|-----------------------------------|----------------|---|-----------|-------------|-----------------------------------|
| | | | Foreign currency translation adjustments | Transfers | | |
| Land | 127 | | | | | 127 |
| Building | 1,545 | | | | (2) | 1,543 |
| Tower and pole | 447 | | | 5 | | 452 |
| Transmission equipment | 4,812 | 4 | (6) | 42 | | 4,852 |
| Wireless network access | 1,895 | 4 | (1) | 43 | | 1,941 |
| Switching equipment | 4,677 | 3 | (2) | 41 | | 4,719 |
| Power equipment | 744 | | (1) | 42 | | 785 |
| External wiring | 6,602 | | | | | 6,602 |
| Computer equipment | 4,334 | 6 | (5) | 65 | | 4,400 |
| Telephony equipment and instruments | 932 | | (4) | 1 | | 929 |
| Equipment lent to customers at no cost | 214 | 8 | (3) | | (3) | 216 |
| Vehicles | 169 | | (1) | | (2) | 166 |
| Furniture | 91 | | (1) | 2 | | 92 |
| Installations | 398 | 3 | (1) | 2 | | 402 |
| Improvements in third parties buildings | 130 | | | 2 | | 132 |
| Work in progress | 733 | 315 | (1) | (244) | | 803 |
| Subtotal | 27,850 | (a) 343 | (26) | 1 | (7) | 28,161 |
| Asset retirement obligations | 41 | | | | | 41 |
| Advances to suppliers | 15 | | | | | 15 |
| Materials | 234 | (b) 43 | (1) | (1) | (25) | 250 |
| Total as of March 31, 2010 | 28,140 | 386 | (27) | | (32) | 28,467 |
| Total as of March 31, 2009 | 26,281 | 282 | 21 | | (48) | 26,536 |

| Principal account | Depreciation Amount | Net carrying | Net carrying |
|-------------------|------------------------|-----------------|-----------------|
|-------------------|------------------------|-----------------|-----------------|

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| | Accumulated as of the beginning of the year | Annual rate (%) | | Foreign currency translation adjustments | Decreases and transfers | Accumulated as of the end of the period | value as of March 31, 2010 | value as of December 31, 2009 |
|--|--|--------------------|----|---|-------------------------------|--|-------------------------------------|--|
| Land | | | | | | | 127 | 127 |
| Building | (920) | 2 | 7 | (8) | 1 | (927) | 616 | 625 |
| Tower and pole | (312) | 5 | 7 | (4) | | (316) | 136 | 135 |
| Transmission equipment | (3,960) | 10 | 13 | (45) | 3 | (4,002) | 850 | 852 |
| Wireless network access | (1,357) | 10 | 12 | (30) | 1 | (1,386) | 555 | 538 |
| Switching equipment | (4,028) | 10 | 15 | (34) | 1 | (4,061) | 658 | 649 |
| Power equipment | (579) | 7 | 10 | (9) | 1 | (587) | 198 | 165 |
| External wiring | (5,187) | 6 | | (45) | | (5,232) | 1,370 | 1,415 |
| Computer equipment | (3,281) | 18 | 20 | (94) | 3 | (3,372) | 1,028 | 1,053 |
| Telephony equipment and instruments | (888) | 13 | 20 | (2) | 4 | (886) | 43 | 44 |
| Equipment lent to customers at no cost | (174) | 50 | | (10) | 3 | (178) | 38 | 40 |
| Vehicles | (105) | 20 | | (6) | 1 | (109) | 57 | 64 |
| Furniture | (77) | 9 | 11 | (1) | 1 | (77) | 15 | 14 |
| Installations | (287) | 7 | 10 | (6) | 1 | (292) | 110 | 111 |
| Improvements in third parties buildings | (93) | 3 | | (3) | | (96) | 36 | 37 |
| Work in progress | | | | | | | 803 | 733 |
| Subtotal | (21,248) | | | (297) | 19 | (21,521) | 6,640 | 6,602 |
| Asset retirement obligations | (28) | 10 | 14 | | | (28) | 13 | 13 |
| Advances to suppliers | | | | | | | 15 | 15 |
| Materials | | | | | | | 250 | 234 |
| Total as of March 31, 2010 | (21,276) | | | (c) (297) | 19 | (21,549) | 6,918 | 6,864 |
| Total as of March 31, 2009 | (20,074) | | | (c) (253) | (13) | (20,316) | 6,220 | |

- (a) Includes \$3 in Transmission equipment, \$8 in Equipment lent to customers at no cost and \$26 in Work in progress, transferred from materials.
- (b) Net of \$37 transferred to fixed assets.
- (c) Includes \$(2) and \$(4) in March 2010 and 2009, respectively, corresponding to the depreciation of capitalized foreign currency exchange differences (Note 4.c).

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

16. Other financial statement information (continued)*(b) Intangible assets, net*

| Principal account | As of the beginning of the year | Additions | Original value Foreign currency translation adjustments | Decreases | As of the end of the period |
|---|---------------------------------|-----------|---|------------|-----------------------------|
| Software obtained or developed for internal use | 460 | | | (2) | 458 |
| Debt issue costs | 37 | | (27) | | 10 |
| PCS license | 658 | | | | 658 |
| Band B license and PCS license (Paraguay) | 294 | | | (5) | 289 |
| Rights of use | 227 | | (3) | | 224 |
| Exclusivity agreements | 54 | | (13) | | 41 |
| Customer relationship | 2 | | | | 2 |
| Total as of March 31, 2010 | 1,732 | | (43) | (7) | 1,682 |
| Total as of March 31, 2009 | 1,645 | | | 5 | 1,650 |

| Principal account | Accumulated as of the beginning of the year | Amount | Amortization | | Accumulated as of the end of the period | Net carrying value as of March 31, 2010 | Net carrying value as of December 31, 2009 |
|---|---|--------|--|-----------|---|---|--|
| | | | Foreign currency translation adjustments | Decreases | | | |
| Software obtained or developed for internal use | (459) | | | 2 | (457) | 1 | 1 |
| Debt issue costs | (35) | (1) | 27 | | (9) | 1 | 2 |
| PCS license | (70) | | | | (70) | 588 | 588 |
| Band B license and PCS license (Paraguay) | (293) | | | 5 | (288) | 1 | 1 |
| Rights of use | (71) | (4) | 3 | | (72) | 152 | 156 |
| Exclusivity agreements | (31) | | 13 | | (18) | 23 | 23 |
| Customer relationship | | | | | | 2 | 2 |

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| | | | | | | | |
|-----------------------------------|--------------|----------------|-----------|------------|--------------|------------|------------|
| Total as of March 31, 2010 | (959) | (a) (5) | 43 | 7 | (914) | 768 | 773 |
| Total as of March 31, 2009 | (873) | (b) (6) | | (5) | (884) | 766 | |

