

TELECOM ARGENTINA SA  
Form 20-F  
June 30, 2006

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)  
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
for the fiscal year ended December 31, 2005  
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from                      to

Commission file number: 1-13464

## TELECOM ARGENTINA S.A.

(Exact name of Registrant as specified in its charter)

## Republic of Argentina

(Jurisdiction of incorporation or organization)

Alicia Moreau de Justo 50

(C1107AAB) - Buenos Aires

**Argentina**

(Address of principal executive offices)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

Title of each class	Name of each exchange on which registered
<b>American Depositary Shares, representing Class B Ordinary Shares Class B Ordinary Shares, nominal value P\$1.00 per share</b>	<b>New York Stock Exchange  New York Stock Exchange*</b>

\* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**  
**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Class A Ordinary Shares, nominal value P\$1.00 each	502,034,299
Class B Ordinary Shares, nominal value P\$1.00 each	436,413,941
Class C Ordinary Shares, nominal value P\$1.00 each	45,932,738

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No



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## PRESENTATION OF FINANCIAL INFORMATION

In this Annual Report on Form 20-F (the "Form 20-F"), the terms "the Company", "Telecom", "Telecom Group", "we", "us", and "our" refer to Telecom Argentina S.A. and its consolidated subsidiaries, unless otherwise indicated.

The term "Telecom Argentina" refers to Telecom Argentina S.A. excluding its subsidiaries Telecom Personal S.A., Núcleo S.A., Telecom Argentina USA, Inc., Publicom S.A., Cable Insignia S.A. and Micro Sistemas S.A. Unless otherwise stated, references to the financial results of "Telecom" are to the consolidated financial results of Telecom Argentina and its subsidiaries.

The terms "Telecom Personal" or "Personal" refer to Telecom Personal S.A., our subsidiary engaged in the provision of wireless communication services in Argentina. The term "Núcleo" refers to Núcleo S.A., Telecom Personal's consolidated subsidiary engaged in the provision of wireless communication services in Paraguay.

*Consolidated Financial Statements.* Our Consolidated Financial Statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003, and the notes thereto (the "Consolidated Financial Statements") are set forth on pages F-1 through F-64 of this Annual Report.

The Consolidated Financial Statements are presented in Argentine Pesos and are prepared in accordance with Argentine GAAP considering the regulations of the Comisión Nacional de Valores (the Argentine National Securities Commission - CNV). Significant differences exist between Argentine GAAP and US GAAP which might be material to the financial information herein. 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 Securities Exchange Commission (SEC). See Note 15 to our Consolidated Financial Statements contained elsewhere in this Annual Report for a description of the principal differences between Argentine GAAP and US GAAP, as they relate to us, and a reconciliation to US GAAP of net income (loss) and shareholders' equity.

*Exchange Rates.* In this Form 20-F, except as otherwise specified, references to "\$", "US\$" and "dollars" are to U.S. dollars, references to "P", "P\$" and "pesos" are to Argentine pesos and references to "euro" or "euros" are to the single currency of the participants in the European Economic and Monetary Union. The exchange rate between the dollar and the peso as of December 31, 2005 was P\$3.032=US\$1.00. Prior to January 6, 2002, the exchange rate had been fixed at one peso per U.S. dollar in accordance with the Convertibility Law. However, as a result of the elimination of the fixed exchange rate and the devaluation of the peso, the exchange rate between the dollar and the peso has declined substantially. As of June 26, 2006, the exchange rate (ask price) was P\$3.09=US\$1.00. Unless otherwise indicated, our Consolidated Financial Statements use the exchange rate as of each relevant date or year-end quoted by Banco de la Nación Argentina ("Banco Nación"). Such translation should not be construed as representing that the peso amounts actually represent actual dollar amounts or that any person could convert the peso amounts into dollars at the rate indicated or at any other exchange rate. For more information regarding historical exchange rates and the peso, see: Item 3 - Key Information - Exchange Rates. We have provided as a convenience, translation as of December 31, 2005 for other currencies which are mentioned in this Annual Report, including the Japanese yen (P\$2.575=100), and the euro (P\$3.587=1).

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



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

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

Subsequently, on March 25, 2003, the Argentine Government reinstructed the CNV to preclude companies from presenting price-level-restated financial statements. Therefore, on April 8, 2003, the CNV discontinued inflation accounting as of March 1, 2003. We complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. We restated prior year amounts until February 28, 2003 for comparative purposes only.