- a) An amount of \$(4) is included in cost of services and \$(1) in financial results, net.
b) An amount of \$(4) is included in cost of services, \$(1) in selling expenses and \$(1) in financial results, net.
(c) *Securities and equity investments*

| Issuer and characteristic of the securities | Market value | Number of securities | Net realizable value as of March 31, 2010 | Cost value as of March 31, 2010 | Book value as of March 31, 2010 | Book value as of December 31, 2009 |
|--|---------------------|-----------------------------|--|--|--|---|
| <u>CURRENT INVESTMENTS</u> | | | | | | |
| Government bonds | | | | | | |
| Ciudad Autónoma de Buenos Aires Bonds (i) | \$ | 1,286,049 | 1 | 2 | 2 | |
| Total government bonds | | | 1 | 2 | 2 | |
| Mutual funds | | | | | | |
| FBA Renta \$ Banco Frances | \$ 2.62 | 22,845,584 | 60 | 60 | 60 | 58 |
| Fima Premium Clase B Banco Galicia | \$ 1.32 | 50,301,562 | 67 | 67 | 67 | 48 |
| Optimun CDB\$ Clase B BNP | \$ 1.99 | 6,480,254 | 13 | 13 | 13 | 14 |
| Total mutual funds | | | 140 | 140 | 140 | 120 |
| Related parties Mutual funds | | | | | | |
| Alpha \$ Clase A Standard Bank | | | | | | 16 |
| Total related parties | | | | | | 16 |
| Total current investments | | | 141 | 142 | 142 | 136 |
| <u>NON-CURRENT INVESTMENTS</u> | | | | | | |
| Government bonds | | | | | | |
| Ciudad Autónoma de Buenos Aires Bonds (i) | \$ | 1,286,049 | 1 | 1 | 1 | |
| Total government bonds | | | 1 | 1 | 1 | |
| Total non-current investments | | | 1 | 1 | 1 | |

- (i) The Company had classified these securities as held-to-maturity as management had the intent and ability to hold them to maturity (November 2011).

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

16. Other financial statement information (continued)*(d) Current investments*

| | Cost as of March 31, 2010 | Book value as of March 31, 2010 | December 31, 2009 |
|---|---------------------------------|---------------------------------------|----------------------|
| CURRENT INVESTMENTS | | | |
| Time deposits | | | |
| <u>With an original maturity of three months or less</u> | | | |
| In foreign currency (Note 16.g) | \$ 475 | \$ 475 | \$ 418 |
| In Argentine pesos | 1,005 | 1,008 | 657 |
| In Argentine pesos Related parties | 25 | 25 | |
| Total cash and cash equivalents | \$ 1,505 | \$ 1,508 | \$ 1,075 |
| <u>With an original maturity of more than three months</u> | | | |
| In Argentine pesos Related parties (Note 16.g) | \$ 16 | \$ 17 | \$ 16 |
| Total related parties | \$ 16 | \$ 17 | \$ 16 |
| Total current investments | \$ 1,521 | \$ 1,525 | \$ 1,091 |

(e) Allowances and provisions

| Items | Opening balances | Additions | Reclassifications | Deductions | As of March 31, 2010 |
|--|---------------------|-----------|-------------------|-------------|----------------------------|
| Deducted from current assets | | | | | |
| Allowance for doubtful accounts receivables | 144 | 29 | | (26) | 147 |
| Allowance for doubtful accounts and other assets | 13 | | | | 13 |
| Regulatory contingencies | 4 | (3) | | | 1 |
| Allowance for obsolescence of inventories | 21 | 4 | | (8) | 17 |
| Total deducted from current assets | 182 | 30 | | (34) | 178 |

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| | | | | | |
|---|------------|-----|-----------|------------|-------------|
| Deducted from non-current assets | | | | | |
| Valuation allowance of net deferred tax assets (a) | 13 | | 1 | | 14 |
| Regulatory contingencies | 75 | | 8 | | 83 |
| Allowance for doubtful accounts and other assets | 24 | | 1 | | 25 |
| Write-off of materials | 25 | | (2) | | 23 |
| Total deducted from non-current assets | 137 | | 8 | | 145 |
| Total deducted from assets | 319 | (b) | 38 | | (34) |
| Included under current liabilities | | | | | |
| Provision for contingencies | 73 | | | (2) | (2) |
| Total included under current liabilities | 73 | | | (2) | (2) |
| Included under non-current liabilities | | | | | |
| Provision for contingencies | 374 | | 38 | | 2 |
| Total included under non-current liabilities | 374 | | 38 | | 2 |
| Total included under liabilities | 447 | (c) | 38 | | (2) |

(a) This allowance is included in Taxes payable non-current (Note 10).

(b) Includes \$29 in selling expenses, \$8 in other expenses, net and \$1 in income tax.

(c) Includes \$38 in other expenses, net.

| Items | Opening balances | Additions | Reclassifications | Deductions | As of March 31, 2009 |
|--|------------------|-----------|-------------------|-------------|----------------------|
| Deducted from current assets | | | | | |
| Allowance for doubtful accounts receivables | 136 | 39 | | (21) | 154 |
| Allowance for doubtful accounts and other assets | 13 | | | | 13 |
| Regulatory contingencies | 11 | | | (9) | 2 |
| Allowance for obsolescence of inventories | 16 | 3 | | (2) | 17 |
| Total deducted from current assets | 176 | 42 | | (32) | 186 |
| Deducted from non-current assets | | | | | |
| Allowance for doubtful accounts receivables | 1 | | | | 1 |
| Valuation allowance of net deferred tax assets (a) | 12 | 1 | | (1) | 12 |
| Regulatory contingencies | 75 | 1 | | | 76 |
| Allowance for doubtful accounts and other assets | 20 | 1 | | | 21 |
| Write-off of materials | 19 | 1 | | | 20 |
| Total deducted from non-current assets | 127 | 4 | | (1) | 130 |
| Total deducted from assets | 303 | (d) | 46 | | (33) |
| Included under current liabilities | | | | | |
| Provision for contingencies | 36 | | 18 | (20) | 34 |
| Total included under current liabilities | 36 | | 18 | (20) | 34 |
| Included under non-current liabilities | | | | | |
| Provision for contingencies | 319 | (15) | (18) | | 286 |

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| | | | | |
|---|------------|-----------------|-------------|------------|
| Total included under non-current liabilities | 319 | (15) | (18) | 286 |
| Total included under liabilities | 355 | (e) (15) | (20) | 320 |

(d) Includes \$39 in selling expenses, \$6 in other expenses, net and \$1 in income tax.

(e) Includes \$(36) and \$21 in other expenses, net.

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

16. Other financial statement information (continued)*(f) Cost of services*

| | Three-month periods ended March 31, | |
|---|--|-----------------|
| | 2010 | 2009 |
| Inventory balance at the beginning of the year | \$ 264 | \$ 267 |
| Plus: | | |
| Purchases | 298 | 217 |
| Non recoverable internal taxes on imports | (15) | |
| Holding results on inventories | (8) | 12 |
| Deductions from allowance for obsolescence of inventories | (8) | (2) |
| Wireless handsets lent to customers at no cost (a) | (1) | (2) |
| Replacements | (2) | (3) |
| Foreign currency translation adjustments in inventory | | 1 |
| Cost of services (Note 16.h) | 1,330 | 1,167 |
| Less: | | |
| Inventory balance at period end | (240) | (236) |
| COST OF SERVICES | \$ 1,618 | \$ 1,421 |

- (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.

| | Three-month periods ended March 31, | |
|-----------------------------------|--|-----------------|
| | 2010 | 2009 |
| Services | | |
| Net sales | \$ 3,050 | \$ 2,656 |
| Cost of sales | (1,320) | (1,158) |
| Gross profit from services | \$ 1,730 | \$ 1,498 |
| Handsets | | |
| Net sales | \$ 187 | \$ 166 |

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| | | |
|--|-----------------|-----------------|
| Cost of sales | (288) | (254) |
| Gross loss from handsets | \$ (101) | \$ (88) |
| Voice, data and Internet equipment | | |
| Net sales | \$ 12 | \$ 7 |
| Cost of sales | (10) | (9) |
| Gross profit (loss) from Voice, data and Internet equipment | \$ 2 | \$ (2) |
| TOTAL GROSS PROFIT | \$ 1,631 | \$ 1,408 |

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

16. Other financial statement information (continued)*(g) Foreign currency assets and liabilities*

| Items | As of March 31, 2010 | | | As of December 31, 2009 | |
|----------------------------|--------------------------------|-----------------------|--------------------------|--------------------------|--|
| | Amount of foreign currency (i) | Current exchange rate | Amount in local currency | Amount in local currency | |
| Current assets | | | | | |
| Cash and banks | | | | | |
| Cash | US\$ 1 | 3.8780 | \$ 2 | \$ 2 | |
| | EURO | 5.2477 | 1 | 1 | |
| | G | | | 4 | |
| Bank accounts | US\$ 11 | 3.8780 | 41 | 18 | |
| | G 2,887 | 0.000823 | 2 | 13 | |
| | \$U 5 | 0.1993 | 1 | 2 | |
| Investments | | | | | |
| Time deposits | US\$ 122 | 3.8780 | 475 | 418 | |
| Related parties | US\$ 4 | 3.8780 | 17 | 16 | |
| Accounts receivable | | | | | |
| | US\$ 18 | 3.8780 | 71 | 110 | |
| | SDR 2 | 5.8877 | 10 | 9 | |
| | G 15,211 | 0.000823 | 12 | 16 | |
| | GBP | 6.1490 | 1 | 1 | |
| Related parties | US\$ | 3.8780 | 1 | 5 | |
| Other receivables | | | | | |
| Prepaid expenses | US\$ 7 | 3.8780 | 26 | 17 | |
| | G 14,600 | 0.000823 | 12 | 3 | |
| | EURO | | | 1 | |
| Others | US\$ 3 | 3.8780 | 10 | 16 | |
| | G 5,036 | 0.000823 | 4 | 3 | |
| Non-current assets | | | | | |
| Other receivables | | | | | |
| Others | US\$ 1 | 3.8780 | 3 | 3 | |
| | G 1,765 | 0.000823 | 1 | 1 | |
| Total assets | | | \$ 690 | \$ 659 | |
| Current liabilities | | | | | |

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| | | | | | |
|---|------|---------|----------|-----------------|-----------------|
| Accounts payable | | | | | |
| Suppliers | US\$ | 248 | 3.8780 | \$ 960 | \$ 982 |
| | G | 34,327 | 0.000823 | 28 | 24 |
| | EURO | 9 | 5.2477 | 47 | 59 |
| Deferred revenues | G | 4,687 | 0.000823 | 4 | 4 |
| Related parties | US\$ | 6 | 3.8780 | 25 | 23 |
| | EURO | 2 | 5.2477 | 8 | 5 |
| | SDR | | 5.8873 | 1 | 2 |
| Debt | | | | | |
| Notes Principal | US\$ | 174 | 3.8780 | 676 | 685 |
| Banks loans and others Principal | G | 95,820 | 0.000823 | 78 | 72 |
| Accrued interest | US\$ | 4 | 3.8780 | 17 | 1 |
| | G | 4,889 | 0.000823 | 4 | 2 |
| Bank overdrafts | G | 18,249 | 0.000823 | 15 | |
| Salaries and social security payable | | | | | |
| Vacation, bonuses and social security payable | G | 2,298 | 0.000823 | 2 | 1 |
| Taxes payable | | | | | |
| Deferred tax liabilities (assets) | G | | | | (1) |
| VAT | G | 1,926 | 0.000823 | 2 | 1 |
| Other liabilities | | | | | |
| Deferred revenue on sale of capacity | US\$ | 3 | 3.8780 | 13 | 12 |
| | US\$ | 2 | 3.8780 | 7 | 8 |
| Others | G | | | | 1 |
| Non-current liabilities | | | | | |
| Accounts payable | | | | | |
| Related parties | US\$ | 6 | 3.8780 | 22 | 24 |
| Debt | | | | | |
| Banks loans and others Principal | G | 52,020 | 0.000823 | 43 | 58 |
| Taxes payable | | | | | |
| Deferred tax liabilities (assets) | G | (3,610) | 0.000823 | (3) | |
| | US\$ | 1 | 3.8780 | 2 | 2 |
| Other liabilities | | | | | |
| Deferred revenue on sale of capacity | US\$ | 29 | 3.8780 | 112 | 112 |
| Others | US\$ | 1 | 3.8780 | 2 | 2 |
| Total liabilities | | | | \$ 2,065 | \$ 2,079 |

(i) US\$ = United States dollar; G= Guaraníes; SDR= Special Drawing Rights; \$U= Uruguayan peso; GBP= Great Britain Pound.