In October 2003, the CPCECABA discontinued 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.

Certain amounts and ratios contained in this Annual Report (including percentage amounts) have been rounded up or down in order to facilitate the summation of the tables in which they are presented. The effect of this rounding is not material. These rounded amounts are also included within the text of this Annual Report.

The contents of our worldwide website are not part of this Annual Report.

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain information included in this Annual Report contains information that is forward-looking, including, but not limited to:

- the impact of the emergency laws and subsequent related laws enacted by the Argentine Government;
- our expectations for our future performance, revenues, income, earnings per share, capital expenditure, dividends, liquidity and capital structure;
- the implementation of our business strategy;
- the effects of our debt restructuring process;
- our expectations regarding payments and prepayments of outstanding indebtedness;
- the effects of operating in a competitive environment; and
- the outcome of certain legal proceedings.

This Annual Report contains certain forward-looking statements and information relating to the Telecom Group that are based on the current expectations, estimates and projections of its management and information currently available to the Telecom Group. These statements include, but are not limited to, statements made in Item 5 - Operating and Financial Review and Prospects under the caption Trend Information and other statements about the Telecom Group's strategies, plans, objectives, expectations, intentions, expenditures, and assumptions and other statements contained in this Annual Report that are not historical facts. When used in this document, the words anticipate, believe, estimate, expect, intend, plan and project and other similar expressions are generally intended to identify forward-looking statements.

These statements reflect the current views of the Telecom Group with respect to future events. They are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. In addition, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate.

Many factors could cause the actual results, performance or achievements of the Telecom Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include, among others:

- uncertainties relating to political and economic conditions in Argentina;
- inflation, the devaluation of the peso and exchange rate risks;
- restrictions on the ability to exchange pesos into foreign currencies and transfer funds abroad;
- the elimination of indexes to adjust rates charged for certain public services;
- the final results of the contract renegotiation process with the Argentine Government regarding the adjustment to our rates charged for public services;
- the creditworthiness of our actual or potential customers;
- nationalization;



- technological changes;

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- the impact of legal or regulatory reform and changes in the legal or regulatory environment in which we operate; and
- the effects of competition.

Many of these factors are macroeconomic in nature and are therefore beyond the control of the Telecom Group's management. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. The Telecom Group does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Annual Report.

These forward-looking statements are based upon a number of assumptions and other important factors that could cause the Company's actual results, performance or achievements to differ materially from its future results, performance or achievements expressed or implied by such forward-looking statements. Readers are encouraged to consult the Telecom Group's periodic filings made on Form 6-K, which are filed with or furnished to the United States Securities and Exchange Commission.

## **GLOSSARY OF TERMS**

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Annual Report.

*Access charge:* Amount paid per minute charged by network operators for the use of their network by other network operators.

*Access deficit:* The portion of costs related to the access network that are not covered by the revenues generated by the use or availability of subscribers connected to such network.

*Access network:* The elements that allow the connection of each subscriber to the corresponding local switch. They consist of the termination point, elements of outside plant and specific parts of the local switching equipment that make available the permanent connection from the termination point to the local switch.

*ADSL (Asymmetric Digital Subscriber Line):* A compression technology that allows combinations of services including voice, data and one-way full motion video to be delivered over existing copper feeder distribution and subscriber lines.

*AFIP (Administración Federal de Ingresos Públicos):* The Argentine federal tax authority.

*AMBA (Multiple Area Buenos Aires):* The area of the Federal District and greater Buenos Aires (Gran Buenos Aires), which extends to the city of La Plata to the South, the city of Campana to the North, the city of General Rodriguez to the West and the city of Monte Grande to the Southwest.

*Analog:* A mode of transmission or switching which is not digital, *e.g.*, the representation of voice, video or other modulated electrical audio signals which are not in digital form.

*APE (Acuerdo Preventivo Extrajudicial):* An out-of-court restructuring agreement governed by Argentine Law No. 24,522.

*Argentine Bankruptcy Law:* Law No. 24,522, as amended.

*Argentine GAAP:* Generally Accepted Accounting Principles in Argentina.