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

16. Other financial statement information (continued)*(h) Expenses*

| | Cost of services | Expenses General and administrative | Selling | Three-month period ended March 31, 2010 |
|---|---------------------|---|---------------|---|
| Salaries and social security | \$ 176 | \$ 64 | \$ 164 | \$ 404 |
| Depreciation of fixed assets | 251 | 10 | 36 | 297 |
| Amortization of intangible assets | 4 | | | 4 |
| Turnover tax | 142 | | | 142 |
| Taxes with the Regulatory Authority | 76 | | | 76 |
| Other taxes | 53 | | 2 | 55 |
| Maintenance, materials and supplies | 124 | 11 | 21 | 156 |
| Bad debt expense | | | 29 | 29 |
| Interconnection costs | 47 | | | 47 |
| Cost of international outbound calls | 39 | | | 39 |
| Lease of circuits | 36 | | | 36 |
| Fees for services (a) | 23 | 22 | 89 | 134 |
| Advertising | | | 79 | 79 |
| Agent commissions and distribution of prepaid cards commissions | | | 225 | 225 |
| Other commissions | | | 50 | 50 |
| Roaming | 57 | | | 57 |
| Charges for TLRD | 172 | | | 172 |
| Cost of voice, Internet and data equipment sales | 10 | | | 10 |
| Transportation, freight and travel expenses | 7 | 2 | 40 | 49 |
| Energy, water and others | 30 | 1 | 1 | 32 |
| Rental expense | 21 | 10 | 9 | 40 |
| International and satellite connectivity | 18 | | | 18 |
| Others | 44 | 1 | 2 | 47 |
| Total | \$ 1,330 | \$ 121 | \$ 747 | \$ 2,198 |

| | Cost of services | Expenses General and administrative | Selling | Three-month period ended March 31, 2009 |
|------------------------------|---------------------|---|---------|---|
| Salaries and social security | \$ 144 | \$ 46 | \$ 127 | \$ 317 |
| Depreciation of fixed assets | 217 | 8 | 28 | 253 |

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| | | | | |
|---|-----------------|--------------|---------------|-----------------|
| Amortization of intangible assets | 4 | | 1 | 5 |
| Turnover tax | 122 | | | 122 |
| Taxes with the Regulatory Authority | 61 | | | 61 |
| Other taxes | 45 | 1 | 2 | 48 |
| Maintenance, materials and supplies | 110 | 8 | 18 | 136 |
| Bad debt expense | | | 39 | 39 |
| Interconnection costs | 43 | | | 43 |
| Cost of international outbound calls | 47 | | | 47 |
| Lease of circuits | 34 | | | 34 |
| Fees for services (a) | 21 | 19 | 66 | 106 |
| Advertising | | | 78 | 78 |
| Agent commissions and distribution of prepaid cards commissions | | | 199 | 199 |
| Other commissions | | | 41 | 41 |
| Roaming | 51 | | | 51 |
| Charges for TLRD | 181 | | | 181 |
| Cost of voice, Internet and data equipment sales | 9 | | | 9 |
| Transportation, freight and travel expenses | 5 | 2 | 46 | 53 |
| Energy, water and others | 20 | 2 | 4 | 26 |
| Rental expense | 11 | 5 | 7 | 23 |
| International and satellite connectivity | 18 | | | 18 |
| Others | 24 | 1 | 1 | 26 |
| Total | \$ 1,167 | \$ 92 | \$ 657 | \$ 1,916 |

(a) Includes \$2 in General and administrative expenses corresponding to Directors and Supervisory Committee s fees.

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Unaudited Consolidated Financial Statements (Continued)**

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

16. 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 | | 370 | | (a) 42 | | | | |
| Not due | | | | | | | | |
| Second quarter 2010 | 1,659 | 677 | 190 | 1,862 | 80 | 156 | 719 | 33 |
| Third quarter 2010 | 3 | | 19 | 17 | 12 | 32 | 1 | 7 |
| Fourth quarter 2010 | 1 | | 17 | 8 | 722 | 28 | 1 | 6 |
| First quarter 2011 | 4 | | 15 | 3 | 14 | 56 | 254 | 9 |
| April 2011 thru March 2012 | 1 | | 59 | 22 | 43 | 23 | 2 | 24 |
| April 2012 thru March 2013 | | | 5 | | | 18 | 2 | 14 |
| April 2013 and thereafter | | | 11 | | | 38 | 9 | 101 |
| Not date due established | 1 | | | | | | 172 | 45 |
| Total not due | 1,669 | 677 | 316 | 1,912 | 871 | 351 | 1,160 | 239 |
| Total as of March 31, 2010 | 1,669 | 1,047 | 316 | 1,954 | 871 | 351 | 1,160 | 239 |
| Balances bearing interest | 1,668 | 370 | | | 871 | | 33 | 13 |
| Balances not bearing interest | 1 | 677 | 316 | 1,954 | | 351 | 1,127 | 226 |
| Total | 1,669 | 1,047 | 316 | 1,954 | 871 | 351 | 1,160 | 239 |
| Average annual interest rate (%) | 5.82 | (b) | | | (c) | | 9.00 | 6.00 |

(a) At the date of issuance of these consolidated financial statements, \$11 has been cancelled.

(b) \$48 bear 50% over the Banco Nación Argentina 30-day interest rate paid by banks, \$153 bear 50% over the Banco Nación Argentina notes payable discount rate and \$169 bear 28.42%.

(c) See Note 8.

17. Subsequent events

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The Ordinary and Extraordinary Shareholder's Meeting of Telecom approved on April 28, 2010, a cash dividend payment of \$1,053 to be paid in two installments: the first on May 5, 2010 in an amount of \$689 and the second on December 20, 2010 in an amount of \$364.

Adrián Calaza

Chief Financial Officer

Gerardo Werthein

Vice-Chairman in exercise of the Presidency

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REVIEW REPORT OF INTERIM FINANCIAL STATEMENTS

To the Directors and Shareholders of

Telecom Argentina S.A.

1. We have reviewed the accompanying consolidated balance sheet of Telecom Argentina S.A. (Telecom) and its consolidated subsidiaries as of March 31, 2010, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the three-month periods ended March 31, 2010 and 2009. 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. Based on the work done and on our examination of Telecom's consolidated financial statements for the years ended December 31, 2009 and 2008 on which we issued an unqualified opinion dated March 9, 2010, we report that:
 - a) the consolidated financial statements of Telecom as of March 31, 2010 and 2009, described in paragraph 1, prepared in conformity with generally accepted accounting principles (GAAP) in Argentina, as approved by the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires*, consider all significant facts and circumstances which are known to us and we have no observations to make;
 - b) comparative information included in the accompanying consolidated balance sheet and related footnotes, derives from Telecom's consolidated financial statements for the year ended December 31, 2009.
4. Accounting principles generally accepted in Argentina (Argentine GAAP) 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 14 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.
5. 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 Corporations Law and CNV;
 - b) the financial statements of Telecom at March 31, 2010 arise from accounting records carried in all formal respects in accordance with current legal regulations;
 - c)

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except for the chapter entitled "IFRS Implementation Plan progress", we have read the Operating and Financial Review and Prospects on the financial statements on which, as regards those matters that are within our competence, we have no observations to make;

d) at March 31, 2010, the debt corresponding to withholdings and contributions to the Argentine Integrated Social Security System according to the Company's accounting records amounts to \$31,710,082.01, none of which was due at that date.
Autonomous City of Buenos Aires

May 5, 2010

PRICE WATERHOUSE & CO. S.R.L.

By **Alejandro P. Frechou** (Partner)

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***OPERATING AND FINANCIAL REVIEW AND PROSPECTS****AS OF MARCH 31, 2010**

(In millions of Argentine pesos or as expressly indicated)

1. General considerations

Telecom Argentina reached a net income of \$411 for the three-month period ended March 31, 2010 (1Q10), \$60 or +17% when compared to the same period of the previous year (1Q09).

Operating income before depreciation and amortization reached \$1,064 (+\$147 or 16% vs. 1Q09), 33% of Net sales. This growth was mainly fueled by the Mobile and Broadband businesses in Argentina.

Operating income increased by 16% (+\$104 vs. 1Q09) to \$763, 23% of Net sales.

| | Three-month periods ended | | |
|---|----------------------------------|--------------|-----------|
| | March 31, | | |
| | 2010 | 2009 | % |
| Net sales | 3,249 | 2,829 | 15 |
| Cost of services | (1,618) | (1,421) | 14 |
| Gross profit | 1,631 | 1,408 | 16 |
| General and administrative expenses | (121) | (92) | 32 |
| Selling expenses | (747) | (657) | 14 |
| Operating income | 763 | 659 | 16 |
| Financial results, net | (57) | (94) | (39) |
| Other expenses, net | (51) | | n/a |
| Net income before income tax and noncontrolling interest | 655 | 565 | 16 |
| Income tax expense, net | (242) | (213) | 14 |
| Noncontrolling interest | (2) | (1) | 100 |
| Net income | 411 | 351 | 17 |
| Net income per share (in pesos) | 0.42 | 0.36 | |

2. Company activities**Net sales**

During 1Q10, consolidated net sales increased by 15% (+\$420 vs. 1Q09) to \$3,249, mainly fueled by the cellular and Broadband businesses.

| | Three-month periods ended | | |
|---------------------------------|---------------------------|--------------|-----------|
| | March 31, | | |
| | 2010 | 2009 | % |
| Voice | 692 | 684 | 1 |
| Internet | 316 | 235 | 34 |
| Data transmission | 74 | 60 | 23 |
| Voice, data and Internet | 1,082 | 979 | 11 |
| Wireless Personal | 2,061 | 1,757 | 17 |
| Wireless Núcleo | 106 | 93 | 14 |
| Wireless | 2,167 | 1,850 | 17 |
| Total net sales | 3,249 | 2,829 | 15 |

The evolution in Net sales by reportable segment was as follows:

Voice, data and Internet

During 1Q10, revenues generated by these services amounted to \$1,082, +11% vs. 1Q09, where in relative terms Internet revenues have grown the most (+34% vs. 1Q09).

Voice

Total revenues for this service reached \$692 in 1Q10 (+1% vs. 1Q09). The results of this line of business are still affected by frozen tariffs of regulated services and lower interconnection revenues.

Monthly Charges and Supplementary Services increased by \$9 or 4% vs. 1Q09, to \$216, as a consequence of a higher number of lines in service (+1%), which reached more than 4.4 million, and a 16% increase in supplementary services.

Revenues generated by traffic (Local Measured Service, Domestic Long Distance and International Telephony) totaled \$316, an increase of 3% vs. 1Q09. In relative terms, revenues from local traffic increased the most with 9% vs. 1Q09; DLD traffic revenues slightly increased +3% vs. 1Q09 and international traffic revenues decreased 7% vs. 1Q09 influenced by a lower demand in Wholesale customers.

Interconnection revenues amounted to \$99 (-9% vs. 1Q09), mainly due to the incorporation of new interconnection points between mobile operators that impacted negatively these revenues.

Other revenues reached \$61, similar levels as those obtained in 1Q09.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2010

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TELECOM ARGENTINA S.A.

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

Data transmission and Internet

Data transmission revenues amounted to \$74 (+23% vs. 1Q09), where the focus was to strengthen Telecom's position as an integrated ICT provider for wholesale and government segments. During the quarter, Telecom continued enhancing virtualization solutions such as Virtual Hosting and Virtual Desktop.

Revenues related to Internet reached \$316 (+\$81 or 34% vs. 1Q09), mainly due to the substantial expansion of the Broadband service, driven by an increase in the subscriber base due to commercial promotions with innovations in the service portfolio. In addition, ADSL ARPU improved 18% when compared to 1Q09 due to the implementation of an efficient pricing strategy.

As of March 31, 2010, Telecom reached 1,241,000 ADSL customers (+16% vs. 1Q09). These connections represent approximately 28% of Telecom's fixed lines in service.

Data Transmission and Internet together have significantly increased their contribution to net consolidated sales reaching an 12% participation and representing 36% of fixed telephony segment revenues (vs. 30% in 1Q09).

Cellular Telephony

In this quarter, clients have significantly increased reaching 16.8 million as of the end of March 2010, representing an increase of 0.5 million since December 2009 and 1.8 million since March 2009. During 1Q10, net sales reached \$2,167 (+17% vs. 1Q09).

Personal in Argentina

As of the end of March 2010, Personal reached 15 million subscribers in Argentina (+1.8 million or +13% vs. 1Q09) which allowed the company to enhance its market position.

Approximately 70% of the overall subscriber base is prepaid and 30% is postpaid (including Cuentas claras plans).

Personal continued with sustained growth in revenues (including handset sales) reaching \$2,061 (+17% vs. 1Q09), supported by the increase in the overall voice traffic minutes by 16% vs. 1Q09 and in value-added services (VAS) revenues by 28% vs. 1Q09. Service revenues reached \$1,875 (+18% vs. 1Q09) where 34% of them corresponds to VAS revenues. Also noteworthy is SMS traffic performance, which climbed from a monthly average of 2,047 million messages in 1Q09 to 4,258 million in 1Q10 (+108%).

As a consequence of the traffic increase and higher usage of VAS, Average Monthly Revenue per User (ARPU) increased to approximately \$41 pesos in 1Q10 (+3% vs. 1Q09).

Personal in Paraguay

By the end of March 2010, Nucleo's subscriber base (including Internet subscribers) remained stable in 1.8 million customers when compared vs. 1Q09. Prepaid and postpaid customers represented 88% and 12%, respectively.

Personal's subsidiary in Paraguay generated revenues equivalent to \$106 during 1Q10 (+14% vs. 1Q09).