*ARPU (Average Revenue per User):* Calculated by dividing total revenue excluding mainly handset, outcollect (wholesale) roaming, cell *site* rental and activation fee revenue by weighted-average number of subscribers during the period.

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*BCRA (Banco Central de la República Argentina):* The Central Bank of the Argentine Republic.

*Cellular service:* A wireless telephone service provided by means of a network of interconnected low-powered base stations, each of which covers one small geographic cell within the total cellular system service area.

*CER (Coeficiente de Establización de Referencia):* The reference stabilization coefficient as calculated by the BCRA or any successor thereto, in accordance with the formula set forth in Annex I of Argentine Law No. 25,713. If the CER is abrogated, found to be inapplicable or not published, references to CER shall refer to any replacement measure adopted under Argentine law or, in the absence of any such replacement measure, any adjustment that shall be necessary to provide a substantially equivalent rate of return on the notes denominated in pesos (the *Peso Notes*) in comparison with similar notes issued in dollars.

*CETs:* Telecommunication centers where public telephone services are offered.

*CNC (Comisión Nacional de Comunicaciones):* The Argentine National Communications Commission.

*CNT (Comisión Nacional de Telecomunicaciones):* The Argentine National Telecommunications Commission, the former regulatory body, later replaced by the CNC.

*CNV (Comisión Nacional de Valores):* The Argentine National Securities Commission.

*Concurso:* A voluntary reorganization proceeding governed by Argentine law.

*Convertibility Law:* Law No. 23,928 and its Regulatory Decree No. 529/01. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar. The Convertibility Law was partially repealed on January 6, 2002 by the enactment of the Public Emergency Law.

*CPCECABA (Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires):* The Professional Council of Economic Sciences of the City of Buenos Aires.

*CPP (Calling party pays):* The system whereby the party placing a call to a wireless phone rather than the wireless subscriber pays for the air time charges for the call.

*Decree No. 92/97:* Decree issued on January 31, 1997 which implemented the Rate Rebalancing.

*Digital:* A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

*February Agreement:* An agreement entered into on February 28, 1992 and subsequently ratified by Decree No. 506/92 between the Argentine Government and the Company. This agreement provides for the reduction of domestic long-distance rates from their then-current level. The reduction became effective on May 1, 1992.

*Fiber optic:* A transmission medium which permits extremely high capacities. It consists of a thin strand of glass that provides a pathway along which waves of light can travel for telecommunications purposes.

*Free Pulses:* The number of Free Pulses included in the monthly basic charge prior to the issuance of Decree No. 92/97.

*GPRS (General Packet Radio Service):* An enhanced second-generation wireless technology used to transmit data over wireless networks. GPRS transmits and receives packets of data in bursts instead of using continuous open radio channels, and it is used to add faster data transmission speed to GSM networks. GPRS is packet based rather than circuit based technology.

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*GSM (Global System for Mobile communications):* A standard for digital cellular technology, originated in Europe, to provide pan-European roaming capabilities. The technology has recently been introduced and installed in almost all continents. This standard is based on TDMA standard and is considered second-generation cellular technology.

*Internet:* A collection of interconnected networks spanning the entire world, including university, corporate, government and research networks from around the globe. These networks all use the IP (Internet Protocol) communications protocol.

*Issuance Date:* The date of issuance and delivery of the notes, cash consideration and cash interest payments pursuant to the APE .

*Juicios Ejecutivos:* Summary attachment proceedings governed by Argentine law.

*Ley 25,561: Ley de Emergencia Económica y Reforma del Régimen Cambiario* (see Public Emergency Law ).

*LIBOR:* The London Interbank Offered Rate, the rate at which deposits in dollars are offered to prime banks in the London Interbank market.

*List of Conditions:* The Privatization Regulations, including the *Pliego de Bases y Condiciones* was approved by Decree No. 62/90, as amended. Pursuant to the List of Conditions, Telecom Argentina, S.A. was required to comply with tariff regulations and meet certain minimum annual standards regarding the expansion of its telephone system and improvements in the quality of its service in order to maintain and extend the exclusivity of its non-expiring license to provide fixed-line public telecommunications services and basic telephony services in the northern region of Argentina. After the market was opened to competition, the outstanding obligations that continue in force are the tariff regulations and those related to the quality of service; the obligations related to the expansion of the network are no longer required.

*Network:* An interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to consumer equipment. The transmission equipment may be based on fiber optic or metallic cable or point-to-point radio connectors.