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Operating costs

The cost of services, administrative expenses and selling expenses totaled \$2,486 in 1Q10, which represents an increase of \$316 or +15% vs. 1Q09. The increase in costs is a consequence of a higher volume of revenues, inflationary effects on the cost structure of the Group and greater expenses related to competition in cellular and Internet businesses.

| | Three-month periods ended | | |
|---|---------------------------|----------------|-----------|
| | March 31, | | |
| | 2010 | 2009 | % |
| Salaries and social security | (404) | (317) | 27 |
| Taxes | (273) | (231) | 18 |
| Maintenance, materials and supplies | (156) | (136) | 15 |
| Bad debt expense | (29) | (39) | (26) |
| Interconnection costs | (47) | (43) | 9 |
| Cost of international outbound calls | (39) | (47) | (17) |
| Lease of circuits | (36) | (34) | 6 |
| Fees for services | (134) | (106) | 26 |
| Advertising | (79) | (78) | 1 |
| Agent commissions and distribution of prepaid cards commissions | (225) | (199) | 13 |
| Other commissions | (50) | (41) | 22 |
| Roaming | (57) | (51) | 12 |
| Charges for TLRD | (172) | (181) | (5) |
| Cost of voice and data equipment sales and wireless handsets | (298) | (263) | 13 |
| Others | (186) | (146) | 27 |
| Subtotal | (2,185) | (1,912) | 14 |
| Depreciation of fixed assets | (297) | (253) | 17 |
| Amortization of intangibles assets | (4) | (5) | (20) |
| Operating costs | (2,486) | (2,170) | 15 |

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The cost breakdown is as follows:

Salaries and Social Security Contributions totaled \$404 (+27% vs. 1Q09), affected by increases in salaries and the related social security charges. Regarding personnel, the decrease in headcount in fixed segment (-77 employees vs. 1Q09) was partially compensated by the net incorporation of 171 employees in the same period in the cellular business. The total headcount at the end of 1Q10 remained stable achieving efficiencies in lines in service per employee.

Taxes reached \$273 (+18% vs. 1Q09), influenced mainly by higher rates in turnover taxes, new municipal taxes related to a higher volume of revenues and higher rates and fees paid to the Regulatory Authority.

Network access costs (includes charges for TLRD, Roaming, Interconnection costs, cost of international outbound calls and lease of circuits) amounted to \$351 (-1% vs. 1Q09). This cost reduction was due to savings from stimulating on-net traffic between clients and more investment in the network that allowed a reduction in the expense of national roaming.

Agents, distribution of prepaid cards and other commissions were \$275 (+15% vs. 1Q09), mainly due to the increase in commissions paid to commercial agents associated to higher revenues because of major acquisition and retention costs, higher cards sales, and prepaid recharges.

Advertising amounted to \$79 (+1% vs. 1Q09), oriented towards supporting the commercial activity in mobile services and Internet and to strengthening the brand position of the Telecom Group.

Cost of handsets totaled \$298 (+13% vs. 1Q09) due to a change in the handsets mix sold, increasing high-end handsets sales and the average costs of them. There was also a higher upgrade of handsets to boost VAS usage and the increase in Internal Tax, better known as the Technological Tax.

Bad debt expense reached \$29 (-\$10 vs. 1Q09), representing 1% of the consolidated net revenues.

Depreciation of Fixed and Intangible Assets reached \$301 (+17% vs. 1Q09). Fixed-line telephony totaled \$168 (+6% vs. 1Q09) and cellular telephony totaled \$133 (+34% vs. 1Q09), mainly due to higher investment in fixed assets.

Other costs totaled \$476 (+23% vs. 1Q09). The increase was due to the inflationary effects on related services.

Financial results, net

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Financial results, net resulted in a loss of \$57, a decrease of \$37 vs. 1Q09. This was due to lower losses registered in net foreign currency exchange (\$34 vs. 1Q09) and lower net interest (\$28 vs. 1Q09), partially compensated by higher results on holding losses on inventories (\$20 vs. 1Q09).

Net financial asset (debt)

As of March 31 2010, Net financial assets (Loans minus Cash and Cash Equivalents) amounted to \$860, a reduction in debt of \$1,407 as compared to March 2009 due to the strong cash flow generation. The Voice, data and Internet segment has net financial assets of \$787 and the Cellular telephony segment has net financial assets of \$73.

During 1Q10, Personal purchased a nominal amount of US\$ 5.85 million Series 3 Notes due 2010. These operations were made through market purchases and with liquid funds of the company. The Notes acquired were cancelled according with the terms and conditions of the respective Indentures.

Capital expenditures

During 1Q10, the Company invested \$386 in fixed and intangible assets. This amount was allocated to Voice, Data and Internet businesses (\$144) and cellular business (\$242). In relative terms, capex reached 12% of the revenues of 1Q10.

Main capex projects are related to the expansion of broadband services to improve transmission and speed to the clients; deployment of 3G services to maintain the growth of mobile broadband together with the launch of innovative VAS and the expansion of transmission networks and transport to meet the growing demand of our fixed and mobile clients.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2010

Table of Contents**TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***IFRS Implementation Plan progress**

In accordance with RG 562/09, the Company developed an Implementation Plan for the adoption of IFRS in Telecom and its subsidiaries. Such Plan was approved by the Board of Directors on March 16, 2010. The Implementation Plan provides for the adoption of IFRS according to the dates established in RG 562/09 and addresses the presentation of IFRS financial statements as additional information to the consolidated financial statements in order to facilitate the understanding of the effects of the new standards on Telecom Group's income and equity.

At the date of issuance of these consolidated financial statements, the Company is making progress in the Implementation Plan in accordance with the scheduled dates and the IFRS Project Leader has not identified any circumstances which may require the modification of the Plan or indicate deviations in the fulfillment of its objectives.

Recent Relevant Matters

The Annual General Ordinary and Extraordinary Shareholders Meeting held on April 28, 2010 approved a cash dividend distribution in the amount of \$1,053 to be paid in two installments on the following dates and amounts: May 5, 2010, for the amount of \$689 and December 20, 2010, for the balance of \$364.

On May 5, 2010, Personal made a dividend payment to Telecom in cash of \$575. The distribution was approved by the Ordinary Shareholders Meeting of Personal held on April 20, 2010.

Closing prices of Class B Shares of the Company

| Month | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------------------|-------|-------|-------|-------|-------|
| January | 7.97 | 12.75 | 12.80 | 5.86 | 12.90 |
| February | 7.74 | 13.00 | 14.50 | 5.45 | 12.75 |
| March | 8.20 | 13.05 | 13.50 | 5.97 | 14.60 |
| April | 7.75 | 13.80 | 11.25 | 6.80 | 15.85 |
| May | 6.75 | 17.20 | 12.15 | 6.78 | |
| June | 7.00 | 15.25 | 9.35 | 10.00 | |
| July | 7.87 | 13.75 | 8.33 | 10.45 | |
| August | 8.43 | 16.50 | 8.24 | 11.70 | |
| September | 8.52 | 15.65 | 7.98 | 12.20 | |
| October | 9.25 | 15.25 | 4.40 | 12.90 | |
| November | 10.50 | 16.80 | 5.80 | 12.40 | |
| December | 11.90 | 14.30 | 6.00 | 12.65 | |
| Annual increase (decrease) | 51% | 20% | (58%) | 111% | |
| MERVAL Annual increase (decrease) | 35% | 3% | (50%) | 115% | |

Selected consolidated quarterly information

| Quarter ended | Net sales | Operating income before depreciation and amortization | Operating income | Financial results, net | Net income |
|-------------------|---------------|---|------------------|------------------------|--------------|
| Year 2010: | | | | | |
| March 31, | 3,249 | 1,064 | 763 | (57) | 411 |
| | 3,249 | 1,064 | 763 | (57) | 411 |
| Year 2009: | | | | | |
| March 31, | 2,829 | 917 | 659 | (94) | 351 |
| June 30, | 2,925 | 924 | 652 | (57) | 352 |
| September 30, | 3,107 | 1,014 | 724 | (166) | 303 |
| December 31, | 3,365 | 1,045 | 727 | (12) | 399 |
| | 12,226 | 3,900 | 2,762 | (329) | 1,405 |

3. Summary comparative consolidated balance sheets

| | As of March 31, | | | | |
|---|-----------------|---------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Current assets | 3,248 | 3,018 | 3,186 | 2,087 | 2,032 |
| Non current assets | 7,744 | 7,042 | 6,525 | 6,821 | 6,884 |
| Total assets | 10,992 | 10,060 | 9,711 | 8,908 | 8,916 |
| Current liabilities | 4,131 | 4,099 | 3,784 | 3,316 | 2,670 |
| Non current liabilities | 927 | 1,514 | 2,521 | 3,255 | 4,329 |
| Total liabilities | 5,058 | 5,613 | 6,305 | 6,571 | 6,999 |
| Noncontrolling interest | 93 | 72 | 78 | 76 | 46 |
| Shareholders equity | 5,841 | 4,375 | 3,328 | 2,261 | 1,871 |
| Total liabilities, noncontrolling interest and Shareholders equity | 10,992 | 10,060 | 9,711 | 8,908 | 8,916 |

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2010

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| | Three-month periods ended March 31, | | | | |
|--|-------------------------------------|-------------|-------------|-------------|-------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Net sales | 3,249 | 2,829 | 2,480 | 2,058 | 1,611 |
| Operating costs | (2,486) | (2,170) | (1,946) | (1,700) | (1,414) |
| Operating income | 763 | 659 | 534 | 358 | 197 |
| Gain on equity investees | | | | | 6 |
| Financial results, net | (57) | (94) | (60) | (132) | (183) |
| Other expenses, net | (51) | | (47) | (32) | (42) |
| Net income (loss) before income tax and noncontrolling interest | 655 | 565 | 427 | 194 | (22) |
| Income tax benefit (expense), net | (242) | (213) | (149) | (52) | 31 |
| Noncontrolling interest | (2) | (1) | (6) | (5) | (5) |
| Net income from continuing operations | 411 | 351 | 272 | 137 | 4 |
| Loss from discontinued operations | | | | (2) | (1) |
| Net income | 411 | 351 | 272 | 135 | 3 |
| Net income per share (in pesos) | 0.42 | 0.36 | 0.28 | 0.14 | |

5. Statistical data (in physical units)**Voice, data and Internet***Fixed telephone service*

| March 31, | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|---------------------------------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| Equipment lines | 3,843,809 | (8,350) | 3,849,385 | 1,016 | 3,874,594 | (4,371) | 3,874,566 | 3,095 | 3,855,435 | 27,288 |
| NGN lines | 754,660 | 11,776 | 605,156 | 10,896 | 373,072 | 13,495 | 86,900 | 61,734 | | |
| Installed lines | 4,598,469 | 3,426 | 4,454,541 | 11,912 | 4,247,666 | 9,124 | 3,961,466 | 64,829 | 3,855,435 | 27,288 |
| Lines in service (a) | 4,364,298 | (88) | 4,305,734 | 6,914 | 4,224,333 | 16,589 | 4,117,199 | 22,546 | 3,966,317 | 16,406 |
| Customers lines | 3,990,790 | (147) | 3,940,959 | 4,359 | 3,864,314 | 15,062 | 3,769,119 | 19,188 | 3,637,224 | 12,192 |
| Public phones installed | 48,683 | (1,592) | 55,864 | (2,511) | 67,109 | (3,441) | 80,292 | (1,276) | 82,032 | (739) |
| Lines in service per 100 | 22.1 | (0.1) | 22.1 | | 21.8 | | 21.4 | | 20.8 | |

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| inhabitants (b) | | | | | | | | | | |
|-------------------------|-----|-------|-----|---|-----|-----|-----|-----|-----|---|
| Lines in service | | | | | | | | | | |
| per employee | | | | | | | | | | |
| | 393 | (1,0) | 386 | 2 | 366 | (1) | 359 | (4) | 348 | 1 |

(a) Includes direct inward dialing numbers that do not occupy installed lines capacity.

(b) Corresponding to the northern region of Argentina.

Internet

| March 31, | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|--------------------------|------------------|---------------|------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| ADSL subscribers | 1,241,000 | 18,000 | 1,068,000 | 26,000 | 841,000 | 58,000 | 526,000 | 69,000 | 250,000 | 24,000 |
| Dial Up subscribers | 52,000 | (3,000) | 62,000 | (3,000) | 73,000 | (3,000) | 85,000 | (3,000) | 111,000 | (7,000) |
| Total subscribers | 1,293,000 | 15,000 | 1,130,000 | 23,000 | 914,000 | 55,000 | 611,000 | 66,000 | 361,000 | 17,000 |

Cellular telephone service

Personal

| March 31, | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|--------------------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|------------------|----------------|------------------|----------------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| Post-paid subscribers | 1,787,000 | 72,000 | 1,517,000 | 63,000 | 1,198,000 | 64,000 | 825,000 | 66,000 | 569,000 | 23,000 |
| Cuentas claras plans | 2,707,000 | (2,000) | 2,822,000 | 15,000 | 2,523,000 | 53,000 | 2,197,000 | 70,000 | 1,735,000 | 169,000 |
| Prepaid subscribers | 10,454,000 | 403,000 | 8,832,000 | 529,000 | 7,161,000 | 99,000 | 6,288,000 | 749,000 | 4,047,000 | 9,000 |
| Total subscribers | 14,948,000 | 473,000 | 13,171,000 | 607,000 | 10,882,000 | 216,000 | 9,310,000 | 885,000 | 6,351,000 | 201,000 |

| | | | | | |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Lines per employee | 3,829 | 3,535 | 3,152 | 2,840 | 2,607 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|