*NGN (Next Generation Networks):* A packet-based network able to provide services including telecommunication services and able to make use of multiple broadband, QoS-enabled transport technologies and in which service-related functions are independent from underlying transport-related technologies.

*November Agreement:* An agreement between the Company and the Argentine Government providing for rates to be dollar-based and, at the election of each of the Company and Telefónica, adjusted semi-annually according to the U.S. consumer price index. The November Agreement was ratified by Decree No. 2585/91 and became effective on December 18, 1991.

*PCS (Personal Communications Service):* A wireless communications service with systems that operate in a manner similar to cellular systems.

*Penetration:* The measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population of the region and multiplying the quotient by 100.

*Pesification:* Modification of the exchange rate by the Argentine Government pursuant to the Public Emergency Law.

*Presubscription of long-distance Service:* The selection by the customer of international and domestic long-distance telecommunications services from a long-distance telephone service operator.

*Price Cap:* Tariff regulation mechanism applied in order to determine tariff discounts based on a formula made up by the U.S. Consumer Price Index and an efficiency factor. The mentioned factor was established initially in the List of Conditions and afterwards in different regulations by the SC.

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*Privatization Regulations:* The Argentine Government's privatization program as set forth in the State Reform Law approved in August 1989 and subsequent decrees.

*Public Emergency Law:* The Public Emergency and Foreign Exchange System Reform Law No. 25,561 adopted by the Argentine Government on January 6, 2002, as amended by Law No. 25,790 and Law No. 25,820. Among others, the Public Emergency Law grants the executive branch of the Argentine Government the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market and to renegotiate public service agreements.

*Pulse:* Unit on which the tariff structure of the fixed line services is based.

*Rate Agreement:* The November Agreement, as supplemented by the February Agreement. The Rate Agreement, among other things, permits the Company to effect aggregate rate reductions required pursuant to the List of Conditions by lowering rates for some or all categories of service, *provided* that the net reductions meet applicable targets.

*Rate Rebalancing:* The rate rebalancing established by Decree No. 92/97 which provides for a significant reduction in domestic and international long-distance tariffs, an increase in basic telephone charges, the elimination of Free Pulses and an increase in urban rates.

*Regulatory Bodies:* Collectively, the SC and the CNC.

*Reviewing Court:* The commercial court of the City of Buenos Aires, with which Telecom Argentina has filed its APE (including, if *applicable*, any appellate court).

*RT:* Technical Resolutions issued by the Argentine Federation of Professional Boards of Economic Sciences.

*SAC (Subscriber Acquisition Costs):* In the wireless telecommunications industry, agent commissions, advertising expenses and handset subsidies are usually called subscriber acquisition costs.

*Satellite:* Satellites are used, among other things, for links with countries that cannot be reached by cable to provide an alternative to cable and to form closed user networks.

*SC (Secretaría de Comunicaciones):* The Argentine Secretary of Communications.

*SEC:* Securities and Exchange Commission of the USA.

*SRMC (Servicios de Radiocomunicaciones Móviles Celular):* Wireless Radiocommunications Service.

*Switches:* These are used to set up and route telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.

*TDMA (Time Division Multiple Access):* A standard of digital cellular technology that divides a single channel into a number of slots, enabling the transmission of multiple voice circuits per channel.

*Transfer Date:* November 8, 1990, the date upon which the Company commenced operations upon the transfer from the Argentine Government of the telecommunications system in the northern region of Argentina that was previously owned and operated by *Empresa Nacional de Telecomunicaciones*.

*UMTS (Universal Mobile Telecommunications System):* Third generation mobile communications system.



*UNIREN (Unidad de Renegociación y Análisis de Contratos de Servicios Públicos): Renegotiation and Analysis of Contracts of Public Services Division.*

*Universal service:* The availability of basic telephone service, or access to the public telephone network via different alternatives, at an affordable price to all persons within a country or specified area.

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*US GAAP:* Generally Accepted Accounting Principles in the United States of America.

*Value Added Services:* Services that provide additional functionality to the basic transmission services offered by a telecommunications network such as voicemail, message signaling, caller-ID, call transferring, call waiting, call conferencing, IVR dialing, ring back tones, personal e-cards, SMS, national and international roaming and automatic call routing.

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