Núcleo

| March 31, | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|--------------------------|------------------|---------------|------------------|--------------|------------------|---------------|------------------|----------------|----------------|---------------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| Post-paid subscribers | 43,000 | 7,000 | 23,000 | (1,000) | 23,000 | 21,000 | (1,000) | 21,000 | 21,000 | |
| Plan control plans | 161,000 | 8,000 | 143,000 | 3,000 | 141,000 | 1,000 | 132,000 | 8,000 | 102,000 | 2,000 |
| Prepaid subscribers | 1,604,000 | (1,000) | 1,649,000 | 2,000 | 1,518,000 | 62,000 | 1,174,000 | 156,000 | 567,000 | 37,000 |
| Subtotal cellular | 1,808,000 | 14,000 | 1,815,000 | 4,000 | 1,682,000 | 63,000 | 1,327,000 | 163,000 | 690,000 | 39,000 |
| Internet subscribers | 11,000 | (1,000) | 16,000 | 1,000 | 11,000 | 4,000 | 1,000 | 1,000 | | |
| Total subscribers | 1,819,000 | 13,000 | 1,831,000 | 5,000 | 1,693,000 | 67,000 | 1,328,000 | 164,000 | 690,000 | 39,000 |

| | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Lines per employee (*) | 4,336 | 4,281 | 3,930 | 3,244 | 1,870 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|

(*) Internet subscribers are not included.

6. Consolidated ratios

| March 31, | 2010 | 2009 | 2008 | 2007 | 2006 |
|------------------------------|------|------|------|------|------|
| Liquidity (1) | 0.79 | 0.74 | 0.84 | 0.63 | 0.76 |
| Solvency (2) | 1.17 | 0.79 | 0.54 | 0.36 | 0.27 |
| Locked up capital (3) | 0.70 | 0.70 | 0.67 | 0.77 | 0.77 |

(1) Current assets/Current liabilities.

(2) Shareholders' equity plus noncontrolling interest/Total liabilities.

(3) Non current assets/Total assets.

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

7. Outlook

During the present fiscal year the Telecom Group will continue with the strategy of increasing its customer base as well as the revenues in every business segment

Growth in fixed line telephony will continue in line with the trend of past years and with the international trend of the telecommunications sector as the market reaches maturity. The expansion of the Broadband business is the main driver of growth, where the Arnet brand is in an excellent position in segments of individual customers and in corporate accounts, including small and medium size enterprises and large accounts. The combined offer of fixed, mobile and data services together with the data center capabilities that have gained strength with the acquisition of Cubecorp and subsequent merger with Telecom, will allow Telecom to be in a more competitive position to be selected by customers as a strategic supplier of telecommunications and related services.

The Cellular Telephony will continue expanding its subscriber base in fiscal year 2010 but at a more moderate pace. However, the positioning of Personal in the Argentine market can encourage the expectation of continued growth in market share, in number of customers and in net revenues in the mobile industry.

The strategy of acquiring high value customers and stimulating consumption through the launch of new services and products shall continue, not only to keep the loyalty of existing customers, but also to make Personal the preferred brand in the Argentine cellular industry. One of the most important drivers of growth will continue to be the expansion of value added services (in 1Q10 it represented approximately 34% of Personal's Services Sales). It is also expected that the offer of mobile Internet, shall strengthen the growth of these services, supported by the deployment of the third generation network shall allow higher speeds in data transmission and the increase in the number of locations where the service is available.

In order to provide the customers with newer and better services, during the present fiscal year the Telecom Group shall continue with its investment plans, representing 17% of the net consolidated sales estimated for fiscal year 2010. Telecom Argentina shall invest to sustain the growth in Broadband services, to continue developing the next generation network (NGN), to supply mobile operators with the necessary infrastructure and to continue with the updating of commercial and support systems. Regarding Personal, the expansion of its network infrastructure will continue, and a special effort will be put in extending 3G technology coverage and bandwidth for mobile data transmission.

The Telecom Group is in an excellent financial position because there are no financial commitments which cannot be settled by the internal cash flow generation.

The strategy implemented by the Management of Telecom introduces the basic necessary foundations that will allow the Telecom Group to take the necessary steps to achieve its objectives of constant service enhancement, strengthening its market position and increasing its efficiency to satisfy the continuous needs of the customers in a dynamic telecommunications market.

Gerardo Werthein

Vice-Chairman in exercise of the Presidency

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2010

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| Quarter | Market quotation (\$/share) | | Volume of shares traded (in million) |
|--------------|-----------------------------|-------|--------------------------------------|
| | High | Low | |
| March 09 | 6.40 | 4.90 | 10.2 |
| June 09 | 10.00 | 5.63 | 16.4 |
| September 09 | 12.20 | 9.59 | 9.2 |
| December 09 | 13.65 | 11.80 | 7.7 |
| March 10 | 14.65 | 12.55 | 8.9 |

NYSE

| Quarter | Market quotation (US\$/ADR*) | | Volume of ADRs traded (in million) |
|--------------|------------------------------|-------|------------------------------------|
| | High | Low | |
| March 09 | 9.38 | 6.55 | 10.5 |
| June 09 | 12.83 | 7.29 | 18.8 |
| September 09 | 15.99 | 12.21 | 12.5 |
| December 09 | 18.05 | 15.29 | 8.1 |
| March 10 | 18.79 | 15.87 | 8.2 |

* Calculated at 1 ADR = 5 shares

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

Telecom Argentina S.A.

Investor Relations Division

Alicia Moreau de Justo 50, 10th Floor

(1107) Ciudad Autónoma de Buenos Aires

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Tel.: 54-11-4968-3628

Argentina

Outside Argentina

JP Morgan Chase

Latam ADR Sales & Relationship Mgmt.

277 Park Avenue, 39th Floor

New York 10172

USA

Tel.: 1-212-622-9229

INTERNET <http://www.telecom.com.ar>

DEPOSIT AND TRANSFER AGENT FOR ADRs

JP Morgan Chase Bank

4 New York Plaza, Wall Street

New York, 1-212-622-9227

USA

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SIGNATURES

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

Telecom Argentina S.A.

Date: June 7, 2010

By: /s/ FRANCO BERTONE
Name: **Franco Bertone**
Title: **Chief Executive Officer**